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(LICENSED IN NEW YORK ONLY)

Ann Cole, Commission Clerk
Office of Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399

RE: **Docket No. 080247-SU**; Utilities, Inc. of Eagle Ridge's Application for Increase in Wastewater Rates in Lee County, Florida (Our File No.: 30057.158); **Docket No. 080248-SU**; Tierra Verde Utilities, Inc.'s Application for an Increase in Wastewater Rates Increase in Pinellas County, Florida (Our File No.: 30057.156); **Docket No. 080249-WS**; Labrador Utilities, Inc.'s Application for an Increase in Water and Wastewater Rates in Pasco County, Florida (Our File No.: 30057.157); and **Docket No. 080250-SU**; Mid-County Services, Inc.'s Application for an Increase in Wastewater Rates Increase in Pinellas County, Florida (Our File No.: 30057.155)

Dear Ms. Cole:

Enclosed for filing in the four above-referenced dockets is the response of Utilities, Inc. of Eagle Ridge, Tierra Verde Utilities, Inc., Labrador Utilities, Inc., and Mid-County Services, Inc., to Staff's Audit of Headquarters Plant Accounts.

Should you or the Staff have any questions regarding this filing, please do not hesitate to give me a call.

Very truly yours,



CHRISTIAN W. MARCELLI
Of Counsel

CWM/tlc
Enclosures

cc: John P. Hoy, Chief Regulatory Officer (w/enclosures) (via e-mail)
Patrick C. Flynn, Regional Director (w/enclosures) (via e-mail)
Ms. Deborah Swain (w/enclosures) (via e-mail)
Mr. Frank Seidman (w/enclosures) (via e-mail)
Avy Crawford, Division of Economic Regulation (w/enclosures) (via e-mail)
Andrew Maurey, Division of Economic Regulation (w/enclosures) (via e-mail)
Curtis Mouring, Division of Economic Regulation (w/enclosures) (via e-mail)

**WATER SERVICE CORPORATION AND UTILITIES, INC. OF FLORIDA
 AFFILIATE AUDIT RESPONSES
 IN AFFILIATION WITH:**

**DOCKET 080247-SU (UTILITIES, INC. OF EAGLE RIDGE)
 DOCKET 080248-SU (TIERRA VERDE UTILITIES, INC.)
 DOCKET 080249-WS (LABRADOR UTILITIES, INC.)
 DOCKET 080250-SU (MID-COUNTY SERVICES, INC.)**

AUDIT FINDING NO. 1

This audit finding has three parts – plant, accumulated depreciation, and depreciation expense. The finding will be discussed in three separate parts.

The Company disagrees with the auditor’s numbers for plant. The utility has enclosed the total cost of both Phase 1 and Phase 2 of the project. The total cost of Phase 1 (JDE) is \$13,995,789, as opposed to the auditor’s total of \$13,424,262. The total cost of Phase 2 (CC&B) is \$7,147,826, as opposed to the auditor’s total of \$7,652,679. The total cost balances should be allocated to the specific companies based on ERCs. The ERC percentages for the above dockets are attached as a workpaper. The allocated amounts to the four utilities based on the total costs are attached as a workpaper, as well as shown below.

<u>Plant</u>	<u>Per Staff Audit</u>	<u>Per Company Response</u>	<u>Difference</u>
Eagle Ridge	\$183,369	\$184,276	\$907
Tierra Verde	\$175,360	\$176,310	\$950
Labrador	\$113,815	\$114,355	\$540
Mid-County	\$244,493	\$244,716	\$223

The Company agrees with the amortization period used by the auditor, which is eight years. However, based on the actual plant numbers as shown above, the yearly depreciation for Phase 1 (JDE) is \$1,749,474 (\$13,995,789/8), as opposed to the auditor’s total of \$1,678,033. The half year depreciation for Phase 2 (CC&B) is \$446,739 (\$7,147,826/8/2), as opposed to the auditor’s total of \$478,292. The total cost of depreciation expense should be allocated to the specific companies based on ERCs. The ERC percentages for the above dockets are attached as a workpaper. The allocated amounts to the four utilities based on the total costs for depreciation expense is enclosed, as well as shown below.

