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STATE OF FLORIDA



DIVISION OF REGULATORY COMPLIANCE
BETH W. SALAK
DIRECTOR
(850) 413-6600

Public Service Commission

October 7, 2009

Mr. John Hoy
Chief Regulatory Officer
Utilities, Inc. of Longwood
2335 Sanders Road
Northbrook, IL 60062

RECEIVED-FPSC
09 OCT -7 PM 4:26
COMMISSION
CLERK

Re: Docket No. 090381-SU; Rate Case; Audit Control No: 09-280-4-1

Dear Mr. Flynn:

The Florida Public Service Commission will conduct an audit, in accordance with Commission audit procedures. Access will be requested to documents and records of the utility and, if necessary, supporting records for affiliate company transactions that affect regulated operations. Staff auditors may also request to review the utility's external audit working papers for the most recent independent audit. Ms. Kathy Welch, the Miami district office supervisor, will coordinate this audit. Ms. Welch can be reached at (305) 470-5600. Questions regarding the audit or audit staff should be directed to the district supervisor or myself. My phone number is (850) 413-6418.

The Audit Access to Records rule for each industry states: "In those instances where the utility disagrees with the auditor's assessment of a reasonable response time to the audit request, the utility shall first attempt to discuss the disagreement with the auditor and reach an acceptable revised date. If agreement cannot be reached, the utility shall discuss the issue with successive levels of supervisors at the Commission until an agreement is reached."

A formal report is expected to be issued for internal Commission use on December 7, 2009. A copy of the final report will be mailed to the company liaison listed on the Commission Mailing Directory.

Sincerely,

Handwritten signature of Dale Mailhot in cursive.

Dale Mailhot, Assistant Director
Division of Regulatory Compliance

DNM:ch

cc: Division of Regulatory Compliance (File Folder)
Office of Commission Clerk

AUDIT SERVICE REQUEST

October 7, 2009

Date of Request

09-280-4-1

RCA control #

TO : [REDACTED] AND CONSUMER ASSISTANCE

FROM : Economic Regulation Bart Fletcher 413-7017
Division Name Phone Number

RE : REQUEST FOR AUDIT OF: Utilities, Inc. of Longwood

DOCKET NO. 090381-SU

AUDIT PURPOSE: Audit the utility's wastewater rate base, capital structure, and net income for the test year ended December 31, 2008.

LIST AUDIT OBJECTIVES & OTHER INFORMATION ON BACK.

ADMINISTRATIVE DETAILS:

COMPANY CONTACT: John Hoy Chief Regulatory Officer (847) 498-6440
Name Title Phone Number

MAIL ADDRESS: 2335 Sanders Road
Street Address

Northbrook IL 60062
City State Zip Code

LOCATION OF RECORDS: Same as above
City State

AUDIT DUE DATE: December 7, 2009

COORDINATING DETAILS: Bart Fletcher, Public Utilities Supervisor (413-7017)
Tom Walden (413-6950)

REFERENCES: Order No. PSC-96-0448-FOF-SU (Attached)
(Attach copies of FPSC ORDERS and other documents as appropriate)

BACKGROUND INFORMATION: Utilities, Inc. of Longwood is a Class B Utility providing wastewater service to approximately 1,723 wastewater customers in Seminole County. The test year established for final rates is the historical year ending December 31, 2008. Wastewater rate base was last established for this utility by Order No. PSC-96-0448-PAA-SU, issued March 29, 1996, in Docket No. 950959-SU, In re: Application for transfer of facilities and Certificate No. 232-S in Seminole County from Longwood Utilities, Inc to Utilities, Inc. of Longwood. The test year ending July 31, 1995, was utilized in that rate case proceeding. Thus, rate base should be audited from July 31, 1995, through December 31, 2008.

