

State of Florida



Public Service Commission

-M-E-M-O-R-A-N-D-U-M-

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**DATE:** January 31, 2003  
**TO:** Division of Economic Regulation (Kyle)  
**FROM:** Division of Regulatory Oversight (Vandiver) *[Signature]*  
**RE: Docket No. 020071-WS; Company Name:** Utilities Inc. of Florida; **Audit Purpose:** Audit rate base, capital structure and net operating income for the approved historic test year ended December 31, 2001;  
**Audit Control No. 02-249-3-1**

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On November 15, 2002, I forwarded to you the final audit report for the utility stated above. Please remove the existing pages of the audit reported dated November 5, 2002 that was provided to you and insert the attached documents.

I am sending a copy of this memo with the revised pages of the audit report to all the persons who received a copy of the original audit report.

Thank you.

DNV/jcp  
Attachments

cc: Division of Auditing and Safety (Hoppe, District Offices, File Folder)  
Division of the Commission Clerk and Administrative Services (2)  
Division of Competitive Markets and Enforcement (Harvey)  
Office of Public Counsel  
Office of General Counsel

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DOCUMENT NUMBER DATE

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**Exception No. 14**

**Subject: Working Capital**

**Statement of Fact:** The MFRs' rate base filing includes the following amounts for working capital as of December 31, 2001.

| <u>County</u>         | <u>Working Capital</u> |
|-----------------------|------------------------|
| Marion-Water          | \$114,826              |
| Marion Wastewater     | 44,914                 |
| Orange Water          | 80,701                 |
| Pasco Water           | 244,252                |
| Pasco-Wastewater      | 255,410                |
| Pinellas Water        | 31,222                 |
| Seminole Water        | 397,399                |
| Seminole Wastewater   | <u>465,807</u>         |
| Total Working Capital | \$1,634,531            |

The utility allocated the above working capital balance to the five counties in this proceeding based on the December 31, 2001, year-end O&M expense for each system before any utility adjustments.

Rule 25-30.433 (2) and (4), F.A.C., requires that working capital for Class A utilities shall be calculated using the balance sheet approach and that the averaging method used by the Commission to calculate rate base and cost of capital shall be a 13-month average for Class A utilities.

**Recommendation:** The utility's total working capital is \$208,497 as of December 31, 2001, based on the following audit staff findings. (\$1,634,531 - \$1,794,693 + \$368,659)

- 1) The utility's current assets as of December 31, 2001, are overstated by \$1,794,693.
- 2) The utility's current liabilities are overstated by \$368,659.
- 3) The utility used the December 31, 2001, year-end balances to calculate its working capital rather than the 13-month average required in the Commission rule cited above.
- 4) The utility allocated its working capital balance for UIF to the five counties in this proceeding based on the December 31, 2001, year-end O&M expense for each system before its adjustments to test year O&M expense rather than after such adjustments.

See the audit staff's calculations and discussion of each finding that follows.

**Audit Exception No. 14, continued**

| <u>Current Assets: UIF</u>          | <u>Per Utility</u> | <u>Adjustment</u>    | <u>Per Audit</u>   |
|-------------------------------------|--------------------|----------------------|--------------------|
| Cash (Note A & B)                   | \$1,805,996        | (\$1,794,668)        | \$11,328           |
| Petty Cash                          | 3,000              | 0                    | 3,000              |
| Accounts Receivable (net)(Note B)   | 333,083            | (2,640)              | 330,443            |
| Deferred Rate Case Expense (Note B) | 5,970              | (5,484)              | 486                |
| Other Miscellaneous Debits (Note B) | <u>25,807</u>      | <u>8,099</u>         | <u>33,906</u>      |
| <b>Total Current Assets</b>         | <b>\$2,173,856</b> | <b>(\$1,794,693)</b> | <b>\$379,163</b>   |
| <br>                                |                    |                      |                    |
| <u>Current Liabilities</u>          |                    |                      |                    |
| Accounts Payable (Note B)           | (\$92,734)         | \$9,786              | (\$82,948)         |
| Deferred Income Taxes (Note C)      | (357,227)          | 357,227              | 0                  |
| Accrued Taxes (Note B)              | <u>(89,364)</u>    | <u>1,646</u>         | <u>(87,718)</u>    |
| <b>Total Current Liabilities</b>    | <b>(\$539,325)</b> | <b>\$368,659</b>     | <b>(\$170,666)</b> |
| <br>                                |                    |                      |                    |
| <b>Total Working Capital</b>        | <b>\$1,634,531</b> | <b>(\$1,426,034)</b> | <b>\$208,497</b>   |

