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REPLY TO CENTRAL FLORIDA OFFICE

MARTIN S. FRIEDMAN, P.A.
VALERIE L. LORD
BRIAN J. STREET

November 15, 2006

HAND DELIVERY

Ms. Blanca Bayo
Commission Clerk & Administrative Services Director
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399

RE: Docket No. 060260-WS; Lake Placid Utilities, Inc.'s Application for Rate Increase in
Highlands County, Florida
Our File Nos.: 30057.120

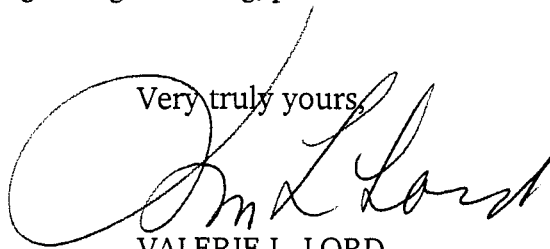
Dear Ms. Bayo:

Enclosed for filing in the above-referenced docket is the response of Lake Placid
Utilities, Inc. to Staff's final audit report dated October 10, 2006.

CMP _____
COM _____
CTR _____
ECR _____
GCL _____
OPC _____
RCA _____
SCR _____
SGA VLL/tlc
SEC 1
OTH _____

Should you have any questions regarding this filing, please do not hesitate to contact

Very truly yours,



VALERIE L. LORD
For the Firm

DOCUMENT NUMBER-DATE

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FPSC-COMMISSION CLERK

Ms. Blanca Bayo
Commission Clerk & Administrative Services Director
Florida Public Service Commission
November 15, 2006
Page 2

cc: Katherine Fleming, Esquire, Office of General Counsel (w/o enc.- via hand delivery)
Ms. Denise N. Vandiver, Regulatory Compliance and Consumer Assistance (w/enc. -
via hand delivery)
Mr. Troy Rendell, Division of Economic Regulation (w/o enc.- via hand delivery)
Ms. Cheryl Bulecza-Banks, Division of Economic Regulation (w/o enc.-via hand del)
Ms. Tiffany Joyce, Division of Economic Regulation (w/o enc. - via hand delivery)
Mr. Stanley Rieger, Division of Economic Regulation (w/o enc. - via hand delivery)
Ms. Frances Lingo, Division of Economic Regulation (w/o enc. - via hand delivery)
Ms. Sonica Bruce, Division of Economic Regulation (w/o enc. - via hand delivery)
Steven M. Lubertozi, Chief Regulatory Officer (w/enclosures - via U.S. Mail)
John Hoy, Regional Vice President for Operations (w/o enclosures - via U.S. Mail)
Patrick C. Flynn, Regional Director (w/enclosures - via U.S. Mail)
Mr. Frank Seidman (w/o enclosures - via U.S. Mail)
Steven Reilly, Esquire, Office of Public Counsel (w/enclosures - via U.S. Mail)

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LAKE PLACID UTILITIES, INC.
DOCKET NO. 060260-WS
AUDIT REPORT RESPONSES

Audit Finding No. 1

The Utility agrees with audit finding number 1 and would propose the same entry as Staff, which is as follows:

<u>A/C #</u>	<u>A/C Description</u>	<u>Debit</u>	<u>Credit</u>
1083021	A/D - Structures & Improvements	1,791	
1083042	A/D - Distribution Reservoirs & Standpipes	1,303	
1084010	A/D - Manholes	107	
2151000	R/E	24,627	
3043021	Structures & Improvements		18,810
3305042	Distribution Reservoirs & Standpipes		5,073
3612010	Manholes		3,200
4032021	Depreciation Expense - Structures & Improvements		588
4032042	Depreciation Expense - Distribution Reservoirs & Standpipes		137
4033010	Depreciation Expense - Manholes		71

The Utility's average rate base would be reduced by \$14,150 and \$3,093 for water and sewer respectively. Depreciation expense would be reduced by \$725 and \$71 for water and sewer respectively as well.

LAKE PLACID UTILITIES, INC.
DOCKET NO. 060260-WS
AUDIT REPORT RESPONSES

Audit Finding No. 2

The Utility agrees with audit finding number 2 and would propose the same as Staff, which is as follows:

<u>A/C #</u>	<u>A/C Description</u>	<u>Debit</u>	<u>Credit</u>
1083002	A/D - Franchise Fees		313
2151000	R/E	282	
4032002	Depreciation Expense - Franchise Fees	31	

The utility's average rate base would be reduced by \$4,555 and \$4,424 for water and sewer respectively. Depreciation expense would be reduced by \$372 and \$306 respectively for water and sewer as well.

