

LAW OFFICES
ROSE, SUNDBSTROM & BENTLEY, LLP

2548 BLAIRSTONE PINES DRIVE
TALLAHASSEE, FLORIDA 32301

(850) 877-6555

CHRIS H. BENTLEY, P.A.
F. MARSHALL DETERING
CAROL L. DUTRA
MARTIN S. FRIEDMAN, P.A.
JOHN R. JENKINS, P.A.
STEVEN T. MINDLIN, P.A.
DAREN L. SHUPPY
WILLIAM E. SUNDBSTROM, P.A.
DIANE D. TREMOR, P.A.
JOHN L. WILKINSON

MAILING ADDRESS
POST OFFICE BOX 1567
TALLAHASSEE, FLORIDA 32302-1567

TELECOPIER (850) 656-4029

ROBERT M. C. ROSE
OF COUNSEL

March 3, 1999

VIA HAND DELIVERY

Ms. Blanca Bayo, Clerk
Division of Records & Reporting
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Re: Hacienda Utilities, Ltd.; Docket No. 981265-SU
Application for Transfer of Hacienda Village Utilities,
Inc.
Our File No. 33092.01

Dear Ms. Bayo:

In accordance with the memo from your office dated February 10, 1999, I am writing to respond to the audit report as filed in the above-referenced matter. I have addressed each of the audit exceptions separately below:

1. Audit Disclosure No. 1 - Non-regulation of Hacienda Village Utilities, Inc.'s Water System - Agree with staff conclusion.
2. Audit Disclosure No. 2 - Plant and Land Accounts - Have no basis for disagreeing with the staff conclusion. As you know, we represent a buyer of the system and have no real knowledge about plant additions that have occurred since the Utility's last rate case. To the extent the Utility is later able to determine that additions were made, we will attempt to find documentation or to estimate the original cost of such additions at a later time to present to the Commission and demonstrate the additional investment. At this time we have no such information with which to contest the staff position and, as such, for purposes of the

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transfer, we will agree with staff (with the above caveat concerning the possibility of providing additional information to the Commission to the extent we become aware of it).

3. Audit Disclosure No. 3 - Accumulated Depreciation - This is the issue that raises the greatest concern with us as the buyer. It appears from this audit disclosure that the accumulated depreciation balance is being increased, based upon corrected plant balances per prior order, the Utility's prior rate case, and using PSC rule guideline rates. Since the adjustments to plant are to reduce plant, it should logically follow that the adjustment to compensate for that alone would be to reduce the accumulated depreciation balance. Therefore, unless the Utility's books were not maintained utilizing the guideline rates, but instead some lower depreciation rates, the adjustment to increase accumulated depreciation is counter intuitive. We would request that the staff review this to make sure that this is properly calculated.

Secondly, from a review of the staff auditor's workpapers concerning the calculation of accumulated depreciation, it appears as though an annual depreciation expense was calculated in the last rate case to be \$16,113 per year based upon utilization of the guideline rates. Then, despite the fact that the staff auditor finds only one plant addition totalling less than \$600 for the period which transpired between the Utility's last rate case test year (6/30/92) and the current date that rate base was established (10/08/98), the auditor utilizes an annual depreciation expense of approximately \$2,500 more per year than was approved as the appropriate depreciation expense in the Utility's last rate case.

If the auditor believes that the previous auditor failed to properly calculate depreciation expense then the Utility should not be penalized for that improper calculation, but instead any charge should only be going from January 1, 1999 forward. Recalculating accumulated depreciation based upon a difference of opinion from the previous auditor is not appropriate. Therefore, accumulated depreciation appears as though it may be overstated by the

Blanca S. Bayo, Director
March 3, 1999
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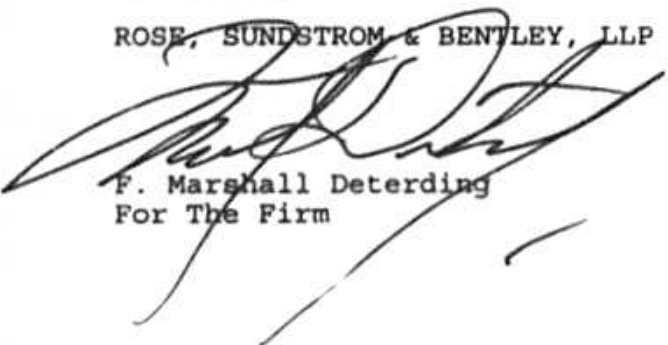
auditor's calculation by over \$15,000. We hereby request that the staff analyst review the workpaper number 22 and 22-1 where these concerns are readily apparent.

4. Audit Disclosure Number 4 - CIAC - As the buyer, we are not aware of what additions to the CIAC account have occurred since the Utility's last rate case and, therefore, have no basis to argue with the Commission staff's conclusions as to these numbers.
5. Audit Disclosure Number 5 - Acquisition Adjustment - The Utility has not requested consideration of an acquisition adjustment and, therefore, no comments are offered as to this audit disclosure.

If you have any questions concerning our comments or wish to discuss any of these issues, specifically the accumulated depreciation issue further, please do not hesitate to contact me.

Sincerely,

ROSE, SUNDBSTROM & BENTLEY, LLP



F. Marshall Deterding
For The Firm

FMD/tmg

cc: Ms. Gayle Benson
Ms. Cheryl Johnson

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