

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: January 3, 2019

TO: Office of Commission Clerk

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

RE: Docket No.: 20180175-WU
Company Name: Alturas Utilities, L.L.C.
Company Code: WU871
Audit Purpose: B1c: Certificate Transfer
Audit Control No.: 2018-275-1-1

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
Tallahassee District Office

Auditor's Report

Alturas Utilities, L.L.C./Alturas Water, LLC

Transfer of Certificate
Certificate No. 628-W

As of June 15, 2018

Docket No. 20180175-WU
Audit Control No. 2018-275-1-1

December 7, 2018

A handwritten signature in cursive script, reading "Donna D. Brown", written over a horizontal line.

Donna D. Brown
Audit Manager

A handwritten signature in cursive script, reading "Marisa N. Glover", written over a horizontal line.

Marisa N. Glover
Reviewer

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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 October 2, 2018. We have applied these procedures to the attached schedules prepared by audit staff in support of Alturas Utilities, L.L.C./Alturas Water, LLC request for a Transfer of Certificate in Docket No. 20180175-WU.

The report is intended only for internal Commission use.

Objectives and Procedures

General

Definitions

Buyer/Utility refers to Alturas Water, LLC

Seller refers to Alturas Utilities, L.L.C.

NARUC refers to the National Association of Regulatory Utility Commissioners.

USOA refers to the NARUC Uniform System of Accounts adopted by Rule 25-30.115 – Uniform System of Accounts for Water and Wastewater Utilities, Florida Administrative Code (F.A.C.)

Utility Information

Alturas Utilities, L.L.C. is a Class “C” utility serving approximately 55 residential and 10 general service water customers in Polk County, as noted in the 2017 Annual Report. The Utility was granted a grandfather certificate by the Commission in the name of Alturas Waterworks, in Docket No. 19961109-WU. In 1998, Alturas Waterworks was transferred to Keen Sales, Rentals and Utilities, Inc. Alturas Utilities acquired a portion of Keen’s service territory in 2005 when the Commission granted the transfer. Rate base and rates were last established by the Florida Public Service Commission in Docket No. 20140219-WU by Order No. PSC-2016-0128-PAA-WU, issued March 29, 2016.

On November 10, 2014, Alturas filed its application for a staff-assisted rate case (SARC), in accordance with a payment plan negotiated with staff for the payment of delinquent Regulatory Assessment Fees (RAFs) owned by the Alturas.

Alturas Water, LLC and Sunrise Water, LLC purchased Alturas Utilities, L.L.C. and Sunrise Utilities, LLC for \$89,900, on June 15, 2018 and filed an application for Transfer of Certificate with the Commission on September 14, 2018. Based upon ERCs, the allocated portion of the purchase price for Alturas Utilities, L.L.C. is \$18,789.

Utility Books and Records

Objectives: The objective was to determine whether the Utility maintains its accounts and records in conformity with the NARUC USOA.

Procedures: No general ledger was provided from the seller. The buyer stated that in its application that they will maintain the utility books and records using NARUC USOA.

Net Book Value

Utility Plant in Service

Objectives: The objectives were to determine whether the utility plant in service (UPIS): 1) Consists of property that exists and is owned by the Utility, 2) Additions are recorded at original

cost, 3) Retirements are made when a replacement asset was put in service, and 4) Adjustments required in the Utility's last rate case proceeding were recorded in its books and records.

Procedures: We reconciled the beginning balances for water UPIS as of December 31, 2014, established in Order No. PSC-2016-0128-PAA-WU, issued March 29, 2016, with the Seller's annual report. We scheduled water UPIS activity from December 31, 2014 through June 15, 2018 and noted that there were no additions or retirements recorded in the seller's annual reports. We reconciled the UPIS transfer balances with the buyer's UPIS schedule and determined the UPIS transfer balances as of June 15, 2018. No exceptions were noted.

Land & Land Rights

Objectives: The objectives were to determine whether the utility land is: 1) Recorded at original costs, 2) Owned or secured under a long-term lease agreement, and that 3) Adjustments required in the Utility's last rate proceeding were recorded in its books and records.

Procedures: We reconciled the beginning balances for land as of December 31, 2014, established in Order No. PSC-2016-0128-PAA-WU, issued March 29, 2016, with the Seller's books and records. We reviewed land deeds, as well as the Polk County Property Appraiser website for proof of ownership. We reviewed a Corrective Warranty Deed that transferred the real properties containing the Alturas and Sunrise systems to Alturas Utilities, LLC. Per Commission Order No. PSC-2016-0128-PAA-WU, the Utility was ordered by December 31, 2016, to file written documentation to show that the land ownership issue involving Sunrise Utilities, L.L.C. had been resolved. We determined that the land ownership issue involving Sunrise Utilities, LLC has been resolved. We also obtained a General Warranty Deed that transferred the land from Alturas Utilities, L.L.C. to Alturas Water, LLC. We determined the land transfer balance as of June 15, 2018. No exceptions were noted.

