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REPLY TO ALTAMONTE SPRINGS

MARTIN S. FRIEDMAN, P.A.  
VALERIE L. LORD, *OF COUNSEL*  
(LICENSED IN TEXAS ONLY)

March 12, 2003

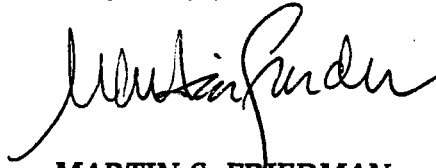
Ms. Blanca Bayo  
Commission Clerk and Administrative Services Director  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, FL 32399

RE: Docket No.: 021067-WS; Audit Control No.: 02-318-3-1  
River Ranch Water Management, LLC; Staff Assisted Rate Case  
Our File No.: 37027.02

Dear Ms. Bayo:

Enclosed please find for filing in the above-referenced docket an original and one (1) copy of River Ranch Water Management, L.L.C.'s Response to the Staff's Audit.

Very truly yours,

  
MARTIN S. FRIEDMAN  
For the Firm

MSF/dmp  
Enclosures

cc: Mr. Mark Waltrip (w/o enclosure)  
Mr. Bill Goaziou (w/o enclosure)

River Ranch\SARC\PSC Clerk (Bayo) 02.ltr

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FPSC-COMMISSION CLERK

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

Application for Staff Assisted Rate Case  
in Polk County by River Ranch Water  
Management, L.L.C.

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Docket No.: 021067-WS  
Audit Control No.: 02-318-3-1

**NOTICE OF FILING**

Applicant, River Ranch Water Management, L.L.C., hereby notices the filing its Responses to the Public Service Commission Staff's Audit in the above-referenced docket.

Respectfully submitted on this  
12th day of March, 2003, by:

ROSE, SUNDBROM & BENTLEY, LLP  
600 S. North Lake Boulevard  
Suite 160  
Altamonte Springs, Florida 32701  
(407) 830-6331  
(407) 830-8522 Fax

By: 

MARTIN S. FRIEDMAN

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**MEMORANDUM**

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**TO:** MS. DENISE VANDIVER – PUBLIC SERVICE COMMISSION  
**FROM:** MARTIN FRIEDMAN  
**RE:** RIVER RANCH WATER MANAGEMENT, LLC; STAFF ASSISTED RATE CASE; DOCKET NO. 021067-WS; AUDIT CONTROL NO. 02-318-3-1  
**DATE:** 03/10/03  
**CC:** FRAVY COLLAZO, BILL GOAZIOU, TROY RENDELL

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The Utility has reviewed the Public Service Commission Staff's Audit in connection with the Staff Assisted Rate Case. We are providing a response to this audit via the following comments:

Disclosure No. 1

It is very common for new acquisitions that the utility records are not kept in accordance with the NARUC Uniform System of Accounts. This utility accounting system is very different from what we are familiar with, and we are in the process of contracting with a firm that specializes in this type of accounting. The company plans to switch to the NARUC accounting system for 2003. The estimate for implementing such system would be approximately \$1,500 as a one-time fee, based on our conversations with outside consultants. Management is also considering outsourcing the accounting function for the Utility.

Disclosure No. 2

There was no plant amount recorded on the Utility's books since the Utility was acquired as part of a bulk property purchase. At the time of purchase, there was no bifurcation of an amount for the Utility's assets. Based upon the 2000 Annual Report for River Ranch filed by the Receiver, total Utility Plant and Service (including Land and Land Rights) was \$159,322. Based on our initial meeting with the Public Service Commission (PSC) auditors, we understood that we would wait for an original cost study by an engineer in order to establish an amount for plant. However, the PSC auditors recently recommended that we record the \$159,322 as mentioned above for plant and establish this amount as equity (paid-in capital). The Utility has decided to follow the PSC's recommendation.

