WATER MANAGEMENT SERVICES, INC.
250 John Knox Rd. # 4
Tallahassee, FL 32303
(850) 668-0440 Fax (850) 577-0441

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COMMISSION CLERK

August 1, 2012

HAND DELIVERY

Ms. Ann Cole
Director
Office of Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, FL 32399-0850

Re: Docket No. 110200-WU -In re: Application for increase in water rates in Franklin County by Water Management Services, Inc.

Dear Ms. Cole:

Attached is a copy of a memo which I have delivered to the parties named therein. I would appreciate your filing this in the above-referenced docket.

Sincerely,

Gene D. Brown

Enclosure
cc: Commissioner Eduardo E. Balbis
Commissioner Ronald A. Brise'
Commissioner Julie I. Brown
Commissioner Lisa Polak Edgar
Commissioner Art Graham
Division of Economic Regulation (Brown, Cicchetti, Fletcher, Maurey)
Office of General Counsel (Jaeger, Barrera)
Office of Public Counsel (Kelly, Syler)
Martin S. Friedman, Esq.

DOCUMENT NUMBER-DATE
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FPSC-COMMISSION CLERK

WATER MANAGEMENT SERVICES, INC.
250 John Knox Rd. # 4
Tallahassee, FL 32303
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MEMO

HAND DELIVERY

TO: Commissioner Eduardo E. Balbis
Commissioner Ronald A. Brise´
Commissioner Julie I. Brown
Commissioner Lisa Polak Edgar
Commissioner Art Graham

FROM: Gene D. Brown

DATE: August 1, 2012

RE: Response to Erik Sayler's Letter of July 31, 2012 and to Issue 15 of PSC Staff Recommendation dated July 20, 2012

This memo is in response to to the letter from Erik Sayler dated July 31, 2012, with special emphasis on issue 15 of the staff's recommendation dated July 20, 2012, which is set forth as follows:

Issue 15: Have the Utility's cash advances to WMSI's President and associated companies in the amount of $1.2 million, represented by Account 123, affected the Utility's ability to meet its financial and operating responsibilities? If so, what action, if any, should the Commission take?

At the outset, it should be noted that this issue is misstated because it refers to the $1.2 million as "cash advances," or loans, when in fact this Account 123 represents accumulated investments in an associated company that have built up over a 38 year period since I started this utility in 1974. These cumulative investments have been properly and accurately shown in Account 123, year after year, in the annual reports filed with this Commission. The Uniform System of Accounts for Class A Utilities published by the National Association of Regulatory Utility Commissioners (NARUC), which WMSI is required to follow by order of this Commission, defines Account 123 as follows:

123. Investment in Associated Companies

A. This account shall include the book cost of investment in securities issued or assumed by associated companies (See definition 5) and investment advances to such companies . . .

WMSI would have been in direct violation of NARUC if it had booked the $1.2 million of advances as a debt receivable under Accounts 145 and 146 rather than as equity under Account 123. Account 145 is entitled: "Accounts Receivable from Associated Companies," and Account 146 is entitled: "Notes Receivable from Associated Companies." The NARUC description under Account 146 is as follows:

146. Notes Receivable from Associated Companies

These accounts shall include notes and drafts upon which associated companies are liable, and which mature and are expected to be paid in full not later than one year from date of issue, together with any interest thereon, and debit balances subject to current settlement in open accounts with associated companies. <u>Items which do not bear a specified due date but which have been carried for more than twelve months and items which are not paid within twelve months from due date shall be transferred to account 123 - Investment in Associated Companies</u>. (Emphasis added.)

The NARUC description under Account 145 simply says: "See Account 146."

The staff recommendation quotes the prior order of the Commission which authorizes the staff to "recommend an appropriate adjustment for imprudence" as the basis for a $44,441 adjustment to my compensation. The dictionary defines imprudence as "rash" or "indiscreet." It would have been more "rash" or "indiscreet" to have booked these payments into Accounts 145 and 146 in direct violation of NARUC, which WMSI is mandated to follow by order of this Commission. Investments extending over 38 years can hardly be considered "rash." All of the activity in question occurred prior to December 31, 2010, the end of the test year in this case. WMSI stopped using Account 123 at all as of January 1, 2011, and has not used it since then except to correct an accounting error made in 2010 regarding $40,000 that I loaned to WMSI prior to the end of that year.

Not only was the form of these Account 123 transactions correct, the substance was wise and prudent as well. These investments and transfers of funds as consolidated under Account 123 have been used for the benefit of the utility and have helped keep it solvent when there were insufficient funds from the ratepayers to cover the day-to-day cash operating requirements for WMSI. For example, during the 2010 test year, Brown Management Group (BMG) sold two assets at a "fire sale" for $421,000 cash, which was helpful in covering the $705,265 deficit between the ratepayer funds and the operating costs of WMSI which I had to cover. During the PSC Account 123 audit, WMSI documented the fact that the value of the 100% stock ownership in BMG was greater than the $1.2 million that WMSI paid for the stock. That investment gave

WMSI another source of needed cash flow and was not "imprudent."

The wisdom of WMSI's outside investments is implicitly shown by the PSC audit of Account 123 which divided the revenue and expenses into "utility activity" and "non-utility activity." Under "utility activity," the PSC auditor included outside investments to show revenue over and above those revenues obtained from ratepayers. For example, the "utility activity" for 2007 included the sale of two investment lots in Tallahassee which resulted in a $234,000 net profit and a check of $229,000 to WMSI cash at closing. That $229,000 of cash came from BMG and was critical in covering the $554,563 gap, or deficit, which existed between the funds collected from ratepayers and the actual cash required to fund utility operations that year.

