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June 20, 2003
VIA HAND DELIVERY

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

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RECEIVED PSC

Re: Service Management Systems, Inc.; PSC Docket No. 021228-WS
Application for Staff Assisted Water and Sewer Rate Increase in Brevard County
Our File No. 36082.01

Dear Ms. Bayo:

As a follow up to my letter of June 17, 2003, I am writing to outline some minor changes in our positions and issues that have occurred as a result of information provided to us since that letter was drafted, our review of that additional information, discussions with staff, and the conclusions which we have reached.

1. Ron Chupka Wages - The statements in our June 17, 2003 letter stand and we believe clearly demonstrate that additional recognition must be given to the cost for contract operators that will be necessary to replace Mr. Chupka in the amount of \$9,360 per year. The only alternative available to the Utility is to hire a full-time staff operator, which would cost at least two to three times the amount that the new contract labor will cost. Therefore, recognition of this additional expense must be included.
2. Repair Expenses - Capitalized or Amortized - As outlined below in our updated response on the third issue from our June 17, 2003 letter, the Utility system is relatively old, fully depreciated and sits on a barrier island. As the PSC engineering staff is well aware, all systems located on a barrier island are subject to much quicker degradation and more regular and extensive maintenance and repair than are systems in the rest of Florida away from the coast. This is due to the effects of salt, sand, and wind. The staff themselves have in fact noted in response to our Issue No. 3, that the sewer treatment system is so old as to be

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entirely depreciated. The Utility should therefore be expected to have extensive annual repairs compared to an average system around the state. Facts that lead to this conclusion include:

- (a) The system is over 20 years old and as such, requires regular and continuing repair.
- (b) The system is on a barrier island and subject to the effects of salt, wind and sand which constitute the most maintenance intensive environment for such systems in the State of Florida.
- (c) The R/O system required for the water is not only a relatively expensive system to operate, but is also a relatively maintenance intensive system to operate.
- (d) The Utility operates not only water and wastewater, but also irrigation service and has an extensive system for each.
- (e) The great majority, if not all, of the maintenance items adjusted by the staff (capitalized or amortized) are regular recurring maintenance and according to our engineers and accountants, do not extend the useful life of the treatment facilities to which those repairs were made.
- (f) The remaining maintenance expenses authorized in the initial staff report are insufficient to handle even two line breaks, much less the regular recurring maintenance of an aging system.

We have attempted to review the staff's responses stating that they have not made an adjustment to remove a \$15,130 item from the 2002 test year that was actually contained within 2001 expenses. While we are not able to conclusively determine the accuracy of this statement, we will assume that the staff has checked thoroughly to ensure that this is in fact true. Therefore, we will not argue that issue further here.

However, in addition to the above comments and those contained in our June 17, 2003 letter about the average cost of repairs, it is clear that the Utility can expect to incur maintenance costs approximately equal to that incurred in the last two years, on a regular and continuing basis in the future. As such, in order to comply with the provisions of Florida Statutes, the Commission must recognize those anticipated future expenses in setting rates.

3. Sewer Depreciation Expense - As noted above, we understand the staff explanation for the difference in the depreciation expense calculated by the Utility's accountants and staff, is as a result of the staff finding that a substantial amount of plant, including the majority of the Utility's sewage treatment plant, is fully depreciated. We ask only that the staff

view the calculations proposed by Mr. Nixon and assure themselves that they still believe that the sole reason for this difference in depreciation expense is that certain plant items have been fully depreciated. We will not further contest this adjustment. However, as noted above, maintenance expenses should appropriately reflect staff's consideration of the fact that this is an older system and requires continuing and regular maintenance, as outlined in Issue No. 2 above.

4. Salary of James Bates, President and General Manager - We will not provide further input on this issue. However, we still contend that it is appropriate that the Commission staff consider the information provided therein and recognize that a Utility cannot obtain the services of a knowledgeable President and General Manager on a part-time basis, without paying a premium above the average salary that is paid to full-time company executives.

Again, I thank the staff for their consideration of this additional information and issues and request that they seriously consider these, especially the issue of Mr. Chupka's salary and the maintenance expenses that we believe are clearly straightforward issues for which some additional allowance must be recognized. Rather than wait until the staff issues their final recommendation in this case, we would appreciate some response on these four issues, especially on Issue Nos. 1 and 2, so that we can try to work out any differences or provide any additional information needed to the staff, and avoid controversy at the final agenda conference, if at all possible.

Thank you for your consideration, and we look forward to hearing from you.

Sincerely,

ROSE, SUNDSTROM & BENTLEY, LLP



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