- A) The cash balance presented by the utility is the December 31, 2001, book balance from UIF's general ledger. The balance does not accurately reflect the utility's actual cash balance for UIF in this proceeding because it fails to recognize the recurring electronic transfers of cash from Florida to Illinois where the cash is used to fund continuing operations of the parent and all of its subsidiaries. Additionally, the cash account on UIF's general ledger is only a depository account that is used to accumulate customer payments from all subsidiary operations in Florida before being transferred to the Illinois bank. The audit staff calculated a 13-month average actual cash balance of \$88,985 as of December 31, 2001, in the Florida bank account and allocated \$11,328 or 12.73 percent to UIF for this rate proceeding. The 12.73 percent allocation represents UIF's portion of the total revenues generated by all of the Florida operations in 2001.
- B) The accounts noted were adjusted to reflect a 13-month average balance as of December 31, 2001.
- C) Deferred income taxes were removed from working capital because they are included as a component of the utility's cost of capital in this rate proceeding.

The audit staff allocated the \$208,497 working capital balance for UIF to each of the five counties in this proceeding based on its percentage of December 31, 2001, year-end O&M expense after utility adjustments to the test year and after the audit staff adjustments in Exceptions Nos. 3, 18, 19, 21, 22, and 23 of this report. The calculations and the adjustments are displayed on the following schedule.

**Schedule for Exception No. 14**

| County System       | Per Utility             |                |                           | Per Audit               |                            |                                  | Allocated Working Capital | Working Capital Adjustment |                      |
|---------------------|-------------------------|----------------|---------------------------|-------------------------|----------------------------|----------------------------------|---------------------------|----------------------------|----------------------|
|                     | O&M Expense @12/31/2001 | Percentage     | Allocated Working Capital | O&M Expense @12/31/2001 | Adjustments to O&M expense | Adjusted O&M Expense @12/31/2001 |                           |                            | Percentage           |
| Seminole Water      | \$367,760               | 24.31%         | \$397,399                 | \$412,507               | (\$26,170)                 | \$386,337                        | 22.62%                    | \$47,156                   | (\$350,243)          |
| Seminole Wastewater | 431,066                 | 28.50%         | 465807                    | 555,520                 | (79,938)                   | 475,582                          | 27.84%                    | 58,049                     | (407,758)            |
| Pinellas Water      | 28,893                  | 1.91%          | 31222                     | 105,098                 | (41,134)                   | 63,964                           | 3.74%                     | 7,807                      | (23,415)             |
| Pasco Water         | 226,035                 | 14.94%         | 244252                    | 282,924                 | 3,318                      | 286,242                          | 16.76%                    | 34,938                     | (209,314)            |
| Pasco Wastewater    | 236,361                 | 15.63%         | 255410                    | 246,037                 | (9,324)                    | 236,713                          | 13.86%                    | 28,893                     | (226,517)            |
| Marion Water        | 106,262                 | 7.03%          | 114826                    | 117,173                 | (12,810)                   | 104,363                          | 6.11%                     | 12,738                     | (102,088)            |
| Marion Wastewater   | 41,564                  | 2.75%          | 44914                     | 41,166                  | (1,541)                    | 39,625                           | 2.32%                     | 4,837                      | (40,077)             |
| Orange Water        | 74,682                  | 4.94%          | 80,701                    | 123,269                 | (7,921)                    | 115,348                          | 6.75%                     | 14,079                     | (66,622)             |
|                     | <u>\$1,512,623</u>      | <u>100.00%</u> | <u>\$1,634,531</u>        | <u>\$1,883,694</u>      | <u>(\$175,520)</u>         | <u>\$1,708,174</u>               | <u>100.00%</u>            | <u>\$208,497</u>           | <u>(\$1,426,034)</u> |

|                                    |          |   |       |          |          |       |   |       |       |
|------------------------------------|----------|---|-------|----------|----------|-------|---|-------|-------|
| Calculations and audit staff notes | A        | B | C     | D        | E        | F     | G | H     | I     |
|                                    | (Note 1) |   | A x B | (Note 2) | (Note 3) | D + E |   | F x G | C - H |

- 1) The utility used its O&M expense per books before test year adjustments. See MFRs Schedule B-1.
- 2) The audit staff used utility O&M expense per books after test year adjustments. See MFRs Schedule B-1.
- 3) Adjustments to O&M expense incorporate the audit staff adjustments in Exceptions Nos. 3, 18, 19, 21, 22, and 23 of this report.

*(Revised 1/24/03)*