Two other points should be made regarding the PSC staff audit of Account 123:

(1) It confirmed that the balance in Account 123 was correct (to the last dollar), which shows the accuracy of WMSI's accounting as reflected in its annual reports filed year after year with this Commission.

(2) It was not based on any analysis of funds supplied by WMSI's ratepayers as compared to funds supplied by third parties, including myself.

Because of that, and because of the OPC assertion that I took $1.2 million of money which belonged to the WMSI customers, I commissioned an internal audit to show the actual cash difference, or deficit, between the funds obtained from WMSI's customers and the actual cost of operating the utility from 2000 through 2010. The results and a summary chart of that internal audit is attached as Composite Exhibit "A." That audit shows that the deficit during that 11 year period was $16,237,529, including all investments under Account 123. If no investments had been made through Account 123, the deficit would still have been in excess of $15,000,000. However, under that scenario, WMSI would not have had the BMG properties available for liquidation to cover deficits as described above. Exhibit "A" was prepared using the cash basis, showing actual cash in and actual cash out. Composite Exhibit "B" is based on the accrual method and contains 3 charts prepared from WMSI's annual reports filed with this Commission. These charts also show that there was never enough revenue to cover basic operating costs and plant additions, so there was never any excess revenue from rates or ratepayers for me to have "taken" $1.2 million of ratepayer funds. These charts also show how WMSI's debt grew from around $1.5 million to over $8 million as a result of the state's decision to tear down our water supply main with no compensation. That debt has to be paid by WMSI and me, <u>not</u> by the ratepayers.

Not only did WMSI <u>not</u> ever transfer any ratepayer funds to affiliates, WMSI never even earned the return from ratepayers to which it was entitled. Attached as Exhibit "C" is part of WMSI's audit response in this case which shows the total (under) earnings from 2000-2010 was $633,506 as shown by WMSI's annual reports filed with this Commission. The PSC audit states that the $1.2 million figure was actually a net of $930,552 when certain other credits were given.

WMSI disagreed in its response, showing the actual inter-company net calculation to be $264,498. See Exhibit "C." In any event, all of these numbers are below the net value of BMG, which is owned 100% by WMSI as a result of the cash invested through Account 123.

In its recommendation regarding issue 15, the staff states that WMSI's rates included funds for debt service and that despite "the availability of these funds through rates, multiple payments on the loan from DEP were not made" during the time that funds were advanced through Account 123. This statement is incorrect for several reasons:

(1) WMSI has made every payment required by the DEP/WMSI loan documents except the one that was due May 15, 2012, almost 1 ½ years <u>after</u> this Commission's order of January 3, 2011 which resulted in a substantial <u>decrease</u> in WMSI rates after 20 years with no general rate relief. May 15, 2012 is not "during the period" from the beginning of the utility through December 31, 2010 when funds were being invested through Account 123.

(2) While it is true that WMSI received a limited increase in rates as part of the limited proceeding involving the bridge supply main, it is not true that those rates ever produced sufficient revenue to cover the DEP debt service.

In addition to the January 3, 2011 order which caused a substantial net <u>decrease</u> in WMSI's revenue, the only support offered by staff for their assertion that WMSI's approved rates covered the DEP debt service is a reference to two preliminary orders from the limited proceeding, one on November 21, 2000 and one on September 8, 2003. Specifically, the staff refers to page 12 of the September 8, 2003 order which "<u>projected</u>" that WMSI would receive $415,977 in additional annual revenue (still less than the annual DEP payment at that time), but which did not include any coverage for certain additional costs necessitated by the new supply main, such as increased insurance costs, increased maintenance costs, or the cost of leasing and storing the maintenance equipment for the new supply main. (Emphasis added.)

The September 8, 2003 order cited in the staff recommendtion approved $33.06 per month as the base facility charge for a standard residential meter, which is the "bread and butter" of WMSI's revenue, especially during the winter months when little water is used. Using the rates from the 2003 order cited by staff, WMSI was able to operate fairly well from 2003 until 2006, when this Commission entered its final order setting rates for WMSI on February 9, 2006. The staff recommendation omits any reference to <u>that</u> order even though it is the one that actually set the rates that the recommendation now says were available and adequate to cover the DEP loan costs.

The February 9, 2006 order, which the staff recommendation ignored, made drastic changes in WMSI's rate structure after WMSI borrowed and spent over $7,000,000 on the bridge project. The $7,000,000 actually spent included well over $500,000 of "soft costs" and other expenses that could not be included in the limited proceeding because of "regulatory lag" according to our consultants in that proceeding. Among other things, the final order on February

9, 2006 cut the standard base facility charge back to $27.50 on a permanent, going forward basis. More importantly, that order put a 50% surcharge on all high volume water use, which meant that WMSI's customers would have to pay $4.98 per thousand gallons for all water use over 15,000 gallons per month. That last minute decision, entered in an order over WMSI's objection after the water line was constructed, lead directly to a tremendous increase in the number of shallow wells on St. George Island. That proliferation of shallow wells resulting from the 2006 order prevented WMSI from actually receiving the cash revenue which was "projected" by the 2003 order which the staff cites as support for their recommendation on issue 15. (Emphasis added.)

It is impossible to know exactly how much revenue WMSI has lost since the February, 2006 order, but it is probably several hundred thousand dollars per year, certainly more than the one $162,000 DEP payment that is past due since May 15, 2012. However, the following facts are known:

(1) In 2006, WMSI personnel began seeing wells going in all over St. George Island, including inside the Plantation, the island's largest development, despite the fact that wells were prohibited there by a County ordinance and a State DRI.

