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VALERIE L. LORD, OF COUNSEL  
(LICENSED IN TEXAS ONLY)

March 25, 2003

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

RECEIVED-PPSC  
03 MAR 27 AM 10:12  
COMMISSION  
CLERK

Re: Docket No. 020071-WS, Application of Utilities, Inc. of Florida for a rate increase  
Water Service Corp. Audit Control No. 02-122-3-1  
Utilities, Inc. of Florida Audit Control No. 02-249-3-1  
Our File No.: 30057.40

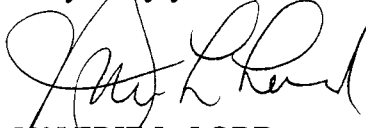
Dear Ms. Bayo:

In connection with the Commission's recent audit of the rate base, capital structure, and net operating income of the Applicant, I enclose the following for filing:

1. Responses of Utilities, Inc. to the Staff Audit Report and Exceptions relating to Water Service Corp.; and
2. Responses of Utilities, Inc. to the Staff Audit Report and Exceptions relating to Utilities, Inc. Of Florida.

Please feel free to contact me if you have any questions.

Very truly yours,



VALERIE L. LORD  
Of Counsel

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CAF      VLL/dmp  
CMP      Enclosures  
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<b>Exception No.</b>	<b>Subject</b>	<b>Discussion</b>
1	Rate Base Water – Adjustment to Prior Orders	<p>The Company disagrees with this exception based on the following:</p> <ul style="list-style-type: none"> <li>• The rate base balance for the Pasco County (Summertree PPW) water system as of April 30, 1991, indicated on page 4 of the audit report does not agree to the rate base balance indicated in Commission Order No. PSC-93-0430-FOF-WS, issued March 22, 1993. Therefore, the Company does not agree with the Audit Staff Adjustments proposed in Schedule F on page 9 as the amounts indicated in the “Order Balance” column are incorrect.</li> <li>• Staff was not consistent in calculating the water utility rate base adjustments from Commission Order No. PSC-95-0574-FOF-WS as indicated on page 4 of the audit report. By reviewing Staff’s workpapers, the Company noted that Orange and Pasco Counties’ adjustments include Commission ordered adjustments and Utility MFR adjustments. Seminole County’s adjustments only consist of Commission ordered adjustments and fails to include the Utility MFR adjustments. Therefore, the Company does not agree with the ordered adjustments for Seminole county indicated on page 4 or the Audit Staff Adjustments proposed in Schedule E on page 8 as the amounts indicated in the “Order Adjustment” column are incorrect.</li> <li>• As the Company disagrees with the adjustments discussed above, it also disagrees with the adjustments proposed in Schedule H on page 11. These depreciation and amortization adjustments are based on the adjustments proposed in Schedules A-G.</li> </ul>
2	Rate Base Wastewater – Adjustment to Prior Orders	<p>The Company disagrees with this exception based on the following:</p> <ul style="list-style-type: none"> <li>• The rate base balance for the Pasco County (Summertree PPW) wastewater system as of April 30, 1991, indicated on page 12 of the audit report does not agree to the rate base balance indicated in the Commission Order No. PSC-93-0430-FOF-WS, issued March 22, 1993. Therefore, the Company does not agree with the Audit Staff Adjustments proposed in Schedule K on page 15 as the amounts indicated in the “Order Balance” column are incorrect.</li> <li>• Staff was not consistent in calculating the wastewater utility rate base adjustments from Commission Order Nos. PSC-94-0739-FOF-WS and PSC-95-0574-FOF-WS as indicated on page 12 of the audit report. By reviewing Staff’s workpapers, the Company noted that Seminole County’s adjustments include Commission ordered adjustments and Utility MFR adjustments. Marion County’s adjustments only consist of Commission</li> </ul>