<u>Dep. Expense</u>	<u>Per Staff Audit</u>	<u>Per Company Response</u>	<u>Difference</u>
Eagle Ridge	\$18,760	\$19,141	\$381
Tierra Verde	\$17,941	\$18,314	\$373
Labrador	\$11,644	\$11,878	\$234
Mid-County	\$25,013	\$25,419	\$406

As discussed by the auditor, accumulated depreciation is calculated on a simple average for Eagle Ridge, Tierra Verde, and Labrador, and a 13-month average for Mid-County. Based on the plant balances for Phase 1 (JDE) and Phase 2 (CC&B) as shown by the

Company, accumulated depreciation should be the balances portrayed below. These balances are also calculated on the attached workpaper.

<u>Acc. Dep.</u>	<u>Per Staff Audit</u>	<u>Per Company Response</u>	<u>Difference</u>
Eagle Ridge	\$9,380	\$9,571	\$191
Tierra Verde	\$8,970	\$9,157	\$187
Labrador	\$5,822	\$5,939	\$117
Mid-County	\$11,226	\$11,516	\$290

Effect on General Ledger: None.

Effect on Filing: Plant should be increased by \$374 for Eagle Ridge, \$358 for Tierra Verde, \$233 for Labrador and \$498 for Mid-County. Depreciation expense should be reduced by \$3,847 for Eagle Ridge, \$6,074 for Tierra Verde, \$7,142 for Labrador, and \$5,108 for Mid-County. Accumulated depreciation should be reduced by \$9,547 for Eagle Ridge, \$15,231 for Tierra Verde, \$13,081 for Labrador and \$13,872 for Mid-County.

AUDIT FINDING NO. 2

The auditor states that audit finding no. 2 is for informational purposes only.

AUDIT FINDING NO. 3

The Company does not have duplicate adjustments. It has, rather, two adjustments to benefits. The Company did its allocation revisions in two separate workpapers. The first workpaper addressed salaries, related benefits, and payroll taxes. The second workpaper addressed correcting all allocated balances (excluding salaries, related benefits, and payroll taxes) to reflect the allocation based on ERCs only.

The adjustment for benefits (to adjust to ERC allocation and to adjust for correct employees and pro forma salaries) related to pro forma salaries is for the following accounts:

5625	401(K) Contributions
5630	Dental Premiums
5635	Dental Insurance Reimbursements
5640	Employee Pensions & Benefits
5645	Employee Insurance Deductions
5650	Health Costs
5655	Health Insurance Reimbursements
5660	Other Employee Pensions & Benefits
5665	Pension Contributions
5670	Term Life
5675	Term Life Optional
5680	Dependent Life Optional
5685	Supplemental Life Insurance
5690	Tuition

A GL excerpt has been provided, showing the per book balances in these accounts and the amount calculated by the Company and agreed to by the auditor, resulting in the “Proforma for Salary Adjustment” shown by the auditor. This amount is (\$1,418) for Eagle Ridge, \$14,525 for Tierra Verde, \$180 for Labrador, and \$14,330 for Mid-County.

Training expense was the only account in 604/704 that was affected through the second workpaper that excluded salaries, related benefits, and payroll taxes.

5820 Training Expense

A GL excerpt has been provided, showing the per book balances in this account, and the amount calculated by the Company to correct the allocation to reflect the ERC methodology. The result is the adjustment to training expense, which is clearly not included in the salary related benefits above. This adjustment is (\$140) for Eagle Ridge, \$458 for Tierra Verde, \$22 for Labrador, and \$136 for Mid-County.

In conclusion, as shown, the benefits adjustment has not been duplicated, rather, adjustments for different accounts were made in two separate workpapers.

