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July 12, 1999

Via Federal Express

Ms. Blanca Bayo, Director
Department of Records & Reporting
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

RE: Emergency Petition by D. R. Horton Custom Homes, Inc., to
Eliminate Authority of Southlake Utilities, Inc., to Collect
Service Availability Charges and AFPI Charges in Lake
County, Docket No. 981609-WS ("Petition")

Dear Ms. Bayo:

Southlake Utilities, Inc., hereby files an original and seven (7) copies of the
Company Comments of Southlake Utilities, Inc., to Audit Report Investigation Into Rate
Base, AFPI, and Revenues January 1, 1993 Through December 31, 1998 Audit Control
No. 98-343-3-1. Also enclosed is a WordPerfect 6.1 formatted, high double density
diskette which contains a copy of the Company Comments.

Please file the original and distribute the copies in accordance with your usual
procedures.

If you have any questions or comments regarding this matter or need additional
information, please do not hesitate to call me.

Sincerely yours,

[Handwritten signature of Scott G. Schildberg]

Scott G. Schildberg

- AFPA 1
APP
CAF
CMU
CTR
EAG
LEG 1
MAS
OPC
RRR
SGS/vkc
Enclosures
NAW Ketcher
OTM ec:

ec: Mr. Robert L. Chapman, III
Ms. Samantha Cibula, Esquire
Mr. F. Marshall Deterding, Esquire
Mr. Norman Mears

DOCUMENT NUMBER-DATE

08267 JUL 13 99

FPSC-RECORDS/REPORTING

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Emergency Petition by D.R.)
Horton Custom Homes, Inc., to) Docket No. 981609-WS
eliminate authority of Southlake)
Utilities, Inc. to collect service) Date Submitted for Filing:
availability charges and AFPI) July 12, 1999
charges in Lake County)

COMPANY COMMENTS OF SOUTHLAKE UTILITIES, INC., TO AUDIT REPORT
INVESTIGATION INTO RATE BASE, AFPI, AND REVENUES
JANUARY 1, 1993 THROUGH DECEMBER 31, 1998
AUDIT CONTROL NO. 98-343-3-1

Southlake Utilities, Inc. ("Southlake" or "Utility"), hereby makes the following responses to the audit exception and disclosures contained in that certain Audit Report of the Rate Base, AFPI, and Revenues of Southlake Utilities, Inc., for January 1, 1993, through December 31, 1998, Audit Control No. 98-343-3-1 ("Audit Report"):

Auditor's Report - Opinion

On page 1 of the Audit Report, the audit staff stated:

In our opinion, the utility's books and records (as of May 7, 1999 prior to the utility's year-end close for 1998 and prior to the preparation of its 1998 Annual Report) reflect the balances of AFPI, Revenues, and Rate Base in all material respects as maintained in general conformity with the accounting practices prescribed by the Florida Public Service Commission.

In response to the statement in the Summary of Significant Findings that "[a]s of May 13, 1999, the utility had not yet

DOCUMENT NUMBER-DATE

08267 JUL 13 99

FPSC-RECORDS/REPORTING

started its Annual Report for 1998 and will not have that completed until the end of May, 1999," Southlake points out that the Audit Staff conducted its onsite audit of Southlake's books and records during much of the time when Southlake normally prepares its annual reports. The auditors required Southlake's accountant to respond to numerous data requests during this time. Southlake requested and received an extension of time until May 31, 1999, to file its annual report. Despite the demands on Southlake's accountant and the other inconveniences caused by the audit, Southlake was able to timely file its annual report for 1998 on May 31, 1999.

Exception No. 1, Capitalized Labor:

In this exception, the Audit Staff recommends disallowing capitalized officer salaries on the basis that the salaries should be recorded in accounts 603 and 703 of the 1996 NARUC Uniform System of Accounts. Capitalization of salaries is a long established practice in the water and wastewater industry, and has been consistently used, and on certain occasions even required, by the Commission. The 1996 NARUC Uniform System of Accounts acknowledges the appropriateness of such capitalization.

