

**Residential Water Systems, Inc.**  
**P.O. Box 5220**  
**Ocala, FL 34478-5220**  
**352-622-4949**

**October 09, 2003**

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

Docket No. 030423-WU

Dear Ms. Bayo,

The following are responses to the letter of September 26, 2003 from Ralph Jaeger, Senior Attorney.

1. As to the Corporations listed in the letter my interest and positions are:

a. Residential Water Systems, Inc.	100%	President
b. MIRA International, Inc.	100%	President
c. BFF Corp.	0%	AVP
d. C.F.A.T. H2o, Inc.	24%	VP
e. Alternative Phone, Inc.	51%	CFO/Chairman
f. Tradewinds Utilities, Inc.	100%	President
g. Lake Weir Yacht Club, Inc. (501-C7)	0%	VP

2. For the years 2002 and 2003 the estimated monthly office hours spent on the above mentioned corporations by deMenzes and Dillon are:

	DeMenzes	Dillon
a. Residential Water Systems, Inc.	130 Hours	129 Hours
b. MIRA International, Inc.	10 Hours	0 Hours
c. BFF Corp.	3 Hours	3 Hours
d. C.F.A.T. H2o, Inc.	3 Hours	6 Hours
e. Alternative Phone, Inc.	3 Hours	0 Hours
f. Tradewinds Utilities, Inc.	130 Hours	38 Hours
g. Lake Weir Yacht Club, Inc. (501-C7)	0 Hours	0 Hours

The above-mentioned hours do not represent non-office hours in which both deMenzes and Dillon are on call 24/7 for emergencies.

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Duties performed by deMenzes:

**Residential Water Systems, Inc.**

- a. Daily coordination with sub-contractor, Bexley Enterprises, regarding upgrading and replacing of 20 year old laterals and meters. This project was started in 2002 and will continue into 2004. Approximately 600 meters and 250 laterals need to be replaced and installed.
- b. Communicating with the Department of Environmental Protection regarding the upgrading of the water plant. The current upgrade is completed and we are waiting for Department of Environmental Protection's clearance approval.
- c. Maintaining Accounting information and posting that conforms to National Association of Regulatory Utility Commissions.
- d. Verify invoices and pay all invoices on a weekly basis.
- e. Post monthly Billing to General Ledger.
- f. Monthly Check Reconciliation.
- g. Handle communication with Customers, Suppliers, Developers and all State Regulatory Agencies.
- h. On Call for Emergencies 24/7.

**MIRA International, Inc.**

- a. Coordinate Payroll, Hospitalization for Employees and Liability and Hazard Insurance for all plant and equipment administered by MIRA International, Inc.
- b. Audit invoicing applicable to the various utility companies, determine classification as to capitalization or expense and tender for payment.
- c. Maintain all Custom Program Software being used by MIRA International, Inc. for the Utility Companies.

**BFF Corp. and C.F.A.T. H2o, Inc.**

- a. Audit, Verify and approve invoices for payment.
- b. Post monthly billing to General Ledger and prepare reports for corporate owner.
- c. Monthly Check Reconciliation.
- d. On Call for Emergencies 24/7.

**Alternative Phone, Inc.**

- a. Audit monthly General Ledger.
- b. Sign Vendor Checks.

**Tradewinds Utilities, Inc.**

- a. Maintaining Accounting information and posting that conforms to National Association of Regulatory Utility Commissions.
  - b. Verify invoices and pay all invoices on a weekly basis.
  - c. Post monthly Billing to General Ledger.
  - d. Monthly Check Reconciliation.
  - e. Handle communication with Customers, Suppliers, Developers and all State Regulatory Agencies.
  - f. On Call for Emergencies 24/7.
3. For Mrs. Dillon see Number 2 above.

Duties performed by Mrs. Dillon

**Residential Water Systems, Inc.**

- a. Schedule maintenance department work orders involving Locates, Leaks, Readings, Cut offs and Turn On's.
- b. Prepare Monthly Meter Reading Schedule, Load Reading Computer, Update Customer database with new readings, execute billing calculations, and determine re-reads, print, stuff and mail monthly bills.
- c. Collect payments daily from Post Office Box, post payments to customer accounts, prepare bank deposit and deliver to bank.
- d. Open New Customer Accounts. Handle Customer Relations.
- e. Work in field with maintenance man when required for safety reasons.
- f. Deliver day labor to field personnel when required.
- g. On Call for Emergencies 24/7.

