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ORIGINAL

Public Service Commission

May 5, 1999

Rotonda West Utility Corporation
 P. O. Box 3509
 Placida, FL 33946-3509

Re: Docket No. 981858-WS; Rotonda West Utility Corporation
 Certificate Transfer Audit Report; Audit Control No. 99-028-2-1

Dear Sir:

The enclosed audit report is forwarded for your review. If you desire to file a response to the audit, please file one with the Division of Records and Reporting so it may be forwarded for consideration by the staff analysts in their review of the audit.

Sincerely,

Denise N. Vandiver

Denise N. Vandiver
 Bureau Chief - Auditing

DNV: sp

cc: Division of Records and Reporting
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FLORIDA PUBLIC SERVICE COMMISSION

*DIVISION OF AUDITING AND FINANCIAL ANALYSIS
BUREAU OF AUDITING*

TAMPA DISTRICT OFFICE


ROTONDA WEST UTILITY CORP.

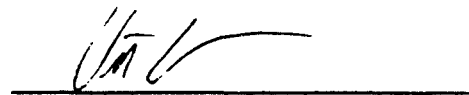
CERTIFICATE TRANSFER AUDIT

AS OF DECEMBER 15, 1998

Docket 981858-WS

Audit Control No. 99-028-2-1


Thomas E. Stambaugh, Audit Manager


Vincent C. Aldridge, Audit Staff

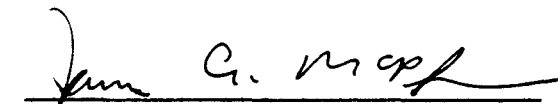

James A. McPherson, District Supervisor

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**DIVISION OF AUDITING AND FINANCIAL ANALYSIS
AUDITOR'S REPORT**

MARCH 11, 1999

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have applied the procedures described later in this report to prepare and audit the accompanying schedules of Rate Base as of December 15, 1998, for Rotonda West Utility Corp. These schedules were prepared as part of a Certificate Transfer audit which was initiated by the sale of Rotonda West Utility Corp. by its parent company, Rotonda Properties, Inc., to AquaSource, Inc., of Houston, Texas. The sale was effective on December 15, 1998. No rate base transactions occurred between December 15 and December 31. Therefore, the general ledger as of December 31, 1998 was used as the basis of 'per books' information for audit purposes. There is no confidential information associated with this audit, and there are no audit staff minority opinions.

This is an internal accounting report prepared after performing a limited scope audit. Accordingly, this report should not be relied upon for any purpose except to assist the Commission staff in the performance of their duties. Substantial additional work would have to be performed to satisfy generally accepted auditing standards and produce audited financial statements for public use.

In our opinion, the schedules referred to above present fairly, in all material respects, the utility's books and records maintained in conformity with the accounting practices prescribed by the Florida Public Service Commission. The attached findings discuss all differences and other matters which were noted during our examination.

SUMMARY OF SIGNIFICANT FINDINGS

The results of audit test work indicate that not all ratemaking adjustments stated in FPSC Order PSC-96-0663-FOF-WS had been posted as of December 31, 1998. Further, some transactions posted to plant in service accounts were either incorrect or lacked support.

SUMMARY OF SIGNIFICANT PROCEDURES

Our audit was performed by examining, on a test basis, certain transactions and account balances which we believe are sufficient to base our opinion. Our examination did not entail a complete review of all financial transactions of the company. Our more important audit procedures are summarized below. The following definitions apply when used in this report:

Compiled - The exhibit amounts were reconciled with the general ledger, and accounts were scanned for error or inconsistency.

Verify - The item was tested for accuracy, and substantiating documentation was examined.

RATE BASE: Compiled Rate Base. Tested the balances by reviewing plant additions on a judgmental basis to verify the dollar value posted in the general ledger. Calculated accumulated depreciation using currently approved rates. Tested Contributions in Aid of Construction (CIAC) and Amortization of CIAC for accuracy.

NET OPERATING INCOME : Tested specific customer bills to verify that approved rates were in use at the end of the test period and were continued in use during 1999.