DOCUMENT NUMBER - DATE

10369 OCT-7 8

ITEM #	AUDIT OBJECTIVE OR QUESTION (Add supplemental background for auditor)
RATE BASE	
1	Review Order No. PSC-96-0448-PAA-SU. Verify that the adjustments ordered have been booked and reflected in current MFRs.
2	Obtain a copy of warranty deeds or other evidence of ownership for land purchases after July 31, 1995.
3	Audit all plant since July 31, 1995. Please describe major additions, retirements, or adjustments. If there are no retirements, obtain assurance from the utility stating such. Disclose if any were affiliate transactions.
4	Audit all additions and retirements to CIAC since July 31, 1995.
5	Test the annual accruals to accumulated depreciation and accumulated amortization of CIAC.
6	Audit all the appropriate accounts associated with the 1/8 of O&M Expenses approach for working capital allowance.
7	Audit revenues, billing determinants, and customers for the test year ending December 31, 2008.
8	Audit all test year O&M expense accounts. Examine expenses for proper timing, amount, classification, support documentation, and whether non-utility related, non-recurring, unreasonable or imprudent.
9	Pay particular attention in your audit to Salaries & Wages – Employees, Salaries & Wages – Officers, Employee Pensions & Benefits, Purchased Power; Chemicals, Materials & Supplies, Contractual Services-Other, Transportation Expenses, Insurance-Other, Bad Debt Expense, and Miscellaneous Expenses. These expenses are significantly greater than the benchmark index for customer growth and inflation.
10	Follow the standard audit program for taxes other than income; and capital structure.
11	Please advise ECR staff (ASAP) of any potential findings that will be deferred to OPR staff for the appropriate ratemaking treatment.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Application for transfer) DOCKET NO. 950959-SU
of facilities and Certificate) ORDER NO. PSC-96-0448-FOF-SU
No. 232-S in Seminole County) ISSUED: March 29, 1996
from Longwood Utilities, Inc. to)
Utilities, Inc. of Longwood.)
_____)

The following Commissioners participated in the disposition of this matter:

SUSAN F. CLARK, Chairman
J. TERRY DEASON
JOE GARCIA
JULIA L. JOHNSON
DIANE K. KIESLING

ORDER APPROVING TRANSFER

AND

NOTICE OF PROPOSED AGENCY ACTION
ORDER ESTABLISHING RATE BASE FOR
PURPOSES OF THE TRANSFER AND DECISION
NOT TO INCLUDE A POSITIVE ACQUISITION
ADJUSTMENT IN THE CALCULATION OF RATE BASE

BY THE COMMISSION:

NOTICE IS HEREBY GIVEN by the Florida Public Service Commission that the establishment of rate base for purposes of the transfer and our decision not to include a positive acquisition adjustment in the calculation of rate base are preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal hearing, pursuant to Rule 25-22.029, Florida Administrative Code.

BACKGROUND

Longwood Utilities, Inc. (Longwood or utility) provided wastewater service in Seminole County and served approximately 1,849 customers. The annual report for 1994 shows that the operating revenue for the system was \$627,690 and the net operating income was \$32,225. The utility is a Class B utility under Commission jurisdiction. On August 14, 1995, Longwood applied for a transfer of the Longwood wastewater system

study was conducted and the report indicated that the lack of free board cited by the DEP in September of 1994 was due to unusually heavy rainfall. However, Utilities, Inc. does plan on cleaning and disking the percolation ponds on an ongoing basis. If the percolation pond capacity continues to be insufficient after cleaning and disking, other measures will be taken as necessary.

With regard to the purchaser's financial ability, Utilities, Inc. provided a statement that it has both the regulatory experience and the financial ability to ensure consistent compliance with DEP regulations. Utilities, Inc. of Longwood is a wholly owned subsidiary of Utilities, Inc. Utilities, Inc. has approximately \$235,000,000 of assets and a total capitalization of \$87,000,000. Through its affiliation with Utilities, Inc., Utilities, Inc. of Longwood will have access to investment capital, at reasonable rates, that will be needed from time to time in order to fund facility upgrades and improvements. Additionally, it appears that Utilities, Inc. of Longwood will have access to working capital at reasonable rates as the need arises.

Utilities, Inc. has provided a copy of the Agreement and a statement which includes the purchase price, terms of payment and a list of the assets purchased and the liabilities assumed. Based on the application, there are no developer agreements which the buyer is obligated to assume or fulfill. In addition, there are no customer deposits, guaranteed revenue contracts, developer agreements, customer advances or leases. Further, the utility has no currently outstanding debts. Utilities, Inc. provided a statement that it will fulfill the commitments, obligations and representations of the transferor.

Based on the above, we find the transfer of facilities of Longwood Utilities, Inc. to Utilities, Inc. of Longwood, is in the public interest and shall be approved. Certificate No. 232-S shall be amended to include additional territory in Seminole County by Utilities, Inc. of Longwood.

RATE BASE

According to the application, the net book value of the system being transferred as of the date of the proposed transfer is \$632,579. In Longwood's last rate case, Docket No. 871059-SU, all parties reached a Stipulation of Settlement which was appended to Order No. 20779, issued February 20, 1989. As this case was stipulated, no rate base was set at that time.

An audit of the books and records of the utility was performed to determine the rate base (net book value) at the time

Therefore, the accumulated amortization of acquisition adjustment has been credited the difference of \$554 (\$23,095 - \$22,541 = \$554).

