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March 3, 2003

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COMMISSION
CLERK

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

Re: Cypress Lakes Utilities, Inc.; Application for Rate Increase in Polk County,
Florida; Docket No. 020407-WS
Audit Control No. 01-350-3-2
Our File No. 30057.45

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Dear Ms. Bayo:

In connection with the Commission's recent audit of the rate base, capital structure, and net operating income of the Applicant, the comments of Cypress Lakes Utilities, Inc., to the Staff's Audit Report and Exceptions are as follows:

1. Utility-Plant-in-Service (UPIS):

The Utility disagrees with this exception as the amounts of \$303 and \$5,316 recorded in account nos. 344 and 343 (Recommendation No. 4 on page 5) are able to be supported and should be included in Utility Plant-in-Service. The \$303 represents capitalized time and was actually recorded to account no. 340-Office Structures & Improvements, not account no. 344-Laboratory Equipment as indicated by Staff. The Capitalization Charges Summary indicating the \$303 charged to work order 672-1169902 and the "Capitalization Charges Report indicating the total amount of hours charged to Cypress Lakes in 2000 and the employees who charged these hours are attached for support of this expense. In addition, the invoice from Hach in the amount

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of \$5,315.80 has been located and is attached to this document. As the Company disagrees with these proposed adjustments, it also disagrees with the adjustments proposed in Schedule A. The depreciation adjustments in this schedule are based upon the proposed adjustments recommended on page 5.

2. UPIS - Common Plant Allocations from Water Service Corporation (WSC) and Utilities, Inc. Of Florida (UIF):

As the Utility did not agree with all proposed adjustments in the Water Service Corporation ("WSC") audit report (Audit Control No. 02-122-3-1) and the Utilities, Inc. of Florida ("UIF") audit report (Audit Control No. 02-249-3-1), it disagrees with this exception as the proposed adjustment to Cypress Lakes Utilities, Inc.'s rate base is based on the adjustments proposed in these audit reports.

3. Contributions-in-Aid of Construction (CIAC) and Accumulated Amortization of CIAC:

The Utility does not contest this exception.

4. Working Capital:

As the Utility does not agree with the proposed adjustments in exception no. 7, it does not agree with this proposed adjustment to working capital as it is based on the adjustments proposed in exception nos. 6, 7, and 8.

5. Cost of Capital - Parent:

The Utility does not agree with the weighted cost rates indicated for each of the Utilities, Inc. of Florida counties on page 16 of the audit report as it does not agree with the methodology used to calculate these cost rates. By reviewing Staff's workpapers, the Utility noted that the cost rate calculations are not consistent with the calculation applied in Commission Order No. PSC-98-0524-FOF-SU. For the proposed rates on page 16, Staff included Utilities, Inc.'s long-term and short-term debt, common equity, deferred income taxes (federal and state), and deferred investment tax credits and the county's customer deposits when calculating the overall cost of capital for each county. However, per the above-mentioned order, Staff included Utilities, Inc.'s long-term debt, short-term debt, and common equity and the Utility's deferred income taxes (federal and state), deferred investment tax credits, and

customer deposits. On page 12 of this order, it states that "the appropriate overall rate of return shall be determined using the parent company's capital structure with investment tax credits *specifically reflected for Mid-County* and the parent's ratio of debt and equity each reconciled to the utility's rate base on a pro rata basis." It was noted that Mid-County had no deferred taxes or customer deposits at the time of this order, and no deferred taxes or customer deposits were included in the cost of capital calculation.

6. Operation and Maintenance Expense (O&M):

The Utility does not contest this exception.

7. Operations and Maintenance Expense - Common Allocations:

As the Utility did not agree with exception nos. 2 and 5 in the WSC audit report (Audit Control No. 02-122-3-1), it does not agree with the proposed adjustments in this exception as they are based on exception nos. 2 through 9 of the WSC audit report.

8. Operations and Maintenance Expense - Adjustments to Test Year:

The Utility does not contest this exception.

9. Depreciation and Amortization of CIAC Expense:

As the Utility does not agree with exception nos. 1 and 2 of this audit report, it does not agree with these proposed adjustments. These adjustments to depreciation and CIAC amortization are based on the proposed adjustments of exception nos. 1, 2, and 3 in this audit report.

10. Taxes Other than Income (TOTI) - Regulatory Assessment Fees:

The Utility agrees that the amount recorded in 2001 actually reflects the amount expensed in 2000. However, the Utility does not agree with the amount of \$15,248, as indicated by Staff, to represent the amount expensed in 2001. The amount expensed for the 2001 test year was actually \$15,284.

11. Taxes Other than Income - Adjustments to Test Year:

Ms. Blanca Bayo
Commission Clerk and Administrative Services Director
March 3, 2003
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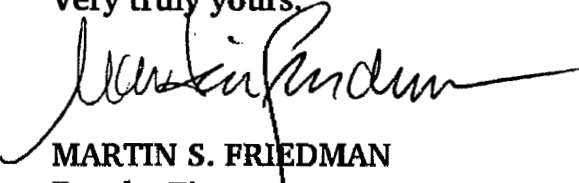
The Utility does not contest this exception.

12. Books and Records:

The Utility does not agree with this exception concerning Wedgefield Utilities, Inc.'s books and records as of December 31, 2001. As previously stated, the Utility is not aware of any specific corrections required by Staff or the PSC. If Staff is aware of any specific differences that need to be corrected the Utility will work with Staff pursuant with Commission's Order No. PSC-00-2388-AS-WU to correct these differences. The Utility requests that any of the alleged differences that Staff believes still exist be communicated in writing.

Should you have any questions concerning the enclosed, please do not hesitate to give me a call.

Very truly yours,



MARTIN S. FRIEDMAN
For the Firm

MSF:VLL/dmp

cc: Mr. Steven M. Lubertozi
Mr. Donald W. Rasmussen
Mr. David L. Orr, EI
Mr. Jay Revell