(2) Between 2006 and 2009, WMSI identified approximately 300 shallow wells that were constructed on the island with no consumptive use permit as required by law, including a large number in the Plantation that were placed in service in violation of the County ordinance and the State DRI.

(3) After WMSI tried unsuccessfully to get the County to enforce its ordinance, and after WMSI lost a legal action against the Northwest Florida Water Management District (NWFWMD) to limit wells on the island, the NWFWMD changed its rules so as to allow and "encourage" shallow wells all over the island, with no consumptive use permit for both non-potable and potable uses.

This NWFWMD rule change went into effect on January 4, 2010, the first month of the test year in this case. Since then, the rate of increase in shallow wells has gone up because all the wells are now legal and encouraged by the NWFWMD. WMSI estimates that there are now between 400 and 500 shallow wells on the island, and more are being placed in service each month. These wells have caused a substantial decrease in WMSI's revenue, starting in 2005 when this Commission entered its PAA order No. PSC-05-1156-PAP-WU, which created a tremendous incentive for all of WMSI's customers to put in shallow wells and to use WMSI water only for personal uses and for fire protection. That order was also omitted from the staff recommendation. Exhibit "B-1" is a chart showing how WMSI's operating income started to drop around the '05-'06 time frame when WMSI's rate structure was drastically changed. The investments under Account 123 had absolutely nothing to do with this steady drop in operating income.

To understand the cost of each shallow well to WMSI's revenue, WMSI analyzed the annual water use of 20 of its current customers. If each of those 20 customers put in a shallow well tomorrow so that they no longer have to pay for their water over 15,000 gallons per month, the annual loss to WMSI for just those 20 wells would be $30,950, calculated as follows:

Average water use over 15,000 gallons per month (gpm)
= 26,000 gpm
x $4.96 per k
$128.96 per mo. x 12 months = $1,547.52 x 20 wells = $30,950 Annual Loss

We estimate that there are now 400-500 shallow wells on the island, with more going in every month. If even 250 of those wells are costing WMSI 26,000 gallons per month in water sales, the total lost revenue is $386,880 ($128.96 x 12 x 250), which is more than the $324,024 annual debt service requirement on the DEP loan.

There is no way to quantify WMSI's loss from this increase in shallow wells after this Commission's final order in 2006. As noted above, WMSI was able to survive from the '03 order cited by staff until the '06 order which actually established the rate structure. But as shown by the chart attached s Exhibit "B-1," which is based on WMSI's annual reports, the utility's total operating revenue started to drop steadily from late 2005 through 2010. The problem really became serious in 2008, when it became clear that the NWFWMD was not going to alter its plan to allow unlimited shallow wells on St. George Island for both non-potable and potable water, all with no consumptive use permits. As shown by WMSI's annual reports (F-3(c)), WMSI's net income was minus ($260,464) in 2008, minus ($331,692) in 2009, and minus ($504,038 in 2010. Although these shallow wells save some expense for electricity and chemicals, they also increase the expense of administering WMSI's cross-connection control program because wells are a major hazzard to the system. This Commission should look at these hard numbers based upon actual operations to determine if adequate ratepayer funds were "available" to WMSI to cover all its operating costs. Those historic accounting numbers are much more reliable than "projections" in a 2003 order, especially since that order was not the actual order that established WMSI's rates. (Emphasis added.)

The staff recommendation asserts that my salary should be reduced by 35%, or $33,688 per year, plus an additional reduction in benefits for a total downward adjustment of $44,441, because my "managerial imprudence" cost the ratepayers an additional $928,071 in interest. Specifically, the recommendation explains the basis for the adjustment as follows:

> In the instant case, the amount of the adjustment is based on the additional interest expense on the DEP loan. As noted earlier, had funds collected through rates been used to timely pay debt service payments instead of paid out in the form of cash advances to associated companies, the incremental increase in interest expense of $928,071 would have been avoided. Staff determined the amount necessary to reduce revenue

requirement to prevent this unnecessary cost from being borne by ratepayers. Such an adjustment represents approximately 35 per cent of the Utility President's salary, plus the applicable adjustments to pensions and benefits expense and payroll taxes.

Two basic points should be made regarding this part of the recommendation:

(1) The $928,071 in interest can never be passed on, or "borne by," WMSI's ratepayers. That interest will have to be paid by me, my family and my associated companies, all of whom have personally endorsed the DEP note. But this debt is not owed by any ratepayer, and this Commission's rate structure process does not allow that $928,071 of interest to be passed on to the ratepayers.

(2) The extension of the DEP amortization from 20 to 30 years had nothing whatsoever to do whether or not debt service payments were timely made to DEP. Instead, the 10 year extension of the DEP amortization was made as a matter of managerial prudence to allow adequate funds for the necessary principal reductions on the DEP loan.

Debt service payments on an amortized loan are made up of two components: principal and interest. There is nothing in the PSC rules or procedures that allows a utility to recover principal payments through rates, except for the depreciation expenses. There is also nothing to allow utilities such as WMSI to require ratepayers to pay the interest on all the debt incurred for utility improvements or any other purpose. Instead, the rules allow the utility to receive a return on its net investment, known as the rate base. For a debt company, such as WMSI, that return is based upon the company's weighted cost of debt. For a company with no debt, that return is based upon an equity calculation as established by this Commission on a year-to-year basis.

Applying these basic concepts to this case, it can be seen that the extension of the DEP amortization did not cost the ratepayers any money. Instead, it actually saved them money as shown by the following examples. Example One shows the cost to WMSI ratepayers based on the 10 year extension which I negotiated. Example Two shows what would have happened if I had left the amortization at 20 years, as suggested by the staff recommendation.