**BFF Corp and C.F.A.T. H20, Inc.**

- a. Schedule maintenance department work orders involving Locates, Leaks, Readings, Cut offs and Turn On's.
- b. Prepare Monthly Meter Reading Schedule, Load Reading Computer, Update Customer database with new readings, execute billing calculations, and determine re-reads, print, stuff and mail monthly bills.
- c. Weekly posting of payments to Customer Accounts and make Bank Deposits.
- d. Open New Customer Accounts. Handle Customer Relations.

**Tradewinds Utilities, Inc.**

- a. Schedule maintenance department work orders involving Locates, Leaks, Readings, Cut offs and Turn On's.

- b. Prepare Monthly Meter Reading Schedule, Load Reading Computer, Update Customer database with new readings, execute billing calculations, and determine re-reads, print, stuff and mail monthly bills.
  - c. Collect payments daily from Post Office Box, post payments to customer accounts, prepare bank deposit and deliver to bank.
  - d. Open New Customer Accounts. Handle Customer Relations.
  - e. Work in field with maintenance man when required for safety reasons.
  - f. Deliver day labor to field personnel when required.
  - g. On Call for Emergencies 24/7.
4. All the above Corporations except Lake Weir Yacht Club, Inc. transact business from our offices.
5. The utility companies share the Management Employees of RWS. All other services are provided by MIRA International, Inc., which is the Management Company for all utilities.
6. To facilitate ease of operation and other central operational functions involving numerous employee benefit and payroll consolidation, MIRA International, Inc. is the common management company for all entities located at the current address. The entities include the following:
  - a. **Alternative Phone, Inc.** is a Florida Public Service Commission approved local phone reseller. All employees (7) and employee benefits of this company are paid by MIRA International, Inc.
  - b. **BFF Corp, Tradewinds Utilities, Inc.** and **C.F.A.T. H2o, Inc.** are utilities, which have no employees and all management, and operation functions are provided by MIRA International, Inc.
  - c. **Residential Water Systems, Inc.** has two (2) employees and receives the following services as delineated in attachment "A";
    1. Service Department
    2. Facilities Expense
    3. Other Expenses
  - d. **MIRA International, Inc.** has one (1) Officer, Charles deMenzes, a utility maintenance man, Steve Carroll, and seven (7) employees who provide functions for Alternative Phone, Inc. only. MIRA International, Inc. is a conduit entity and not a profit center. Historically, very little profit has been realized in this organization.
7. Since one person who is President of both companies wholly owns RWS and MIRA INTERNATIONAL, INC., a Management agreement was not considered necessary by professional advice.

8. See number 6 above.
9. See number 6 above.
10. See attachment "A"
11. See attachment "A"
12. RWS was charged \$500 per week for management services as shown in attachment "A" which based upon calculations was substantially understated. There has been no change in the weekly charges.
13. The weekly fee of \$500 is a combination admin and management fee.
14. They are A&G costs. See attachment "A".
15. Regarding Health Insurance for Mrs. Dillon
  - a. Annual cost for health insurance is \$5,966.88
  - b. RWS is not charged for Mrs. Dillon's health insurance.
  - c. It is not part of the admin fee.
  - d. No basis.
16. Cost of Hospitalization.
  - a. The total costs of Health Insurance is \$45,320.64 Annually
  - b. The Insurance from Blue Cross and Blue Shield covers 8 employees of which 6 are with Alternative Phone, Inc., One (1) for MIRA International, Inc. (Maintenance Employee) and One (1) are for Utilities (Mrs. Dillon).
  - c. Alternative Phone, Inc. pays \$35,737.44 Annually, and MIRA International, Inc. pays \$9,583.20.
17. See attachment "B" (Insurance Allocation) and "A"
18. The two charges involved were misallocated and should have been charged to miscellaneous general operating expense (postage,etc).
19. Backhoe/loader's had to be rented prior to purchasing our own.
20. Cost of purchasing versus leasing was obviously beneficial to the company as we had a major upgrade in progress. Based on anticipated 2 years of upgrade and meter replacement, we budgeted over \$100,000.00 for the project. In order to accomplish this, we contracted an outside company to remove the old laterals, replace them with chases and new potable water lines per county code and replace the meters as well. Our contract calls for supplying materials and equipment. Equipment required includes a backhoe and bullet and materials include meters,

chases and lines. The bullet was purchased by MIRA International, Inc. at a cost of \$5,000.00. Because of the extensive use of a backhoe, the cost to rent at \$275.00 per day or \$1200.00 per week was obviously extremely expensive and not in the best interest of the company or the Customers.