Accounting Instruction 14, Utility Plant - Components of Construction Costs, of the 1996 NARUC Uniform System of Accounts for Class B Water Utilities, states:

The cost of construction of property chargeable to the utility plant accounts shall include, where applicable, the cost of labor, materials and supplies, transportation, work done by others for the utility, injuries and damages incurred in construction work, privileges and permits, special machine service, allowance for funds used during construction and such portion of general engineering, administrative salaries and expenses, insurance, taxes and other analogous items as may be properly includible [sic] in construction cost. (Emphasis added.)

Accounting Instruction 15, Utility Plant - Overhead Construction Costs, paragraph B, of the 1996 NARUC Uniform System of Accounts for Class B Water Utilities, states:

As far as practicable, the determination of payroll charges includible [sic] in construction overheads shall be based on the time card distributions thereof. Where this procedure is impractical, special studies shall be made periodically of the time of supervisory employees devoted to construction activities so that only such overhead costs as have a definite relation to construction shall be capitalized. The addition to direct construction costs of arbitrary percentages or amount to cover assumed overhead costs is not permitted. (Emphasis added.)

The 1996 NARUC Uniform System of Accounts for Class B Wastewater Utilities includes the same two accounting instructions.

Other authorities also support Southlake's capitalization. Water Utility Accounting, Second Edition, published by the American Water Works Association, states on page 203:

Administrative and general costs. Usually, a portion of administrative and general activities also is associated with

construction work. Therefore, the portion of the pay of the general officers, administrators, and other general expenses applicable to construction work should be capitalized...

Southlake capitalized the portion of the president's salary related to construction based on his actual time records. Southlake performed such capitalization in compliance with the 1996 NARUC Uniform System of Accounts and standard industry practice by capitalizing the portions of the salary related to construction.

Disclosure No. 1, 1995 Annual Report Beginning Balance:

The 1996, 1997, and 1998 reports comply with this requirement, as will all future reports.

Disclosure No. 2, Summer Bay Force and Water Main:

Southlake has provided the information which the developer who installed the mains provided to Southlake. Southlake believes that it has provided sufficient documentation to include the Summer Bay force and water mains in rate base. Therefore, no adjustment should be made.

If the Commission does disallow the cost of these mains from the utility plant accounts, the entry proposed by the auditors is incorrect. As evidenced by the Edit Journal and pages of the Year-to-Date General Ledger for the year ended December, 31, 1995, copies of which are attached as Exhibit A, the entry recording these mains debited the plant accounts and credited contributions-

in-aid-of-construction accounts. If the Commission does disallow the cost of these mains, the correct entry will debit contributions-in-aid-of-construction instead of retained earnings, and will account for the related accumulated amortization of CIAC as well as the related accumulated depreciation.

Disclosure No. 3, Accumulated Depreciation:

The auditor recomputed depreciation based on the service lives for Class C utilities rather than the service lives for Class B utilities which Southlake has used. Southlake is correct in using the service lives for Class B utilities, because the Commission established its rates and charges using the Class B service lives in the original certificate docket, Docket No. 900738-WS.

In the original certificate docket, the Commission projected Southlake to be a Class B utility at capacity, and accordingly used the Class B service lives in determining the initial rates and charges for Southlake. After the Commission had set its rates and charges using the Class B service lives, it would have been inconsistent and inappropriate for Southlake to use the Class C service lives. It is Southlake's understanding that a utility company can not change its depreciation rates until that company participates in a proceeding before the Commission either for (1) revised water and/or sewer rates and charges, or (2) a specific request for changes in depreciation rates. See Staff Advisory Bulletin No. 17. In years past, the Commission has allowed Class

C utilities to elect to use the longer service lives. For these reasons, the Class B service lives used by Southlake are the appropriate service lives, and the Commission should not retroactively impose the shorter Class C service lives.

Disclosure No. 4, Depreciation Expense

Southlake does not dispute the proposed adjustment which will have a net effect of zero.

Disclosure No. 5, Office Furniture and Equipment

The two \$1,500.00 adjustments (total \$3,000.00) are for an office copier. The copier is currently in use and available for inspection and Southlake provided copies of the cancelled checks to the audit staff.

