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August 12, 2002
VIA HAND DELIVERY

Blanca S. Bayo, Director
Division of the Commission Clerk
and Administrative Services
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

Re: Service Management Systems, Inc. f/k/a Aquarina Utilities, Inc.
Application for Transfer; PSC Docket No. 020091-WS
Our File No. 36082.01

Dear Ms. Bayo:

I am writing as a response to the Commission staff audit recently filed in the above-referenced case. After careful review of the audit workpapers and those of the previous audits and Orders involving this company under prior ownership, we have determined that the current audit and auditor have proposed to use different depreciation rates for some plant accounts than were used by the company, or the Commission auditor in the 1996 certificate transfer audit.

In accordance with the Commission rules, the Utility and the previous auditor (1996 certificate transfer case) used the small utility function composite life and depreciation rates for each category of plant as authorized by Commission Rule 25-30.140. The current audit utilizes the specific plant account life for Class "C" utilities under that rule and in one instance, an incorrect rate. I am attaching hereto four schedules which show the difference in accumulated depreciation between the Utility outside accountants' computation and that of the auditor for each operating division.

The first schedule is a comparison showing the differences in rates in the 1996 audit with computations by the Utility's accountants and those as shown in the current audit.

The biggest dollar differences are in wastewater in that the current auditor used an incorrect rate for calculating depreciation on collection sewers - gravity. Apparently, the rate for "collection sewers - force" was used for "collection sewers - gravity." The treatment disposal plant rate which while authorized, is not required of this Utility as noted above. In addition, these rates utilized by the auditor are, contrary to the base rates authorized in the last certificate transfer case and utilized by the auditor in that case. The explanation of each of the differences between the current and prior audits is contained on the attached schedules.

For these reasons, we believe that the small Utility composite depreciable life is allowed under the rule, was previously utilized by the auditor in the 1996 certificate transfer audit, and should be utilized in this case. The auditor in the instant case, while utilizing allowable depreciation rates (except as noted for "collection sewers -gravity"), is incorrect in making wholesale changes to the rates utilized by the Utility which were in accordance with the applicable rules. As such, these adjustments must be rejected. This is a very material adjustment by the auditor, and we believe

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inappropriate under the rules and the circumstances, as well as previous Commission precedent. If the auditors' proposed adjustments herein are rejected and proper adjustments in accordance with the prior Commission findings and the Utility accountants' calculations are accepted, we have no objection to any of the remainder of the Audit Report findings.

Should you have any questions or comments regarding this matter, please do not hesitate to contact me.

Sincerely,

ROSE, SUNDBTROM & BENTLEY, LLP



F. Marshall Deterding
For The Firm

FMD\tms

cc: Robert C. Nixon
James Bates
Marty Sadkin
Robert W. Frazier, Jr., Esquire

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SERVICE MANAGEMENT SYSTEMS, INC.
 COMPARISON OF DEPRECIATION RATES USED IN
 PSC AUDIT VS. UTILITY RECOMPUTATION
 DECEMBER 31, 2001