Accumulated Depreciation

Objectives: The objectives were to determine whether accumulated depreciation: 1) Accruals are properly calculated and recorded based on Rule 25-30.140 - Depreciation, (F.A.C.), 2) Retirements are recorded when an asset was replaced, and 3) Adjustments required in the Utility's last rate proceeding were recorded to its books and records.

Procedures: We reconciled the beginning balances for water accumulated depreciation as of December 31, 2014, established in Order No. PSC-2016-0128-PAA-WU, issued March 29, 2016, to Seller's annual report. We recalculated depreciation accruals for all UPIS accounts to verify that the correct depreciation rates were used. We determined the accumulated depreciation transfer balances for the water system as of June 15, 2018. Finding 1 discusses accumulated depreciation.

Contributions-in-Aid-of-Construction

Objectives: The objectives were to determine whether contributions in aid of construction (CIAC): 1) Consist of cash or property contributions that exist and are owned by the Utility, 2) Additions are recorded using Commission approved tariffs, 3) Retirements are recorded when an

contributed asset was replaced, and 4) Adjustments in the Utility's last rate proceeding were recorded to its books and records.

Procedures: We reconciled the beginning balances for water CIAC as of December 31, 2014, established in, Order No. PSC-2016-0128-PAA-WU, issued March 29, 2016, to the Seller's annual report. We scheduled water CIAC activity from December 31, 2014 through June 15, 2018 and noted that there was no CIAC activity recorded in the seller's annual reports. We determined the CIAC transfer balance as of June 15, 2018 and noted that CIAC was fully amortized in 2015. No further work performed.

Accumulated Amortization of CIAC

Objectives: The objectives were to determine whether accumulated amortization of CIAC: 1) Accruals are properly calculated and recorded based on Rule 25-30.140 – Depreciation, F.A.C., 2) Retirements are recorded when a contributed asset was replaced, and 3) Adjustments required in the Utility's last rate proceeding were recorded on its books and records.

Procedures: We reconciled the beginning balances for Accumulated Amortization CIAC as of December 31, 2014, established in, Order No. PSC-2016-0128-PAA-WU, issued March 29, 2016, to the Seller's annual report. We recalculated amortization accruals for all CIAC accounts to verify that correct amortization rates were used. We determined the water accumulated amortization of CIAC transfer balances as of June 15, 2018 and noted that CIAC was fully amortized in 2015. No further work performed.

Acquisition Adjustment

Objectives: The objective was to determine the acquisition adjustment, if any, based on audit staff's net book value pursuant to Rule 25-30.0371(1) – Acquisition Adjustments, F.A.C.

Procedures: We determined that the Net Book Value for this Utility at the time of transfer is more than the purchased price, which would reflect a negative acquisition adjustment. Pursuant to Rule 25-30.0371(3) – Acquisition Adjustments, F.A.C., a negative acquisition adjustment will not be included in rate base if the purchase price is greater than 80 percent of net book value. The Utility is not requesting an acquisition adjustment. No further work performed.

Other

Rates and Charges

Objectives: The objectives were to determine whether the Utility is charging monthly service rates authorized by Commission tariffs.

Procedures: We were able to trace the tariff rates from Order No. PSC-2016-0128-PAA-WU to the current tariff to customer bills. We recalculated a sample of customer bills from the June and October's 2018 billing cycle using the approved rates. No exceptions were noted.

Customer Deposits

Objectives: The objectives are to determine the disposition of Alturas Utilities, L.L.C.'s customer deposits and that refunds of customer deposits and accrued interest were completed as directed in No. PSC-2016-0128-PAA-WU.

Procedures: We noted that the customer deposits on the seller's books at the time of transfer were transferred to the buyer with the appropriate funding. We also reviewed a customer deposit report dated October 23, 2018 and the seller's customer billing history. Finding 2 discusses the status of the customer deposits refunds per Order PSC-2016-0128-PAA-WU..

Over-Collected Rate Case Expense

Objectives: The objective was to determine the disposition of Alturas Utilities, L.L.C.'s over-collected rate case expense, which the Commission ordered to be refunded per Commission Order No. PSC-2016-0128-PAA-WU.

Procedures: We reviewed monthly reports from April 2016 to November 2016 provided by the seller. We reviewed select pages from the Management Audit, PA-2016-11-005, dated June 2017. Finding 3 discusses over-collected rate case expense.

Audit Findings

Finding 1: Accumulated Depreciation

Audit Analysis: According to the Utility's transfer application, the accumulated depreciation balance was \$43,329 as of June 30, 2018. Audit staff calculated accumulated depreciation as of the transfer date of June 15, 2018 and determined that the balance should be \$43,392.

Water accumulated depreciation is understated by \$63 as shown in Table 1-1.