21. In 2001 we replaced 17 meters and laterals, in 2002 we replaced 73 meters and laterals and From January to September 30, 2003 we replaced 82 meters and laterals. The increase in 2002 and 2003 was a direct result of having our own backhoe and clearly cost effective. See attachment "C" and e-mail Attachment "F".

\*\*\*\*As mentioned in number 20 above, the sum total of our meter/lateral replacement program is a result of prior experience and history of constant leaks due to the original installation of what is called "Thin Walled Blue Polly" which, as it turns out, is not constructed to last over 10 to 15 years. In addition, the meters after 20 years have begun to degrade and are not calculating consumption accurately, which is basically costing RWS lost revenue. The meters that are being installed are "AMR" (Automated Meter Reading) type, which will make meter reading more efficient and accurate. The cost of these meters is over twice what the normal meter would cost. We believe the investment is worthwhile and the installation of laterals is according to Marion county code. The estimated total investment by RWS is calculated to be in excess of \$100,000.00. This amount will obviously be capitalized and increase the rate base to a level that will reduce and erode the earnings level far below what is typically considered adequate for investor owned utilities regulated by the FPSC. This program will not only benefit the utility (new meters, better revenue stream) but the new service laterals will improve the quality of service (and quite possibly the water). **Our records for January 1, 2003 through October 7, 2003 currently reflect an increase in plant accounts of \$70,769.00 (Attachment "G").**

22. See attached rental analysis.
23. Three to four days a week since purchase.
24. None
25. Before RWS all transportation needs were initially provided by MIRA International, Inc. at a greater management fee to RWS.
26. Same tasks as now. Management fees were higher in the past to cover the additional costs.
27. There were no direct charges for transportation charges to RWS as they were included in the management fee from MIRA International, Inc.
28. This vehicle was needed and agreed to by the company President as additional non-taxable compensation for an employee who has been a valuable asset of the

corporation for the last twelve years. In addition, the vehicle in question was determined to be the safest and most appropriate for the intended use.

29. Mrs. Dillon spent time reviewing other options and felt very comfortable with driving the vehicle in question. In addition, RWS does not provide transportation for the President.
30. For the past eighteen months a total of 11,304 miles have been recorded on the vehicle. Substantially all these miles were used for business. Commuting miles are approximately 3 mile a day round trip. The utility pays the lease payment on the vehicle and Mrs. Dillon incurs the cost of Insurance, Maintenance and fuel.
31. See number 30
32. See attachment "D"
33. When the Engineer and its Developers designed Dalton Woods, the lots platted were a minimum of  $\frac{3}{4}$  acre each. The design called for 1" service to allow for lawn irrigation as well as potable water use.
34. These were medical expenses incurred by Mrs. Dillon and paid through a 125-cafeteria employee benefit plan instituted by the company.

Sincerely



Charles deMenzes  
President

	Attachment "A"					
<b>Analysis of Weekly Expense Allocation Attributed to Residential Water Systems, Inc.</b>						
Utility Company	# Water Accts		% Total			
Residential Water	632		47%			
Tradewinds Utilities	498		37%			
CFAT H2o	221		16%			
BFF			0%			
<b>Total Num Accts</b>	<b>1351</b>					
<b>Maintenance Dept</b>	<b>Weekly</b>	<b>Weeks</b>	<b>Monthly</b>	<b>Annual</b>	<b>Weekly</b>	<b>RWS Weekly Portion</b>
Steve Carroll	650.00	54	2,925.00	35,100.00	675.00	
Corp SS				2,685.15	51.64	
Overtime				2,000.00	38.46	
Hospitalization			593.36	7,120.32	136.93	
Workmens Comp				3,500.00	67.31	
Van Insurance			101.00	1,212.00	23.31	
Fuel Avg			350.00	4,200.00	80.77	
<b>Total Service Dept</b>					<b>1,073.41</b>	<b>502.14</b>
<b>Office Expenses</b>						
Mortgage			1,510.00	18,120.00	348.46	
Ocala Utilities			800.00	9,600.00	184.62	
Grounds Maint			250.00	3,000.00	57.69	
Real Estate Taxes				3,800.00	73.08	
Phone Service			250.00	3,000.00	57.69	
Yellow Pages			166.00	1,992.00	38.31	
Janitorial			200.00	2,400.00	46.15	
<b>Total Facilities Exp</b>		<b>RWS @ 6.5%</b>			<b>806.00</b>	<b>56.56</b>
<b>Other Gen Expenses</b>						
Liability & Casualty						
Insurance Coverage				1,503.00	13.52	
Meter Reading				3,792.00	72.92	
Postage				2,806.08	53.96	
Supplies (paper, envelopes)				1,137.60	21.88	
Cell Phones				4,200.00	37.78	
Misc				1,200.00	23.08	
<b>Total Other</b>					<b>223.15</b>	<b>223.15</b>
<b>Total Weekly RWS Liab Charged in 2002</b>						<b>781.85</b>
						<b>500.00</b>
				Annual Shortfall		
<b>Undercharged</b>				<b>14,656.03</b>		<b>281.85</b>