OTHER: Toured the Utility plant and land. Reviewed the independent auditor workpapers of the 1997 audit. Investigated whether extraordinary circumstances justifying an acquisition adjustment might exist and whether any assets of the Utility were not transferred in the sale to AquaSource. Scanned the general ledger to determine whether any unusual transactions occurred between the date of sale at December 15, 1998 and the end of the accounting year at December 31, 1998.

DISCLOSURE NO. 1

SUBJECT: Utility Sales Agreement

STATEMENT OF FACT: Rotonda Properties, Inc. (RPI) sold the assets of its utility, Rotonda West Utility Corporation to AquaSource, Inc., a subsidiary of Duquesne Power for \$20,300,000. The effective sale date was December 15, 1998. The utility had assets totaling \$2,265,238 which were not transferred in the sale.

These assets were classified as:

Cash	\$1,169,285
CoBank Investment	1,000
Accounts Receivable- Customers	120,016
Accounts Receivable- Affiliated Companies	386,146
Florida Power & Light security deposit	27,544
Unamortized Debt Issuance	169,123
Deferred Rate Case Expense, 1995	28,562
Deferred Taxes	363,492
Salinity Dam	0
	<u>\$2,265,238</u>

OPINION AND CONCLUSION: The auditors did not encounter evidence of any extraordinary circumstances to permit an acquisition adjustment to be included in rate base. The net audited value of plant assets sold was \$7,521,230. When this amount is compared to the sale price of \$20,300,000, a difference of \$12,778,770 remains. This acquisition adjustment should not be allowed to be included in rate base.

DISCLOSURE NO. 2

SUBJECT: Prior Rate Case Adjustments- Land

STATEMENT OF FACT: FPSC Order No. 96-0663-FOF-WS, issued May 13, 1996 required the utility to impute CIAC of \$453,170 (Water \$377,362 + Wastewater \$75,808) on all land in service at that time. This order was based on the fact that this land had either been owned by the utility or donated to utility use at no cost prior to being purchased by the utility at a later date. This order was later amended by FPSC Order No. 96-0663A-FOF-WS, issued June 13, 1996 to allow for possible reconsideration of the "Core Water Plant Site" valuation if the utility could substantiate its value at a later date.

The utility did impute CIAC for the above land except for \$97,518. This amount consists of \$95,149 relating to the Core Water Plant Site; \$2,002 relating to well permit fees that should have been recorded in account 307 per the prior order; and \$367 that was incorrectly posted to the land account in 1998 and should be in account 304.

The other side of the entry recording the imputed CIAC was to debit the utility's "Nonutility Plant" account 121. This entry would cause the CIAC to offset the land in the rate base accounts but the utility's total balance sheet would not be affected.

OPINION: Since the Utility's previous owners have not provided the Commission any further support for including the Core site in rate base, we think it very unlikely that the new owners will be able to provide the necessary documentation in the future. Therefore, we believe that additional CIAC should also be imputed for this property as was required in FPSC Order No. 96-0663-FOF-WS, issued May 13, 1996. The \$367 and \$2,002 should also be removed from the land account. The following summarizes the adjustment that should be made on the Utility's books:

<u>Acct #</u>	<u>Name</u>	<u>Dr</u>	<u>Cr</u>
121	Nonutility Plant- Water	95,149	
307	Wells and Springs	2,002	
304	Structures & Improvements	367	
302	Land- Water		2,369
271	CIAC- Water		95,149

CONCLUSION: The new owner should be required to post the above entry as of December 31, 1998.

DISCLOSURE NO. 3

SUBJECT: Prior Rate Case Adjustment - Unsupported Plant

STATEMENT OF FACT: FPSC Order No. 96-0663-FOF-WS, issued May 13, 1996 instructed the utility to remove \$86,136 of unsupported plant additions and \$3,340 of related accumulated depreciation. The utility made no adjustments on its books to account for this adjustment.

