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March 20, 1997

VIA FEDERAL EXPRESS

Public Service Commission
2540 Shumard Oak Boulevard
Capital Circle Office Center
Tallahassee, FL 32399-0864

RE: Docket No. 961434-WS - Application for Staff Assisted Rate Case in Clay County by Point Water & Sewer, Inc.

Dear Sir or Madam:

The applicant, Point Water & Sewer, Inc. (hereinafter referred to as "PWS"), its accountants, and the undersigned, have had the opportunity to review the Audit Report for the period ending December 31, 1996 (Audit Control No. 96-365-1-1) and the Engineering Report. At this time, we would like to give you our responses to various facts and conclusions contained within the Audit Report and Engineering Report. We will respond item by item as set forth in the Audit Report and Engineering Report.

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AUDIT REPORT

AUDIT EXCEPTION NO. 1

On Page 3 of the Report, the auditor indicated that the books and records of PWS were not in substantial compliance with NARUC. PWS will modify the books and records to be in compliance with NARUC. This should be accomplished by April, 1997.

AUDIT EXCEPTION NO. 2

On Page 4 of the Report, the auditor indicated that in 1995 IGR transferred the system to John Yonge and Patrick Carr in exchange for a promissory note in the amount of $100,000.00. This should be corrected to reflect that on or about September 7, 1995, IGR, Inc. transferred its interest in the subject facilities, including easements and contractual rights to PWS. Nothing was transferred to Mr. John Yonge or Mr. Patrick Carr in their individual capacities. It should be further noted that PWS was incorporated on or about September 7, 1995, not August, 1995, as indicated in the Report. It should be further noted that Mr. Carr and Mr. Yonge are the individual and equal shareholders of PWS, a Florida corporation.

AUDIT EXCEPTION NO. 3

On Page 6 of the Report regarding "Revenue", the difference noted of $12,229.97 is the difference between one year of billings to Point Water & Sewer Property Owner's Association and the actual amount received. Billings for the Point Property Owners Association, Inc. (hereinafter referred to as the "PPOA") were $3,000.00 per month times 12 months. This equals $36,000.00. During 1996 there were two receipts from the PPOA and they totaled $23,770.03. Whitney's Marina paid $3,600.00 in 1996.

AUDIT EXCEPTION NO. 4

On Page 7, the Report indicates that there were invoices for chemicals for a total of $6,961.00 and the amount expenses on the general ledger is $8,517.00. The contract labor for Frank Wyn was denied in the amount of $140.00 because an invoice could not be produced.

The difference in chemicals amounts paid to Coastal Utilities is **not correct.** The total actually paid to Coastal Utilities during 1996 is $14,517.00. This corresponds to total invoices billed totaling $14,336.00.

PWS overpaid as follows: On invoice #230, the invoice amount was $2,454.00. The utility paid $2,550.00 or $96.00 extra. On invoice #232, the invoice was for $1,115.00 and the utility paid $1,200.00 or $85.00 extra. The total overpayment was $181.00 (the difference between $14,517.00 and $14,336.00).

The auditor may have overlooked part of invoice #229, which notes on the line that says "outstanding balance" (inc. gear drive & solids pump out $1,003.00). Of this total, $700.00 was paid on June 27, 1996 by check #5030 and the balance due was $303.00 as the invoice indicated on that line.

The total paid to Coastal includes a monthly charge of $550.00 for the service technician. Of the total $14,517.00 paid $6,600.00 is applicable to the service technician. The total on the general ledger is $8,517.00 or an overstatement of $600.00. This occurred because the August 14, 1996 payment to Coastal by check #1261 included two months of invoices and $550.00 of service technician fee included was charged to chemicals instead of the technician account inadvertently. The balance of the $600.00 difference comes from check #1291 on December 19, 1996 where only $500.00 was charged to the technician and $665.00 to chemicals. The chemicals were overstated by the $50.00 which should have been charged to the technician account. Therefore, in order to correct these amounts the entry should be:

	Debit	Credit
Contract Service - Service Technician	$600.00	
Chemicals		$600.00

(To correctly reclassify technician services charged to chemicals in error). This will correct Audit Exception No. 4 and will also take care of Audit Exception No. 7.

AUDIT EXCEPTION NO. 7

On Page 10 of the Audit Report pertaining to "Service Technician Services", please see response to Audit Exception No. 4 above. The credit should be to chemicals and not to accounts payable.

AUDIT EXCEPTION NO. 9

Invoices should be included from Cox & Reynolds for the **work performed in 1996**, relating to the PSC, including, but not limited to, the November 1, 1996, December 1, 1996 and January 1, 1997 statements in the amounts of $4,802.50, $3,239.00 and $2,281.57, respectively, for a total of $10,323.07.

AUDIT EXCEPTION NO. 10

On Page 13 of the Report, staff calculated accumulated depreciation for the water and wastewater facility. This calculation is based on accumulating depreciation from 1980 through December 31, 1996. No consideration is given to the fact that PWS acquired the facility in 1995 for $100,000.00, which is its cost-basis in the facility and the amount it must repay with interest. In addition, Clay County assessed the equipment as having a value of $67,000.00 in 1996 for the purpose of personal property tax. PWS contends that the cost-basis on the plant for the purpose of future depreciation, should be its cost-basis and/or fair market value, to wit: $100,000.00.

