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December 23, 2002

ORIGINAL

Public Service Commission  
Capital Circle Office Center  
2540 Shumard Oak Boulevard  
Tallahassee, FL 32399-0865

ATTN: Blanca Bayo  
Commission Clerks Office & Admin. Services

REF: Staff assisted rate case -- Service Management Systems, Inc.  
Docket No. 021228-WS

AUS	_____
CAF	_____
CMP	_____
COM	_____
CTR	_____
ECR	_____
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MMS	_____
SEC	_____
OTH	_____

Dear Ms Bayo:

Relative to the staff assisted rate case to be performed by your office, I would like to make the following requests before the process advances.

1. I would request that the calendar year 2002, which is also the fiscal year for this utility, be used as the base period for the staff assisted rate case. Our accounting records are in current status and we will have an adjusted December 31, 2002 trial balance and financial statements by January 20, 2003. In this way the most current income and expense would be used.

2. I will need the help (on a limited basis) of two consultants to advise me as this utility goes through the rate case process. I am requesting in advance that the cost of these two consultants, again on a limited basis, be considered as a cost of the rate case. This would be for Marshall Deterding, Esq. and Robert Nixon, CPA who will advise me on the legal and accounting aspects of the rate case.

3. As to the used and useful calculation on our sewage treatment plant, I would like to point out that the sewage plant also processes reject water from the production of drinking water by reverse osmosis. The rejected water equals an amount approximately 25% of the amount of produced drinking water. Some years back when this reject water was classified as an industrial discharge, this utility was forced to treat this water also. This treatment of the RO reject water should be taken into consideration in the used and useful calculation for the wastewater treatment plant. The wastewater treatment plant has a permitted capacity of 99,000 gallons a day. The permitted capacity should be the denominator in the used and useful calculation. The numerator should be the sum of treatment of wastewater and the reverse osmosis reject water.

4. At the time of the last staff assisted rate case, approximately seven years ago, the PSC staff allowed for an allocation of office costs to the utility. In the past five years prior to 2002, the developer failed to allocate any office cost to the utility. In the year 2002 the developer will allocate costs but no rent of the office, which is shared by on site development management and community management activities. The allocated office cost for 2002 will reflect

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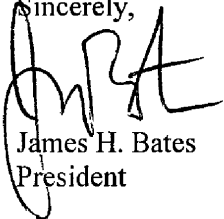
maintenance, taxes, cleaning, electricity and secretarial support. This allocation will be based on the basic size of the building and the various activities that take place here. This is to insure that the utility expenses reflect the actual costs involved.

5. The amount that the PSC staff allowed for management of the utility seven years ago, \$15,000.00 a year, is the amount that has been paid to me, as the manager, through 2002. In the current staff assisted rate case I would ask that this be reevaluated given the demands and complexity of the management of this utility today. Someone with the broad range of knowledge necessary to operate a water and wastewater treatment facility will be required in the future. If the utility is to be properly managed in the future, an appropriate amount to pay a manager will be required. The amount should be two or three times \$15,000 at a minimum.

6. I am also requesting that the currently required capital improvements to the fire protection pumping system be considered as part of the rate case. We are being held to a much higher standard by the Brevard County Fire Marshall and are required to have redundant systems both for pumping and back up of electrical power. Also, we have been required to maintain all fire hydrants, which has increased operating costs.

7. In 2003 the utility is being forced to move its accounting and office function from its current location because a zoning complaint has been made. This utility has never paid office rent, only shared in office operating costs. I am requesting that future office rent be provided for in this rate case.

Sincerely,



James H. Bates  
President

cc: Marshall Deterding, Esq.

cc: Robert Nixon, CPA