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TIMOTHY DEVLIN, DIRECTOR
DIVISION OF ECONOMIC REGULATION
(850) 413-6900

Public Service Commission

February 2, 2004

Mr. Martin S. Friedman
Rose, Sundstrom & Bentley Llp
600 S. North Lake Boulevard, Suite 160
Altamonte Springs, FL 32701

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COMMISSION
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Re: Docket No. 030444-WS, Application for Bayside Utility Services, Inc. for Increase in Rates in Bay County

Dear Mr. Friedman:

We have reviewed the additional explanations, schedules and data submitted by Bayside Utility Services, Inc. (Bayside or utility) on January 16, 2004, to satisfy the minimum filing requirements (MFRs). However, after reviewing this information, we still find the MFRs to be deficient. The specific deficiencies relate to Rule 25-30.436(4)(h), Florida Administrative Code, which require a utility to provide support for costs allocated or charged to it from a parent. The utility's response to staff's deficiency letter did not reflect all of the information that staff believes is required by this rule. The deficiencies still relate to providing the following items of this rule:

- (3) The allocation or direct charging method used and the basis for using that method; and
- (4) The workpapers used to develop the allocation method, including but not limited to the numerator and denominator of each allocation factor.

Staff has reviewed Attachment A of the utility's response to the deficiency letter and compared that to the Water Services Corporation Distribution of Expenses (WSC DOE). In general, the utility's explanations in Attachment A and the WSC DOE do not support why the methodologies are used other than "Utilities, Inc. has historically calculated allocation factors this way." Provide an explanation supporting why each method is appropriate.

Our specific comments on several allocation codes are as follows:

Code 4 - Distribution of Computer costs

Explain why the allocation method is used and why depreciation of computer costs is allocated on Code 5, not on Code 4 consistent with the other computer costs.

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Code 5 - Allocation of Office Expense

Explain why the description on Code 5 in the WSC DOE states "allocated based on number of employees". Employee numbers are not shown on this schedule.

Code 6 - Allocation of Pensions and ESOP

In the WSC DOE, Code 6, pages 1-9, the numerator and denominator of the allocation percentages has not been provided.

Code 7 - Distribution of Insurance Expenses

Explain how elevated storage tanks relate to wastewater plants. Provide the numerator and denominator to show how the \$4,150,000 in Northbrook costs were allocated. Staff is also unable to calculate the weighted percentages shown.

Code 8 - Excess Liability Insurance

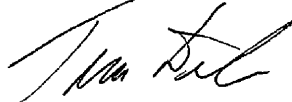
Staff is unable to calculate the weighted percentages shown. Explain why excess liability insurance relates to miles of sewer mains, gallons of water sold, and operations payroll.

Code 10 - Vehicles

Some of the vehicles reflected are allocated. Explain how the number of vehicles is allocated. Neither the numerator or denominator, or the basis for using this allocation method were provided.

Your petition will not be deemed filed until the deficiencies identified in this letter have been corrected. These corrections should be submitted no later than February 23, 2004.

Sincerely,



Timothy Devlin
Director

TD/tb

cc: Division of Commission Clerk and Administrative Services
Office of the General Counsel (Jaeger)
Division of Economic Regulation (Willis, Rendell, Biggins, Davis)