OPINION: To be consistent with prior Charlotte County rate orders we believe these plant items should be transferred to the utility's "NonUtility" accounts. We have recalculated accumulated depreciation through December 31, 1998 and are also transferring this amount to the NonUtility accounts. The schedule below is a detail of the specific accounts that need to be adjusted:

<u>Acct #</u>	<u>Name</u>	<u>Dr</u>	<u>Cr</u>
320	Water Treatment Equipment		8,917
331	Transmission & Distribution Mains		46,378
361	Collection Sewers- Gravity		30,841
121	NonUtility Plant- Water	55,295	
121	NonUtility Plant- Wastewater	30,841	
108	Accumulated Depreciation- Water	7,852	
108	Accumulated Depreciation- Wastewater	3,080	
122	Acc Depr- NonUtility Plant- Water		7,852
122	Acc Depr- NonUtility Plant- Wastewater		3,080

CONCLUSION: The new owner should be required to post the above entry as of December 31, 1998.

DISCLOSURE NO. 4

SUBJECT: Utility Master Plan

STATEMENT OF FACT: FPSC Order No. 96-0663-FOF-WS, issued May 13, 1996 instructed the utility to reclassify a utility master plan costing \$125,360 from a deferred asset account to utility plant in service accounts. Specifically, the order said this amount should be allocated equally between water and wastewater (\$62,680 each) and recorded in the Other Plant and Miscellaneous Equipment accounts (339 and 389) with a depreciable life of 25 years. The utility has been depreciating these amounts over 25 years as instructed.

OPINION & CONCLUSION: In order to fully comply with FPSC Order No. 96-0663-FOF-WS, issued May 13, 1996, the utility should transfer the master plan amounts to the correct plant accounts. No adjustment to the accumulated depreciation accounts is necessary because the correct depreciation rate was used. However, it should be noted that the new water account has a 25 year life but the wastewater account is normally depreciated over 18 years. Therefore it will be necessary for the utility to segregate this amount from other Account 389 assets and depreciate it over 25 years.

DISCLOSURE NO. 5

SUBJECT: Unsupported Plant Additions

STATEMENT OF FACT: In 1997 the utility transferred \$453, 769 of Plant Held for Future Use (PHFU) to Utility Plant In Service (UPIS). There was \$183,315 of CIAC associated with this plant that was also recorded. The utility could provide supporting documentation (invoices and/or canceled checks) for only \$8,248 of these additions.

The Utility also increased its Utility Plant In Service balance for the years 1995 through 1998 by \$815,453 for Water and \$628,536 for Wastewater, or a total of \$1,447,989. through purchases of materials, supplies and outside services.

OPINION: The burden of proof is on the utility to support additions to its plant accounts. As was done in the prior rate case and discussed in Disclosure No. 3, the net \$262,206 of plant additions without support or a corresponding amount of CIAC should be removed from the plant accounts (\$453,769 - 183,315- 8,248 = \$262,206).

This \$262,206 and the related accumulated depreciation of \$8,750 should be transferred to the Nonutility Plant and Nonutility Accumulated Depreciation accounts. This treatment is consistent with prior rate orders and allows the utility to continue to account for these assets while segregating them from rate base accounts. The following are the adjusting entries that the utility should make:

<u>Acct #</u>	<u>Name</u>	<u>Dr</u>	<u>Cr</u>
331	Transmission & Distribution Mains		\$6,246
361	Collection Sewers- Gravity		255,961
121	Nonutility Plant- Water	\$6,246	
121	Nonutility Plant- Wastewater	255,961	
108	Accumulated Depreciation- Water	218	
108	Accumulated Depreciation- Wastewater	8,532	
122	Acc Depr & Amort - Non Util Plant-Water		218
122	Acc Depr - Non Util Plant - Wastewater		8,532

The net effect of these entries will be to retain \$8,248 in Water Plant in Service, remove \$8,532 from accumulated depreciation for wastewater and remove \$218 from accumulated depreciation from water.

Continued on next page

DISCLOSURE NO. 5 (Continued)

For the years 1995 through 1998, the auditor found that \$81,195 of the Water system additions and \$105,254 of the Wastewater system additions, a total of \$186,449, had been improperly classified as plant additions. Based on our audit of invoices, these amounts should have been expensed as incurred. The corresponding effect on accumulated depreciation was \$7,838 in Water and \$8,367 in Wastewater, for a total of \$16,205.

