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July 23, 2003

BY HAND DELIVERY

Patricia Merchant
Division of Economic Regulation
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399

Re: Water Management Services, Inc. Limited Proceeding
Docket No. 000694-WU

Dear Trish:

The following information is provided in response to your request that Water Management Services, Inc. (WMSI) provide justification for not being required to post security for the potential refund of any rate increase collected during Phase II of this limited proceeding.

As you will recall, the Phase I order in this proceeding (Order No. PSC-00-2227-PAA-WU) did two things. First, as a PAA Order, it determined the prudence of the construction of certain facilities. Second, as a final order, it approved a temporary Phase I rate increase. The order specifically noted that:

The approved rates collected by the utility shall be subject to true-up upon the implementation of Phase Three rates. We note that no security is necessary for Phase One because the rates are temporary and merely designed to cover the cost to service the debt and because the rates will be trued-up in Phase Three of this limited proceeding. Consequently, our decision not to require security for Phase One rates is limited to the facts of this case and shall not be considered as precedent for future proceedings.

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The company's original petition for limited proceeding filed in June 2000 and the supplemental petition for limited proceeding filed in May 2003 contemplate that both the Phase I and Phase II rates will be "temporary." The company proposed that there would be a "true-up" of any over- or under-collection through a bill credit or surcharge during approximately the first twelve months the final Phase III rates are in effect. The Phase I Order approved this true-up concept, but left the final determination of the precise true-up mechanism until Phase III.

With the true-up requirement in place, there will never be a lump sum refund to customers. Instead, any over-recovery will be returned to customers in the form of reduced rates (through a credit on customer bills) over a Commission-determined period of time. As in Phase I, this true-up mechanism eliminates the need for any security.

Additionally, as discussed with staff during the Phase I proceeding, a requirement to provide security would impair WMSI's ability to service the debt that the limited proceeding rate increases are designed to cover. If, for example, funds were placed into escrow, they would be unavailable to make the required principal and interest payments on the State Revolving Fund loan. This would defeat the entire purpose of the limited proceeding, which was to provide the company a source of funds to finance the facilities required by DOT's decision to construct a new bridge to St. George Island.

I trust that this answers your question. If you need any further information, please do not hesitate to call.

Very truly yours,



Richard D. Melson

RDM/mee

Cc: Blanca Bayo (for docket file)
Adrienne Vining (PSC Office of General Counsel)
Steve Burgess (Office of Public Counsel)
Gene Brown (WMSI)
Frank Seidman