

RADEY | THOMAS | YON | CLARK

Attorneys & Counselors at Law

100104-WU

Post Office Box 10967 (32302)
301 South Bronough Street, Suite 200
Tallahassee, Florida 32301
www.radeylaw.com

850-425-6654 phone
850-425-6694 fax

lscoles@radeylaw.com

March 8, 2010

VIA HAND DELIVERY

Chairman Nancy Argenziano
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, Florida 32399-0850

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COMMISSION
CLERK

Dear Chairman Argenziano:

Water Management Services, Inc. ("WMSI" or "Company") intends to submit an application for an increase in rates and charges to the Florida Public Service Commission ("Commission") for its water system on St. George Island in Franklin County, Florida, including the setting of interim rates, a change in the rate structure, and an application for a change in its service availability charges. The Company intends to submit the minimum filing requirements ("MFRs") on or before 60 days from the date of test year approval.

This letter, pursuant to Rule 25-30.430, Florida Administrative Code, requests approval of a historic test year ending December 31, 2009. The requested test year is representative of a normal full year of operation, with normalization adjustments. There will also be pro forma adjustments to better reflect ongoing operations.

WMSI's last full case proceeding was in Docket No. 940109-WI, utilizing a test year ending December 31, 1992, which culminated in Order No. PSC-94-1383-FOF-WU, issued November 14, 1994. The Company filed a limited proceeding in Docket No. 000694-WU, for an increase in its water rates to cover the cost of building a new water transmission main to connect its wells on the mainland to its service territory on St. George Island, which was necessitated by the Department of Transportation's demolition of the existing bridge to St. George Island, to which WMSI's water main was attached. The Commission, at that time, approved an inverted block rate structure for WMSI's rates.

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Since the Company's last rate increase, it has experienced and continues to experience significant changes in the circumstances in which it operates. WMSI's Operations and Maintenance ("O&M") expenses have increased because of the Company's aging infrastructure. In recent years, contrary to the Department of Community Affairs' Development of Regional Impact order ("DRI") and a county ordinance, shallow wells began appearing in the St. George Island Plantation, to provide non-potable water for irrigation purposes. The Plantation is the primary development on St. George Island. On March 10, 2009, the First District Court of Appeals effectively overturned the DRI and ordinance, allowing these wells in the Plantation and thus eliminating a steady source of revenue for WMSI. *N.W. Fla. Water Mgmt. Dist. v. Dep't of Cmty. Affairs*, 7 So. 3d 1129 (Fla. 1st DCA 2009). In addition, on January 4, 2010, a Northwest Florida Water Management District ("NFWMD") rule went into effect allowing shallow wells without permitting and NFWMD is now actively encouraging such wells in Franklin County. The result has been a rapid increase in the drilling and use of shallow wells, and a corresponding decrease in consumption of water from WMSI, resulting in declining revenues. Consumption and revenues have also declined due to the economic downturn's negative impact on tourism in Florida and on visitors to St. George Island. Growth on St. George Island has also slowed due to the economy. The combination of increasing expenses, inverted block rates, decreased consumption, declining revenues, and a slowed growth has resulted in the Company operating at a loss.

WMSI will be seeking interim rates based on the same historic test year. The Company has earned well below a reasonable rate of return during this most recent historical fiscal year.

Because of WMSI's aging infrastructure, capital improvements are vitally needed. These improvements, totaling an estimated \$2,202,481, are detailed below:

- Control Panel for High Service Pumps and Wells, estimated at \$99,000;
- Ground Storage Tank Replacement, New Pumps and Aerators, estimated at \$1,587,125;
- Raw Water Transmission Improvements, estimated at \$156,156;
- Electrical and Instrumentation Improvements at Well-sites, estimated at \$316,000;
- Well-site Security Improvements, estimated at \$21,700; and
- Water Plant Improvements, estimated at \$22,500.

The Company will request an increase to pay for these necessary capital improvements. However, WMSI anticipates that there will be some operational efficiencies as a result of the capital improvements, which will be reflected in WMSI's MFRs.

WMSI requests that this case be scheduled directly for a hearing. The Company recognizes that it could request that the Commission move forward using the proposed agency

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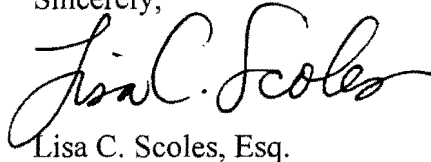
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action ("PAA") procedure set forth in Section 367.081(8), Florida Statutes. However, the Company believes that going to hearing is appropriate in this case, because this will be WMSI's first full rate case in 16 years, and, based on the Company's experience in past proceedings, there is a strong likelihood of active customer participation in the case and a significant probability that any PAA order would be protested. Hearings were held in WMSI's last rate case, Docket No. 940109-WI. In Docket No. 000694-WU, WMSI's limited proceeding regarding a new water transmission main, a PAA was attempted but was protested by the Office of Public Counsel (although a settlement was ultimately reached). Thus, setting the case for hearing will likely be a more efficient use of time and resources of the Company, as well as Commission Staff, and will therefore minimize the rate case expense.

Should you or members of Commission Staff have any questions regarding this request, please do not hesitate to contact me.

Sincerely,

A handwritten signature in cursive script that reads "Lisa C. Scoles".

Lisa C. Scoles, Esq.

cc: Ann Cole, Commission Clerk and Administrative Services (via hand delivery)
Marshall Willis, Florida Public Service Commission (via hand delivery)
Cheryl Bulecza-Banks, Florida Public Service Commission (via hand delivery)
J.R. Kelly, Office of Public Counsel (via email)
Gene Brown, Water Management Services, Inc. (via email)
Sandra M. Chase, Water Management Services, Inc. (via email)
Frank Seidman, Management and Regulatory Consultants, Inc. (via email)
David Gauker, Post, Buckley, Schuh & Jernigan, Inc. (via email)