This \$186,449 net of related accumulated depreciation of \$16,205 should be transferred to the Retained Earnings account as a prior period adjustment. The following are the adjusting entries that the utility should make:

<u>Acct #</u>	<u>Name</u>	<u>Dr</u>	<u>Cr</u>
320	Water Treatment Equipment		\$80,063
334	Meters		1,084
335	Hydrants		48
361	Collection Sewers- Gravity		64,314
371	Pumping Equipment		1,277
380	Treatment & Disposal Equipment		39,232
391	Transportation Equipment		431
215	Unapp. Retained Earnings	\$73,357	
215	Unapp. Retained Earnings	96,887	
108	Accumulated Depreciation- Water	7,838	
108	Accumulated Depreciation- Wastewater	8,367	

The net effect of these entries will be to remove \$81,195 from Water Plant in Service, remove \$105,254 from Wastewater Plant in Service, remove \$7,838 from accumulated depreciation for water and remove \$8,367 from accumulated depreciation for wastewater.

CONCLUSION: The utility should be required to post these entries as of December 31, 1998.

DISCLOSURE NO. 6

SUBJECT: Treatment of Gain or Loss on Plant Retirements

STATEMENT OF FACT: The Utility sold two trucks and a trailer for \$19,600 in 1997. The Utility posted an entry showing a debit to cash for \$19,600, a credit to plant in service for the value of the assets, \$40,163, a debit to accumulated depreciated depreciation for \$32,889, (\$16,444 for water and \$16,445 for wastewater) and a credit to a "gain or loss" account for the difference between the net book value and the sales price, \$12,326, or \$6,163 each to water and wastewater.

OPINION AND CONCLUSION: In the Uniform System of Accounts for Water and Wastewater (1996), Accounting Instruction 27 B (2) provides that the book cost of plant retired will be credited to the plant account and debited to accumulated depreciation. Salvage or cost of removal should be credited or debited, respectively, to accumulated depreciation. No gain or loss should be recorded.

The existing entry in the general ledger should be corrected by reversing the gain previously recorded and crediting accumulated depreciation for this amount.

Journal Entry as posted by the Utility:

<u>Account</u>	<u>Dr.</u>	<u>Cr.</u>
Cash	\$19,600	
Accum Depr-Water	16,444	
Accum Depr-Wastewater	16,445	
Plant		\$40,163
Gain		12,326

Correcting Journal Entry:

<u>Account</u>	<u>Dr.</u>	<u>Cr.</u>
Gain	\$12,326	
Accum Depr-Water		\$6,163
Accum Depr-Wastewater		6,163

DISCLOSURE NO. 7

SUBJECT: Replacement of Permeators

STATEMENT OF FACT: Permeators are replaceable units which are used in the Reverse Osmosis water plant to purify brackish water. In its general ledger, the Utility has treated permeator purchases as plant additions to account 320, Water Treatment Equipment. The Utility uses 48 permeators simultaneously, mounted in six units of eight permeators each. Although the composite depreciation rate for account 320 is 22 years, permeators are listed in the Uniform System of Accounts (USOA) as having a life of five years.

OPINION: During the years 1991 through 1993, the Utility purchased \$112,257 worth of permeators. During the years 1994 through 1998, the Utility purchased 48 permeators for \$203,980. Since 48 permeators were bought during 1994-98, these purchases must be total replacements for the \$112,257 worth of permeators bought during 1991-93. Auditors recommend the removal of the \$112,257 of replaced permeators from Utility Plant In Service and the removal of the same amount of associated accumulated depreciation. On a going-forward basis, the new owner, AquaSource, should establish a permeator sub-account for account 320 and should depreciate permeators over five years instead of 22 years.

DISCLOSURE NO. 8**SUBJECT: Construction Work in Progress (CWIP)**

STATEMENT OF FACT: The utility general ledger CWIP account had a balance of \$1,218,990 (Water - \$14,070; Wastewater - \$1,204,920) at December 31, 1998.

