

UTILITIES, INC.

ORIGINAL

3333 Sanders Road  
Northbrook, Illinois 60062-6196  
Atlanta 847-498-6420  
Fairfax 847-498-3066

NOV 20 1998

November 25, 1998

Ms. Blanco S. Bayo, Director  
Division of Records and Reporting  
Florida Public Service Commission  
2540 Shumard Oak Blvd.  
Tallahassee, FL 32399-0850

RE: **Docket No. 981403-WS**  
Application for Transfer of Certificate Nos. 469-W and 358-S from Bayside Utilities, Inc. to Bayside Utility Services, Inc. in Bay County Florida.

Dear Ms. Bayo:

This letter is in response to a letter recently received from Mr. Tarver A. Kitchens, Mr. Jim Wharton and Mr. Jerry Austin, representing the Bayside Homeowners Association. In their letter, Messrs. Kitchens, Wharton and Austin express concerns about several issues regarding the proposed transfer of the Bayside Utilities, Inc. ("Bayside") water and sewer system. I have outlined their concerns and our responses below:

Improve water and sewer service

Water supply and waste treatment are purchased from the City of Panama City Beach. It is my understanding that DEP has no citations or corrective orders pending against the City of Panama City Beach. Earlier this year however, a public hearing was held in conjunction with Bayside's rate case (Docket No. 971401-WS). The operational concerns expressed by the customers at the hearing were investigated and the Commission concluded that the utility's quality of service was satisfactory.

ACK \_\_\_\_\_

AFA \_\_\_\_\_

APD \_\_\_\_\_

CAF \_\_\_\_\_

CMR \_\_\_\_\_

CTB \_\_\_\_\_

EAF \_\_\_\_\_

LF: + \_\_\_\_\_

LI: \_\_\_\_\_

O: \_\_\_\_\_

R: \_\_\_\_\_

SEC \_\_\_\_\_

WAS \_\_\_\_\_

DTH \_\_\_\_\_

However, it is our belief that the operation and maintenance of the facility will be improved by applying our ownership philosophy to the Bayside facility. The foundation of our ownership philosophy is to provide excellent utility service in the most efficient manner possible. To achieve this goal, our facilities are operated and maintained with diligent adherence to routine and preventative maintenance practices. Additionally, our certified operating personnel have hands-on experience with the varied types of Utilities, Inc. facilities. This enhances our ability to achieve economies of scale and broadens the base of knowledge of our staff.

Utilities, Inc. personnel would be pleased to meet with the Homeowners Association representatives to discuss these operational or quality of service issues in more detail.

SEC  
WAS Beady  
DTH

DOCUMENT # NOV-DATE

13394 NOV 30 98

FPCO-8510877 AND PENDING

Bayo  
November 25, 1998  
page 2

Raise or lower rates - now or in the future

Utilities, Inc. has no plans to file a rate case. The rates approved in Docket No. 971401-WS will decrease in approximately four years as the result of fully recovered rate case expenses.

It is our practice to utilize the PSC's annual inflation index rate adjustment rule. This practice allows rates to keep pace with minor cost increases without having to incur the expense associated with a litigated rate case.

Expansion

Utilities, Inc. has no expansion plans at this time. If and when Utilities, Inc. desires to expand its service area, PSC approval is required. The approval process for expanding includes the opportunity for public input. This provides the customers with a safeguard against imprudent expansion.

Eliminate debt burden - manifested in high base facility charges

Based upon a review of the PAA order in Docket No. 971401-WS, it does appear that the Bayside water and sewer system has been financed primarily by debt. It appears that the overall cost of that debt is just under 10%.

Historically, Utilities, Inc. has maintained a capital structure of approximately 55% debt and 45% equity. Currently, our embedded cost of debt is under 9%.

Over time, the Bayside customers will benefit from Utilities, Inc.'s access to lower cost capital funds.

Lower operation and maintenance costs - producing lower rates

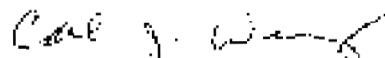
Under the current cost structure, approximately 45% of the operating expenses of the water and sewer system are associated with the purchase of bulk services from Panama City Beach. Consequently, our ability to achieve efficiencies is limited to the remaining 55% of operating expenses.

Our ability to achieve greater economies of scale will result in lower rates than otherwise could be achieved under the current ownership. At this juncture, I am unable to predict if our achieved efficiencies will produce a rate reduction in the future.

Again, we would be pleased to meet with the Bayside Homeowners Association to discuss their concerns.

If you have any questions, please contact me directly.

Respectfully submitted,



Carl J. Wenz  
Vice President, Regulatory Matters

cc: Mr. Ben Girtman  
Mr. Carver Kitchens