The total adjustment to account 604/704 is (\$1,558) for Eagle Ridge, \$14,983 for Tierra Verde, \$202 for Labrador, and \$14,466 for Mid-County.

Effect on General Ledger: None.

Effect on Filing: None, the adjustments above are already incorporated into the filings.

AUDIT FINDING NO. 4

The Company agrees with audit finding no. 4.

AUDIT FINDING NO. 5

The Company agrees with the methodology in audit finding no. 5, but has discovered an error in the total expense for 2007. The total expense for 2007 reflected in the audit finding is not the entire total balance for transportation expense. In addition, the calculated amount for the allocation for the state of Florida transportation expenses should only be compared with the AA ledger, so as not to be confused with anything possibly allocated from WSC. The Company has calculated a workpaper showing the adjustments to the filing.

Effect on General Ledger: None.

Effect on Filing: Transportation expense should increase by \$3,138 for Tierra Verde, \$5,422 for Mid-County, and decrease by \$505 for Labrador and \$2,265 for Eagle Ridge.

**WSC AFFILIATE AUDIT
 AUDIT FINDING NO. 1
 FORECASTED PLANT
 FORECASTED ACCUMULATED DEPRECIATION
 FORECASTED DEPRECIATION EXPENSE**

w/p 1

Plant:

	<u>Eagle Ridge</u>	<u>Tierra Verde</u>	<u>Labrador</u>	<u>Mid-County</u>
JDE (Phase 1)	121,980	116,707	75,696	161,987
Water			38,258	
Wastewater	121,980	116,707	37,438	161,987
CC&B (Phase 2)	62,297	59,604	38,659	82,729
Water			19,539	
Wastewater	62,297	59,604	19,120	82,729
Total Water			57,797	
Total Wastewater	184,276	176,310	56,557	244,716

Depreciation Expense:

	<u>Eagle Ridge</u>	<u>Tierra Verde</u>	<u>Labrador</u>	<u>Mid-County</u>
JDE (Phase 1)	15,247	14,588	9,462	20,248
Water			4,782	
Wastewater	15,247	14,588	4,680	20,248
CC&B (Phase 2)	3,894	3,725	2,416	5,171
Water			1,221	
Wastewater	3,894	3,725	1,195	5,171
Total Water			6,003	
Total Wastewater	19,141	18,314	5,875	25,419

**WSC AFFILIATE AUDIT
 AUDIT FINDING NO. 1
 FORECASTED PLANT
 FORECASTED ACCUMULATED DEPRECIATION
 FORECASTED DEPRECIATION EXPENSE**

w/p 1

Accumulated Depreciation:

	<u>Eagle Ridge</u>	<u>Tierra Verde</u>	<u>Labrador</u>	<u>Mid-County</u>
JDE (Phase 1)	7,624	7,294	4,731	10,124
Water			2,391	
Wastewater	7,624	7,294	2,340	10,124
CC&B (Phase 2)	1,947	1,863	1,208	1,392
Water			611	
Wastewater	1,947	1,863	597	1,392
Total Water			3,002	
Total Wastewater	9,571	9,157	2,937	11,516

Averages for JDE (Phase 1) A/D:	<u>Eagle Ridge</u>	<u>Tierra Verde</u>	<u>Labrador</u>	<u>Mid-County (1)</u>
12/31/2006	-	-	-	-
1/31/2007	1,271	1,216	788	1,687
2/28/2007	2,541	2,431	1,577	3,375
3/31/2007	3,812	3,647	2,365	5,062
4/30/2007	5,082	4,863	3,154	6,749
5/31/2007	6,353	6,078	3,942	8,437
6/30/2007	7,624	7,294	4,731	10,124
7/31/2007	8,894	8,510	5,519	11,812
8/31/2007	10,165	9,726	6,308	13,499
9/30/2007	11,436	10,941	7,096	15,186
10/31/2007	12,706	12,157	7,885	16,874
11/30/2007	13,977	13,373	8,673	18,561
12/31/2007	15,247	14,588	9,462	20,248
Average	7,624	7,294	4,731	10,124

(1) Mid-County is a 13-month average.