OPINION AND CONCLUSION: We discussed the projects comprising the CWIP account with the plant manager to determine their status. We were told the Sludge Processing project will not be completed and should be written off as an expense. In addition, we identified \$52,900 in Plant Held for Future Use (PHFU) that related to an uncompleted Reuse wastewater project (see Disclosure No. 9). This amount should be transferred to CWIP. The following is a schedule of the CWIP projects at December 31, 1998.

		Addition From PHFU	Transfer to Non-Utility Expense:	Adjusted Balance at Dec 31, 1998
Rotonda West Wastewater (WW)				
Englewood WW	\$1,092,908			\$1,092,908
WW Treatment Plant	31,993			31,993
WW Sludge Process	77,461		(77,461)	0
Placida Isles Bay WW	64			64
WW Connection - Fisher	2,494			2,494
Balance per General Ledger	\$1,204,920		(77,461)	\$1,127,459
Reuse WW from PHFU		52,900		52,900
Total for Wastewater	\$1,204,920	52,900	(77,461)	\$1,180,359
Rotonda West Water (W)				
Ammonia Study	\$14,006	0	0	\$14,006
Placida Isles Bay W	64	0	0	64
Total for Water	\$14,070	0	0	\$14,070
Total for Utility	\$1,218,990	\$52,900	(77,461)	\$1,194,429

DISCLOSURE NO. 9

SUBJECT: PLANT HELD FOR FUTURE USE (PHFU) AND ASSOCIATED CIAC

STATEMENT OF FACT: The Utility had a total of \$1,775,279 in PHFU accounts at December 31, 1998. This amount was allocated \$1,524,453 to Water and \$250,826 to Wastewater. Associated with this PHFU was CIAC of \$1,587,626 allocated \$1,550,781 to Water and \$36,845 to Wastewater. Most of this CIAC-PHFU cannot be directly identified with any specific item of plant. The utility has been allocating a portion to the Plant in Service - CIAC accounts as specific PHFU projects are placed in service. The PHFU and PHFU-CIAC are not being depreciated or amortized until placed in service. The impact of this is minor because the two nearly offset each other and the difference is non-depreciable land.

OPINION: A review of the utility's records indicated that \$137,585 of the PHFU-Wastewater should be reclassified. This amount relates to two reuse projects and several expense items. One reuse project for \$60,984, which was completed and is in use, should be transferred to wastewater plant in service. The \$60,984 transfer from plant in service increased the balance of wastewater Accumulated Depreciation by \$11,151. The other reuse project for \$52,900 is not complete and should be transferred to CWIP. Finally, our review of actual invoices revealed that \$23,701 of PHFU additions were actually repair or other expense items instead of capital additions and therefore should be written off.

There was also \$104,268 of additions without any associated CIAC and without any supporting documentation. This amount consists of \$74,790 for water and \$29,478 for wastewater. As was done with other unsupported plant items, this amount should be moved to Nonutility plant as were unsupported plant transactions in Disclosures No. 3 & 5.

In 1996, a warehouse and related land being held for future use and costing \$100,000 was sold. The utility removed \$166,600 from its books. The additional \$66,600 related to another parcel of land that was not sold and should be added back to the utility's books.

The following schedule summarize our adjustments to PHFU:

PHFU	Total	Water	Wastewater	Expense
Balance PHFU at December 31, 1998	\$1,775,279	\$1,524,453	\$250,826	
Less: Reclassify Reuse as Plant in Service	(60,984)		(60,984)	
Reclassify Reuse as CWIP	(52,900)		(52,900)	
Write off Expense (to Ret Earn)	(23,701)		(23,701)	23,701
Reclas items W/O support to NonU	(104,268)	(74,790)	(29,478)	
Add: Land Removed in Error (Cr. Ret Earn)	<u>66,600</u>	<u> </u>	<u>66,600</u>	<u> </u>
Adj. Bal. of PHFU at December, 31, 1998	<u>\$1,600,026</u>	<u>\$1,449,663</u>	<u>\$150,363</u>	<u>\$23,701</u>