	1996 PER LAST AUDIT	2001 PER COMPANY	2001 PER AUDITOR	AUDIT ACCUM. DEPR. DIFFERENCE	COMMENTS
<u>POTABLE WATER</u> WELLS & SPRINGS	3.57%	3.57%	3.70%	\$758	CO. USED COMPOSITE RATE FOR SOURCE OF SUPPLY(28 YRS); AUDITOR USED CLASS "C" RATE FOR WELLS (27 YRS.).
PUMPING EQUIPMENT	5.84%	5.00%	5.88%	142	CO. USED COMPOSITE RATE FOR PUMPING PLANT (20 YRS); AUDITOR USED CLASS "C" RATE FOR PUMPING EQUIPMENT (17 YRS.)
SERVICES	2.78%	2.78%	2.86%	73	CO. USED COMPOSITE RATE FOR TRANSMISSION & DISTRIB. PLANT (36 YRS.); AUDITOR USED CLASS "C" RATE FOR SERVICES (35 YRS.).
TOTAL DIFFERENCES IN RATES USED				<u>\$973</u>	
<u>NON - POTABLE WATER</u> STRUCTURES & IMPROVEMENTS	3.57%	3.57%	3.70%	\$751	CO. USED COMPOSITE RATE FOR SOURCE OF SUPPLY (28 YRS) AUDITOR USED 27 YRS SOURCE OF WHICH IS UNKNOWN. NOTE THAT AUDITOR USED 28 YRS. (SAME AS CO.) FOR THIS ACCOUNT IN POTABLE WATER DIVISION. SHOULD BE CONSISTENT.
PUMPING EQUIPMENT	5.88%	5.00%	5.88%	3,300	CO. USED COMPOSITE RATE FOR PUMPING PLANT (20 YRS); AUDITOR USED CLASS "C" RATE FOR PUMPING EQUIPMENT (17 YRS.).
SERVICES	2.78%	2.78%	2.86%	158	CO. USED COMPOSITE RATE FOR TRANSMISSION & DISTRIB. PLANT (36 YRS), AUDITOR USED CLASS "C" RATE FOR SERVICES (35 YRS).
TOTAL DIFFERENCES IN RATES USED				<u>\$4,209</u>	
<u>WASTEWATER</u> STRUCTURES & IMPROVEMENTS	5.55%	2.86%	3.70%	\$788	CO. USED COMPOSITE RATE FOR COLLECTION SYSTEM (35 YRS); AUDITOR USED CLASS "C" RATE FOR STRUCT. & IMPROV.-COLLECT. SYSTEM (27 YRS.- SUB-CATEGORY RATE).
COLLECTION SEWERS - GRAVITY	2.50%	2.50%	3.70%	17,965	CO. USED CLASS "C" RATE FOR GRAVITY SEWERS (40 YRS.); AUDITOR APPARENTLY INCORRECTLY USED CLASS "C" RATE FOR COLLECTION SEWERS - FORCE (27 YRS.).
TREATMENT & DISPOSAL EQUIPMENT	5.55%	5.56%	6.67%	66,485	CO. USED CLASS "C" COMPOSITE RATE FOR TREATMENT & DISPOSAL PLANT (18 YRS), AUDITOR USED CLASS "C" RATE FOR TREATMENT & DISPOSAL EQUIPMENT (15 YRS) CO. RATE IS MORE APPROPRIATE SINCE PLANT INCLUDES TANKS, STRUCTURES, ETC , AS WELL AS EQUIPMENT SUCH AS BLOWERS, PUMPS & MOTORS.
TOTAL DIFFERENCES IN RATES USED				<u>\$85,238</u>	

NOTE: OTHER IMMATERIAL DIFFERENCES EXIST BECAUSE COMPANY COMPUTED DEPRECIATION USING THE HALF-YEAR

CONVENTION, WHILE AUDITOR BEGAN DEPRECIATION IN MONTH OF PLANT ADDITIONS.

SERVICE MANAGEMENT SYSTEMS, INC.
ANALYSIS OF PLANT AND ACCUMULATED DEPRECIATION PER
PSC AUDIT WORKPAPERS
DECEMBER 31,2001