The utility booked an addition to CIAC in 1991 for \$1,239 related to Allowance for Funds Prudently Invested. According to the tariff, these charges are considered revenues. Therefore, CIAC shall be reduced by \$1,239 along with its related amortization by \$176.57. The net result is an increase to rate base of \$1,052. In addition, the utility is required to follow Rule 25-30.140, Florida Administrative Code, in calculating amortization. The amortization of CIAC was calculated using a composite rate of 3.49%. Based on the information provided, accumulated amortization of CIAC shall be increased by \$180,159.

Calculation of rate base is shown on Schedule No. 1 for the wastewater system. Adjustments to rate base are itemized on Schedule No. 2. Based on the adjustments set forth herein, we find that rate base for Utilities, Inc. shall be established as \$707,054 for the wastewater system as of July 31, 1995. This rate base calculation is used purely to establish the net book value of the property being transferred and does not include the normal ratemaking adjustments of working capital calculations and used and useful adjustments.

ACQUISITION ADJUSTMENT

An acquisition adjustment results when the purchase price differs from the rate base for transfer purposes. The acquisition adjustment resulting from the transfer of Longwood would be calculated as follows:

Purchase Price:	
\$850,000	
Commission Calculated Rate Base:	<u>707,054</u>
Positive Acquisition Adjustment:	<u>\$142,946</u>

In the absence of extraordinary circumstances, it has been our practice that a subsequent purchase of a utility system at a premium or discount shall not affect the rate base calculation. The circumstances in this exchange do not appear to be extraordinary. An acquisition adjustment was not requested by the applicant. Therefore, we find that a positive acquisition adjustment shall not be included in the calculation of rate base.

RATES AND CHARGES

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"Notice of Further Proceedings or Judicial Review" attached hereto. It is further

ORDERED that in the event this Order becomes final, this docket shall be closed.

By ORDER of the Florida Public Service Commission, this 29th day of March, 1996.

BLANCA S. BAYÓ, Director
Division of Records and Reporting

by: /s/ Kay Flynn
Chief, Bureau of Records

This is a facsimile copy. A signed copy of the order may be obtained by calling 1-904-413-6770.

(S E A L)

MTR

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.59(4), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

As identified in the body of this order, our actions regarding the establishment of rate base for purposes of the transfer and our decision not to include a positive acquisition adjustment in the calculation of rate base are preliminary in nature and will not become effective or final, except as provided by Rule 25-22.029, Florida Administrative Code. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, as provided by Rule 25-22.029(4), Florida Administrative Code, in the form provided by Rule 25-22.036(7)(a) and (f), Florida Administrative Code. This petition must be received by the Director, Division of Records and Reporting, at 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on April 19, 1996. In the absence of such a petition, this order shall become

ATTACHMENT A

LONGWOOD UTILITIES, INC.

WASTEWATER SERVICE AREA

SEMINOLE COUNTY

Township 20 South, Range 29 East, Seminole County, Florida.

Section 25

The West 800 feet less the South 300 feet thereof of the Northeast 1/4 of the Southeast 1/4 and the West 150 feet of the Southeast 1/4 of the Southeast 1/4 and the East 800 feet of the West 1/2 of the Southeast 1/4.

Township 20 South, Range 30 East, Seminole County, Florida.

Section 30

The South 400 feet of the North 466 feet of the West 318 feet of the Southwest 1/4 of the Southwest 1/4.

Section 30 & 31

TRACT I

Beginning at a point on the centerline of Longwood Markham Road at the Southwest corner of Section 30-20-30 and Northwest corner of Section 31-20-30; thence South 89 degrees 44 minutes 25 seconds East, a distance of 33.00 feet to a concrete monument at the POINT OF BEGINNING; thence North 00 degrees 15 minutes 35 seconds East, a distance of 197.00 feet to a point; thence South 89 degrees 56 minutes 08 seconds East, a distance of 409.00 to a point; thence South 00 degrees 15 minutes 35 seconds West, a distance of 197.00 feet to a point; thence South 89 degrees 56 minutes 08 seconds East, a distance of 874.50 feet to a point in the center of a 100.00 foot Florida Power Corporation easement; thence along said centerline South 00 degrees 41 minutes 19 seconds West, a distance of 873.75 feet to a point still in the centerline of said easement; thence North 89 degrees 56 minutes 08 seconds West, a distance of 870.00 feet to a point; thence North 00 degrees 15 minutes 35 seconds East, a distance of 214.00 feet to a point; thence North 89 degrees 56 minutes 08 seconds West, a distance of 406.96 feet to a concrete monument on the Easterly right-of-way line of Longwood Markham Road; thence along said easement North 00 degrees 15 minutes 35 seconds East, a distance of 659.70 feet to a concrete monument at the place of beginning, less the east 50 feet;

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Southwesterly and having a radius of 1149.79 feet; thence run Southeasterly along the arc of said curve 377.23 feet to the P.T.; thence S21°21'49"E 11.70 feet to the East line of aforesaid N.W. 1/4 of S.E. 1/4; thence S00°28'44"E 192.16 feet to the POINT OF BEGINNING.