Continued on next page

DISCLOSURE NO. 9 (CONTINUED)

The last rate case order, FPSC Order No. 96-0663-FOF-WS, issued May 13, 1996, required the utility to impute CIAC for certain land that was once owned by the utility at "zero" cost, then sold to a related party and later repurchased at a higher cost. There is a \$27,000 parcel of land included in PHFU which likewise was previously owned by the utility at no cost, sold, then later repurchased. The utility should therefore impute CIAC for this amount and debit the offsetting amount to Nonutility plant.

Finally, the Utility posted a journal entry as of December 31, 1997 to transfer CIAC-PHFU to CIAC-Utility Plant In Service (UPIS). This CIAC was associated with plant which had been transferred from PHFU to UPIS. The journal entry was posted incorrectly. CIAC-Tap Fee was debited \$155,992 instead of CIAC-PHFU-Water and CIAC-PHFU-Water was debited \$27,323 instead of CIAC-PHFU-Wastewater. The net effect of correcting this entry is to debit CIAC-PHFU-Water \$128,669, debit CIAC-PHFU-Wastewater \$27,323 and credit CIAC-Water \$155,992.

The following schedule summarizes our adjustments to CIAC-PHFU:

<u>CIAC-PHFU</u>	<u>Total</u>	<u>Water</u>	<u>Wastewater</u>
Balance CIAC-PHFU @ 12/31/98	(\$1,587,626)	(\$1,550,781)	(\$36,845)
Adjust for Audit Corrections:	155,992	128,669	27,323
Impute CIAC for land previously owned	<u>(27,000)</u>	<u>(27,000)</u>	<u>0</u>
Audited Balance CIAC-PHFU @ 12/31/98	<u>(\$1,458,636)</u>	<u>(\$1,449,112)</u>	<u>(\$9,522)</u>

When all of the above adjustments are made, PHFU which is not offset by PHFU-CIAC will total \$141,390 (1,600,026 - 1,458,636). This amount is made up of two parcels of wastewater land of \$66,600 and \$74,240, and \$550 included in the Meadows- Water system.

CONCLUSION: Except for the above \$141,390, all future transfers of PHFU to Utility Plant In Service accounts should be accompanied by a like amount of CIAC-PHFU transferred to the CIAC included in rate base.

DISCLOSURE NO. 10

SUBJECT: Accumulated Depreciation and Accumulated Amortization of CIAC

STATEMENT OF FACT: The balances of accumulated depreciation of plant, accumulated amortization of franchises and accumulated amortization of CIAC, as of December 31, 1998 per the utility's books are as follows:

Account 108-Accum. Depreciation-Water	2,366,121
Account 108-Accum. Depreciation-Wastewater	1,312,735
Account 110-Accum. Amortization-Water	2,487
Account 110-Accum. Amortization-Wastewater	2,487
Account 272- Accum. Amort. of CIAC- Water	408,800
Account 272- Accum. Amort. of CIAC- Wastewater	174,009

OPINION AND CONCLUSION: At the beginning of each year, the utility estimates the amount of depreciation of plant and amortization of CIAC that will accumulate during the year. At the end of the year, the Utility made an adjustment to "true up" the amount of depreciation and amortization actually accumulated during the year. As of the end of audit field work, this true up had not been made. We have calculated the proper amount of accumulated depreciation and amortization as of December 31, 1998. Based on this calculation, an adjustment needs to be made as follows by AquaSource as of December 31, 1998:

	<u>Dr.</u>	<u>Cr.</u>
Account 403 - Depreciation Expense - Water	\$13,227	
Account 403 - Depreciation Expense - Wastewater	\$14,066	
Account 108 - Accumulated Depreciation - Water		\$13,227
Account 108 - Accumulated Depreciation - Wastewater		\$14,066
Account 407 - Amortization Expense - Water	\$402	
Account 407 - Amortization Expense - Wastewater	\$402	
Account 110 - Accumulated Amortization - Water		\$402
Account 110 - Accumulated Amortization - Wastewater		\$402
Account 272 - Accumulated Amortization of CIAC- Water	\$4,903	
Account 272 - Accum. Amortization of CIAC- Wastewater	\$3,653	
Account 403 - Depreciation Expense - Water		\$4,903
Account 403 - Depreciation Expense - Wastewater		\$3,653

