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Public Service Commission

June 7, 2006

Mr. Martin Friedman
Rose, Sunstrom & Bentley, LLP
Sanlando Center
2180 W. State Road 434, Suite 2118
Longwood, FL 32779

Re: Docket No. 060257-WS - Application for increase in water and wastewater rates in Polk County by Cypress Lakes Utilities, Inc.

Dear Mr. Friedman:

We have reviewed the minimum filing requirements (MFRs) submitted on May 11, 2006, on behalf of Cypress Lakes Utilities, Inc. (Cypress Lakes or utility). After reviewing this information, we find the MFRs to be deficient. The specific deficiencies are identified below:

Rule 25-30.110(2), Florida Administrative Code (F.A.C.), requires that all data furnished to the Commission shall be consistent with and reconcilable with the utility's annual report. The following MFR schedules are not reconcilable with the utility's annual reports:

- 1. Schedule A-5, Water Plant in Service by Primary Account

CMP _____
COM _____
CTR _____
ECR _____
GCL _____
OPC _____
RCA _____
SCR _____
SGA _____
SEC _____
OTH _____

The utility's ending balance for the year ending December 31, 2004 does not reconcile with the utility's 2004 Annual Report. Pursuant to Rule 25-30.110, F.A.C., please provide the reconciliation of the balances in the 2004 Annual Report and MFR Schedule A-5.

- 2. Schedule A-6, Sewer Plant in Service by Primary Account

The utility's ending balance for the year ending December 31, 2004 does not reconcile with the utility's 2004 Annual Report. Pursuant to Rule 25-30.110, F.A.C., please provide the reconciliation of the balances in the 2004 Annual Report and MFR Schedule A-6.

- 3. Schedule A-9, Water Accumulated Depreciation by Primary Account

The utility's ending balance for the year ending December 31, 2004 does not agree with the balance shown on page W-2 of the utility's 2004 Annual Report. Pursuant to Rule

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25-30.110, F.A.C., please provide the reconciliation of the balances in the 2004 Annual Report and MFR Schedule A-9.

4. Schedule A-10, Wastewater Accumulated Depreciation by Primary Account

The utility's ending balance for the year ending December 31, 2004 does not agree with the utility's 2004 Annual Report. Pursuant to Rule 25-30.110, F.A.C., please provide the reconciliation of the balances in the 2004 Annual Report and MFR Schedule A-10.

5. Schedule B-13, Net Depreciation Expenses - Water

The utility's net depreciation expense does not agree with the balance shown on page W-3 of the 2005 Annual Report. Pursuant to Rule 25-30.110, F.A.C., please provide the reconciliation of the balances in the 2004 Annual Report and MFR Schedule B-13.

6. Schedule B-14, Net depreciation Expenses - Wastewater

The utility's net depreciation expense does not agree with the balance shown on page S-3 of the 2005 Annual Report. Pursuant to Rule 25-30.110, F.A.C., please provide the reconciliation of the balances in the 2004 Annual Report and MFR Schedule B-14.

Rule 25-30.436(4)(g), F.A.C., requires the provisions of Rule 25-30.433, F.A.C. shall be followed in preparing the utility's application. Specifically, Rule 25-30.433(3), F.A.C., requires that used and useful debit deferred taxes shall be offset against used and useful credit deferred taxes, with any resulting net credit deferred balance included in the capital structure calculation and any resulting net debit balance included as a separate line item in the rate base calculation. Numbers 7 and 8 of the following list are deficiencies pursuant to this rule:

7. Schedule D-1, Requested Cost of Capital

8. Schedule D-2, Reconciliation of Capital Structure Requested Rate Base

On these schedules, the utility did not offset the debit accumulated deferred income taxes reflected on MFR Schedule A-18 with the utility's credit accumulated deferred income taxes on MFR Schedule A-19.

Rule 25-30.437, F.A.C., requires that each utility applying for a rate increase shall provide the information required by Commission Form PSC/ECR 20 (11/93), entitled "Class B Water and/or Wastewater Utilities Financial, Rate and Engineering Minimum Filing Requirements." Numbers 9 and 10 of the following list are deficiencies pursuant to this rule:

9. Schedule B-8, Comparative O&M Expense - Wastewater

The utility is required to explain any differences which are not attributable to the change in customer growth and the CPI-U. The utility did not provide an explanation for the increase in Miscellaneous Expenses.

10. Schedule E-1, Rate Schedule

The utility is required to provide a schedule of all present and proposed rates. The utility did not provide present or proposed rates for the 2", 3", 4", or 6" meter sizes for water and wastewater for residential and general service.

11. Rule 25-30.4385, F.A.C., requires a utility to file an original and three copies of all revised tariff sheets for each service classification in which any change is proposed, except those tariff sheets in which the only change is to the service rates. The utility did not provide revised tariff sheets for miscellaneous service charges.

Rule 25-30.440, F.A.C., requires that each utility applying for a rate increase shall provide two copies of the following engineering information to the Commission, with the exception of item (12) of which only one copy is required. Numbers 12-16 of the following list are deficiencies pursuant to this rule.

12. Rule 25-30.440(1), F.A.C., requires the utility to provide a detailed map, (a) showing the location and size of the applicant's distribution and collection lines as well as its plant sites; (b) and the location and respective classification of the applicant's customers. The utility did not submit separate maps for water and wastewater treatment systems. In addition, the map, which was provided by the utility, did not show the location and size(s) of the distribution and collection lines

13. Rule 25-30.440(2), F.A.C., requires the utility to provide a list of chemicals used for water and wastewater treatment, by type, showing the dollar amount and quantity purchased, the unit prices paid and the dosage rates utilized, the utility failed to provide an estimate of its chemical dosage rates.

14. Rule 25-30.440(6), F.A.C., requires the utility to submit copies of all health department and DEP construction and operating permits; the utility failed to submit a copy of its water permit.

15. Rule 25-30.440(8), F.A.C., requires that each applicant for a rate increase shall provide to the Commission a list of all field employees, their duties, responsibilities, and certificates held, and an explanation of each employee's salary allocation method to the utility's capital or expense accounts. The utility provided a list of employees that does not completely reconcile to the employees reflected in Utilities, Inc.'s cost allocation manuals for June 30, 2005, September 30, 2005, and December 31, 2005. Further, the total salaries from the 2005 cost allocation manuals are greater than the total water and wastewater salaries reflected in the MFR Schedules B-7 and/or B-8. Staff believes the difference between them is what the utility capitalized. However, the cost allocation manuals and the list provided by the utility do not reflect which employee's salaries were capitalized. Thus, please provide a list that has an explanation of each employee's salary allocation method to the utility's capital or expense accounts as required by this rule.

Mr. Martin Friedman

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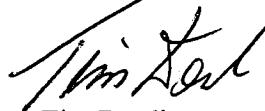
June 7, 2006

16. Rule 25-30.440(9), F.A.C., requires the utility to explain how its vehicles are allocated to the utility. The utility failed to provide the method of allocation to the utility.

17. Rule 25-30.431(3), F.A.C., requires the utility to submit its most recent wastewater capacity analysis report. The utility failed to provide this documentation.

If any above corrections require a corresponding change to any MFR schedules, those corrected schedules must also be submitted. Your petition will not be deemed filed until the deficiencies identified in this letter have been corrected. These corrections should be submitted no later than July 7, 2006.

Sincerely,



Tim Devlin
Director

TD:jr

cc: Division of Commission Clerk and ~~Administrative Services~~
Office of the General Counsel (Fleming)
Division of Economic Regulation (Willis, Rendell, Edwards, Lingo, Revell)