ACCOUNT	POTABLE WATER DESCRIPTION	12/31/1996 PLANT BALANCE PER ORDER	ADDITIONS PER AUDIT	PLANT BALANCE 12/31/2001	12/31/1996 ACCUM. DEPR. BALANCE PER ORDER	PSC DEPR. RATE	YEARS TO 12/31/2001	ADDITIONAL DEPRECIATION SINCE 1997	ACCUM. DEPR. 12/31/2001	STAFF ACCUM. DEPR. 12/31/2001
301	ORGANIZATION	\$1,050		\$1,050	\$367	2.50%	5	\$131	\$498	\$498
304	STRUCTURES & IMPROVEMENTS	15,765		15,765	8,103	3.57%	5	2,814	10,917	10,917
307	WELLS & SPRINGS	116,507		116,507	51,540	3.57%	5	20,796	72,336	73,094
311	PUMPING EQUIPMENT	3,235		3,235	473	5.00%	5	809	1,282	1,424
320	WATER TREATMENT EQUIPMENT	356,506		356,506	205,289	5.88%	5	104,813	310,102	310,102
330	DISTRIBUTION RESERVOIRS									
	1999 ADDITIONS		\$149,932			3.03%	2.5	11,357		
	2000 ADDITIONS		177			3.03%	1.5	8		
			<u>150,109</u>	150,109				<u>11,365</u>	11,365	10,094
331	TRANSMISSION & DISTRIBUTION MAINS	79,919			8,199	2.63%	5	10,509		
	1997 ADDITIONS		32,886			2.63%	4.5	3,892		
	1998 ADDITIONS		2,337			2.63%	3.5	215		
	1999 ADDITIONS		7,463			2.63%	2.5	491		
			<u>42,686</u>	122,605				<u>15,107</u>	23,306	23,750
333	SERVICES	40,238			12,827	2.78%	5	5,593		
	1997 ADDITIONS		11,580			2.78%	4.5	1,449		
	1999 ADDITIONS		430			2.78%	2.5	30		
	2000 ADDITIONS		14,969			2.78%	1.5	624		
	2001 ADDITIONS		114			2.78%	0.5	2		
			<u>27,093</u>	67,331				<u>7,697</u>	20,524	20,597
334	METERS & INSTALLATIONS	3,490			322	5.88%	5	1,026		
	1997 ADDITIONS		821			5.88%	4.5	217		
	1998 ADDITIONS		145			5.88%	3.5	30		
	1999 ADDITIONS		1,594			5.88%	2.5	234		
			<u>2,560</u>	6,050				<u>1,507</u>	1,829	1,847
339	OTHER PLANT & MISC. EQUIPMENT	1,261		1,261	159	5.00%	5	315	474	474
	TOTAL DEPRECIABLE PLANT & ACCUMULATED DEPRECIATION	<u>\$617,971</u>		<u>\$840,419</u>	<u>\$287,279</u>			<u>\$165,356</u>	<u>\$452,635</u>	<u>\$452,797</u>
	TOTAL PER PSC AUDIT			<u>\$840,419</u>					<u>\$452,797</u>	
	DIFFERENCE			<u>-</u>					<u>(\$162)</u>	

SERVICE MANAGEMENT SYSTEMS, INC.
ANALYSIS OF PLANT AND ACCUMULATED DEPRECIATION PER
PSC AUDIT WORKPAPERS
DECEMBER 31,2001

ACCOUNT	NON - POTABLE WATER DESCRIPTION	12/31/1996 PLANT BALANCE PER ORDER	ADDITIONS PER AUDIT	PLANT BALANCE 12/31/2001	12/31/1996 ACCUM. DEPR. BALANCE PER ORDER	PSC DEPR. RATE	YEARS TO 12/31/2001	ADDITIONAL DEPRECIATION SINCE 1997	ACCUM. DEPR. 12/31/2001	STAFF ACCUM. DEPR. 12/31/2001
301	ORGANIZATION	NA		NA	NA			NA	NA	
304	STRUCTURES & IMPROVEMENTS	\$650		\$650	\$35	3.57%	5.0	\$116	\$151	\$151
307	WELLS & SPRINGS	115,430		115,430	51,520	3.57%	5.0	20,604	72,124	72,875
309	SUPPLY MAINS									
	1997 ADDITIONS		25,200	25,200		3.13%	4.5	3,549	3,549	3,478
311	PUMPING EQUIPMENT	45,237		45,237	4,661	5.00%	5.0	11,309	15,970	19,270
320	WATER TREATMENT EQUIPMENT	NA		NA	NA			NA	NA	
330	DISTRIBUTION RESERVOIRS	472,364		472,364	244,177	3.03%	5.0	71,563	315,740	315,740
331	TRANSMISSION & DISTRIBUTION MAINS	69,291			7,305	2.63%	5.0	9,112		
	1997 ADDITIONS		9,165			2.63%	4.5	1,085		
	1999 ADDITIONS		13,175			2.63%	2.5	866		
			<u>22,340</u>	91,631				<u>11,063</u>	18,368	18,526
333	SERVICES	37,574			12,624	2.78%	5.0	5,223		
	1997 ADDITIONS		2,700			2.78%	4.5	338		
	2000 ADDITIONS		8,021			2.78%	1.5	334		
			<u>10,721</u>	48,295				<u>5,895</u>	18,519	18,568
334	METERS & INSTALLATIONS	34,719			7,855	5.88%	5.0	10,207		
	1997 ADDITIONS		374			5.88%	4.5	99		
	1999 ADDITIONS		252			5.88%	3.5	52		
	2000 ADDITIONS		114			5.88%	2.5	17		
			<u>740</u>	35,459				<u>10,375</u>	18,230	18,198
335	HYDRANTS	3,100				2.50%	5.0	388		
	1997 ADDITIONS		6,950	10,050	152	2.50%	4.5	782		
								<u>1,169</u>	<u>1,321</u>	<u>722</u>
	TOTAL DEPRECIABLE PLANT & ACCUMULATED DEPRECIATION	<u>\$778,365</u>	<u>\$40,751</u>	<u>\$844,316</u>	<u>\$328,329</u>			<u>\$141,207</u>	<u>\$462,652</u>	<u>\$467,528</u>
	TOTAL PER PSC AUDIT			<u>\$844,316</u>					<u>\$467,528</u>	
	DIFFERENCE			<u>-</u>					<u>(\$4,876)</u>	