Averages for CC&B (Phase 2) A/D:	<u>Eagle Ridge</u>	<u>Tierra Verde</u>	<u>Labrador</u>	<u>Mid-County (1)</u>
12/31/2006	-	-	-	-
1/31/2007	-	-	-	-
2/28/2007	-	-	-	-
3/31/2007	-	-	-	-
4/30/2007	-	-	-	-
5/31/2007	-	-	-	-
6/30/2007	-	-	-	-
7/31/2007	649	621	403	862
8/31/2007	1,298	1,242	805	1,724
9/30/2007	1,947	1,863	1,208	2,585

**WSC AFFILIATE AUDIT
AUDIT FINDING NO. 1
FORECASTED PLANT
FORECASTED ACCUMULATED DEPRECIATION
FORECASTED DEPRECIATION EXPENSE**

w/p 1

10/31/2007	2,596	2,483	1,611	3,447
11/30/2007	3,245	3,104	2,013	4,309
12/31/2007	3,894	3,725	2,416	5,171
Average	1,947	1,863	1,208	1,392

(1) Mid-County is a 13-month average.

**WSC AFFILIATE AUDIT
AUDIT FINDING NO. 1
FORECASTED PLANT
FORECASTED ACCUMULATED DEPRECIATION
FORECASTED DEPRECIATION EXPENSE**

w/p 1

Allocation Percentages:

Allocation Factors (per Company and PSC Auditor):

Eagle Ridge	0.87%
Tierra Verde	0.83%
Labrador	0.54%
Mid-County	1.16%

Allocation Between Water & Wastewater for Labrador:

Water ERC	792.3	50.54%
Wastewater ERC	<u>775.3</u>	49.46%
Total ERC	1,567.6	

**WSC AFFILIATE AUDIT
 AUDIT FINDING NO. 1
 FORECASTED PLANT
 JDE (PHASE 1) COSTS**

w/p 1(a)

Cost Code	Cost Type	Account Description	Actual Amount	UM	M	C	L	D	P	E
00304		Computer Equipment					D	7		N
00305		Computer Software					D	7		N
00304	1745	CAPITALIZED TIME	1,542,399.68				D	8		
00304	1746	INTEREST DURING CONSTR	488,133.31				D	8		
00305	1746	INTEREST DURING CONSTR					D	8		
00304	1747	LABOR/INSTALLATION	2,396,870.41				D	8		
00305	1747	LABOR/INSTALLATION	6,661,642.21				D	8		
00304	1748	EQUIPMENT	427,682.54				D	8		
00304	1749	MATERIAL	19,492.11				D	8		
00305	1749	MATERIAL	7,542.41				D	8		
00305	1758	MODIFICATION/CONVERT	2,452,026.40				D	8		
00304	1759	REMODELING					D	8		
		Total:	13,995,789.07				T	1		

**WSC AFFILIATE AUDIT
 AUDIT FINDING NO. 1
 FORECASTED PLANT
 CC&B (PHASE 2) COSTS**

w/p 1(b)

Cost Code	Cost Type	Account Description	Actual Amount	UM	M	C	L	D	P	E
00304		Computer Equipment					D	7	N	
00305		Computer Software					D	7	N	
00304	1745	CAPITALIZED TIME	1,014,426.36				D	8		
00304	1746	INTEREST DURING CONSTR	368,723.28				D	8		
00305	1746	INTEREST DURING CONSTR	225.00				D	8		
00304	1747	LABOR/INSTALLATION	3,378,366.29				D	8		
00305	1747	LABOR/INSTALLATION	1,580,573.79				D	8		
00304	1748	EQUIPMENT	471,335.02				D	8		
00304	1749	MATERIAL	2,469.55				D	8		
00305	1749	MATERIAL	398.57				D	8		
00305	1758	MODIFICATION/CONVERT	331,308.09				D	8		
00304	1759	REMODELING					D	8		
		Total:	7,147,825.95				T	1		