Township 20 South, Range 29 East

Section 25

The South 1583 feet of the East 1/2 of Government Lot 2 North of Longwood Markham Road, also described as the South 1583 feet of the East 1/2 of the S.E. 1/4.

Section 36

That part of Government Lot 1, recorded in the Public Records of Seminole, as Windtree West, P.B. 20, page 97, 98, also described as Begin at the Northeast corner of Lot 94, Devonshire, as recorded in Plat Book 17, Pages 18 and 19, Public Records of Seminole County, Florida, said point also being 33 feet west and 1757.84 feet South of the Northeast corner of Section 36; run thence North 89°47'18" West along the Northerly line of Devonshire Subdivision a distance of 895.00 feet to a point on the Easterly line of Lot 75 of said Devonshire; thence North 00°20'33" West along said Easterly line a distance of 438.00 feet to the Northeast corner of Lot 72 of said Devonshire; thence North 89°52'36" West along the North line of said Devonshire a distance of 366.00 feet; thence North 00°25'10" West a distance of 741.46 feet; thence North 89°34'50" East a distance of 280.00 feet; thence South 21°25'10" East a distance of 56.37 feet; thence North 53°13'39" East a distance of 140.00 feet; thence North 08°03'39" East a distance of 232.00 feet; thence North 89°53'39" East a distance of 300.00 feet; thence South a distance of 85.70 feet; thence South 33°18'13" East a distance of 137.00 feet; thence South 74°58'13" East a distance of 152.00 feet; thence South 34°31'47" West a distance of 159.00 feet; thence South 44°18'13" East a distance of 55.00 feet; thence South 11°08'13" East a distance of 209.42 feet; thence North 89°36'47" East a distance of 315.40 feet to a point on the Westerly Right-of-Way line of E.E. Williamson Road; thence South 00°23'13" East along said Right-of-Way line a distance of 540.00 feet; thence North 89°54'39" West a distance of 127.84 feet; Thence South 00°19'50" East a distance of 151.86 feet; thence South 89°54'39" East,

said Section 31, thence $S00^{\circ}43'40''W$, along the East line of the Northwest $1/4$ thereof, 929.73 feet; thence $S46^{\circ}04'54''W$, 394.79 feet, thence $N51^{\circ}35'07''W$, 61.60 feet; thence $S26^{\circ}36'53''W$, 150 feet; thence $S48^{\circ}42'23''W$, 40.85 feet to a point on the South line of the N. $1/2$ of the N.W. $1/4$ of said Section 31, thence $S89^{\circ}54'42''W$, along the South line of said N. $1/2$ of the N.W. $1/4$ of Section 31, 153.69 feet to a point on a curve concave Westerly, having a radius of 671.17 feet; thence from a tangent bearing of $S00^{\circ}14'11''E$, run 233.36 feet along the arc of said curve thru a central angle of $19^{\circ}55'16''$, to a point of reverse curvature having a radius of 26.00 feet; thence run 27.25 feet along the arc of said curve, thru a central angle of $60^{\circ}02'51''$ to a point in the North line of Longwood -Markham Road, a 50 foot Right of Way as now used; thence $N70^{\circ}21'44''W$, along said North Right of Way thereof, 258.20 feet to a point of curvature of a curve concave Northerly, having a radius of 2476.02 feet; thence run 167.12 feet along the arc of said curve, thru a central angle of $03^{\circ}52'02''$ to the end of said curve; thence $N39^{\circ}40'49''W$, 137.00 feet; thence $N02^{\circ}12'46''W$, 450.67 feet; thence $S89^{\circ}51'59''W$, 147.18 feet to the West Right of Way line of the Florida Power Corporation Utility Easement and/or the East line of the "First Replat of Highland Hills Subdivision" as recorded in Plat Book 20' page 7 Public Records of Seminole County, Florida; thence $N00^{\circ}12'48''E$, along said line 873.87 feet to a point on the North line of Section 31; thence $N89^{\circ}51'28''E$, 1262.22 feet along the North line of Section 31, to the POINT OF BEGINNING.

