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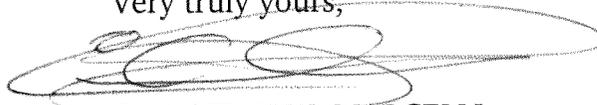
RE: Docket No. 080248-SU; Tierra Verde Utilities, Inc.'s Application for an Increase in Wastewater Rates Increase in Pinellas County, Florida
Our File No.: 30057.156

Dear Ms. Cole:

Enclosed for filing in the above-referenced docket is the response of Tierra Verde Utilities, Inc., to Staff's audit report filed with the Clerk on December 11, 2008.

Feel free to contact us if you have any questions or concerns.

Very truly yours,



CHRISTIAN W. MARCELLI
Of Counsel

CM/tlc
Enclosures

cc: John Hoy, Chief Regulatory Officer (w/enclosures)
Patrick C. Flynn, Regional Director (w/enclosures)
Ms. Deborah Swain (w/enclosures)
Mr. Frank Seidman (w/enclosures)
Andrew Maurey, Division of Economic Regulation (w/enclosures)
Dale Buys, Division of Economic Regulation (w/enclosures)
Keino Young, Esquire, Office of General Counsel (w/enclosures)

TIERRA VERDE UTILITIES, INC.
DOCKET NO. 080248-SU
AUDIT REPORT RESPONSES

Audit Finding No. 1 – Contributions in Aid of Construction

The Company agrees with Audit Staff's Finding No. 1. The Company notes, however, that a corresponding amortization adjustment should be included, and that the accounts used by the Company to reclassify this entry were the CIAC accounts for plant modification fee. In addition, the Company notes that it is using 4.14% as the composite depreciation rate. This was the same composite rate that was used in the Utilities, Inc. of Eagle Ridge rate case. Support for the Company's adjustments can be found on the workpapers attached hereto as w/p 1 and w/p 1(a).

Effect on filing: CIAC should be increased (credited) for \$25,425. Accumulated amortization of CIAC should be increased (debited) for \$614. Amortization expense for CIAC should be increased (credited) for \$1,228.

Effect on general ledger: CIAC should be increased (credited) for \$50,850. Accumulated amortization of CIAC should be increased (debited) for \$1,228. Amortization expense for CIAC should be increased (credited) for \$1,228.

Audit Finding No. 2 – Accumulated Depreciation, Accumulated Amortization of CIAC, and Amortization Expense

The Company agrees with Audit Staff's Finding No. 2 and proposes a similar journal entry. Support for the Company's adjustments can be found on the workpapers attached hereto as w/p 2 and w/p 2(a).

Effect on filing: Accumulated depreciation should be decreased (debited) for \$75,829. CIAC should be decreased (debited) for \$1. Accumulated amortization of CIAC should be decreased (credited) for \$106,104. Amortization expense for CIAC should be decreased (debited) for \$67,203.

Effect on general ledger: Accumulated depreciation should be decreased (debited) for \$75,829. CIAC should be decreased (debited) for \$1. Accumulated amortization of CIAC should be decreased (credited) for \$107,686. Amortization expense for CIAC should be decreased (debited) for \$67,203.

Audit Finding No. 3 – Operation and Maintenance Expenses

Audit Staff's Finding No. 3 has three points. The Company disagrees with the first point regarding the accrual to purchased sewage treatment. Audit Staff is correct that the Company accrued \$39,500 in December of 2007, and subsequently reversed the accrual and paid the invoice in the amount of \$45,158. However,

Audit Staff states that this overstates the 2007 books. Actually, the difference between the accrual's reversal and the actual invoice causes purchased sewage treatment expense to be understated by the difference of \$5,658. Purchased sewage treatment should be debited for this amount, rather than credited. The Company agrees with the second point, and also believes the \$114 of legal fees should be disallowed. Finally, the Company's total allowed rate case expense from the prior rate case was \$94,008 ($\$23,522 \times 4$). While the Company's books only show \$3,772, the Company made an adjustment on the B-3 schedule for \$22,579. This makes total yearly amortization in the filing \$26,351 which is \$2,829 ($\$26,351 - 23,522$) higher than the authorized annual expense. While the Company agrees that an adjustment should have been made to the Company's 2007 books to correct the amortization, the 2007 books are closed, so no adjustment to the O&M is recommended.