Table 1-1

Description	Acct. No.	Balance per Audit as of 06/15/2018
Structures and Improvements	304	\$ 133
Wells and Springs	307	\$ 6,987
Supply Mains	309	\$ 59
Pumping Equipment	311	\$ 5,827
Water Treatment Equipment	320	\$ 220
Distribution Reservoirs and Standpipes	330	\$ 9,685
Transmission and Distribution Mains	331	\$ 18,787
Meters and Meter Installations	334	\$ 1,694
Total		\$ 43,392
Utility Balance		\$ 43,329
Difference		\$ 63

Effect on the General Ledger: The Utility should determine the effect on the ledger.

Effect on the Filing: Audit staff determined the accumulated depreciation balance should be increased by \$63.

Finding 2: Customer Deposits

Audit Analysis: Based on a customer deposit report dated October 23, 2018 from the buyer, we determined that the customer deposit balance should be \$1,817, as of June 15, 2018.

According to Order No. PSC-2016-0128-PAA-WU,

...Alturas was in apparent violation of Rule 25-30.311, F.A.C. During our review of the Utility's customer records, we noted that Alturas failed to properly record the amount of each deposit, failed to pay the appropriate amount of interest on customer deposits, and failed to refund residential customer deposits after 23 months of satisfactory payment.

Alturas was ordered to provide monthly reports beginning April 15, 2016, until it satisfactorily refunded the appropriate amount of customer deposits and applied the appropriate interest on customer deposits. We obtained a copy of Alturas monthly status report filed in Docket No. 20140219-WU for August 2016. Alturas reported that the interest payments for the customer deposit accounts were completed as of August 2015, and that the deposit refunds were completed.

Subsequent to the 2014 rate proceeding, a Management Audit of Alturas Utilities, L.L.C. and Sunrise Utilities, LLC, PA-2016-11-005, was completed and a report was issued in June 2017. Commission audit staff concluded that there was no evidence of annual interest payments to customers and Alturas failed to comply with portions of Order No. PSC-2016-0128-PAA-WU in Docket No. 20140219-WU.

We reconciled the customer deposit report dated October 23, 2018 with the customer deposit report provided in Docket No. 20140219-WU. We noted the following:

1. Nine deposits listed on the October 23rd report, totaling \$548 have not been returned. One deposit not listed on the October 23rd report, totaling \$65 has not been returned. The associated interest accrued on these deposits and accounts referenced in Docket No. 20140219-WU continues to accrue.
2. Seven accounts listed on the October 23rd report, had deposits in which the customers paid more than the tariff requires. Of these seven accounts, only one had an outstanding balance in the amount of \$80.
3. Four accounts listed on the October 23rd report, had deposits in the amount of \$223, in which customers paid a deposit less than what the tariff requires. Of these four accounts, only one had an outstanding balance in the amount of \$64.

Effect on the General Ledger: The Utility should determine the effect on the ledger.

Effect on the Filing: Per Commission Order No. PSC-2016-0128-PAA-WU, it states that in the event that Alturas is unable to issue customer deposit refunds and interest payments to former customers, the resulting total of the unclaimed refunds and associated accrued interest shall be credited to CIAC in the Utility's next rate proceeding. Audit staff determined that \$757 in customer deposits had not been returned.

Finding 3: Rate Case Expense

Audit Analysis: Per Commission Order No. PSC-2016-0128-PAA it was determined that Alturas did not implement the four-year rate reduction that became effective on August 14, 2014. The Commission verified that Alturas began billing the reduced rates in May 2015. As of March 29, 2016, the Commission estimated the amount of over-collection to be approximately \$281.

Audit staff requested from the buyer the current disposition of over-collected rate case expense. We were informed by the buyer that the disposition is unknown. We reviewed the monthly reports that the seller was required to provide to the Commission. From April to November, the seller stated that there were no outstanding rate case expense over collected. However, there was a management audit done in June 2017, in which no documentation was provided to show the over-collected rate case expense had been returned.

Effect on the General Ledger: The Utility should determine the effect on the ledger.

Effect on the Filing: Audit staff determined the over-collected rate case expense in the amount of \$281, is still outstanding and the technical staff should determine the disposition of this issue.

Exhibits

Exhibit 1: Net Book Value - Water

**ALTURAS UTILITIES, L.L.C
TRANSFER OF CERTIFICATE AUDIT
DOCKET NO. 20180175-WU; ACN 2018-275-1-1
SCHEDULE OF NET BOOK VALUE
AS OF JUNE 15, 2018**

Description	Balance per Utility 06/15/18	Audit Adjustments	Audit Finding	Balance per Audit 06/15/18
Utility Plant in Service	\$ 64,927	\$ -		\$ 64,927
Land	\$ 500	-		500
Accumulated Depreciation	\$ (43,329)	(63)	2	(43,392)
Contributions in Aid of Construction	\$ (18,637)	-		(18,637)
Accumulated Amortization of CIAC	\$ 18,637	-		18,637
NET BOOK VALUE	\$ 22,098	\$ (63)		\$ 22,035