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Public Service Commission

May 12, 2004

STAFF'S THIRD DATA REQUEST

Martin S. Friedman
Rose, Sundstrom & Bentley, LLP
600 S. North Lake Blvd., Suite 160
Altamonte Springs, FL 32701

Re: Docket No. 030444-WS, Application for Rate Increase in Bay County by Bayside Utility Services, Inc. (Bayside)

Dear Mr. Friedman:

Attached are several data requests for staff's analysis of this rate case. Since the statutory deadline is quickly approaching, we will need the responses submitted by May 21, 2004.

- In the utility's 1998 transfer case, the application cited that economies of scale will be available to Bayside through its parent's management and vendor resources. Specifically, the application stated that Bayside has: 1) the ability to attract capital at a reasonable cost; 2) the financial ability to commit funds necessary to operate the purchased utility; 3) a professional staff experienced in the managerial, technical and financial aspects of utility operations; 4) the ability to make necessary capital improvements; and 5) the ability to comply with DEP and other environmental agency requirements.

Provide specific examples of how the utility has achieved each of the five economies of scale factors cited above.

- Provide a detailed description all water and wastewater system improvements UI has made since 1998 to date.

- Explain why the utility has not initiated or completed the planned lift station improvements, when vendor estimates for these improvements were dated April 2003.

- By letter dated November 25, 1998, Mr. Carl Wenz responded to concerns of three Bayside customers, regarding the then-pending transfer application (letter attached). Specifically, Mr. Wenz stated the following: "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...."

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Our ability to achieve greater economies of scale will result in lower rates than otherwise could be achieved under the current ownership."

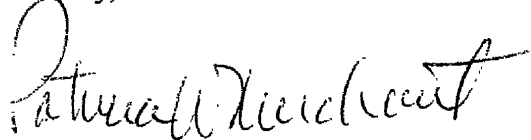
When purchased water and sewage treatment expenses are excluded, the remaining O&M expenses requested in Bayside's MFRs reflect an increase of 168.19% for water and 213.27% for wastewater, above those approved by the Commission for 1997. What evidence of economies of scale are reflected in the utility's 2002 O&M expenses? Further, what steps if any has the utility taken to lower the operating costs for Bayside, since UI purchased the system?

5. Based on a letter dated May 6, 2004, from Valerie Lord in this case, Bayside is not aware of any sewer snake or sewer rodding equipment included in the purchase of the utility and no such equipment was identified as being included in the utility's asset listing. Ms. Lord also stated that Bayside does not now nor has it ever owned or possessed any such equipment at either Bayside or Sandy Creek. However, Exhibit 2 (entitled Detailed List of Facilities to be Acquired by Purchaser) of the 1998 purchase agreement for Bayside (attached) reflects that UI acquired one "Electric Eel Sewer Rodder w/Trailer." In Staff's Second Data Request (IV. Rate Base - No. 21), we have asked questions regarding this sewer snake equipment.

a) If the utility does not know the original cost of the sewer snake equipment, please estimate the original cost of this equipment by starting with the current replacement value for this equipment and then use the Handy Whitman Index to index the replacement cost back to the year it was placed into service. b) If the utility believes that the snake equipment is not included in its 2002 test year plant in service, provide proof that this equipment is not reflected in the utility's 2002 general ledger plant balance.

Please provide the above information by May 21, 2004. If you have any questions, please contact me by phone at (850) 413-6918 or by e-mail at pmerchan@psc.state.fl.us.

Sincerely,



Patricia W. Merchant
Public Utilities Supervisor

Attachment

cc: Division of Economic Regulation (T. Davis, Redemann, Fletcher)
Office of the General Counsel (Jaeger)
Division of the Commission Clerk and Administrative Services