Effect on filing: Purchased sewage treatment should be increased by \$5,658. Contractual services for legal fees should be reduced by \$114. The pro forma adjustment of \$22,579 to rate case expense contained in B-3 of the filing should be reduced to \$19,750.

Effect on general ledger: N/A – these are test year expense items.

Audit Finding No. 4 – Depreciation Expense

The Company agrees that it has been using incorrect rates, but disagrees with the 3.13% rate proposed for the Company's lift stations. Lift stations should depreciate at 4.00% annually. In addition, the Company used the incorrect rates for the related CIAC. The Company has adjusted for this as well. The Company has calculated its own entry in the attached workpaper. Support for the Company's adjustments can be found on the workpapers attached hereto as w/p 4 and w/p 4a).

Effect on filing: Accumulated depreciation should be decreased (debited) for \$1,517. Accumulated amortization of CIAC should be increased (debited) for \$1,209. Depreciation expense should be decreased (credited) for \$8,074. Amortization expense for CIAC should be increased (credited) for \$1,209.

Effect on general ledger: Accumulated depreciation should be decreased (debited) for \$8,074. Accumulated amortization of CIAC should be increased (debited) for \$1,209. Depreciation expense should be decreased (credited) for \$8,074. Amortization expense for CIAC should be increased (credited) for \$1,209.

Audit Finding No. 5 – Taxes Other Than Income Taxes (TOTI)

The Company agrees with Audit Staff's Finding No. 5

TIERRA VERDE UTILITIES, INC.
DOCKET NO. 080248-SU
AUDIT REPORT RESPONSE WORKPAPERS

w/p 1

Audit Finding No. 1 - Contributions in Aid of Construction

Entry #1

Location: Docket No. 080248-SU audit report pg. 6

Entry Description: To reclassify CIAC from Alafaya to Tierra Verde due to incorrect booking.

<u>Object A/C</u>	<u>Business Unit</u>	<u>Description</u>	<u>Debit</u>	<u>Credit</u>
3720	245100	CIAC - Sewer Plant Modification Fee	50,850	
4280	241100	Acc Amort - CIAC - Sewer Plant Modification Fee	1,228	
7445	245100	Amort Exp - CIAC - Sewer Plant Modification Fee	1,228	
3720	241100	CIAC - Sewer Plant Modification Fee		50,850
4280	245100	Acc Amort - CIAC - Sewer Plant Modification Fee		1,228
7445	241100	Amort Exp - CIAC - Sewer Plant Modification Fee		1,228

Effect on Filing

CIAC	should be increased by	(50,850)	credit
Acc Amort - CIAC	should be increased by	1,228	debit
Amort Exp - CIAC	should be increased by	(1,228)	credit

Audit Finding No. 1

A/A of CIAC on Reclassed Entry (Entry 1)

	<u>Object A/C</u>	<u>Business Unit</u>	<u>Description</u>	(a) <u>CIAC Adjustment</u>	(b) <u>Years to Roll Forward</u>	(c) <u>Amortization Rate</u>	(d) <u>Roll Forward A/A Adjustment</u>	(e) <u>Amortization Expense</u>
(1)	4280	241100	Acc Amort - CIAC - Sewer Plant Modification Fee	(50,850)	0.6	4.14%	1,228 debit	(1,228)

Averaging Adjustment For Filing

	<u>Object A/C</u>	<u>Business Unit</u>	<u>Description</u>	(a) <u>CIAC Adjustment at 2006</u>	(b) <u>CIAC Adjustment at 2007</u>	(c) <u>Simple Average Adjustment</u>
(2)	3720	241100	CIAC - Sewer Plant Modification Fee	-	(50,850)	(25,425)

