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DATE: February 18, 2005
TO: Division of the Commission Clerk and Administrative Services
FROM: Adrienne E. Vining, Senior Attorney, Office of the General Counsel
RE: Docket No. 000694-WU - Petition by Water Management Services, Inc. for Limited Proceeding to Increase Water Rates in Franklin County.

Please place the attached letter dated February 16, 2005 from Kenneth Hoffman, Rutledge, Ecenia, Purnell & Hoffman in the above referenced docket file.

Thank you.

AEV/jb

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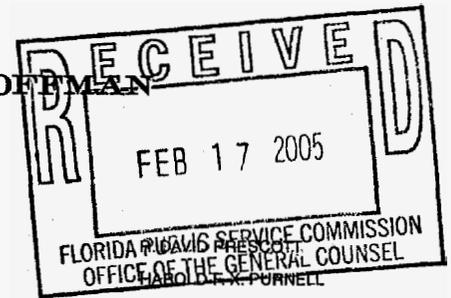
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February 16, 2005

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HAND DELIVERY

Re: Docket No. 000694-WU
Water Management Services, Inc.'s Petition for Approval of Phase III Final Rates

Dear Ms. Vining:

As you know, our firm represents Water Management Services, Inc. ("WMSI"). The purpose of this letter is to reflect WMSI's concern with the subject matter of numerous staff audit requests and to attempt to insure that the scope of the final phase of this limited proceeding, Phase III, remain as ordered by the Commission. Perhaps some background would be helpful.

This proceeding was initiated in June 2000 by the filing of a Petition for Limited Proceeding to recover the revenue requirement associated with the costs of a new water main necessitated by DOT's decision to build a new bridge connecting St. George Island (WMSI's service territory) to the mainland where WMSI's wells are located and to demolish portions of the existing bridge on which WMSI's existing water main was located. In its Petition, WMSI requested authority to implement the required rate increase for the costs of the new main and other improvements required on the mainland through a three phase process. Phase I rates would recover revenue requirements associated with capital expenditures through December 2001; Phase II rates were intended to recover revenue requirements associated with projected capital expenditures through completion of the project; and Phase III rates would essentially be a true-up mechanism to recover the revenue requirement associated with the actual capital costs incurred for construction and the associated financing costs.

On November 21, 2000, the Commission issued Order No. PSC-00-2227-PAA-WU determining that WMSI's decisions to construct the new water main, install a new twelve-inch water line, install a new pipeline from Well No. 1 to Well No. 4, and install a new high service pump and controls were prudent and that the costs of construction and the cost of financing should be

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recovered through the three phase process requested in WMSI's Petition for Limited Proceeding. The Commission also approved Phase I rates and determined that property taxes and depreciation associated with the new construction would not be recovered until approval of Phase III rates and made a similar determination with respect to the costs of pursuing the limited proceeding. Finally, the Commission advised that it would consider issues concerning WMSI's rate structure in the Phase III portion of this limited proceeding.

Subsequently, in May 2003, WMSI filed its Phase II Supplemental Petition for Limited Proceeding requesting revised rates for the Phase II increase. The Phase II Petition in no way attempted to expand the scope of the proceeding. The Phase II Petition was predicated, in large part, on:

- (1) changes in the projected in-service date of the new main;
- (2) a decrease in the estimated capital costs of the new main and associated construction on the mainland;
- (3) WMSI's successful efforts in securing extremely low costs financing through the DEP State Revolving Fund; and
- (4) the fact that WMSI's eminent domain case to recover all or part of the costs of the new main from DOT had proven unsuccessful.

In view of the net decrease in the costs of the total project, WMSI's Phase II Petition requested recovery of the costs of installing approximately 17,700 feet of six-inch and eight-inch mains, a new elevated storage tank, increased high service pumping capacity, an emergency generator and other plant improvements intended to enhance WMSI's fire flow capability and quality of service. On September 8, 2003, the Commission issued Order No. PSC-03-1005-PAA-WU approving as proposed agency action:

- (a) the recovery of the requested fire flow improvements, determining that installation of such improvements was prudent and the estimated costs reasonable, subject to true-up in Phase III of this proceeding;
- (b) a 35 year useful life for the new 12-inch main attached to the bridge; and
- (c) a Phase II additional revenue requirement of \$490,959.

The Phase II PAA Order was protested which ultimately resulted in a Settlement Agreement between WMSI and the Office of Public Counsel which, among other things, addressed issues related to the existing storage tank, verifications of the expenditures supporting the approximate \$6.2

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million of capital projects undertaken by WMSI since the fall of 2000 in Phase III and completion of the looping of the water mains that provide service from Bob Sikes Cut to the State Park. The Settlement Agreement was approved by the Commission by Order No. PSC-04-0791-AS-WU issued August 12, 2004.

In October 2004, WMSI filed its Petition for Approval of Phase III Final Rates to complete this limited proceeding. The Phase III Petition addresses the final costs of the total project, including the fire flow improvements, the final interest rate for the costs of construction, final depreciation rates, the final property tax rate, the final rate case expense for the limited proceeding, other issues related to the retired main and the new construction and the establishment of the final Phase III rates. Consistent with the intent of the Commission and WMSI that Phase III be utilized to true-up actual construction and related costs with estimates, the Phase III Petition requests a final Phase III rate increase of only approximately \$65,000 in annual revenue requirement.

The above summary of the history of the scope of this limited proceeding underscores the fact that the Commission's prior orders have limited the scope of this proceeding, consistent with WMSI's request, to the recovery of the costs of construction as described above and related costs including debt financing. The Commission also has added the issue of rate structure. That is the entire scope of this limited proceeding. WMSI's Petition for approval of Phase III rates is based on and relied upon the scope of this limited proceeding as previously defined by the Commission and WMSI expects to be able to efficiently conclude the Phase III true-up process as contemplated by the Commission.

During the course of the last two to three months, WMSI staff have expended substantial time and resources responding to a voluminous set of on-going staff audit requests. WMSI has been extremely cooperative and responsive. The first 19 audit requests were reasonably related to the limited proceeding as defined by WMSI's Petitions and the Commission's orders. However, audit requests 20 through 50 address items that are clearly beyond the scope of a limited proceeding and are the type of questions one might expect to see in a full blown rate case filed by a utility under Section 367.081, Florida Statutes - - which this is not. In the spirit of cooperation, WMSI has fully answered audit requests 20 through 47. Audit requests 48 through 50 were withdrawn by the Staff Auditor after things finally reached the point where WMSI felt the need to protest these continuing audit requests as outside the scope of this limited proceeding.

Accordingly, I wish to make clear on behalf of WMSI that WMSI's cooperation in responding to an extensive number of audit requests clearly outside the scope of this limited proceeding should not be construed by Staff as an admission or waiver on the part of WMSI that the scope of Phase III of this proceeding is anything other than as described above consistent with prior Commission orders issued in this docket. WMSI has worked extremely hard to bring benefits to its customers in the form of reduced construction costs, extremely low financing costs, and substantially enhanced reliability and fire flow improvements. WMSI has been extremely cooperative and

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responsive in the Staff audit process. We hope and trust that our hard work and cooperation with the Commission Staff would not somehow be used, unlawfully in my opinion, to expand the scope of Phase III of this limited proceeding.

If you have any questions, please do not hesitate to give me a call.

Sincerely,



Kenneth A. Hoffman

KAH/rl

cc: Gene D. Brown, Esq.
Mr. Frank Seidman
Stephen C. Reilly, Esq.

wmslvining.ltr