The plant assets had not been transferred to the Utility since some of these projects were in an ongoing stage. The assets will be transferred to the Utility by recording them in the Utility's fixed asset accounts. They will later be broken down per the accounts as outlined in Disclosure No. 2 when the Utility implements the NARUC Uniform System of Accounts. The \$14,540 related to using TV cameras for research in the sewer lines will be booked as a prepaid expense, and will be amortized over five years. The plant additions and the prepaid expense will be contributed to the Utility and be recorded as additional equity in the balance sheet under paid in capital.

Disclosure No. 3

The Utility has been billing its customers based on the tariffs obtained from the Utility's previous owners. The Westgate River Ranch Resort, including restaurants, retail shops, and recreation centers, were not included in the tariffs and such were not billed. These properties are owned by the parent

company, Central Florida Investments, Inc. (CFI). Therefore, related party entities were not being billed. The Utility will begin billing these related party customers after meters are installed and the rate case is finalized.

Disclosure No. 4

The conclusions addressed in this disclosure appear reasonable. See response to Disclosure No. 6 for further discussion of costs associated with reading and servicing meter devices.

Disclosure No. 5

*The conclusions addressed in this disclosure appear reasonable.*

Disclosure No. 6

We believe that there are additional costs that need to be covered by management fees not addressed by the PSC, outlined as follows:

<i>Description</i>	<i>Monthly Amount</i>
Legal Fees	\$ 200.00
Hazard/Liab. Insurance	\$ 4,200.00
Billing Services	\$ 1,650.00

Legal fees represent a reasonable estimate of general anticipated legal issues. This estimate was based on discussions with general counsel. Per the PSC auditors, the insurance costs outlined in Disclosure No. 5 are related to the vehicle used by the plant operator. We have additional insurance costs for required hazard and general liability coverage. The premiums for the policy in place to cover the Utility total approximately \$50,000 a year.

Also, as the customer base increases, and as the Utility converts over to a meter-based billing system, it would require additional labor resources to manage and account for billings. The Utility would also need to purchase some type of utility billing software to process the new billing system. In order to be cost effective, we believe that the best alternative is to outsource the billing functions to avoid having to hire additional personnel or purchase expensive billing software. Based on the size of the Utility, our research shows us that this will cost approximately \$1,650 per month. The billing service charges \$2.25 per account, which includes the following: meter reading; data input of reading; printing and sending of bills to customers; receipt and deposit of customer payments; and customer service. Per our tariff docket, we currently have approximately 730 customers. The Utility also will incur a one-time cost of approximately \$1,500 in order to set up the billing system of accounts.

Disclosure No. 7

The reclassifications addressed in this disclosure are appropriate.

Disclosure No. 8

The conclusions addressed in this disclosure appear reasonable.

Disclosure No. 9

As of the end of the PSC audit, we were in the process of formalizing our capital structure. See the attached Capital Structure Schedule as of December 31, 2002.

Disclosure No. 10

It is our understanding that, since the current Utility customers have never been metered, the costs to supply and install meters cannot be charged directly to the customer (in the form of a one-time meter connection fee). If our understanding is correct, then we must plan for capital expenditure for the meters and amortize these costs over a determined useful life. Per our initial research, residential meters average out to \$250 per meter for materials and installation. The Utility currently have about 730 customers that would require this type of meter (typical ¾" meter), resulting in a planned expenditure of about \$182,500. Then there are the Resort entities that require a variety of basic and commercial meters with costs approaching \$12,500. In total, the Utility may spend at least \$195,000 for converting over to a meter-based measuring system. The Utility has not received an official quote from a contractor to perform the entire project as discussed; these numbers are only general estimates obtained from discussions with utility specialists. Costs could vary depending on the difficulty of the implementation and required materials or equipment.

The Utility has also seen estimates for the addition of another clarifier that is needed in the average of about \$70,000. The Utility is also developing an expansion of our existing facility to provide 100,000 plus gallons of treatment capacity for the planned expansion. The Utility has not yet finalized financing plans for these improvements, nor has it compiled any cost estimates.