<u>Example One</u>: <u>Extend the DEP amortization from 20 to 30 years</u>:

<u>Cost to WMSI ratepayers for last 10 years</u>:
3% + 6.5% = 9.5% ÷ 2 = 4.75% weighted cost of debt, assuming WMSI's interest rates remain at 3% and 6.5%, assuming the financing is divided equally between the two rates, and assuming that the rate base remains the same as it was at the end of the 2010 test year, $3,759,162.
4.75% x $3,759,162 = $178,562 x 10 years
Total Cost to WMSI ratepayers last ten years = <u>$1,785,602</u>

Example Two: Pay off the DEP Loan in 20 years:

Cost to WMSI ratepayers for last ten years

Scenario A	Scenario B
100% Debt Company	100% Equity Company

Under Scenario A, it is assumed that WMSI is still a 100% debt company during the last 10 years, that the remaining (non-DEP) debt is still at 6.5%, and that the rate base is still at $3,759,162.
6.5% x $3,759,162 = $244,346 x 10 years
Total Cost to WMSI ratepayers last 10 years= $2,443,455

Under Scenario B, it is assumed that WMSI pays off its other debt to become a 100% equity company, and the rate base remains at $3,759,162. Under that scenario, WMSI would be entitled to a return on equity (ROE) of 11.16%, assuming the current leverage formula does not change.
11.16% x $3,759,162 = $419,522 x 10 years
Total Cost to WMSI ratepayers last 10 years= $4,195,225

To summarize, doing it my way will cost the WMSI ratepayers $1,758,602 for the last 10 years. If I had followed the staff recommendation, the WMSI ratepayers would pay $2,443,455 during those last 10 years. But if I was really "prudent" as defined by the staff recommendation and paid off all of WMSI's debt by the end of the DEP 20 year amortization, the WMSI ratepayers would be charged $4,195,225 during those last years. In other words, my decision to extend the DEP amortization saved the WMSI ratepayers somewhere between $657,843 ($2,443,445 - $1,785,602) and $2,409,623 ($4,195,225-$1,785,602) depending upon the mix of debt and equity. Accordingly, I do not see why the ratepayers should complain, and I certainly do not see how this is a case of imprudence or bad management so as to justify a reduction in my compensation of over $40,000 per year. Just like household finance, you always keep your low interest debt and pay off high interest debt first, assuming all debt cannot be paid at once.

The most important reason I extended the DEP amortization was to more evenly match the term of the loan with the depreciable life of the supply main built with the DEP loan proceeds. As I mentioned earlier, there is no way to directly recover the principal portion of a loan used to purchase plant assets. However, it is possible and prudent to use the cash from the depreciation expense charged to ratepayers if you can get that annual depreciation expense on an asset to match the annual principal payments on the loan used to buy that asset. In this case, depreciable life of the supply main was 40 years, but we were able to get the Commission to cut it back to 35 years. However, that was still 15 years longer than the 20 year amortization on the DEP loan. Accordingly, the depreciation expense embedded in our rates was never going to cover the principal portion of the DEP debt service with a 20 year amortization. By extending the DEP amortization to 30 years, there is now only a 5 year difference so that the depreciation expense included in our rates is almost adequate to cover the principal reductions on the DEP loan. This was a wise and prudent decision in accord with sound utility management principles.

On page 37, the staff states that the reduction of my salary "is consistent with prior Commission decisions wherein the president's salary was reduced for managerial imprudence," citing two cases. However, neither of those cases apply to the facts of this case. One of the decisions involved egregious and willful conduct by the president which resulted in poor water quality and poor quality of service. In this case, WMSI has consistently provided excellent water quality together with prompt and reliable service to all our customers with virtually no complaints. For example, during the most recent storm on the island when electric power was out for five days, we continued to provide prompt, reliable service 24/7 with no outage which afforded consistent fire protection, and which allowed several businesses to stay in operation all for the benefit of our customers. We did this by having our operator stay with the system night and day to make sure our generator did not fail in case of a fire or other major problem. The other Commission order was based upon repeated, willful acts and repeated failures to act in violation of §367.161, Florida Statutes, which authorizes a penalty for a utility that "knowingly refuses to comply with, or willfully violates, any provision of this chapter or any lawful rule or order of the commission." In this case, there has been no violation, willful or otherwise; or any part of Chapter 367 or of any rule or order of this Commission. Indeed, with regard to this Account 123 issue, we have followed the mandates of NARUC to the letter. I would ask these rhetorical questions: If WMSI was not supposed to make investments in associated companies, why is this Account 123 entitled "Investments in Associated Companies" included as a separate, defined account in NARUC? And, if cash payments to the associated company must be treated as debt advances (not equity) years after those advances were made, why does NARUC mandate that all such advances shall be moved to Account 123 and treated as an equity investment after 12 months?

I have just finished reading Mr. Sayler's letter of July 31, 2012, although I have still not received my email copy from Mr. Sayler as shown by his letter. The two Commissioners who were at the final hearing in the last case will recall that Florida's Public Counsel, J. R. Kelly, stood up at the final hearing, pointed toward me, and directly told WMSI's customers that I had taken (stolen) $1.2 million of "your money." He then argued that WMSI would not ever need a rate increase if I had not essentially stolen their money. Among lawyers, this is known as the "Big Lie" strategy. If you don't have the law or the facts on your side, you attack your opponent. If an unscrupulous lawyer tells an outrageous lie, and tells it often and loud, the public will come to believe it over time, especially if it is in their economic interest to believe it. This lie has caused great damage to my professional reputation among the WMSI customers who do not know me, and I had to explain the truth to my first mortgage lender who heard this lie on the radio and read it in the paper.

