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TIMOTHY DEVLIN, DIRECTOR  
DIVISION OF ECONOMIC REGULATION  
(850) 413-6900

# Public Service Commission

March 10, 2003

Mr. F. Marshall Deterding  
Rose, Sundstrom & Bentley, LLP  
2548 Blairstone Pines Drive  
Tallahassee, Florida 32301

**Re: Docket No. 021228-WS, Application for a Staff Assisted Rate Case by Service Management Systems, inc.**

Dear Mr. Deterding:

This letter is in response to your March 4, 2003, letter regarding rate case expense for the above referenced docket. Rule 25-30.455(1), Florida Administrative Code, specifies that:

If a utility that chooses to utilize the staff assistance option employs outside experts to assist in developing information for staff or to assist in evaluating staff's schedules and conclusions, the reasonable and prudent expense will be recovered through the rates developed by staff.

The purpose of a Staff Assisted Rate Case (SARC) is to assist small water and wastewater utilities in filing for a rate increase. This assistance is meant to avoid the high level of cost associated with filing a traditional file and suspend rate case. Typically the utilities that qualify for staff assistance do not have a customer base large enough to absorb the high level of rate case expense that can accompany a file and suspend rate proceeding. It is staff's opinion that any rate case expense requested pursuant to Rule 25-30.455(1), Florida Administrative Code, should be kept to an absolute minimum. Staff will be very critical of the rate case expense requested and will only recommend such expenses that staff believes are prudent and reasonable.

Regarding the expenses incurred to date on the transfer docket, staff does not believe these are rate case expenses. These expenses were incurred in association with Docket No. 020867-WS, (transfer docket). As such, these expenses should be included as part of the acquisition cost of the utility, not rate case expense. The fact that staff will be using the transfer audit in order to establish rate base does not change the fact that this audit was necessary for completing the transfer. Staff often relies on prior transfer audits and transfer orders to establish rate base, the cost incurred by the utility in evaluating these transfer audits and transfer orders are not rate case expense, they are expenses associated with the transfer.

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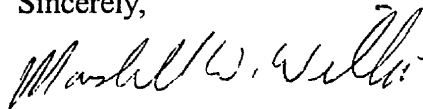
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Mr. F. Marshall Deterding  
Page 2  
March 10, 2003

This letter is intended to provide you with staff's opinions on this matter up front. Staff will make every effort to work with the utility in completing this SARC, as we do with all SARCs. Where disagreements occur, staff will explain to the utility the basis for our opinion. If the utility is not satisfied with staff's opinions, staff will support its position in the recommendation and will provide the utility's position in the recommendation as well so that the Commission can make an informed decision. If the utility wishes to include additional rate case expense, please provide my staff with this documentation at least three weeks prior to the scheduled filing of staff's recommendation. Keep in mind that it will be the burden of the utility to justify that the rate case expense requested is reasonable and prudent pursuant to Rule 25-30.455(1), Florida Administrative Code. The opinions contained in this letter are those of Commission staff and do not bind the Commission's decision on any future vote on this matter.

Sincerely,



Marshall Willis  
Bureau Chief

MW:rf

cc: James Bates, Service Management Systems, Inc.  
Division of Economic Regulation (Rendell, Sargent, Fitch)  
Office of General Counsel (Jaeger)  
Division of Commission Clerk and Administrative Services (021228-WS)