	<u>Object A/C</u>	<u>Business Unit</u>	<u>Description</u>	(a) <u>A/A Adjustment at 2006</u>	(b) <u>A/A Adjustment at 2007</u>	(c) <u>Simple Average Adjustment</u>
(3)	4280	241100	Acc Amort - CIAC - Sewer Plant Modification Fee	-	1,228	614

TIERRA VERDE UTILITIES, INC.
DOCKET NO. 080248-SU
AUDIT REPORT RESPONSE WORKPAPERS

w/p 2

Audit Finding No. 2 - Accumulated Depreciation, Accumulated Amortization of CIAC, and Amortization Expense

Entry #2

Location: Docket No. 080248-SU audit report pg. 7-9

Entry Description: To correct the Commission ordered adjustment from the Company's last rate case made to the Company's books.

<u>Object A/C</u>	<u>Business Unit</u>	<u>Description</u>	<u>Debit</u>	<u>Credit</u>
2075	241100	Acc Dep - Structures & Improvements - General Plant	1,429,186	
3500	241100	CIAC - Structures & Improvements - Lift Station	311,984	
3550	241100	CIAC - Force Mains	5,222	
3555	241100	CIAC - Gravity Mains	66,634	
3600	241100	CIAC - Treatment & Disposal Equipment - Lagoons	1,822	
3705	241100	CIAC - Sewer Tap	64,331	
3720	241100	CIAC - Sewer Plant Modification Fee	450	
4070	241100	Acc Amort - CIAC - Structures & Improvements - General Plant	230,231	
4105	241100	Acc Amort - CIAC - Gravity Mains	47,667	
4100	241100	Acc Amort - CIAC - Service Lines	41,450	
7205	241100	Amort Exp - Organization	65,201	
7225	241100	Amort Exp - Structures & Improvements - Lift Station	10,399	
7275	241100	Amort Exp - Force Mains	180	
7280	241100	Amort Exp - Gravity Mains	580	
7325	241100	Amort Exp - Treatment & Disposal Equipment - Lagoons	52	
7430	241100	Amort Exp - Sewer Tap	2,114	
2030	241100	Acc Dep - Organization		123,586
2050	241100	Acc Dep - Structures & Improvements - Collection		#####
3520	241100	CIAC - Structures & Improvements - General Plant		380,865
3550	241100	CIAC - Service Lines		69,577
4030	241100	Acc Amort - CIAC - Organization		26,768
4050	241100	Acc Amort - CIAC - Structures & Improvements - Lift Station		333,696
4100	241100	Acc Amort - CIAC - Force Mains		21,189
4150	241100	Acc Amort - CIAC - Treatment & Disposal Equipment - Lagoons		1,317
4265	241100	Acc Amort - CIAC - Sewer Tap		44,064
7245	241100	Amort Exp - Structures & Improvements - General Plant		9,493
7275	241100	Amort Exp - Service Lines		1,830
?	241100	Balancing Entry		35,347

Effect on Filing

Acc Dep	should be decreased by	75,829	debit
CIAC	should be decreased by	1	debit
Acc Amort - CIAC	should be decreased by	(106,104)	credit
Amort Exp - CIAC	should be decreased by	67,203	debit

Audit Finding No. 2

Commission Adjustments to CIAC Rolled Forward Through 2006 (Entry 2)