LAKE PLACID UTILITIES, INC.
DOCKET NO. 060260-WS
AUDIT REPORT RESPONSES

Audit Finding No. 3

The Utility agrees with audit finding number 3 in that the UIF allocated rate base should be split between water and sewer. Water and sewer rate base balances are overstated and understated by \$5,699 respectively, and depreciation expense for water and sewer are overstated and understated by \$1,707 respectively.

Audit Finding No. 4

The Utility agrees with audit finding number 4 in that the average WSC allocated utility plant in service balance should increase by \$173 and \$218 for water and sewer respectively per the audit report in Docket No. 060253-WS. The Utility would also like to note that beginning June 30, 2006, it books WSC rate base to each affiliate company, in the respective rate base accounts.

Audit Finding No. 5

The Utility agrees with audit finding number 5 in that the average rate base for water and sewer should be set at \$2,210 and \$6,622 based on historical O&M expenses. Any further adjustments to O&M that affect cash working capital will be mentioned in further audit exceptions.

Audit Finding No. 6

The Utility agrees with audit finding number 6 and would propose the entry that follows:

<u>A/C #</u>	<u>A/C Description</u>	<u>Debit</u>	<u>Credit</u>
1862019	Deferred Charges	3,253	
1865019	Accumulated Amortization - Deferred Charges		651
7755070	Sewer Permits		3,253
7758490	Sewer - Other Maintenance Expense	651	

While the entry above does not change the reduction to O&M, it is the proper entry to remove sewer permits from the expense, and include it in deferred charges, and also reflect accumulated amortization and the proper expense account for amortization expense.

Audit Finding No. 7

The Utility agrees with audit finding number 9 in that Lake Placid's expenses from WSC are overstated by \$114 and \$143 for water and sewer respectively, and that working capital is overstated by \$14 and \$18 for water and sewer respectively. The breakdown is as follows:

<u>A/C #</u>	<u>A/C Description</u>	<u>Debit</u>	<u>Credit</u>
6329002	Audit Fees		89
6599090	Insurance		102
6759005	Postage Fees		52
6369009	Amortization Expense - Computer		13
4032098	Depreciation Expense		1
4191010	Interest Income *	1	
4272090	Interest Expense *	51	
2151000	R/E	205	

* Not included in net operating income

LAKE PLACID UTILITIES, INC.
 DOCKET NO. 060260-WS
 AUDIT REPORT RESPONSES

Audit Finding No. 8

The Utility agrees with audit finding number 8, and would propose the same entry as Staff, which is as follows:

<u>A/C #</u>	<u>A/C Description</u>	<u>Debit</u>	<u>Credit</u>
2151000 R/E			1,838
4032092	Depreciation Expense - Transportation	919	
4032000	Depreciation Expense - Undistributed Water Plant	392	
4033000	Depreciation Expense - Other Tangible Plant	527	

The Utility's depreciation expense should be increased by \$1,311 and \$527 for water and sewer respectively.

Audit Finding No. 9

The Utility agrees with audit finding number 9 and would increase its taxes other than income for water and sewer by \$468 and \$2,064 respectively.

Audit Finding No. 10

The Utility recognizes Staff's comments in audit finding number 10.

Audit Finding No. 11

The Utility agrees with the capital structure presented in audit finding number 11. This was the capital structure agreed upon in Docket No. 060253-WS.

Audit Finding No. 12

The Utility agrees with item (1) of audit finding number 12, and would propose the same entry as Staff, which is as follows:

<u>A/C #</u>	<u>A/C Description</u>	<u>Debit</u>	<u>Credit</u>
2151000 R/E		3,564	
1902031	State ADIT - Depreciation		3,564

The Utility agrees with item (2) of audit finding number 12, and would propose the same entry as Staff, however, the Utility does note that Staff has a typo, and retained earnings should be \$5,342 based on the credit entries to ADIT:

<u>A/C #</u>	<u>A/C Description</u>	<u>Debit</u>	<u>Credit</u>
2151000 R/E		5,342	
1901024	Federal ADIT - Org Costs		4,010
1902024	State ADIT - Org Costs		1,422

While the final audit requests surrounding ADIT were not complete for the audit reports, the Utility has now completed these per audit Staff's request and has provided them to Commission audit Staff for their use or for the use of testifying Staff. This satisfies item (3) of audit finding number 12.

The Utility recognizes Staff comments in item (4) of audit finding number 12.

The Utility recognizes Staff comments in item (5) of audit finding number 12, but would also point out that any errors made in the MFRs were inadvertent, and not meant to cause audit inefficiencies.

The Utility recognizes Staff comments in item (6) of audit finding number 12.