UIF Audit Exceptions

		<p>ordered adjustments and fails to include the Utility MFR adjustments. Therefore, the Company does not agree with the ordered adjustments for Marion County indicated on page 12 or the Audit Staff Adjustments proposed in Schedule I on page 14 as the amounts indicated in the "Order Adjustment" column are incorrect.</p> <ul style="list-style-type: none"> <li>• Staff failed to include an adjustment of \$418 to account 380.00 Treatment and Disposal Equipment when calculating Seminole County's wastewater adjustments on page 12. Therefore, the Company does not agree with the ordered adjustments for Seminole County indicated on page 12 or the Audit Staff Adjustments proposed in Schedule J on page 14 as the amounts indicated in the "Order Adjustment" column are incorrect. In addition, the utility adjustments of \$101 and \$1,471 indicated in Schedule J should be recorded in Collecting Sewers – Gravity (Acct. 361) and Treatment &amp; Disposal Equipment (Acct. 380), respectively, rather than Services and Office Furniture &amp; Equipment.</li> <li>• As the Company disagrees with the adjustments discussed above, it also disagrees with the adjustments proposed in Schedule M on page 16. These depreciation and amortization adjustments are based on the adjustments proposed in Schedules I-L.</li> </ul>
3	Utility-Plant-in-Service (UPIS) – Nonrecurring Plant	The Company does not contest this exception.
4	Utility-Plant-in-Service (UPIS) – Replacement and Retirement of Plant	The Company does not contest this exception.
5	Utility-Plant-in-Service (UPIS) – Reclassified Plant	The Company does not contest this exception.
6	Utility-Plant-in-Service (UPIS) – Organization Cost and Capitalized Labor	The Company disagrees with Staff's proposal to include these costs as an acquisition adjustment rather than organization costs. Utilities, Inc., through its subsidiaries, provides safe, clean, and reasonably priced drinking water and environmentally sound and cost efficient water and wastewater services to its customers. In addition, Utilities, Inc. brings their expertise, financial stability, and economies of scale to its ownership and operation of Wis Bar/Bartelt.

UIF Audit Exceptions

7	Utility-Plant-in-Service (UPIS) – Common Plant Allocations from Utilities, Inc. of Florida (UIF)	The Company does not contest this exception.
8	Utility-Plant-in-Service (UPIS) – Common Plant Allocations from Water Services Corporation (WSC)	The Company does not contest this exception.
9	Utility-Plant-in-Service (UPIS) – Adjustments to Test Year Balance	The Company disagrees with Staff's proposal to retire all plant assets of the Lincoln Heights wastewater system. These assets are still held by the Company and should be treated as such. Therefore, these assets should be included in UIF's rate base.
10	Contributions in Aid of Construction (CIAC) – Advances	The Company does not contest this exception.
11	Accumulated Depreciation – Depreciation Rates	The Company does not contest this exception.
12	Accumulated Amortization of Contributions in Aid of Construction (CIAC) – Amortization Rates	By reviewing the monthly detail of the recorded CIAC amortization, the Company disagrees with this exception and believes that it has applied the correct <i>methodology</i> to calculate CIAC amortization for 2001 in accordance with Rule 25-30.140 (8), F.A.C. The monthly rates used to calculate CIAC amortization agree with the monthly composite depreciation rates calculated for each county.
13	Accumulated Amortization of Contributions in Aid of Construction (CIAC) – General Ledger Balance	The Company does not contest this exception.
14	Working Capital	The Company agrees with the methodology proposed by Staff to calculate working capital in this exception.
15	Utility Adjustments to Rate Base in the Test Year	The Company does not contest this exception.
16	Cost of Capital – Parent	The Company does not agree with the weighted cost rates indicated for each of the Utilities, Inc. of Florida counties on page 47 of the audit report as it does not agree with the methodology used to calculate these cost rates. By reviewing Staff's workpapers, the Company 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 47, Staff