DISCLOSURE NO. 11

SUBJECT: NonUtility Plant

STATEMENT OF FACT: In previous rate proceedings, the Charlotte County Board of County Commissioners ruled that portions of rate base lacked original cost documentation or were considered contributed. They required the utility to remove these amounts from rate base along with any associated CIAC and accumulated depreciation. These amounts were recorded as Nonutility Plant. As of December 31, 1994, the last FPSC audit date, Nonutility Plant totaled \$10,011,352, Nonutility CIAC \$9,316,430, and Nonutility Accumulated Depreciation \$658,133. The "net difference" of these amounts was \$36,789. The utility was amortizing this amount over a ten year period. No amortization had been taken for 1998.

Since 1994, the utility has increased the balance of Nonutility Plant by \$361,180 which is land that was disallowed in the last FPSC rate case (See Disc. No.2).

AUDIT OPINION: As discussed in Disclosure No.s 2 and 3, not all of the required FPSC rate order adjustments were made. We have adjusted this account for these amounts as well as additional unsupported items described in Disclosure No.s 5 and 9. The addition of these amounts, plus the amount the utility added, causes the net difference to increase to \$924,589 (Water - \$610,785, Wastewater - \$313,804) before adjusting for 1998 amortization.

The utility's previous method of amortizing the net difference was reasonable due to the relatively small amount. However, we believe it is now more appropriate to depreciate this amount (net of land) over the utility's composite service life of twenty-five years.

We determined the portion relating to land to be \$483,329 and the portion relating to plant to be \$480,148 and have calculated 1998 depreciation of \$19,206 (Water - \$8,826, Wastewater - \$10,380) on just the plant portion.

CONCLUSION: The dollars of disallowed plant and offsetting CIAC should be carried forward in this certificate transfer audit as Non-Utility property by AquaSource, the purchaser of the existing Utility. The utility should continue to depreciate the Nonutility plant and include this expense in Nonutility earnings.

A schedule of these accounts, separated between water and wastewater, including a summary of our adjustments is presented on the following page.

DISCLOSURE NO. 11 (Continued)

<u>Water System:</u>	Balance Per Books <u>Dec 31, 1998</u>	Audit Adjust- ments	Balance Per Audit <u>Dec 31, 1998</u>
Non-Utility Plant	3,756,938	258,480	4,015,418
Non-Utility CIAC	(2,753,922)	0	(2,753,922)
Non-Utility A/D	(633,815)	(8,070)	<u>(641,885)</u>
Net Before Depr.			619,611
1998 Depreciation		<u>(8,826)</u>	<u>(8,826)</u>
Net Non-Utility	369,201	241,584	610,785
<u>Wastewater System:</u>			
Non-Utility Plant	6,615,594	316,280	6,931,874
Non-Utility CIAC	(6,562,508)	0	(6,562,508)
Non-Utility A/D	(33,570)	(11,612)	<u>(45,182)</u>
Net Before Depr.			324,184
1998 Depreciation		<u>(10,380)</u>	<u>(10,380)</u>
Net Non-Utility	19,516	294,288	313,804
Combined Net Non-Utility	<u>388,717</u>		<u>924,589</u>
<u>Total Land and Plant</u>			
Land	361,180	122,149	483,329
Plant	<u>27,537</u>	<u>452,611</u>	<u>480,148</u>
Total	388,717	574,760	963,477
Accum Depr. Adj.		(19,682)	(19,682)
1998 Depreciation		<u>(19,206)</u>	<u>(19,206)</u>
Net Non-Utility	<u>388,717</u>	<u>535,872</u>	<u>924,589</u>