Disclosure No. 6, Amortization of Contributions in Aid of Construction (CIAC)

This disclosure was provided for the information of the Water and Wastewater analyst.

Disclosure No. 7, Water and Wastewater Tariff:

In this disclosure, the audit staff requested Southlake to explain the different amounts used for plant capacity charges in the body of a developer agreement and in the exhibit to the developer agreement. The difference in the amounts resulted from

the builder decreasing the number of apartments it was going to build. The builder initially expected to build a greater number of apartments and this information was used in the body of the Agreement. However, the developer subsequently decreased the number of apartments to be built and this lower number was used in Exhibit B. The information in Exhibit B is based upon the number of apartments actually built. The information in the body of the agreement was not corrected to reflect this change. Southlake used the plant capacity charges for the number of apartments actually built.

Disclosure No. 8, Company CIAC Worksheets compared to the General Ledger:

Southlake was in the process of closing its books and records for 1998 during the audit. The difference referred to in the audit report related to two journal entries. One journal entry was for the True Up for the Ware Oil Development (\$4,357.38). The other journal entry was for the reclassification of Prepaid CIAC. A schedule showing the worksheet totals, the journal entries, and the reconciliation to the general ledger totals is attached as Exhibit B.

Disclosure No. 9, ERC Data:

This recommendation is addressed to the water and wastewater analyst.

EXHIBIT A

Date: 05/30/96
Time: 11:37

SOUTHLAKE UTILITIES, INC.
Year-to-Date General Ledger
December 1995

Zero-balance accounts with
no activity are excluded

Account	Date	Description	Batch	Debit	Credit	Account Balance
01236.1	03 31	F P S C	1353 MAR2.0-CD	705.92		
	03 31	ACCUE REG ASSESS FEE	JE03-05 MAR3.0-JE		121.62	
	04 30	ACCUE REG ASSESS FEE	JE04-05 APR3.0-JE		140.86	
	05 31	ACCUE REG ASSESS FEE	JE05-05 MAY3.0-JE		121.84	
	06 30	ACCUE REG ASSESS FEE	JE06-05 JUN3.0-JE		120.83	
	07 31	ACCUE REG ASSESS FEE	JE07-05 JUL3.0-JE		121.47	
	08 31	ACCUE REG ASSESS FEE	JE08-05 AUG3.0-JE		108.38	
	09 30	ACCUE REG ASSESS FEE	JE09-05 SEP3.0-JE		122.51	
	10 31	ACCUE REG ASSESS FEE	JF10-05 OCT3.0-JE		119.02	
	11 30	ACCUE REG ASSESS FEE	JE11-05 NOV3.0-JE		126.71	
	04 29	ADJ REG ASSESS FEES	JE12-29 DEC3.1-JE		47.23	
	12 31	ACCUE REG ASSESS FEE	JE12-05 DEC3.0-JE		137.39	
	12 31	ADJ RAF TO 4.5% OF REV	JE12-52 DEC3.1-JE		10.14	
			Journal Total:	705.92	1,495.30	1,495.30CR#
01236.4	01 95	W - ACCRUED TAXES-FED INC	Balance Forward			2,230.41CR
	12 31	RECLASS CK 1099	JE12-67 DEC3.3-JE	2,230.41		
			Journal Total:	2,230.41		
01236.5	01 95	W - ACCRUED TAXES-STATE INC	Balance Forward			751.92CR
	12 31	RECLASS CK 110	JE12-68 DEC3.3-JE	751.92		
			Journal Total:	751.92		
01271.1	01 95	W - CIAC-SYSTEM CAPACITY	Balance Forward			130,620.00CR
	04 30	J E JONES	CR04-01 APR1.0-CR		25,200.00	
	07 31	SUMMER BAY	CR07-02 JUL1.0-JE		7,200.00	
	09 30	D R HORTON	CR08-07 SEP1.0-CR		4,200.00	
	12 31	N/R SUMMER BAY	JE12-59 DEC3.2-JE		2,087.27	
			Journal Total:		38,687.27	169,307.27CR#
01271.2	01 95	W - CIAC-METER INSTALLATION	Balance Forward			7,350.00CR
	08 31	SUMMER BAY	CR08-06 AUG1.0-CR		354.00	
	09 30	SUMMER BAY PARTNERSHIP	CR09-04 SEP1.0-CR		860.00	
	09 30	D R HORTON	CR08-07 SEP1.0-CR		1,300.00	
	09 30	RECLASS CR09-03 STRFRDJE09-13	SEP3.0-JE		260.00	
	10 31	RECLASS CR10-01	JE10-17 OCT3.0-JE		843.74	
	04 29	RECLASS CR09-04	JE12-30 DEC3.1-JE	340.00		
			Journal Total:	340.00	3,617.74	10,627.74CR#
01271.4	01 95	W - CIAC-OTHER				
	12 31	SUMMER BAY EXTENSION	JE12-66 DEC3.2-JE		41,352.00	
			Journal Total:		41,352.00	41,352.00CR#
01272.1	01 95	W - ACCUM AMORT-PLANT CAPACITY	Balance Forward			2,622.20
	01 31	AMORT OF CIAC	JE01-04 JAN3.0-JE	329.82		
	02 29	AMORT OF CIAC	JE02-04 FEB3.0-JE	329.82		
	03 31	AMORT OF CIAC	JE03-04 MAR3.0-JE	329.82		
	04 30	AMORT OF CIAC	JE04-04 APR3.0-JE	329.82		
	05 31	AMORT OF CIAC	JE05-04 MAY3.0-JE	393.45		
	06 30	AMORT OF CIAC	JE06-04 JUN3.0-JE	393.45		
	07 31	AMORT OF CIAC	JE07-04 JUL3.0-JE	393.45		

