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February 22, 1996

VIA HAND DELIVERY

Blanca Bayo, Director  
Division of Records & Reporting  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, Florida 32399

Re: Arredondo Utility Corporation, Inc.; PSC Docket No. 951234-WS  
Application for Staff Assisted Rate Increase  
Our File No. 30034.01

Dear Ms. Bayo:

Attached are the original and 15 copies of the Utility's  
Response to the Commission Staff Audit Report recently issued.  
This has been prepared by Mr. Bob Nixon in cooperation with the  
Utility Staff.

ACK ✓ Should you have any questions in this regard, please let me

know

APP \_\_\_\_\_

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CRS \_\_\_\_\_

CTD \_\_\_\_\_

EA \_\_\_\_\_

LIC 1 \_\_\_\_\_

OP 5 \_\_\_\_\_

PMD/lts \_\_\_\_\_

Enclosures

cc: Ms. Roli Okome

Mr. Neil Bethea

Mr. Bob Casey

Mr. Ted Davis

Rosanne Capeless, Esquire

Ms. Stephanie Wallen

Robert C. Nixon, CPA

Sincerely,

ROSE, SUNDSTROM & BENTLEY

F. Marshall Deterding  
For The Firm

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FPSC BUREAU OF RECORDS

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FPSC-RECORDS/REPORTING

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**Cronin, Jackson, Nixon & Wilson**  
CERTIFIED PUBLIC ACCOUNTANTS, P.A.

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February 21, 1996

Ms. Blanca S. Bayo, Director  
Division of Records and Reporting  
Florida Public Service Commission  
101 East Gaines Street  
Tallahassee, FL 32399-0873

Re: Docket No. 951234-WS-Arredondo Utility Company, Inc., Staff  
Assisted Rate Case Audit Report - Period Ended October 31, 1995 -  
Audit Control No. 95-339-3-1

Dear Ms. Bayo:

On behalf of our client, Arredondo Utility Company, Inc., I have set forth below the Company's response to the above-referenced audit.

The responses to the Audit Exceptions and Disclosures are listed in the same order as contained in the Audit Report.

1. Audit Exception No. 1  
Subject: Books & Records of Utility

The Company believes it is generally in compliance with the Uniform System of Accounts. The Company's account numbers for expenses and expense descriptions are different than the NARUC chart of accounts in order to facilitate consolidated reporting with the accounting systems of related entities. However, a conversion schedule was provided to the auditor, which allows ready conversion of the Company's accounts to the uniform system.

The use of such conversion schedules for equating company accounts to the NARUC System of Accounts has frequently been utilized by utilities in this industry, especially when their accounting systems are set to accommodate both NARUC and other accounting requirements for related entities. A chart of accounts change to convert directly to the NARUC Account numbers on all documents would require the establishment of a separate accounting program exclusively for the Utility at substantial additional cost. Such cost would be over and above that currently charged to the Utility by the affiliated

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company for accounting and bookkeeping services. A copy of the Commission schedule furnished to the auditor is attached as Exhibit 1.

The Utility uses a modified accrual system of accounting. Revenues and certain other expenses are accrued on a monthly basis. Due to the size of the Company, small number of transactions, and immaterial effect, not all expenses are accrued on a monthly basis. However, at year-end, adjustments are made to provide for all accruals. See 1994 Annual Report.

2. Audit Exception No. 2  
Subject: Customer Deposits

The Company agrees with this exception. However, the Company believes that a six percent interest rate on customer deposits is appropriate.

3. Audit Disclosure No. 1  
Subject: Plant in Service

In 1994, the Utility engaged the services of Cronin, Jackson, Nixon & Wilson, CPA's, to assist in establishing correct NARUC plant accounts and to prepare the PSC Annual Reports. The Utility is currently using the proper accounts. The Audit Disclosure notes that, as of October 31, 1995, the Company's general ledger has some assets listed in a generic "depreciable plant" account. This account is the same as NARUC Account 106 - "Completed Construction not Classified." Assets in this account are classified to appropriate NARUC accounts by Cronin, Jackson, Nixon & Wilson at year-end. Thus, any implication that the Company's records are not in conformance with the Uniform System of Accounts is not correct.