The $100,000.00 price includes not only the actual equipment (pumps, tanks, electrical panels, wiring and all other tangible items that comprise the water system and sewer system), but all collection and distribution lines, all easements, all contractual rights and all other tangible and intangible assets that comprise the two plants and the systems. This price is comprehensive while the tax assessment of $67,000.00 only covers the personal property and excludes the value of the easement's distribution and collection lines, etc.

It would appear that the failure to give PWS credit for the price it paid for the facility amounts to taking these assets from PWS without compensation by the government. This raises some significant constitutional issues.

AUDIT EXCEPTION NO. 12

On Page 16 of the Audit Report pertaining to "Additional Taxes and Licenses", the regulatory assessment fees of $1,782.00 are based on "billed" fees totaling $39,600.00 for 1996 (4.5% of gross fees is the $1,782.00). However, the PPOA refused to pay this amount and we were previously advised by Jacqueline Gilchrist with the PSC that we would only pay a regulatory fee on receipts after PWS was notified it had to file an application for certification was filed, to wit: July 22, 1996. It should be noted that no money was received from the PPOA until December, 1996. The total amount of revenues from customers in 1996 was $27,370.03, of which approximately $25,570.03 was received after July 22, 1996.

The personal property taxes were paid on January 24, 1997 by check No. 1303. The actual paid was $1,314.72, so this should be reflected in the entry. The entry should be as follows:

	Debit	Credit
Regulatory assessment fees	$1,782.00	
Personal Property Taxes	$1,314.72	
Accounts Payable		$3,096.72

AUDIT DISCLOSURE NO. 1

Audit Disclosure No. 1 on Page 17 addresses the issue of the Land. The Audit relies upon the title search that was done by the PPOA and does include an independent title search. Assuming arguendo, that the land on which the water plant is located belongs 100% to the PPOA, then PWS has still satisfied its duty to provide a suitable legal interest in the subject land upon which the plant is located since it is the assignee of a written easement that runs with the land in perpetuity.

Administrative Rule 25-30.034(e) provides that the utility must show that its is either the owner of the land, has a long-term lease of the land, or has some other type of legal interest in the land which would provide for continuous use. It also provides: **"The Commission may consider a written easement or other cost-effective alternative."** In this case, PWS has a written easement that runs with the land. Accordingly, its interest with an easement is superior to a 99-year lease since it lasts forever.

Reference is made to Order No. 13796, Docket 830558-WS, issued on October 22, 1984. A review of that Order indicates that in that case, the utility had no interest in the land whatsoever and had not demonstrated that it had the ability to provide continuous future service on the land. The statement that "a 99-year lease or longer is required" seems to go beyond the facts and conclusions of that Order and is expressly contrary to the written text of 25-30.034.

AUDIT DISCLOSURE NO. 2

Audit Disclosure No. 2 on Page 19 addresses "Rate Case Expenses." Reference is made that the estimated total of accountant's fees to be billed through the conclusion of the Audit will be $9,000.00. Staff has not made any adjustment to include these costs in the attached schedules. A certain percentage of that money should be allocated toward the rate case since it is undisputed that the accountant expended time that was directly related to assisting the PSC in conducting its audit, etc.

The total amount of billings for the PWS' accountant, Emma Pfister, through February 28, 1997 was $4,750.47. Of this total, $1,453.50 is a current expense for setting up books and generating trial balances. $3,296.47 is for the SARC. Additional estimated billings will be $3,100.00 for the SARC and $1,480.00 for the Regulatory Assessment Fee Return.

These costs should all be accrued and credited to Accounts Payable as follows:

	Debit	Credit
Professional Fees	$,1453.50	
Rate Case Expense	$1,599.24	
Deferred Rate Case Expense	$4,797.73	
Professional Fees	$1,480.00	
Accounts Payable		$9,330.47

Ms. Emma Pfister previously wrote the PSC and indicated that annual accountant's fees of $1,500.00 would be incurred in the future. However, in light of the estimate of $1,480.00 for the annual regulatory assessment fee return this number should be carefully evaluated as being too low.

AUDIT DISCLOSURE NO. 4

Audit Disclosure No. 4 on Page 22 deals with the issue of property insurance. The auditor concludes that $35,000.00 of property insurance might be a more "realistic" number. However, this opinion fails to address the reason for the insurance in the first place. The purpose of the property insurance is to replace the subject facility in case of loss from storm, wind, hurricane, fire, etc. If that were the case, then PWS would need to have **replacement insurance,** which would provide the monies to replace the entire facility if it was destroyed. PWS estimated that cost of replacement at $100,000.00. The Clay County Property Appraiser has valued the equipment at $67,000.00 on its tax rolls. The amount of $35,000.00 represents what the PSC has calculated as the depreciated amount and does not represent the fair market value or the replacement cost. Obviously, if the facility was destroyed, $35,000.00 would be woefully insufficient to replace the facility and place it back in operation. Therefore, property insurance should be in an amount necessary to cover the anticipated loss. Insurance law requires property to be insured for its value, otherwise, the insured becomes a co-insurer and is not fully protected.

