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December 27, 2002
VIA HAND DELIVERY

Ralph Jaeger, Esquire
Division of Legal Services
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399

Re: Sun Communities Finance LLC d/b/a Water Oak Utility
PSC Docket No. 010087-WS; Application for Approval of Reuse Plan
Our File No. 33013.01

Dear Ralph:

On October 23 and in a follow up letter dated November 4, I filed the response of Sun Communities Finance LLC d/b/a Water Oak Utility to the Commission's recent audit report. The purpose of that audit report was to determine the earnings level of the utility during the calendar year 2001 and on a going forward basis in order to analyze the need for continuing escrows of money based on alleged overearnings as determined by the Commission by Order No. PSC-00-1165-PAA-WS. As you will recall that Order required the utility to hold monies subject to refund in the event the utility overearned so that those monies could be applied to the required conservation measures under that order or to a new reuse plan.

At the time of the Agenda conference at which the decision was made to require this escrowing of monies, I informed the Commission that the utility did not believe that it would overearn on a going forward basis. The staff assured me at that Agenda conference that they would take into consideration any changes in the earnings level of the utility in determining how much of these funds should be held subject to refund and what, if any, should be applied to CIAC for the reuse system and conservation measures.

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Ralph Jaeger, Esq.
December 27, 2002
Page 2

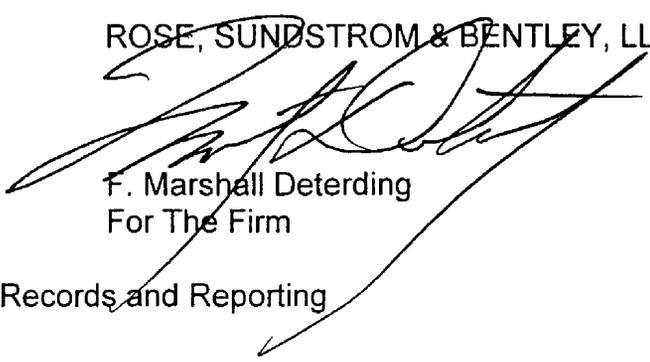
Now with the Commission's own audit of the calendar year 2001 and the results thereof being applied to calendar year 2002 and on a going forward basis, it is apparent from the Audit, even before the adjustments which we have proposed, that the utility is not in an overearnings situation, but in fact is in a significant underearnings situation. As such, in my letter of October 23, 2002 to Gerald Edwards, I asked that the Commission take action to eliminate the requirement that the utility escrow monies and to release all monies held in escrow with the exception of \$6,000 which the utility was willing to assume constituted overearnings in the year 2000 (even though the requirement to hold monies subject to refund did not come into effect until after the middle of that year). Please see my letter to Gerald Edwards under Item No. 1, a copy of which is attached for your ready reference.

It has now been almost two months since the filing of the response to the Audit and given the findings of that Audit, we believe that it is appropriate for the Commission to move forward to eliminate the required escrow and to allow the utility full access to these monies to pay for the cost of operations.

If you or any member of staff have any questions in this regard, please let me know. Otherwise, the utility is in need of these funds as quickly as possible in order to fully pay for operations of the water and sewer systems.

Sincerely,

ROSE, SUNDBSTROM & BENTLEY, LLP



F. Marshall Deterding
For The Firm

FMD/jmt

cc: Blanca Bayo, Divisions of Records and Reporting
Gerald Edwards
Mr. Ryan Fitch
Mr. Troy Rendell
Marshall Willis, CPA
Brian Fannon
Mary Petrella
Gabriele Umbel
Gary Morse, P.E.
Robert C. Nixon, CPA
Julian Coto, P.E.

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October 23, 2002
VIA HAND DELIVERY

Gerald Edwards
Division of Economic Regulation
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399

Re: Sun Communities Finance LLC d/b/a Water Oak Utility
PSC Docket No. 010087-WS; Application for Approval of Reuse Plan
Our File No. 33013.01

Dear Gerald:

Outlined below are the comments of Sun Communities Finance, LLC d/b/a Water Oak Utility to the recently issued Audit Report in the above-referenced docket. These are categorized by audit exception or disclosure from the audit.

Please note that there are several responses that request additional information so that the Utility can fully analyze the audit exception or disclosure from the audit. I would appreciate your seeing to it that we obtain the additional information requested as quickly as possible.

1. Response to Audit Exception No. 4 - For the calendar year ended December 31, 2001 the Company deferred \$40,018 of wastewater revenue as required by PSC Order No. PSC-00-1165-PAA-WS. As a result of this required deferral, the Company does not agree that operating revenues were understated in the general ledger except for the impact of the \$4,141 audit adjustment to general service revenue.

The Company decreased operating revenues by 23.07% and deferred these revenues for the year ended December 31, 2001 in the same manner as shown on Schedule No. 3, Page 2 of 2 (Page 84) in the Order referenced above. Also on that schedule, regulatory assessment fees were decreased related to the revenue deferred, thereby suggesting it was the Commission's intent these revenues not be subject to such fees. If the Commission

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FLORIDA PUBLIC SERVICE COMMISSION

determines that the Utility has over earned during the period these revenues were required to be deferred, and as such, determines that some portion of these revenues must be treated as CIAC, then the deferred revenue provision should be reduced for the imbedded RAFs, to the extent those are required to be paid on this revenue. To the extent the Utility has not over earned, these monies should be released to pay for the normal operating expenses of the Utility immediately. Based upon the audit, none of the revenues deferred during 2001 should be considered as CIAC and all of those revenues should be released to the Utility, since there are no over earnings during that period. Once that is done, RAFs should be paid on these revenues.