The Company believes that the software referred to in this Audit Exception is fully used and useful on a going-forward basis. The fact that the software was not up and running until December 1, 1995, does not mean that the costs should be included in CWIP. By definition, software is not CWIP and we do not understand the auditors classification or rationale.

4. Audit Disclosure No. 2  
Subject: Proforma Adjustment - Plant and Accumulated Depreciation (Truck)

The Utility agrees with the auditor's opinion for this adjustment.

5. Audit Disclosure No. 3  
Subject: Land

The Utility agrees with auditor's proposed adjustment.

6. Audit Disclosure No. 4  
Subject: Contributions in Aid of Construction

1. The audit statement of fact failed to mention that the fire hydrant which was replaced was due to damage caused by Clayton Mobile Home Park, Inc. (truck backed over hydrant). The auditor's opinion recommends that the bill for damages simply be added to CIAC. The Utility believes that the correct accounting is to retire the estimated cost of the damaged hydrant and the related impact on accumulated depreciation, CIAC, and accumulated amortization. The costs billed for the replacement hydrant should be capitalized with an offset to CIAC. The accounting for this transaction is specified in Accounting Instruction 4D, 1984 NARUC Uniform System of Accounts, Class C Water Utilities and Section C, Staff Advisory Bulletin No. 17, 1st Rev., February 13, 1990.
2. The July, 1994, billing of \$220 for a meter installation occurred because a meter had to be installed underneath a mobile home which was sited before the Utility was called to set the meter. This installation took significantly more time. The Company agrees that the excess charge should be removed from CIAC, but that the actual installation cost should be capitalized.
3. The audit report did not address the Utility's request that the level of CIAC imputed in the Company's last rate case, for the Arredondo Farms System, be reexamined.

The CIAC recorded on the Utility's books was, for the most part, imputed in Order No. PSC-93-0509-FOF-WS because significant documentation could not readily be found at that time to substantiate the level of CIAC. The Utility believes it now has sufficient evidence to support a lower level of CIAC. Specifically, Arredondo Farms (currently known as Clayton Mobile Home Park, Inc.) was built by a related entity and was operated as a rental property from its inception and continues to be operated as rental property by the current third party owners. No lots in this park are owned by individuals. As a result, there has never been a homeowner from which to collect CIAC. The Utility has found tax returns and other documentation to indicate that none of the costs were written off. This information is attached as Exhibit 4 and demonstrates that the

water and sewer lines were capitalized and depreciated by the related entity (C. L. Brice 1977 Irrevocable Trust) prior to acquisition by the Utility. In summary, no actual CIAC was collected and there is no basis for imputing CIAC for the Arredondo Farms' system.

With regard to the Arredondo Estates system, the system was originally constructed by C. L. Brice and capitalized for book and tax purposes. The water system was eventually distributed to a related entity (C. L. Brice Irrevocable Trust) which continued to depreciate the water system for both book and tax purposes. In 1990, the net book value of the Estates water system assets were transferred to Arredondo Utility Co., Inc. (a related party) in exchange for stock in the Utility. See attached Exhibit 5 and tax return information in Exhibit 4. Since the Estates water system was capitalized for both book and tax purposes, there is no basis on which to impute CIAC.

7. Audit Disclosure No. 5  
Subject: CIAC Amortization Expense and Accumulated Amortization

The Utility is willing to accept the auditor's recommendation for this item.

8. Audit Disclosure No. 6  
Subject: Depreciation Expense and Accumulated Depreciation

The Utility is willing to accept the auditor's recommendation and will book and adjust accumulated depreciation and expense as part of the 1995 year-end closing process.

9. Audit Disclosure No. 7  
Subject: Revenue

The Utility agrees with this adjustment.

10. Audit Disclosure No. 8  
Subject: Contract Services - Annual Allowance

The Utility does not have any general or administrative employees of its own. All management, general, and administrative functions are handled by a related company. In the Company's last rate case, only approximately \$10,400 was allowed for these functions. The Company has always disagreed with the level set in the last rate case and has had numerous discussions with the PSC Staff from time to time on this issue. Adequate service to 240 water and sewer customers and 228 water only customers simply cannot be provided at this level of cost recovery.

As part of the filing for this case, the Company referred to a time study to determine the level of activity by all personnel devoting time to utility matters. We have attached a copy of this information for further review. Similar information was also given to the PSC Auditors, who ignored it and did not even comment on it.