ROTONDA WEST UTILITY CORPORATION
 RATE CASE, DOCKET NO. 981858-WS
 RATE BASE AT TIME OF TRANSFER
 AS OF 12-31-98

WATER DESCRIPTION	BALANCE PER UTILITY @ 12-31-98	AUDIT ADJUSTMENTS	DISC. #	AUDITED BALANCE @ 12-31-98
Utility Plant in Service	8,067,121	2,002	2	
		367	2	
		(55,295)	3	
		(81,195)	5	
		(6,246)	5	
		(112,257)	7	
				7,814,497
Land and Land Rights	382,390	(2,369)	2	380,021
Less: Accumulated Depreciation	(2,368,608)	7,852	3	
		218	5	
		7,838	5	
		(6,163)	6	
		112,257	7	
		(13,227)	10	
		(402)	10	
				(2,260,235)
Less: CIAC	(3,328,953)	(95,149)	2	
		(155,992)	9	
				(3,580,094)
Accum. Amortization of CIAC	408,800	4,903	10	413,703
TOTAL RATE BASE - WATER	3,160,750	(392,858)		2,767,892
OTHER ASSETS:				
Construction Work In Progress	14,070	0		14,070
Plant Held for Future Use	1,524,453	(74,790)	9	1,449,663
Plant Held for Future Use: Associated CIAC	(1,550,781)	128,669	9	
		(27,000)	9	
				(1,449,112)
Amortization of CIAC - Plant Held for Future Use	0	0		0
Non-Utility Property	3,756,938	95,149	2	
		55,295	3	
		6,246	5	
		27,000	9	
		74,790	9	
				4,015,418
Non-Utility Property: Accumulated Deprec	(633,815)	(7,852)	3	
		(218)	5	
		(8,826)	11	
				(650,711)
Non-Utility Property: Associated CIAC	(2,753,922)			(2,753,922)
Non-Utility Property: Amortization of CIAC	0	0	0	0
TOTAL OTHER ASSETS WATER	356,943	268,463		625,406
TOTAL RATE BASE & OTHER	3,517,693	(124,395)		3,393,298

RATE CASE, DOCKET NO. 981858-WS
 RATE BASE AT TIME OF TRANSFER
 AS OF 12-31-98

WASTEWATER DESCRIPTION	BALANCE PER UTILITY @ 12-31-98	AUDIT ADJUSTMENTS	DISC. #	AUDITED BALANCE @ 12-31-98
Utility Plant in Service	5,656,138	(30,841)	3	
		(105,254)	3	
		(255,961)	5	
		60,984	9	
				5,325,066
Land and Land Rights	76,308			76,308
Less: Accumulated Depreciation	(1,315,222)	3,080	3	
		8,532	5	
		8,367	5	
		(6,163)	6	
		(11,151)	9	
		(402)	10	
		(14,066)	10	
				(1,327,025)
Less: CIAC	(1,759,083)			(1,759,083)
Accum. Amortization of CIAC	174,009	3,653	10	177,662
TOTAL RATE BASE - WASTEWATER	2,832,150	(339,222)		2,492,928
OTHER ASSETS:				
Construction Work in Progress	1,204,920	52,900	8 & 9	
		(77,461)	9	
				1,180,359
Plant Held for Future Use	250,826	66,600	9	
		(137,585)	9	
		(29,478)	9	
				150,363
Plant Held for Future Use: Associated CIAC	(36,845)	27,323	10	(9,522)
Amortization of CIAC - Plant Held for Future Use	0	0		0
Non-Utility Property	6,615,594	30,841	3	
		255,961	5	
		29,478	9	
				6,931,874
Non-Utility Property: Accumulated Deprec	(33,570)	(3,080)	3	
		(8,532)	5	
		(10,380)	11	
				(55,562)
Non-Utility Property: Associated CIAC	(6,562,508)			(6,562,508)
Non Utility Property: Amortization of CIAC	0	0	0	0
TOTAL OTHER ASSETS-WASTEWATER	1,438,417	196,587		1,635,004
TOTAL RATE BASE & OTHER ASSETS	4,270,567	(142,635)		4,127,932