AND

The South 250 feet of the Southwest $1/4$ of the Northwest $1/4$ and all of the Northwest $1/4$ of the Southwest $1/4$ except Lake Searcy Shores Subdivision, Plat Book 18, Pages 23, 24 and 25, Public Records of Seminole County, Florida, also described as The South 250 feet of the Southwest $1/4$ of the Northwest $1/4$ and the West $1/2$ of the Northwest $1/4$ of the Southwest $1/4$, and the North 200 feet of the Northeast $1/4$ of the Northwest $1/4$ of the Southwest $1/4$, and the South 150 feet of the Southeast $1/4$ of the Northwest $1/4$ of the Southwest $1/4$.

AND

All that part of the Southeast $1/4$ of the Southwest $1/4$, less the West 303.36 feet thereof, lying South of the Longwood-Palm Springs Road and the Southwest $1/4$ of the Southeast $1/4$, lying South of

1/4 of said Section 31 at a point S89°07'35"W, 189.74 feet from the Southeast corner of the Southwest 1/4 thereof; thence N16°45'25"W, 470.85 feet; thence S85°03'35"W' 201.10 feet; thence S70°16'35"W, 431.44 feet to a point on the Easterly Right of Way line of said E.E. Williamson Road; thence S24°27'23"E, along said right of way line, 326.49 feet to a point on the South line of said Northeast 1/4 of Section 31; thence N89°07'35"E, along the South line thereof, 607.14 feet to the POINT OF BEGINNING. Also excepting (D.) Commence at the intersection of the Easterly right of way line of said E.E. Williamson Road with the South line of the Northeast 1/4 of said Section 31, being S89°07'35"W, 796.89 feet from the Southeast corner of the Southwest 1/4 thereof; thence N24°27'23"W, along the Easterly right of way line of said E.E. Williamson Road, 326.49 feet; thence N70°16'35"E, 142.76 feet for the POINT OF BEGINNING; thence N58°57'59"E, 76.49 feet; thence N81°35'11"E, 76.49 feet; thence S70°16'35"W, 150.00 feet to the POINT OF BEGINNING.

AND

The Southwest 1/4 of the Southwest 1/4 except Longwood-Palm Springs Road, Range Line Road and S.R. 434. Also: The West 303.36 feet South of Longwood-Palm Springs Road and all North of Longwood-Palm Springs Road except the East 264.30 feet of the Southeast 1/4 of the Southwest 1/4 of said Section 31, North of S.R. 434, also described as, Begin at the Southwest corner of the Southeast 1/4 of said Section 31; thence run Northerly 1320 feet to the Northwest corner of said Southeast 1/4 of the Southwest 1/4; thence run Easterly 1017 feet along the North line of said Southeast 1/4 of the Southwest 1/4; thence run Southerly 497 feet along the West line of the East 264.30 feet of said Southeast 1/4 of the Southwest 1/4; thence run Easterly 204 feet along the South Right of Way line of Longwood Palm Springs Road; thence run Southeasterly 573 feet along said Right of Way line; thence run Southerly 558 feet along the East line of the West 303.36 feet of said Southeast 1/4 of said Southwest 1/4; thence run Westerly 303.36 feet along the South line of said Southeast 1/4 of the Southwest 1/4 to the Point of Beginning less Right of Way for Longwood Palm Springs Road and State Road 434.

The West 576 feet of the North 618 feet of the Southwest 1/4 of the Northwest 1/4 of said Section 31, except existing right-of-way for Longwood Markham Road and Longwood Avenue (also known as Range Line Road).

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Township 21 South, Range 39 East.

LONGWOOD UTILITIES, INC.

SCHEDULE OF WASTEWATER RATE BASE ADJUSTMENTS

<u>EXPLANATION</u>	<u>ADJUSTMENT</u>
Utility Plant in Service	
To show acquisition adjustment broad instead of net	\$55,248
To remove additions which could not be substantiated	<u>(\$65,592)</u>
Total Adjustment to Utility Plant	<u>(\$10,344)</u>
Accumulated Depreciation	
To show acquisition adjustment broad instead of net	(\$23,095)
To reduce accumulated depreciation for the retirement of a vehicle	\$4,441
To record recalculation of depreciation per Rule 25-30.140	<u>(\$36,469)</u>
Total Adjustment to Acc. Depreciation	<u>(\$55,123)</u>
Contributions-in-aid- of-Construction	
AFPI revenue should be taken out of CIAC	\$1,239
Accumulated Amortization of CIAC	
AFPI revenue should be taken out of CIAC	(\$177)
Increase amortization to use composite rate	<u>\$180,159</u>
Total Adjustment to Acc. Amortization of CIAC	<u>\$179,982</u>