AUDIT DISCLOSURE NO. 5

On Page 23, Disclosure No. 5 addresses the issue of "Unrecorded Expenses."

PWS has set forth various expenses which have not been incurred but will be necessary expenses in the future. Three of these expenses are dealt with in the Audit Disclosure Report.

The first subject of discussion is the general liability insurance policy. It should be noted that the Audit Report does not properly describe this insurance policy. The proposed policy is more than a "general liability insurance policy" since it is also provides **environmental impact coverage** which is difficult to get and expensive. This plant had a prior incident during the period of time that it was operated by the PPOA, wherein, chlorine was improperly discharged in the St. John's River resulting in an EPA fine. Because of concerns regarding potential environmental problems, it is necessary and reasonable to have the environmental impact coverage, in spite of the fact that it is expensive and difficult to acquire.

At present, **no one** has offered similar insurance coverage at a lower price. Although the auditor concludes that "general liability insurance" seems high considering the size of the company, it fails to set forth any alternative that is less expensive while providing similar coverage.

As to the need for an office, PWS has not previously incurred office expenses, however, it is PWS' understanding of certain rules and requirements of the PSC, that books and records need to be maintained and available for inspection in an office and therefore it will be necessary for PWS to have an office at some point. (See, Rule 25-30.11026; Audit Exception No. 2). It will also be necessary for PWS to have some type of phone service to communicate and it would probably include some type of voice mail system, as well as a phone line. No statement is made regarding this issue.

Other unreported monthly expenses which need to be addressed are: Administrative ($190.00); bank charges ($12.00); equipment replacement ($1,111.11); interest ($796.67); medical insurance ($200.00); organizational fees ($41.66), and payroll taxes ($66.66) (See Exhibits C-1-A and C-1-B to Application for Original Certificate).

AUDIT DISCLOSURE NO. 7

In Audit Disclosure No. 7, the subject of professional fees is once again discussed. The Audit Report incorrectly states that the fees referenced in Audit Disclosure No. 7 relate to a dispute "between Point Water and Sewer, Inc. and the Point Property Owners Association pertaining to a penalty fee imposed by the EPA at the time that the Association was managing the plant." That statement is **incorrect**. The fees relate to litigation that resulted when the PPOA refused to pay for any water services going back to March 1, 1995. When that action was filed, the PPOA filed an action seeking to enforce and enjoin PWS from turning the water off. PWS is not presently in litigation with the EPA nor is it subject to the EPA fine which relates to matters in 1992. PWS was not formed until September 7, 1995 as discussed above.

AUDIT DISCLOSURE NO. 8

Audit Disclosure No. 8 addresses the "Management Fee". It should be noted that the mathematical calculation contained in Audit Disclosure No. 8 is **incorrect**. The auditor concluded that Mr. John Yonge was being paid $74.00 an hour. In fact, he is being paid $14.77 per hour. Mr. Yonge indicates that he spends 2.5 hours daily on plant business. This multiplied by 5 days a week (assuming nothing comes up on the weekend) is 12.50 hours per week. 12.50 hours per week times 52 weeks in a year compute to 650 hours per year. $9,600.00 divided by a minimum of 650 hours computes to a rate of $14.77 per hour. The Engineer's Report found the time involved and the rate of compensation to be reasonable.

It should also be noted that the monies paid to John Yonge, the President of PWS, **should** be in the form of wages and social security and Medicare taxes should be added to this amount. He should be issued a W-2, rather than a 1099, since he is an officer/employee of the Corporation. In addition, PWS believes that it would be appropriate to provide him with medical insurance which is estimated to have a cost of approximately $200.00 per month. Because he is an officer/owner, we will seek an exemption from workman's compensation insurance to keep insurance costs down. Accordingly, the medical insurance should provide coverage for injuries at work.

ENGINEERING REPORT

Electrical Power: The PPOA has historically paid for the electricity for the plant since it is the primary customer. According to the Report, the PPOA has recently installed individual power meters. Electricity charges should only be included in the rates if the PPOA intends to charge PWS for same.

Yearly Repairs and Maintenance: The Report estimates $486.00 in annual repairs for the water system and $771.00 in annual repairs for the wastewater system. PWS considers these amounts to be low. Please remember that the two plants are 17 years old and will require frequent repair and maintenance.

Sludge Hauling Service: PWS previously acquired estimates from sludge haulers that the periodic emptying and removal of sludge costs $1,200.00 to $1,500.00 per occurrence, which should occur 1 - 2 times a year. Accordingly, an estimate of $800.00 appears to be low.

Please contact me should you have any questions regarding the above.

Very truly yours,

DOUGLAS H. REYNOLDS

DHR:pdl

cc: Ms. Kathy Johnson, Legal Dept.
Ms. Hillary Kemp, SARC Staff
Ms. Emma Pfister, C.P.A.
Point Water & Sewer