**WSC AFFILIATE AUDIT
AUDIT FINDING NO. 3
BENEFITS BALANCES**

<u>Object A/C</u>	<u>NARUC A/C</u>	<u>Account Description</u>	<u>Eagle Ridge</u>	<u>Tierra Verde</u>	<u>Labrador</u>	<u>Mid-County</u>
5625	604/704	401K/ESOP CONTRIBUTIONS	6,145.00	1,019.00	2,698.00	6,735.00
5630	604/704	DENTAL PREMIUMS	118.00	51.00	57.00	144.00
5635	604/704	DENTAL INS REIMBURSEMENTS	804.00	348.00	390.00	973.00
5640	604/704	EMP PENSIONS & BENEFITS	2.00	1.00	1.00	2.00
5645	604/704	EMPLOYEE INS DEDUCTIONS	(2,701.00)	(1,186.00)	(1,309.00)	(3,297.00)
5650	604/704	HEALTH COSTS & OTHER	221.00	95.00	107.00	266.00
5655	604/704	HEALTH INS REIMBURSEMENTS	37,455.00	3,379.00	15,915.00	32,879.00
5660	604/704	OTHER EMP PENSION/BENEFITS	3,177.00	643.00	1,581.00	3,450.00
5665	604/704	PENSION CONTRIBUTIONS	4,632.00	766.00	2,034.00	5,076.00
5670	604/704	TERM LIFE INS	383.00	167.00	186.00	465.00
5675	604/704	TERM LIFE INS-OPT	6.00	3.00	3.00	8.00
5680	604/704	DEPEND LIFE INS-OPT	1.00	-	-	1.00
5685	604/704	SUPPLEMENTAL LIFE INS	-	-	-	-
5690	604/704	TUITION	151.00	70.00	73.00	189.00
		EMPLOYEE PENSION&BENEFITS	50,394.00	5,356.00	21,736.00	46,891.00
		Per GL Balances for Benefits (from above)	50,394	5,356	21,736	46,891
		Per Salary Adjustment w/p for Benefits (from Company w/p supplied to and agreed upon by auditor)	48,976	19,881	21,916	61,221
		Adjustment Related to Salary	(1,418)	14,525	180	14,330
<u>Object A/C</u>	<u>NARUC A/C</u>	<u>Account Description</u>	<u>Eagle Ridge</u>	<u>Tierra Verde</u>	<u>Labrador</u>	<u>Mid-County</u>
5820	604/704	TRAINING EXPENSE	873	235	748	1,009
		Per GL Balances for Benefits (from above)	873	235	748	1,009
		Per ERC Adjustment w/p (adjusted all allocated balances except salary, benefits, and payroll taxes)	733	693	770	1,145
		Adjustment Related to Training Expense	(140)	458	22	136
		Total 604/704 per GL	51,267	5,591	22,484	47,900
		Total 604/704 Recalculated Balances	49,709	20,574	22,686	62,366
		Total 604/704 Adjustment	(1,558)	14,983	202	14,466

WSC AFFILIATE AUDIT
 AUDIT FINDING NO. 5
 TRANSPORTATION EXPENSE

w/p 4

<u>Object Account</u>	<u>Description</u>	<u>State of Florida Expense for 2007</u>	<u>Vehicles in Florida</u>	<u>2007 Expense per Vehicle</u>
	FLEET TRANSPORTATION EXPENS			
6215	FUEL	333,431.11	142	2,348.11
6220	AUTO REPAIR/TIRES	141,351.14	142	995.43
6225	AUTO LICENSES	7,070.17	142	49.79
6230	OTHER TRANS EXPENSES	307.96	142	2.17
	FLEET TRANSPORTATION EXPENS	482,160.38	142	3,395.50
	Number of Vehicles assigned to State of Florida		142	

Tierra Verde Utilities, Inc.