Date: 05/30/96
Time: 11:37

SOUTHLAKE UTILITIES, INC.
Year-to-Date General Ledger
December 1995

Zero-balance accounts with
no activity are excluded

Account	Date	Description	Batch	Debit	Credit	Account Balance
02108395	01 95	S - A/O-POWER OPERATED EQUIP	Balance Forward			6.24CR
	01 31	ACCRUE DEPRECIATION	JE01-03 JAN3.0-JE		1.56	
	02 29	ACCRUE DEPRECIATION	JE02-03 FEB3.0-JE		1.56	
	03 31	ACCRUE DEPRECIATION	JE03-03 MAR3.0-JE		1.56	
	04 30	ACCRUE DEPRECIATION	JE04-03 APR3.0-JE		1.56	
	05 31	ACCRUE DEPRECIATION	JE05-03 MAY3.0-JE		1.56	
	06 30	ACCRUE DEPRECIATION	JE06-03 JUN3.0-JE		1.56	
	07 31	ACCRUE DEPRECIATION	JE07-03 JUL3.0-JE		1.56	
	08 31	ACCRUE DEPRECIATION	JE08-03 AUG3.0-JE		1.56	
	09 30	ACCRUE DEPRECIATION	JE09-03 SEP3.0-JE		1.56	
	10 31	ACCRUE DEPRECIATION	JE10-03 OCT3.0-JE		1.56	
	11 30	ACCRUE DEPRECIATION	JE11-03 NOV3.0-JE		1.56	
	12 31	ACCRUE DEPRECIATION	JE12-03 DEC3.0-JE		1.56	
		Journal Total:			18.72	24.96CR
02236.1	01 95	S - ACCRUED TAXES-RAF	Balance Forward			781.65CR
	01 31	ACCRUE REG ASSESS FEE	JE01-05 JAN3.0-JE		106.49	
	02 29	ACCRUE REG ASSESS FEE	JE02-05 FEB3.0-JE		108.51	
	03 31	F P S C	1353 MAR2.0-CD	781.65		
	03 31	ACCRUE REG ASSESS FEE	JE03-05 MAR3.0-JE		136.94	
	04 30	ACCRUE REG ASSESS FEE	JE04-05 APR3.0-JE		156.57	
	05 31	ACCRUE REG ASSESS FEE	JE05-05 MAY3.0-JE		134.67	
	06 30	ACCRUE REG ASSESS FEE	JE06-05 JUN3.0-JE		136.01	
	07 31	ACCRUE REG ASSESS FEE	JE07-05 JUL3.0-JE		132.66	
	08 31	ACCRUE REG ASSESS FEE	JE08-05 AUG3.0-JE		121.30	
	09 30	ACCRUE REG ASSESS FEE	JE09-05 SEP3.0-JE		132.37	
	10 31	ACCRUE REG ASSESS FEE	JE10-05 OCT3.0-JE		129.80	
	11 30	ACCRUE REG ASSESS FEE	JE11-05 NOV3.0-JE		138.34	
	04 29	ADJ REG ASSESS FEES	JE12-29 DEC3.1-JE		56.55	
	12 31	ACCRUE REG ASSESS FEE	JE12-05 DEC3.0-JE		152.24	
	12 31	ADJ RAF TO 4.5% OF REV	JE12-52 DEC3.1-JE		617.65	
		Journal Total:		781.65	2,260.10	2,260.10CR
02236.4	01 95	S - ACCRUED TAXES-FED INC	Balance Forward			3,488.59CR
	12 31	RECLASS CK 1099	JE12-67 DEC3.3-JE	3,488.59		
		Journal Total:		3,488.59		
02236.5	01 95	S - ACCRUED TAXES-STATE INC	Balance Forward			1,176.08CR
	12 31	RECLASS CK 110	JE12-68 DEC3.3-JE	1,176.08		
		Journal Total:		1,176.08		
02271.1	01 95	S - CIAC-SYSTEM CAPACITY	Balance Forward			225,836.24CR
	04 30	J E JONES	CR04-01 APR1.0-CR		46,500.00	
	07 31	SUMMER BAY	CR07-02 JUL1.0-JE		15,500.00	
	09 30	O R HORTON	CR08-07 SEPI.0-CR		7,750.00	
	12 31	N/R SUMMER BAY	JE12-59 DEC3.2-JE		3,851.51	
		Journal Total:			73,601.51	299,437.75CR
02271.4	01 95	S - CIAC-OTHER				
	12 31	SUMMER BAY FORCE MAIN	JE12-60 DEC3.2-JE		12,950.00	
	✓ 12 31	SUMMER BAY EXTENSION	JE12-66 DEC3.2-JE		18,648.00	
		Journal Total:			31,598.00	31,598.00CR