SERVICE MANAGEMENT SYSTEMS, INC.
ANALYSIS OF PLANT AND ACCUMULATED DEPRECIATION PER
PSC AUDIT WORKPAPERS
DECEMBER 31,2001

ACCOUNT	WASTEWATER DESCRIPTION	12/31/1996 PLANT BALANCE PER ORDER	ADDITIONS PER AUDIT	PLANT BALANCE 12/31/2001	12/31/1996 ACCUM. DEPR. BALANCE PER ORDER	PSC DEPR. RATE	YEARS TO 12/31/2001	ADDITIONAL DEPRECIATION SINCE 1997	ACCUM. DEPR. 12/31/2001	STAFF ACCUM. DEPR. 12/31/2001
351	ORGANIZATION	\$1,050		\$1,050	\$460	2.50%	5.0	\$131	\$591	\$591
354	STRUCTURES & IMPROVEMENTS	18,769		18,769	9,866	2.86%	5.0	2,684	12,550	13,338
360	COLLECTION SYSTEM	158,142				3.70%	5.0	29,256		
	1997 ADDITIONS		\$879			3.70%	4.5	146		
	1998 ADDITIONS		2,337			3.70%	3.5	303		
			<u>3,216</u>	161,358	52,308			<u>29,705</u>	82,013	82,008
361	COLLECTION SEWERS - GRAVITY	299,413								
	1997 ADDITIONS		0	299,413	14,329	2.50%	5.0	37,427	51,756	69,721
363	SERVICES	122,927				2.86%	5.0	17,579		
	1997 ADDITIONS		14,527			2.86%	4.5	1,870		
	1999 ADDITIONS		16,817			2.86%	2.5	1,202		
	2000 ADDITIONS		13,990			2.86%	1.5	600		
	2001 ADDITIONS		114			2.86%	0.5	2		
			<u>45,448</u>	168,375	43,221			<u>21,252</u>	64,473	64,382
371	PUMPING EQUIPMENT	2,094		2,094	181	5.56%	5.0	582	763	762
380	TREATMENT EQUIPMENT	1,187,905				5.56%	5.0	330,238		
	1998 ADDITIONS		9,578			5.56%	3.5	1,864		
	2000 ADDITIONS		4,211			5.56%	1.5	351		
			<u>13,789</u>	1,201,694	821,161			<u>332,453</u>	1,153,614	1,220,099
382	OUTFALL SEWER LINES	144,908		144,908	94,147	3.33%	5.0	24,127	118,274	118,274
389	OTHER PLANT & MISCELLANEOUS EQ.	909			214	6.66%	5.0	303		
	1997 ADDITIONS		3,449	4,358		6.66%	4.5	1,034		
								<u>1,336</u>	1,550	752
	TOTAL DEPRECIABLE PLANT & ACCUMULATED DEPRECIATION	<u>\$1,936,117</u>	<u>\$62,453</u>	<u>\$2,002,019</u>	<u>\$1,035,887</u>			<u>\$449,698</u>	<u>\$1,485,585</u>	<u>\$1,569,927</u>
	TOTAL PER PSC AUDIT			<u>\$2,002,019</u>					<u>\$1,569,927</u>	
	DIFFERENCE			<u>-</u>					<u>(\$84,342)</u>	