# ATTACHMENT "B"

<b>Insurance Analysis</b>				
<b>System / Area</b>	<b>Deductable</b>	<b>Premium</b>	<b>Company Totals</b>	<b>Weekly Rates</b>
<b>Loc 001</b>				
TWU / Water Plant - bldg 001	\$250.00	\$520.00		
TWU / Three Water Pumps- bldg 002	\$250.00	\$31.00		
TWU / Two Water Tanks - bldg 003	\$250.00	\$9.00		
TWU / Water Tank/Gen/Pumps - bldg 004	\$250.00	\$587.00		
TWU / Liability		\$750.00		
<b>Loc 002 TWU / Sewer Plant - bldg 001</b>				
Loc 002 TWU / Two lift Stations 43rd PL - bldg 002	\$250.00	\$17.00		
Loc 003 TWU / Sewer Lift Station - bldg 001	\$250.00	\$16.00		
Loc 004 TWU / Sewer Lift Station - bldg 001	\$250.00	\$16.00		
Loc 005 TWU / Sewer Lift Station - bldg 001	\$250.00	\$16.00		
Loc 007 TWU / Lift Station 42nd PL - bldg 001	\$250.00	\$16.00		
<b>Loc 008</b>				
TWU / Lift Station 45th ST & 25 Terr - bldg 001	\$250.00	\$16.00		
<b>TWU TOTAL</b>		<b>\$2,134.00</b>	<b>\$2,134.00</b>	<b>\$41.04</b>
<b>Loc 006</b>				
M.I.R.A. / Office 1732 NE 25th Ave	\$500.00	\$713.00		
M.I.R.A. / Office Crime Coverage	\$250.00	\$129.00		
<b>M.I.R.A. TOTAL</b>		<b>\$842.00</b>	<b>\$842.00</b>	<b>\$16.19</b>
<b>Loc 009</b>				
RWS / Utility Plant Bldg - bldg 001	\$250.00	\$242.00		
RWS / Utility Plant Bldg w/ Gen - bldg 002	\$250.00	\$335.00		
RWS / Water Tanks - bldg 004	\$250.00	\$177.00		
RWS / Inland Marine Coverage	\$250.00	\$749.00		
<b>RWS TOTAL</b>		<b>\$1,503.00</b>	<b>\$1,503.00</b>	<b>\$28.90</b>
<b>Loc 010</b>				
CFAT / Sewer Plant - bldg 001	\$250.00	\$217.00		
CFAT / Water Plantw/ Gen. - bldg 002	\$250.00	\$466.00		
CFAT / Lift Station - bldg 003	\$250.00	\$31.00		
<b>CFAT TOTAL</b>		<b>\$714.00</b>	<b>\$714.00</b>	<b>\$13.73</b>
<b>Loc 011</b>				
BFF / 6 sets of 2 lift stations	\$250.00	\$47.00		
<b>BFF TOTAL</b>		<b>\$47.00</b>	<b>\$47.00</b>	<b>\$0.90</b>
<b>Loc 013</b>				
API / Office 1410 NE 8th Ave	\$500.00	\$1,068.00		
API / Outdoor Signs	\$500.00	\$327.00		
API / Liability		\$25.00		
API Inland Marine Coverage EDP	\$250.00	\$425.00		
<b>API TOTAL</b>		<b>\$1,845.00</b>	<b>\$1,845.00</b>	<b>\$35.48</b>
			<b>\$7,085.00</b>	
<b>SURTAX / FL EMER TRUST FUND/ MIN PREM ADJUST</b>			<b>\$23.98</b>	
			<b>\$7,108.98</b>	<b>\$136.71</b>

**ATTACHMENT "C"**

<b>RENTAL COMPANY</b>	<b>Total AMOUNT</b>
BOB PHILLIPS/BULLET	\$ 227.50
ELLZEY PLUMBING	\$ 2,245.71
HAMLET CONSTRUCTION	\$ 300.00
NATIONSRENT	\$ 3,430.73
SUN RAY TRACTOR	\$ 594.76
TAYLOR RENTAL	\$ 372.51
WALTON RENTAL	\$ 388.51
	<b>\$ 7,559.72</b>