The "Big Lie" strategy worked very well for OPC in the last rate case. It set a narrative and captured the primary attention of everyone involved in the case. The narrative went like this: Gene Brown is a bad person, he stole $1.2 million from his customers, so he should get no rate increase at all, despite the fact that OPC had already prefiled testimony from its accounting expert which acknowledged that WMSI was entitled to at least a $132,000 annual revenue increase. Nevertheless, this Commission voted to keep WMSI rates exactly the same, to the penny, after almost 20 years with no general rate relief. The staff did an administrative change after the vote, resulting in an additional $10,000 in annual revenue increase, which still required WMSI to pay $229,000 of rate case expenses out of that $10,000. The bottom line was a substantial rate decrease after 20 years without any general overall rate relief.

With such outstanding "success" in the last case, OPC is now doubling down with an expanded "Big Lie" and new narrative that goes like this: Gene Brown stole $1.2 million from his customers so WMSI is unable to pay its debts and is no longer a "going concern," implying that the company may have to be sold at a forced sale. This new narrative, which is being now repeated by people on St. George Island, is consistent with the publically announced goal of a new group on the island that is trying to buy the water company for less than it's appraised value. That group, which recently helped kill a sale to the City of Carrabelle, just filed documentation with the Department of State for a new "SGI Water Cooperative, Inc." to take title. Their obvious strategy is to force the rates down, trash the management of WMSI, and make it impossible for WMSI to obtain financing and survive as a "going concern" so they can take over the water company for less than it is worth.

The main difference between OPC's narrative in the last case and OPC's narrative in this case is OPC is now actively engaged with its "clients" to make the narrative come true. Through access to the staff data requests in this case, OPC was able to get a copy of the loan application filed by WMSI with Fidelity Bank, the bank WMSI had been working with for over a year to obtain the USDA funds necessary to build the improvements involved in this case. A few weeks go, I received a phone call from the Fidelity loan officer in Orlando in charge of USDA loans who had been working on our file. He asked me: "Who is Erik Sayler"? After I told him, he said Mr. Sayler called him from some official state office in Tallahassee, asking for information about WMSI's pending loan application. The banker told Mr. Sayler that he could not answer his questions or release any information about WMSI's loan because it was against bank policy to release any information about customers. The banker and I continued to talk for well over an hour in a very positive way about how we could modify the loan request to make it work. I told the banker I was expecting a preliminary recommendation from the Commission staff on Friday, July 20, which would give us both an idea as to what funds would be available to service the debt on the new loan, and that I would send him that information as soon as it was received. On Monday morning, July 23, as I was getting ready to send the recommended rate increase numbers to the Orlando banker, he called me and said, basically, that your loan is dead, we cannot do this deal. His tone was entirely different and there was no way to get him to consider anything else I had to say about keeping the deal together. When I asked him, "what happened," he said that Erik Sayler had called him again demanding information about the WMSI loan, and when he still would not give it to him, Erik Sayler had called the Orlando banker's boss in Atlanta. When I asked the banker what Erik Sayler had said to him, the banker replied that Mr. Sayler was "not positive," emphasizing the "not."

From this, it is clear that OPC has successfully sabotaged WMSI's loan with Fidelity, after WMSI worked on it for over a year, and that this was done deliberately just before WMSI would have been able to provide more positive revenue information from the PSC to the bank, which was the only reason Fidelity was considering the loan in the first place. It is also clear that OPC was able to kill this loan by using the loan information they received only because of their status as attorneys in this case.

OPC and their "clients" know that banks do not want to deal with a thief who would steal $1.2 million from his customers. They also know that banks will not likely lend millions of dollars to a company run by a man who has just been fined and penalized for bad management by the regulator having life and death control over that company, especially if the regulators also say the company may not be a "going concern." J. R. Kelly and Erik Sayler also know that a bank would not likely move forward with a deal that starts with an aggressive lawyer from an official sounding state office calling the bank repeatedly to make negative comments about a potential borrower. Banks do not go looking for trouble!