As the attached Exhibit 2 reveals, there are more general and administrative expenses incurred than simply the salary of a billing clerk/secretary and rent. The Utility believes that the requested management fee of \$48,552 for all administrative and general services performed on behalf of the Utility is reasonable and should be allowed. The amount requested (exclusive of rent and office supplies) is equivalent to the salaries of 1.5 individuals plus benefits. This is not unreasonable for a company the size of Arredondo.

11. Audit Disclosure No. 9  
Subject: Contract Services - Labor Fees

The Company no longer has its own employee and has contracted with outside utility operators to provide operation and maintenance services. The Company believes that all charges to the former employee (Mr. Claudell Johnson) should be eliminated and replaced by the annualized cost of the current third party operator and maintenance service company.

Effective July, 1995, the Utility contracted with Reno & Wilson Plumbing Co., Inc. to perform repairs, maintenance, and meter reading for a flat contract price of \$1,000 per month. In addition, North Florida Environmental Services was contracted to provide a certified water and wastewater plant operator for the treatment plants for a price of \$700 per month. After hours calls, major repairs, and rechecks are billed separately, in addition to the base contract amounts. Therefore, on an annualized basis, \$20,400 of annualized contract services should be used as a replacement for any amounts paid to Mr. Johnson during the test year.

This change in operations was discussed with the auditors, but no mention of this fact or the current ongoing cost of these outside contractors is contained in this Audit Disclosure.

12. Audit Disclosure No. 10  
Subject: Officers' Salaries

As previously discussed in the Audit Disclosure on Contract Services, the Utility believes that the amount established for officers' salaries in the prior rate case was too low and did not

fairly or accurately account for the time, duties, and cost of the Company's officers on utility matters.

As previously noted, time study information was developed to support total officers' salaries of \$17,000 annually (see attached Exhibit 3). The Utility believes that the requested amount is reasonable and accurately reflects the time and effort spent on utility matters. Although this information was presented to the Staff Auditor, it was ignored, with no attempt to determine if the Company's presentation was accurate or fair.

Arredondo currently serves 240 water and sewer customers and 228 water only customers and provides good service. The Company requests Staff to review the information attached to these comments and to provide a reasonable level of compensation to the Utility's officers.

13. Audit Disclosure No. 11  
Subject: Regulatory Commission Expense

The Company agrees that rate case expense should be deferred and amortized. However, since the rate case is not complete, an estimate of rate case expense through the Final Order should be used. At present, total costs through the PAA Order are expected to be as follows:

Legal - Rose, Sundstrom & Bentley (M. Deterding)	\$ 5,500
Accounting - Cronin, Jackson, Nixon & Wilson (Nixon, DeChario)	4,500
Filing Fees	2,000
Notices, Postage	<u>800</u>
Total estimated cost	<u>\$12,800</u>

14. Audit Disclosure No. 12  
Subject: Taxes Other than Income

The Utility is willing to accept the auditor's recommendation on this item, except for payroll taxes associated with officers.

Ms. Blanca S. Bayo, Director  
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15. Audit Disclosure No. 13  
Subject: Miscellaneous Expenses - Mobile Phone Charges

The Utility agrees with this adjustment, as long as the annualized costs of the contract operator and maintenance company are recognized.

16. Audit Disclosure No. 14  
Subject: Non-Deductible Expenses

The Utility agrees with the auditor's recommendation.

17. Audit Disclosure No. 15  
Subject: Accounts Payable Adjustments

The Utility agrees with the auditor's proposed adjustment, but believes that the impact is immaterial (\$101). As previously noted, the Company provides for full accruals at year-end due to time, cost, and immateriality.

18. Audit Disclosure No. 16  
Subject: Insurance

The Utility agrees with the adjustment proposed for this item.

19. Audit Disclosure No. 17  
Subject: Deferred expense (sewer plant operating permit)

The Utility agrees with the adjustment proposed for this item.

Should you have questions or further information concerning the responses set forth above, please contact me.

Very truly yours,

CRONIN, JACKSON, NIXON & WILSON



Robert C. Nixon

RCN/apf

Enclosures

cc: F. M. Deterding, Esq. (w/encl.)  
D. Miller (w/encl.)  
S. Wallen (w/encl.)