SOUTHLAKE UTILITIES, INC.

Edit Journal Report for Journal Entry - JE

Date: 05/24/96
Time: 14:43

Page: 1

Batch ID: DEC3.2 Batch Date: 12/31/95 Posting Month: 12 Type: J/E

Account No	G/L Account Description	J/E Description	Date	Debit	Credit	Line
144	N/R - SUMMER BAY	N/R SUMMER BAY	JE12-59 12/31/95	16,000.00		1
01271.1	M - CIAC-SYSTEM CAPACITY	N/R SUMMER BAY	JE12-59 12/31/95		2,087.27	2
02271.1	S - CIAC-SYSTEM CAPACITY	N/R SUMMER BAY	JE12-59 12/31/95		3,851.51	3
241.5	NON-ASSOC CO AFPI DEPOSITS	N/R SUMMER BAY-WAFPI	JE12-59 12/31/95		4,289.83	4
241.5	NON-ASSOC CO AFPI DEPOSITS	N/R SUMMER BAY-SAFPI	JE12-59 12/31/95		5,771.39	5
02101360	S - COLLECTION SEWERS-FORCE	SUMMER BAY FORCE MAIN	JE12-60 12/31/95	12,950.00		6
02271.4	S - CIAC-OTHER	SUMMER BAY FORCE MAIN	JE12-60 12/31/95		12,950.00	7
231	ACCOUNTS PAYABLE	SUMMER BAY/WILSON REIMB	JE12-61 12/31/95	10,885.33		8
01401630	M - CONTRACTUAL SERVICES	SUMMER BAY/WILSON REIMB	JE12-61 12/31/95		5,442.67	9
02401730	S - CONTRACTUAL SERVICES	SUMMER BAY/WILSON REIMB	JE12-61 12/31/95		5,442.66	10
01108301	M - A/A-ORGANIZATION	RVRSE BWYR-SNGLTN A/P	JE12-62 12/31/95	68.90		11
02108351	S - A/A-ORGANIZATION	RVRSE BWYR-SNGLTN A/P	JE12-62 12/31/95	68.90		12
231	ACCOUNTS PAYABLE	RVRSE BWYR-SNGLTN A/P	JE12-62 12/31/95	4,686.81		13
01101301	M - ORGANIZATION	RVRSE BWYR-SNGLTN A/P	JE12-62 12/31/95		2,343.41	14
02101351	S - ORGANIZATION	RVRSE BWYR-SNGLTN A/P	JE12-62 12/31/95		2,343.40	15
01407	M - AMORTIZATION EXPENSE	RVRSE BWYR-SNGLTN A/P	JE12-62 12/31/95		68.90	16
02407	S - AMORTIZATION EXPENSE	RVRSE BWYR-SNGLTN A/P	JE12-62 12/31/95		68.90	17
233.6	A/P ASSOC CO-ALLEN	CLOSE A/P-ALLEN	JE12-63 12/31/95	18,557.10		18
01421	M - NONUTILITY INCOME	CLOSE A/P-ALLEN	JE12-63 12/31/95		9,278.55	19
02421	S - NONUTILITY INCOME	CLOSE A/P-ALLEN	JE12-63 12/31/95		9,278.55	20