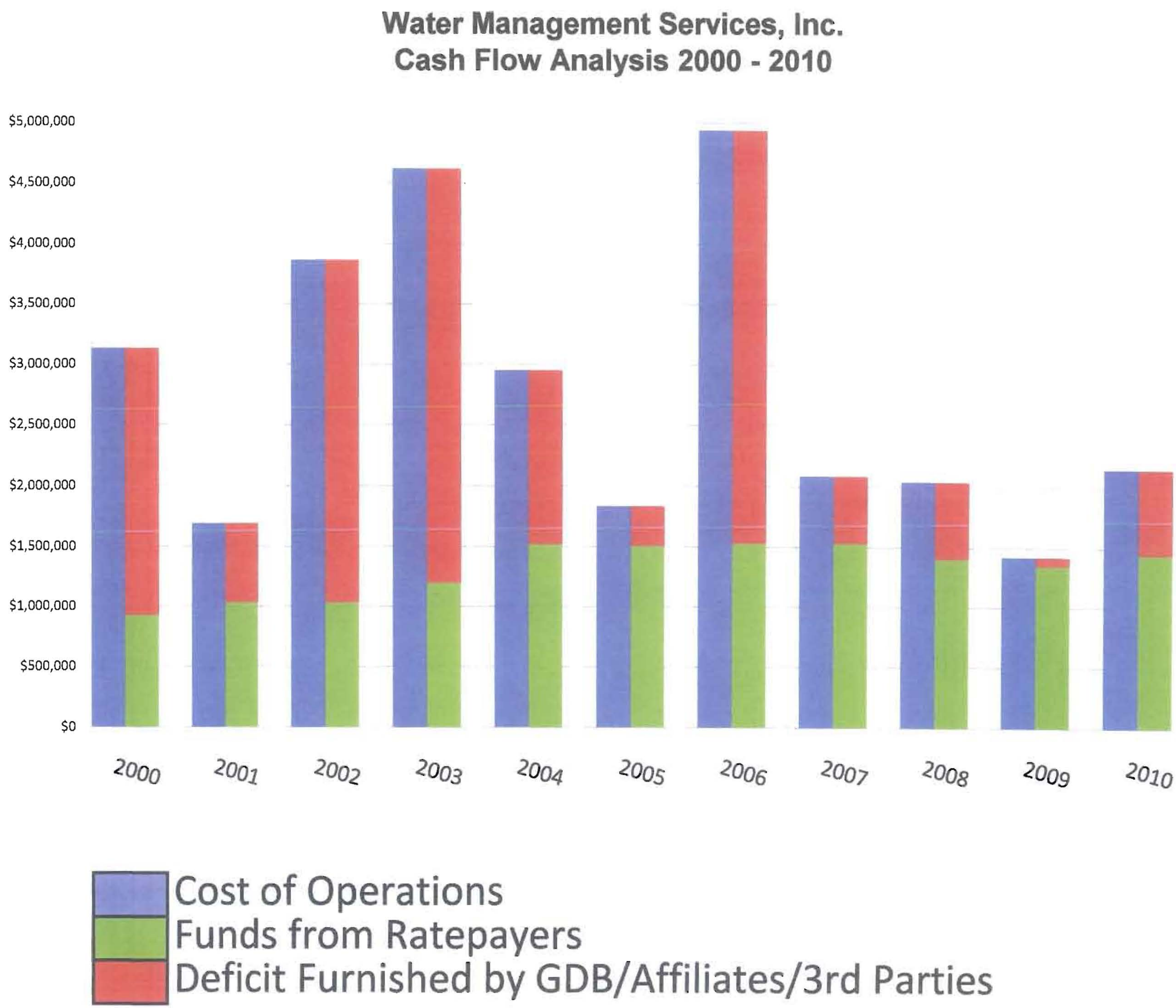
That is why OPC came up with this new narrative involving the "going concern" concept, which was first mentioned in a filing by OPC a couple of months ago and which is still being pressed in OPC's letter filed yesterday. That is also why you will hear a lot of rhetoric tomorrow about the "missing" $1.2 million, both by OPC and the customers. Up to this point, I cannot really blame the customers who are just repeating what their lawyer told them. If my lawyer pointed to a man I did not know and told me that man stole $1.2 million of "your money," I would also have a problem with that man. By this memo, I am suggesting that Mr. Sayler distribute copies of this memo with exhibits to his "clients" so they will know all the facts. To call a man a thief is slander per se, or liable per se in the case of the writings being circulated around St. George Island and Tallahassee. Anyone who continues making these statements about me taking $1.2 million of somebody else's money will be held accountable.

In order to protect the financial integrity of WMSI it will likely have to take legal action against J. R. Kelly and Erik Sayler for tortuous interference with a prospective economic advantage, as defined in <u>Turkey Creek, Inc. V. Londono</u>, 567 So. 2d 943 (Fla. 1st DCA 1990), affirmed in <u>Londono v. Turkey Creek, Inc.</u>, 609 So. 2d 14 (Fla. 1992). This suit will seek damages for the losses suffered by WMSI and me as a result of the Fidelity Bank conduct, as well as any similar conduct uncovered during discovery. Anyone found to have engaged in similar conduct will be added to the lawsuit, which will also seek a permanent injunction to prevent Mr. Kelly and Mr. Sayler from trying to interfere with my business relationship with any other lenders or prospective buyers of the system. I will also ask my attorney, Martin Friedman, to request a special order from this Commission to prevent OPC from gaining access to loan applications or other sensitive documents as I move forward in trying to finance the necessary improvements to the St. George Island water system.

I will end this memo with the same statement that I made during the final hearing in the last case. I have never taken one dollar of ratepayer funds for my own use or the use of any of my affiliates. Instead, I have subsidized this company financially and otherwise for 38 years, which has resulted in an outstanding and reliable water system on St. George Island which I will continue to maintain and protect. I will be at the agenda conference tomorrow and I encourage each of you to ask me any questions you may have concerning this memo or anything else involving this matter.

cc: via Hand Delivery
Division of Economic Regulation (Brown, Cicchetti, Fletcher, Maurey)
Office of General Counsel (Jaeger, Barrera)
Office of Public Counsel (Kelly, Sayler)
Office of Commission Clerk
Martin S. Friedman, Esq.

COMPOSITE EXHIBIT "A"


Water Management Services, Inc.
Cash Flow Analysis 2000 - 2010
$5,000,000
$4,500,000
$4,000,000
$3,500,000
$3,000,000
$2,500,000
$2,000,000
$1,500,000
$1,000,000
$500,000
$0
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
Cost of Operations
Funds from Ratepayers
Deficit Furnished by GDB/Affiliates/3rd Parties

WATER MANAGEMENT SERVICES, INC.
FINANCIAL SOURCES AND USES
SUMMARY OF YEARS 2000 - 2010

2000	
COSTS OF OPERATIONS OF WMSI	$3,130,455.04
FUNDS FROM RATEPAYERS	$925,647.00

DEFICIT FURNISHED BY GDB/AFFILIATES/3RD PARTIES	**$2,204,808.04**
	===========
2001	
COSTS OF OPERATIONS OF WMSI	$1,685,202.06
FUNDS FROM RATEPAYERS	$1,034,524.00