<u>Vehicles</u>	<u>Driver</u>	<u>% Used in Tierra Verde</u>	<u>2007 Expense per Vehicle</u>	<u>% Allocated to Tierra Verde</u>
0461	Buono, Robert	41.88%	3,395	1,422
0650	Durham, Rick	2.33%	3,395	79
0512	Flynn, Patrick	2.88%	3,395	98
0304	Franklin, Kennedy	16.83%	3,395	571
0729	Haws, Scotty	2.33%	3,395	79
0825	Neal, William	12.02%	3,395	408
0436	Worrell, David	13.34%	3,395	453
0701	Yount, Darrin	0.83%	3,395	28
				3,138
			Per AA Ledger GL	-
			Adjustment	3,138

Mid-County Services, Inc.

<u>Vehicles</u>	<u>Driver</u>	<u>% Used in Mid-County</u>	<u>2007 Expense per Vehicle</u>	<u>% Allocated to Mid-County</u>
0461	Buono, Robert	58.12%	3,395	1,974
0650	Durham, Rick	3.23%	3,395	110
0637	Finehirsh, Jeffrey	100.00%	3,395	3,395
0512	Flynn, Patrick	3.99%	3,395	136
0304	Franklin, Kennedy	23.36%	3,395	793
0828	Gunther, Matthew	100.00%	3,395	3,395
0729	Haws, Scotty	3.23%	3,395	110
0825	Neal, William	16.69%	3,395	567
0705	Szczepkowski, Stephen	100.00%	3,395	3,395
0453	Wierzbicki, Anthony	17.10%	3,395	581
0728	Wilson, Michael	11.53%	3,395	392
0436	Worrell, David	18.52%	3,395	629
0701	Yount, Darrin	1.16%	3,395	39
				15,515
			Per AA Ledger GL	10,093
			Adjustment	5,422

WSC AFFILIATE AUDIT
 AUDIT FINDING NO. 5
 TRANSPORTATION EXPENSE

w/p 4

Labrador Utilities, Inc.

Vehicles	Driver	% Used in Labrador	2007 Expense per Vehicle	% Allocated to Labrador
0803	Chard, Ronald	8.21%	3,395	279
0650	Durham, Rick	1.51%	3,395	51
0512	Flynn, Patrick	1.87%	3,395	63
0304	Franklin, Kennedy	10.91%	3,395	371
0729	Haws, Scotty	1.51%	3,395	51
0825	Neal, William	7.80%	3,395	265
0728	Wilson, Michael	5.39%	3,395	183
0436	Worrell, David	8.65%	3,395	294
0427	Wright, Jason	100.00%	3,395	3,395
0701	Yount, Darrin	0.54%	3,395	18
				4,971
Per AA Ledger GL				5,476
Adjustment				(505)

Utilities, Inc. of Eagle Ridge

Vehicles	Driver	% Used in Eagle Ridge	2007 Expense per Vehicle	% Allocated to Eagle Ridge
0310	Devers, Joe	100.00%	3,395	3,395
0303	Dodd, Donald	100.00%	3,395	3,395
0650	Durham, Rick	2.43%	3,395	83
0512	Flynn, Patrick	3.01%	3,395	102
0423	Garcia Jr, Ismael	100.00%	3,395	3,395
0729	Haws, Scotty	2.43%	3,395	83
0609	Stewart, Malcolm	26.39%	3,395	896
0453	Wierzbicki, Anthony	12.88%	3,395	437
0728	Wilson, Michael	8.68%	3,395	295
0701	Yount, Darrin	0.87%	3,395	30
				12,111
Per AA Ledger GL				14,376
Adjustment				(2,265)