			(a)	(b)	(c)	(d)	(e)	
<u>Object A/C</u>	<u>Business Unit</u>	<u>Description</u>	<u>CIAC Adjustment</u>	<u>Amortization Rate</u>	<u>Annual Amortization</u>	<u>2007 A/A Adjustment</u>	<u>2006 A/A Adjustment</u>	
(1)	4030	241100	Acc Amort - CIAC - Organziation	-	2.50%	-	(26,768)	(26,768) credit
(2)	4050	241100	Acc Amort - CIAC - Structures & Improvements - Lift Station	311,984	4.00%	(12,479)	(333,696)	(321,217) credit
(3)	4100	241100	Acc Amort - CIAC - Force Mains	5,222	3.33%	(174)	(21,189)	(21,015) credit
(4)	4105	241100	Acc Amort - CIAC - Gravity Mains	66,634	2.22%	(1,479)	47,667	49,146 debit
(5)	4150	241100	Acc Amort - CIAC - Treatment & Disposal Equipment - Lagoons	1,822	5.56%	(101)	(1,317)	(1,216) credit
(6)	4265	241100	Acc Amort - CIAC - Sewer Tap	64,331	4.14%	(2,663)	(44,064)	(41,401) credit
(7)	4280	241100	Acc Amort CIAC - Sewer Plant Modification Fee	450	4.14%	(19)	-	19 debit
(8)	4070	241100	Acc Amort - CIAC - Structures & Improvements - General Plant	(380,865)	3.13%	11,921	230,231	218,310 debit
(9)	4100	241100	Acc Amort - CIAC - Service Lines	(69,577)	2.63%	1,830	41,450	39,620 debit

Averaging Adjustment For Filing

			(a)	(b)	(c)	
<u>Object A/C</u>	<u>Business Unit</u>	<u>Description</u>	<u>A/A Adjustment at 2006</u>	<u>A/A Adjustment at 2007</u>	<u>Simple Average Adjustment</u>	
(10)	4030	241100	Acc Amort - CIAC - Organziation	(26,768)	(26,768)	(26,768)
(11)	4050	241100	Acc Amort - CIAC - Structures & Improvements - Lift Station	(321,217)	(333,696)	(327,456)
	4100	241100	Acc Amort - CIAC - Force Mains	(21,015)	(21,189)	(21,102)
	4105	241100	Acc Amort - CIAC - Gravity Mains	49,146	47,667	48,407
	4150	241100	Acc Amort - CIAC - Treatment & Disposal Equipment - Lagoons	(1,216)	(1,317)	(1,266)
	4265	241100	Acc Amort - CIAC - Sewer Tap	(41,401)	(44,064)	(42,732)
	4280	241100	Acc Amort CIAC - Sewer Plant Modification Fee	19	-	9
	4070	241100	Acc Amort - CIAC - Structures & Improvements - General Plant	218,310	230,231	224,270
	4100	241100	Acc Amort - CIAC - Service Lines	39,620	41,450	40,535

TIERRA VERDE UTILITIES, INC.
DOCKET NO. 080248-SU
AUDIT REPORT RESPONSE WORKPAPERS

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Audit Finding No. 4 - Depreciation Expense

Entry #3

Location: Docket No. 080248-SU audit report pg. 11-12

Entry Description: To correct test year O&M expenses.

<u>Object A/C</u>	<u>Business Unit</u>	<u>Description</u>	<u>Debit</u>	<u>Credit</u>
2105	241100	Acc Dep - Service Lines	1,243	
2110	241100	Acc Dep - Gravity Mains	12,901	
2155	241100	Acc Dep - Treatment & Disposal - Lagoons	58	
4105	241100	Acc Amort - Structures and Improvements - Lift Station	2,009	
4265	241100	Acc Amort - Treatment & Disposal Equipment - Lagoons	49	
6660	241100	Dep Exp - Structures & Improvements - Lift Station	6,128	
7275	241100	Amort Exp - Service Lines	849	
2055	241100	Acc Dep - Structures & Improvements - Lift Station		6,128
4150	241100	Acc Amort - Service Lines		849
6710	241100	Dep Exp - Service Lines		1,243
6715	241100	Dep Exp - Gravity Mains		12,901
6760	241100	Dep Exp - Treatment & Disposal - Lagoons		58
7255	241100	Amort Exp - Structures and Improvements - Lift Station		2,009
7325	241100	Amort Exp - Treatment & Disposal Equipment - Lagoons		49

