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DIVISION OF WATER & WASTEWATER
CHARLES H. HILL
DIRECTOR
(850) 413-6900

Public Service Commission

June 29, 1999

Mr. Martin S. Friedman, Esquire
Rose, Sundstrom & Bentley, LLP
2548 Blairstone Pines Drive
Tallahassee, FL 32301

Re: Docket No. 981858-WS, Application for authority to transfer facilities of Rotonda West Utility Corporation and Certificates Nos. 565-W and 493-S in Charlotte County to AquaSource Utility, Inc.

Dear Mr. Friedman:

Thank you for your rapid response to my June 11, 1999 request for additional information on the audit findings in the above-referenced docket. I understand that my staff has discussed the response with you in some detail and it was concluded that additional clarification is necessary. Once again, in order to facilitate the utility's response, staff is providing its understanding of which disclosures are not in dispute and which require additional clarification of the utility's position. To the extent that any of the following is not correct, please indicate that in your response.

Disclosure No. 1 -- Utility Sales Agreement. The utility concurs with the audit finding regarding non-transferred utility assets. However, the utility reserves its right to revisit the issue of an acquisition in a future rate proceeding should the Commission's policy change.

Disclosure No. 2 -- Prior Rate Case Adjustments -- Land. The utility has made the recommended audit adjustments. However, staff requests that the utility provide an explanation why these adjustments were not made subsequent to Commission Order Nos. 96-0663-FOF-WS and 96-0663A-FOF-WS.

Disclosure No. 3 -- Prior Rate Case Adjustments -- Unsupported Plant. The utility has not made the recommended audit adjustments. If this is the case, since the Commission required these adjustments in Order No. 96-0663-FOF-WS, compliance is recommended. If the utility still chooses not to comply, please be advised that staff may need to recommend a show cause proceeding be initiated.

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Disclosure No. 4 -- Utility Master Plan. The utility has made the recommended audit adjustments.

Disclosure No. 5a -- Unsupported Plant Additions. The utility has not made the recommended audit adjustments. If this is the case, please have the utility provide justification for the departure from the Commission's practice in the prior rate case.

Disclosure No. 5b -- Improperly Classified Plant Additions. The utility has not made the recommended audit adjustments. If this is the case, please have the utility provide its justification.

Disclosure No. 6 -- Treatment of Gain or Loss on Plant Retirements. The utility has made the recommended audit adjustments.

Disclosure No. 7 -- Replacement of Permeators. The utility has not removed permeator purchases in excess of 100% replacement value. If this is the case, please have the utility provide justification for the excess permeator purchases. However, the utility has agreed to establish a permeator sub-account on a going-forward basis with a depreciation life of five years.

Disclosure No. 8 -- Construction Work in Progress (CWIP). The utility has made the recommended audit adjustments for the \$52,900 in PHFU. However, instead of expensing the \$77,461 for the sludge processing project that will not be completed in one lump sum, the utility is amortizing the expense over seven years. It is the utility's understanding that staff's auditor agreed to this modification to the recommended audit adjustments.

Disclosure No. 9 -- Plant Held for Future Use and Associated CIAC. The utility has not made any of the recommended adjustments. If this is the case, please have the utility provide its justifications. The disclosure also recommends that all future transfers of PHFU to utility plant in service be accompanied by like-amount transfers of CIAC-PHFU to rate base CIAC. Please have the utility indicate whether it intends to comply. If it does not, please have the utility provide its justification.

Disclosure No. 10 -- Accumulated Depreciation and Accumulated Amortization of CIAC. The utility has made the recommended audit adjustments to the extent that it agrees with the prior disclosures. If this is the case, please have the utility provide a chart showing what changes it has made and what changes it has not made. For the changes the utility has not made, please reference the applicable disclosure response.

Disclosure No. 11 -- Non-Utility Plant. The utility has made the recommended audit adjustments to the extent it agrees with the prior disclosures. If this is the case, please have the utility provide a chart showing what changes it has made and what changes it has not made. For the changes the utility has not made, please reference the applicable disclosure response.

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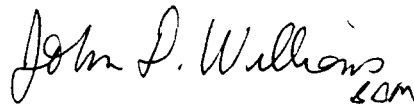
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In addition, please have the utility verify whether it intends to continue to depreciate and expense non-utility plant on a twenty-five year basis. If this is not the utility's intent, please have the utility provide its justification.

Please file an original and five copies of the response to the information requested above with the Director, Division of Records and Reporting, on or before July 14, 1999. If you have any questions, you should contact Ms. Patricia Brady at (850) 413-6686

Finally, with regard to your concern about the connection between the utility's 1998 Annual Report and the recommendations in staff's audit, I want to be clear that the utility was not, and is not, obligated to implement any recommended audit adjustments which it disputes prior to the Commission's decision. However, while rate base at the time of a transfer is used to determine the acquisition adjustment, the findings in the audit report have relevance on their own merit. To the extent that the recommended audit adjustments are voted on by the Commission in the transfer docket, they should be implemented by the utility. Since the instant audit was for year-end 1998, the simplest means to verify utility compliance with the Commission's decisions on the audit adjustments would be to recommend that the utility to file revisions to the applicable pages of its 1998 Annual Report.

Sincerely,



John D. Williams
Chief, Bureau of Policy Development
and Industry Structure

JDW:pb

cc: Division of Water and Wastewater (Chase, Groom, Brady)
Division of Auditing and Financial Analysis (Vandiver, McPherson)
Division of Legal Services (Cibula, Crosby)
Division of Records and Reporting