DEFICIT FURNISHED BY GDB/AFFILIATES/3RD PARTIES	**$650,678.06**
	===========
2002	
COSTS OF OPERATIONS OF WMSI	$3,863,314.74
FUNDS FROM RATEPAYERS	$1,032,329.00

DEFICIT FURNISHED BY GDB/AFFILIATES/3RD PARTIES	**$2,830,985.74**
	===========
2003	
COSTS OF OPERATIONS OF WMSI	$4,616,103.06
FUNDS FROM RATEPAYERS	$1,198,338.00

DEFICIT FURNISHED BY GDB/AFFILIATES/3RD PARTIES	**$3,417,765.06**
	===========
2004	
COSTS OF OPERATIONS OF WMSI	$2,950,998.38
FUNDS FROM RATEPAYERS	$1,518,938.00

DEFICIT FURNISHED BY GDB/AFFILIATES/3RD PARTIES	**$1,432,060.38**
	===========
2005	
COSTS OF OPERATIONS OF WMSI	$1,831,156.68
FUNDS FROM RATEPAYERS	$1,504,774.00

DEFICIT FURNISHED BY GDB/AFFILIATES/3RD PARTIES	**$326,382.68**
	===========

WATER MANAGEMENT SERVICES, INC.
FINANCIAL SOURCES AND USES
SUMMARY OF YEARS 2000 - 2010

2006	
COSTS OF OPERATIONS OF WMSI	$4,937,082.76
FUNDS FROM RATEPAYERS	$1,525,833.00

DEFICIT FURNISHED BY GDB/AFFILIATES/3RD PARTIES	**$3,411,249.76**
	===========
2007	
COSTS OF OPERATIONS OF WMSI	$2,082,031.91
FUNDS FROM RATEPAYERS	$1,527,469.00

DEFICIT FURNISHED BY GDB/AFFILIATES/3RD PARTIES	**$554,562.91**
	===========
2008	
COSTS OF OPERATIONS OF WMSI	$2,036,491.79
FUNDS FROM RATEPAYERS	$1,404,766.00

DEFICIT FURNISHED BY GDB/AFFILIATES/3RD PARTIES	**$631,725.79**
	===========
2009	
COSTS OF OPERATIONS OF WMSI	$1,418,542.00
FUNDS FROM RATEPAYERS	$1,346,497.00

DEFICIT FURNISHED BY GDB/AFFILIATES/3RD PARTIES	**$72,045.00**
	===========
2010	
COSTS OF OPERATIONS OF WMSI	$2,146,331.94
FUNDS FROM RATEPAYERS	$1,441,066.16

DEFICIT FURNISHED BY GDB/AFFILIATES/3RD PARTIES	**$705,265.78**
	===========
TOTAL, 2000 - 2010	
COSTS OF OPERATIONS OF WMSI	$30,697,710.36
FUNDS FROM RATEPAYERS	$14,460,181.16

DEFICIT FURNISHED BY GDB/AFFILIATES/3RD PARTIES	**$16,237,529.20**
	===========

WMSI
FINANCIAL SOURCES AND USES
2000

Annual Rpt Reference		Debit	Credit
	RATEPAYERS		
	SOURCES & USES OF RESOURCES		
W-9	Billing Revenue from Ratepayers	$796,007.00	
W-8(a)	CIAC from Ratepayers	$129,640.00	
W-10(a)	Utility Expenses		$610,076.00
W-3	Utility Taxes & Fees		$71,617.00
W-4(a)	Utility Plant Additions (Including C.W.I.P Increase) *		$243,954.00
	TOTAL FUNDS FROM RATEPAYERS	**$925,647.00**	
	TOTAL PAID FROM RATEPAYER FUNDS		**$925,647.00**
	GENE BROWN, AFFILIATES & 3RD PARTIES		
	SOURCES & USES OF RESOURCES		
	Remainder of Utility Plant Additions (Including C.W.I.P Increase) *		$352,980.00
	Citizen's Bank of Perry Payments		$43,232.55
	Transamerica Payments		$1,390,408.53
	Gulf State Bank Payments		$347,694.80
	Farmers & Merchants Bank Payments		$13,510.99
	Capital City Bank Payments		$19,719.29
	N.L.I. Payments		$53,493.79
	Utility Expenses not included on W-10(a) above		$162,203.41
	Cash from third parties	$27,295.77	
	Cash from Loans Secured by GDB/Affiliates	$2,222,097.68	
F-1(a), F-2(a)	Net funds to GDB/Affiliates as per Account 144, 145 & 233	(44,585.41)	
	Adjustment to convert from accrual to cash basis		(178,435.32)
	TOTAL FUNDS FROM GDB, AFFILIATES & 3RD PARTIES	**$2,204,808.04**	
	TOTAL PAID FROM GDB, AFFILIATES AND 3RD PARTY FUNDS		**$2,204,808.04**

SUMMARY	
COSTS OF OPERATIONS (NOT INCLUDING ACCT. 145)	$3,130,455.04
FUNDS FROM RATEPAYERS	$925,647.00

DEFICIT FURNISHED BY GDB/AFFILIATES/3RD PARTIES	**$2,204,808.04**
	=============

* Plant additions in 2000 were $596,934. This includes $189,793 C.W.I.P. increase during 2000.