233.5	A/P ASSOC CO-RLC III	CORRECT LOAN DEBIT	JE12-64 12/31/95	10,000.00		21
233.7	A/P ASSOC CO-CAGAN	CORRECT LOAN DEBIT	JE12-64 12/31/95		10,000.00	22
01401630	M - CONTRACTUAL SERVICES	RECLASS WILSON ENG	JE12-65 12/31/95	11,100.24		23
02401730	S - CONTRACTUAL SERVICES	RECLASS WILSON ENG	JE12-65 12/31/95	11,100.24		24
999	SUSPENSE	RECLASS WILSON ENG	JE12-65 12/31/95		22,200.48	25
01101331	M - TRANS & DISTRIB MAINS	SUMMER BAY EXTENSION	JE12-66 12/31/95	41,352.00		26
02101360	S - COLLECTION SEWERS-FORCE	SUMMER BAY EXTENSION	JE12-66 12/31/95	18,648.00		27
01271.4	M - CIAC-OTHER	SUMMER BAY EXTENSION	JE12-66 12/31/95		41,352.00	28
02271.4	S - CIAC-OTHER	SUMMER BAY EXTENSION	JE12-66 12/31/95		18,648.00	29
Batch total for batch DEC3.2				155,417.52	155,417.52	

SOUTHLAKE UTILITIES, INC.

**Reconciliation of CIAC per Schedule and General Ledger
December 31, 1998**

Water:

<u>Description</u>	<u>General Ledger Reference</u>	<u>Capacity Charges 01271.1</u>	<u>Meter Installation 01271.2</u>	<u>Off-site Facilities 01271.4</u>	<u>Other 01271.5</u>	<u>Total</u>
Balance per Schedule		549,485.37	64,933.41	75,072.33	173,745.80	863,236.91
Ware Oil True-up	JE12-54	1,324.56				1,324.56
Reclassify Prepaid CIAC	JE12-86	(81,028.00)				(81,028.00)
Balance per G/L		<u>469,781.93</u>	<u>64,933.41</u>	<u>75,072.33</u>	<u>173,745.80</u>	<u>783,533.47</u>

Wastewater:

<u>Description</u>	<u>General Ledger Reference</u>	<u>Capacity Charges 02271.1</u>	<u>Off-site Facilities 02271.4</u>	<u>Other 02271.5</u>	<u>Total</u>
Balance per Schedule		1,061,448.97	49,460.37	229,913.91	1,340,823.25
Ware Oil True-up	JE12-54	3,032.82			3,032.82
Reclassify Prepaid CIAC	JE12-86	(188,697.50)			(188,697.50)
Balance per G/L		<u>875,784.29</u>	<u>49,460.37</u>	<u>229,913.91</u>	<u>1,155,158.57</u>

EXHIBIT B