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Management & Regulatory Consultants, Inc.

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January 25, 2006

Blanco Bayo, Director
Division of Commission Clerk and Administrative Services
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Re: Docket No. 050587-WS, MSM Utilities, LLC
Response to Staff Audit

Dear Ms. Bayo:

The following response to the Staff Audit, Audit, Control No. 05-279-4-1 is provided on behalf of MSM Utilities, LLC.

Audit Disclosure No. 1 - Management Fees

In this disclosure, the auditor noted that the utility was charged for services by the managing partner at the rate of \$100 per hour. The auditor then indicated that the managing partners actual hourly rate, based on his salary and commissions, was \$98.63 rather than \$100.00 of which \$24.04 was direct salary and the remainder was commissions. The auditor did not make a recommendation of which rate to use, but provided calculations with and without the commissions.

It is MSM's position that the proper hourly rate to use is \$100. The managing partner primarily manages a development company and devotes what time is required to managing the utility. The manager's time is valued differently for the development company and the utility. The value to the development company may be compensated through a combination of salary and commissions or salary and bouses related that vary with the stages of development and sales and available cash flow. The value to the utility, however, is more closely related to the fact that a utility has an ongoing service and regulatory obligation and the most economical means of meeting that obligation. This utility, which is currently very small in terms of existing revenues and customers, but is about to grow substantially, has a choice of hiring a full time manager,

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hiring a managing consultant or allocating some cost for the time spent by an owner or manager. MSM has chosen the latter for the present. The choice most likely has a similar result as hiring a managing consultant without requiring a minimum contract arrangement. As the utility grows, it will eventually reach the point where it becomes necessary to hire a manager. As indicated in the disclosure, the managing partner is charging less than 25 hours per month to the utility for operations. Together with time allocated for a project manager, bookkeeper and administrative assistant, the utility is charged for only a combined 77 hours a month to manage and administrate the utility. This amounts to only 44% of a full time employee devoted to management and administration. The \$100 hourly rate reflects the value of the manager under these circumstances.

Audit Disclosure No. 2 - Contract Labor

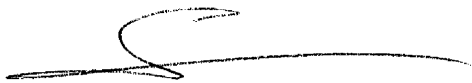
The auditor indicates that portions of contract labor expense related to repairs for water (\$7,462.29) and wastewater (\$838.60) maybe be related to bringing the plant up to standards and may be non-recurring. The auditor has requested a determination of reasonableness by the staff engineer. The utility reserves the opportunity to comment on the findings of the staff engineer.

Audit Disclosure No. 3 - General Service Customers

The utility agrees that there was is no approved general service rate in its tariff. There are only two general service customers - a clubhouse and boat dock. The rates for general service are typically the same as for residential for each meter size and all existing meters, residential and general service, are the basic 5/8" x 3/4" meter. Therefore the charges to the general service customers are proper. The exception, as noted by the auditor, is that there should not be a cap on wastewater charges to a general service customer. Since there is no tariff for services without a cap, the utility has no basis for eliminating the cap in its charges. The utility agrees that the cap should be eliminated in setting general service rates going forward.

The utility does not disagree with the auditor's observations regarding missing readings at the boat dock and the clubhouse and the finding of and repair of a leak in the line serving the clubhouse.

Very truly yours,



Frank Seidman

cc: Mr. Ben Maltese, MSM Utilities, LLC