Effect on Filing

Acc Dep	should be increased by	1,517	debit
Acc Amort - CIAC	should be increased by	1,209	debit
Dep Exp	should be decreased by	(8,074)	credit
Amort Exp - CIAC	should be increased by	(1,209)	credit

Audit Finding No. 2

Incorrect Depreciation Rates on UPIS Rolled Forward Through 2007 (Entry 3)

Object A/C	Business Unit	Description	(a) 2007 Plant/CIAC Balance	(b) Amortization Rate	(c) Annual Depreciation/Amortization	(d) Depreciation/Amortization Booked	(e) 2007 Adjustment	
(1)	2055	241100	Acc Dep - Structures and Improvements - Lift Station	914,586	4.00%	(36,583)	(30,456)	(6,128) credit
(2)	2105	241100	Acc Dep - Service Lines	177,588	2.63%	(4,671)	(5,914)	1,243 debit
(3)	2155	241100	Acc Dep - Treatment & Disposal Equipment - Lagoons	2,144	5.56%	(119)	(61)	(58) credit
(4)	4105	241100	Acc Amort - Structures and Improvements - Lift Station (1)	(299,845)	4.00%	11,994	9,985	2,009 debit
(5)	4150	241100	Acc Amort - Service Lines (1)	(121,305)	2.63%	3,190	4,039	(849) credit
(6)	4265	241100	Acc Amort - Treatment & Disposal Equipment - Lagoons (1)	(1,822)	5.56%	101	52	49 debit

Object A/C	Business Unit	Description	(a) 2006 Plant/CIAC Balance	(b) Amortization Rate	(c) Annual Depreciation/Amortization	(d) Depreciation/Amortization Booked	(e) 2006 Adjustment	
(7)	2055	241100	Acc Dep - Structures and Improvements - Lift Station	909,987	4.00%	(36,399)	(30,303)	(6,097)
(8)	2105	241100	Acc Dep - Service Lines	175,774	2.63%	(4,623)	(5,853)	1,230
(9)	2155	241100	Acc Dep - Treatment & Disposal Equipment - Lagoons	2,144	5.56%	(119)	(61)	(58)
(10)	4105	241100	Acc Amort - Structures and Improvements - Lift Station (1)	(299,845)	4.00%	11,994	9,985	2,009
(11)	4150	241100	Acc Amort - Service Lines (1)	(121,305)	2.63%	3,190	4,039	(849)
(12)	4265	241100	Acc Amort - Treatment & Disposal Equipment - Lagoons (1)	(1,822)	5.56%	101	52	49

Averaging Adjustment For Filing

Object A/C	Business Unit	Description	(a) A/D Adjustment at 2006	(b) A/D Adjustment at 2007	(c) Simple Average Adjustment	
(13)	2055	241100	Acc Dep - Structures and Improvements - Lift Station	(6,097)	(6,128)	(6,112)
(14)	2105	241100	Acc Dep - Service Lines	1,230	1,243	1,237
(15)	2155	241100	Acc Dep - Treatment & Disposal Equipment - Lagoons	(58)	(58)	(58)
(16)	2110	241100	Acc Dep - Gravity Mains	-	12,901	6,451

Object A/C	Business Unit	Description	(a) A/A Adjustment at 2006	(b) A/A Adjustment at 2007	(c) Simple Average Adjustment	
(17)	4105	241100	Acc Amort - Structures and Improvements - Lift Station (1)	2,009	2,009	2,009
(18)	4150	241100	Acc Amort - Service Lines (1)	(849)	(849)	(849)
(19)	4265	241100	Acc Amort - Treatment & Disposal Equipment - Lagoons (1)	49	49	49

Notes

- (1) These adjustments would be needed to fix the amortization rates for CIAC as well in the related accounts. These CIAC balances don't take into account the Commission adjustments accounted for in audit finding no. 2. To do so would be double counting.