For the last five months of the calendar year 2000, the Utility had a substantial loss in wastewater operations, and water system over earnings of only approximately \$6,000 for the entire year, even though the Order requiring deferral of revenue did not take effect until July or August of 2000. In order to err on the side of being conservative, the Utility would propose to book that \$6,000 to CIAC to be applied toward the Reuse Project Plan on the wastewater system, and to discontinue deferral of any further revenues because of the under earnings experienced by the Utility in all periods during which the deferral was effective and the expected continuation of this deficit into the future for both the water and wastewater systems.

2. Response to Audit Exception No. 5 - The auditors propose to write off \$489 and \$1,441 of water and wastewater expenses respectively, related to the potential sale of Utility assets. For the test year, the Company wrote off all expenditures related to the planned sale of the Utility to the City of Lady Lake as non-utility expense. The Company would like to obtain and review the invoices related to staff's proposed adjustment for these additional write-offs, prior to agreeing with this exception.

3. Response to Audit Exception No. 6 - Based on Document/Record Request Nos. 11, 12, 17 and 19, the Utility provided the auditors with information related to calendar year 2001 conservation expenditures:

Meter replacements	\$	12,451
Conservation expenses		<u>25,668</u>
Total per Company	\$	<u>38,119</u>
Expenses per audit	\$	<u>26,208</u>
Difference	\$	<u>11,911</u>

The Utility believes that all reported conservation expenditures were appropriate and comply with the requirements of Order No. PSC-00-1165-PAA-WS. The Company requests that it be provided copies of the invoices

identified by the auditors which, in their opinion, do not qualify as conservation expenses.

4. Response to Audit Disclosure No. 1 - The audit recommendation to remove mowing expense related to the sprayfield rests on the incorrect assumption that the sprayfield will not be required once the reuse facility is operational. This facility will be required for wet weather and excess disposal capacity. Attached hereto is a copy of a letter from the Utility's consulting professional engineer attesting to this fact and disagreeing with the staff conclusion, based upon the requirements of DEP. Staff should contact the Company's engineer, Julian Coto, P.E., if further information concerning this issue is required.

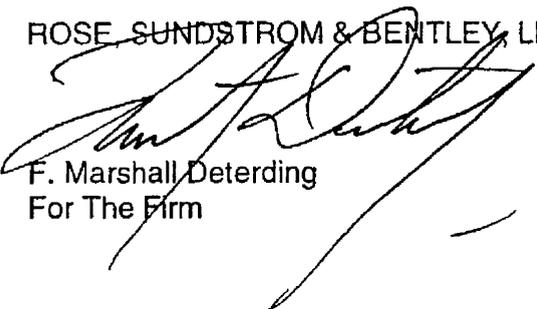
We look forward to receiving the additional information requested related to Audit Exception No. 5 and No. 6 as quickly as possible so that we can provide a proper response to those items. The audit workpapers will probably provide the information needed, if you can forward those immediately.

We trust that the staff will make adjustments to the findings of the Audit Report in conformance with these items. To the extent the staff disagrees with any points raised in this audit response, we would appreciate the staff letting us know so that we can work these out prior to final submission of a staff recommendation in this case.

If you have any questions in this regard, please let me know.

Sincerely,

ROSE, SUNDSTROM & BENTLEY, LLP



F. Marshall Deterding
For The Firm

FMD/tms

cc: Ralph Jaeger, Esquire
Mr. Ryan Fitch
Mr. Troy Rendell
Marshall Willis, CPA
Julian Coto, P.E.
Gabriele Umbel
Mary Petrella
Gary Morse, P.E.
Brian Fannon
Robert C. Nixon, CPA

wateroak\edwards.ltr



EXCEL
ENGINEERING CONSULTANTS, INC.
Environmental & Civil Engineers

October 18, 2002

Rose, Sundstrom & Bentley
Mr. Marshall Deterding
Rose, Sundstrom & Bentley
2548 Blairstone Pines Drive
Tallahassee, FL 32301

Via Facsimile: 850-656-4029

Subject: Water Oak WWTF Reuse Plan

Dear Marty:

Please be advised that we do not agree with Disclosure No. 1 of the FPSC staff audit report. Apparently the staff has concluded that the Spray Field which is currently being used for effluent disposal won't be required once the reuse plant is on-line. The spray field will serve as an alternate effluent disposal mechanism. Chapter 62-610, FAC requires that an alternate mechanism or additional wet weather storage be provided. It is our intention, at this time, to use the existing effluent disposal field as the alternate effluent disposal mechanism instead of adding additional wet weather storage. Therefore, it appears that Staff's recommendation of removing the existing spray field from rate base along with any costs associated with its operation, maintenance, property taxes, etc. is not consistent with the expected design and operation for the proposed WWTF.

Please contact me at your earliest convenience if you need additional information.

Sincerely,
Excel Engineering Consultants, Inc.

A handwritten signature in black ink, appearing to read 'Julian R. Coto'.

Julian R. Coto, P.E., D.E.E.
President

JRC/mj

cc Brian Fannon
Gary Morris
Gabriele Umbel

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