UIF Audit Exceptions

		included <b>Utilities, Inc.</b> '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 <b>utility</b> '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 <i>specifically reflected for Mid-County</i> 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.
17	Revenues – Adjustment to Test Year	The Company does not contest this exception.
18	Operation and Maintenance Expense – Direct	The Company does not contest this exception.
19	Operation and Maintenance Expense – Cost Centers 603 and 639	The Company does not contest this exception.
20	Operation and Maintenance Expense – Cost Center 600	The Company does not contest this exception.
21	Operation and Maintenance Expense – Allocations	The Company does not contest this exception.
22	Operation and Maintenance Expense – Adjustment to Test Year	The Company agrees with the customer equivalent methodology proposed by Staff to calculate Salaries and Pension & Benefits in this exception. However, based on actual 2002 salary amounts calculated for the Office of Public Counsel ("OPC"), the Operators Salaries to be allocated increased to \$416,881 from \$410,576 (as indicated in Schedule U on page 61 of the audit report), and the UIF Office Salaries to be allocated decreased to \$68,578 from \$70,477 (also indicated in Schedule U). As these amounts have changed, the pension and benefits to be allocated for Operators and UIF Office Employees decreased to \$68,317 and \$12,843, respectively. The original amounts of \$70,293 for Operators Benefits and \$12,973 for UIF Office Benefits are indicated in Schedule V on page 62 of the audit report.
23	Operation and Maintenance Expense – Adjustment to Test	The Company does not contest this exception.

UIF Audit Exceptions

	Year Seminole County	
24	Taxes Other Than Income – Property	The Company does not contest this exception.
25	Taxes Other Than Income – Adjustments to Test Year	The Company agrees with the customer equivalent methodology proposed by Staff to calculate Payroll Taxes in this exception. However, based on actual 2002 salary amounts calculated for the OPC, the Operators’ Payroll Taxes to be allocated decreased to \$31,581 from \$33,022 (as indicated in Schedule W on page 67 of the audit report), and the UIF Office Employees’ Payroll Taxes to be allocated decreased to \$5,558 from \$5,710 (also indicated in Schedule W).
26	Books and Records	The Company 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 t 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.

Water Service Corp. Audit Exceptions

Exception No.	Subject	Discussion
1	Rate Base Invoices Missing and Inventory Transfer Not Recorded	The Company does not agree with Staff's proposal to decrease the Minicomputers account and its respective accumulated depreciation account to zero. In order to support this statement, the Company calculated the minicomputers and accumulated depreciation balances as of 12/31/01 using the current Water Service Corp. inventory listing. These computers are still being used by Water Service Corp. As minicomputers are depreciated over three years, any computers purchased in 1999, 2000, and 2001 would be included in the 2001 balance. Therefore, the total balance of minicomputers as of 12/31/01 would be at least \$61,489.71. The Company then calculated accumulated depreciation using the straight-line method over 3 years, with a half-year convention in the first year. The total balance of accumulated depreciation as of 12/31/01 would be at least \$34,721.44. Please see the attached spreadsheet entitled Water Service Corp.- Minicomputer Plant Assets for calculation details.
2	Interest Expense	Staff is correct that interest income/expense is not allowed in recoverable expenses. However, the Company believes that it is correct in allocating this interest expense to each utility as the debt incurred at Water Service Corp. is used to service Utilities, Inc. affiliates.
3	Audit Fees	The Company does not contest this exception.
4	Directors' Fees	The Company does not contest this exception.
5	Finder's Fees	The Company believes that it is correct to allocate this expense to Utilities, Inc. affiliates. This account is used to record employee finder's fees. In addition, this expense is incurred in the ordinary course of business and should be fully recoverable from ratepayers. These fees are not related to acquisition costs for systems to be purchased.
6	FICA Expenses	The Company does not contest this exception.
7	Payroll and Benefits	The Company does not contest this exception.
8	Training Costs	The Company does not contest this exception.
9	Life Insurance	The Company does not contest this exception.
10	Cost of Capital	The Company does not agree with the weighted cost rates indicated for each of the Utilities, Inc. of Florida counties on page 47 of the audit report as it does not agree with the methodology used to calculate these cost rates. By reviewing Staff's workpapers, the

Water Service Corp. Audit Exceptions

		<p>Company 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 47, Staff included <b>Utilities, Inc.</b>'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 <b>utility's</b> 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 <i>specifically reflected for Mid-County</i> 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.</p>
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