<b>Attachment "D"</b>		
<b>2003 RWS Utility Billing Consumptions</b>		
<b>Water by Month</b>		
Jan-03	5,723,041	
Feb-03	5,706,372	
Mar-03	5,139,510	
Apr-03	8,178,980	
May-03	10,286,935	
Jun-03	7,781,448	
Jul-03	7,304,168	
Aug-03	6,726,174	
Sep-03	7,530,135	
<b>Total</b>	<b>64,376,763</b>	

EXHIBIT "E"

Residential Water Systems, Inc.  
P.O. Box 5220  
Ocala, FL 34478

June 26, 2003

To Whom It May Concern:

In 1999 Residential Water Systems, Inc. applied to the Florida PSC for an extension of its franchised area, which was approved in Order No. PSC-99-2248-FOF-WU as of 11/15/1999. The new development known as Dalton Woods, with all  $\frac{3}{4}$  acre lots, was originally projected to build out in 5 to 7 years as the majority of medium to high priced subdivisions have in the past.

What was not expected was a complete sellout of the subdivision in less than 120 days. Construction began in late 2000 with four (4) homes, then in 2001 fifty-three (53) homes and in 2002 forty (40)-homes for a total of 97 homes in two (2) years.

During this construction we were in the midst of upgrading our water plant to handle the projected water demand from the new subdivision as well as bringing the plant up to current capacity code regarding fire flow.

Contractors in the meantime were building furiously and upon completion of each home, they were irrigating the  $\frac{3}{4}$  acre lots in an attempt to complete landscaping and grass (St. Augustine) for marketing purposes.

As a result of the new construction and construction irrigation we experienced a tremendous water demand and unusual income. The average contractor would use 100,000 to 150,000 gallons of water per month once the landscaping was installed. Once the vegetation took hold, the contractor would reduce usage accordingly. Our water demand this year has reduced significantly now that homeowners are maintaining their own property as our monthly accounting reports for 2003 currently reflect.

Please take this into consideration in calculating future income and expense levels.

Sincerely,

Charles deMenzes  
President

# ATTACHMENT "F"

Charles DeMenzes

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To: cwinston@psc.state.fl.us  
Subject: Meters

Contacts: Charles Winston

The following are meter replacements or additions in:

	2001		2002		2003	
	5/8"	1"	5/8"	1"	5/8"	1"
Jan		3		6	11	
Feb	1	4	2	1	3	1
Mar	1	1	1	5	5	2
Apr		1	1	1	11	
May		7	2	4	5	4
Jun	2	2	11	3	18	1
Jul	1	11	17	6	8	3
Aug		5	8	7	6	2
Sep	7	11	12	1	7	
Oct		3	5	6		
Nov	5	6	6	2		
Dec		2	8	1		
	<u>17</u>	<u>56</u>	<u>73</u>	<u>43</u>	<u>82</u>	<u>13</u>
	Rep	Add	Rep	Add	Rep	Add

# ATTACHMENT "G"

UTILITY NAME: RESIDENTIAL WATER SYSTEMS, INC. 59-23930

YEAR OF REPORT 10/07/2003
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## WATER UTILITY PLANT ACCOUNTS

ACCT. NO. (a)	ACCOUNT DESCRIPTION (b)	PREVIOUS YEAR (c)	ADDITIONS (d)	DELETIONS (e)	CURRENT YEAR (f)
301	FRANCHISES AMORT 4 YEARS	400	0	0	400
304	STRUCTURES AND IMPROVEMENTS	43,366	1,610	0	44,976
310	POWER GENERATION EQUIPMENT	32,588	0	0	32,588
311	PUMPING EQUIPMENT	47,374	39,906	0	87,280
320	WATER TREATMENT EQUIPMENT	89,714	0	0	89,714
330	DISTRIBUTION RESERVOIR AND STANDPIPES	173,719	0	0	173,719
331	TRANSMISSION AND DISTRIBUTION MAINS	198,553	0	0	198,553
333	SERVICES	26,115	8,175	0	34,290
334	METERS AND METER INSTALLATIONS	42,705	21,078	0	63,783
335	HYDRANTS	14,500	0	0	14,500
339	OTHER TANGIBLE PLANT AND MISC EQUIPME	4,920	0	0	4,920
340	OFFICE FURNITURE AND EQUIPMENT	27,985	0	1,976	26,009
	TOTALS .....	\$ 701,939	70,769	1,976	770,732