WMSI
FINANCIAL SOURCES AND USES
2001

Annual Rpt Reference		Debit	Credit
	RATEPAYERS		
	SOURCES & USES OF RESOURCES		
W-9	Billing Revenue from Ratepayers	$910,524.00	
W-8(a)	CIAC from Ratepayers	$124,000.00	
W-10(a)	Utility Expenses		$699,554.00
W-3	Utility Taxes & Fees		$79,511.00
W-4(a)	Utility Plant Additions (Including C.W.I.P Increase) *		$255,459.00
	TOTAL FUNDS FROM RATEPAYERS	**$1,034,524.00**	
	TOTAL PAID FROM RATEPAYER FUNDS		**$1,034,524.00**
	GENE BROWN, AFFILIATES & 3RD PARTIES		
	SOURCES & USES OF RESOURCES		
	Remainder of Utility Plant Additions (Including C.W.I.P Increase) *		$531,519.51
	Citizen's Bank of Perry Payments		$189,366.34
	Wachovia Bank Payments		$7,411.68
	Gulf State Bank Payments		$71,703.89
	Farmers & Merchants Bank Payments		$20,865.96
	Utility Expenses not included on W-10(a) above		$44,937.30
	Cash from third parties	$26,694.97	
	Cash from Loans Secured by GDB/Affiliates	$707,726.10	
F-1(a), F-2(a)	Net funds to GDB/Affiliates as per Account 144, 145 & 233	(83,743.01)	
	Adjustment to convert from accrual to cash basis		(215,126.62)
	TOTAL FUNDS FROM GDB, AFFILIATES & 3RD PARTIES	**$650,678.06**	
	TOTAL PAID FROM GDB, AFFILIATES AND 3RD PARTY FUNDS		**$650,678.06**

SUMMARY	
COSTS OF OPERATIONS (NOT INCLUDING ACCT. 145)	$1,685,202.06
FUNDS FROM RATEPAYERS	$1,034,524.00

DEFICIT FURNISHED BY GDB/AFFILIATES/3RD PARTIES	**$650,678.06**
	============

* Plant additions in 2001 were $786,979. This includes $487,655 C.W.I.P. increase during 2001.

WMSI
FINANCIAL SOURCES AND USES
2002

Annual Rpt Reference		Debit	Credit
	RATEPAYERS		
	SOURCES & USES OF RESOURCES		
W-9	Billing Revenue from Ratepayers	$914,481.00	
W-8(a)	CIAC from Ratepayers	$117,848.00	
W-10(a)	Utility Expenses		$734,387.00
W-3	Utility Taxes & Fees		$80,975.00
W-4(a)	Utility Plant Additions (Including C.W.I.P Increase) *		$216,967.00
	TOTAL FUNDS FROM RATEPAYERS	**$1,032,329.00**	
	TOTAL PAID FROM RATEPAYER FUNDS		**$1,032,329.00**
	GENE BROWN, AFFILIATES & 3RD PARTIES		
	SOURCES & USES OF RESOURCES		
	Remainder of Utility Plant Additions (Including C.W.I.P Increase) *		$1,538,008.00
	D.E.P. Loan Payments		$0.00
	Citizen's Bank of Perry Payments		$177,847.97
	Wachovia Bank Payments		$7,411.68
	Gulf State Bank Payments		$736,444.73
	Farmers & Merchants Bank Payments		$22,210.56
	Utility Expenses not included on W-10(a) above		$129,941.91
	Cash from third parties	$6,532.81	
	Cash from Loans Secured by GDB/Affiliates	$2,757,720.86	
F-1(a), F-2(a)	Net funds to GDB/Affiliates as per Account 144, 145 & 233	66,732.07	
	Adjustment to convert from accrual to cash basis		219,120.89
	TOTAL FUNDS FROM GDB, AFFILIATES & 3RD PARTIES	**$2,830,985.74**	
	TOTAL PAID FROM GDB, AFFILIATES AND 3RD PARTY FUNDS		**$2,830,985.74**

SUMMARY	
COSTS OF OPERATIONS (NOT INCLUDING ACCT. 145)	$3,863,314.74
FUNDS FROM RATEPAYERS	$1,032,329.00

DEFICIT FURNISHED BY GDB/AFFILIATES/3RD PARTIES	**$2,830,985.74**
	=============

* Plant additions in 2002 were $1,754,975. This includes $1,723,648 C.W.I.P. increase during 2002.

WMSI
FINANCIAL SOURCES AND USES
2003

	RATEPAYERS		
	SOURCES & USES OF RESOURCES		
Annual Rpt			
Reference		**Debit**	**Credit**
W-9	Billing Revenue from Ratepayers	$1,057,043.00	
W-8(a)	CIAC from Ratepayers	$141,295.00	
W-10(a)	Utility Expenses		$742,696.00
W-3	Utility Taxes & Fees		$87,153.00
W-4(a)	Utility Plant Additions (Including C.W.I.P Increase) *		$368,489.00
	TOTAL FUNDS FROM RATEPAYERS	**$1,198,338.00**	
	TOTAL PAID FROM RATEPAYER FUNDS		**$1,198,338.00**
	GENE BROWN, AFFILIATES & 3RD PARTIES		
	SOURCES & USES OF RESOURCES		
	Remainder of Utility Plant Additions (Including C.W.I.P Increase) *		$2,483,347.89
	D.E.P. Loan Payments		$290,211.48
	Citizen's Bank of Perry Payments		$156,486.75
	Wachovia Bank Payments		$7,411.68
	Gulf State Bank Payments		$94,404.93
	Farmers & Merchants Bank Payments		$20,114.09
	Utility Expenses not included on W-10(a) above		$37,525.42
	Cash from third parties	$126,209.03	
	Cash from Loans Secured by GDB/Affiliates	$3,377,628.03	
F-1(a), F-12	Net funds to GDB/Affiliates as per Account 145	(86,072.00)	
	Adjustment to convert from accrual to cash basis		328,262.82
	TOTAL FUNDS FROM GDB, AFFILIATES & 3RD PARTIES	**$3,417,765.06**	
	TOTAL PAID FROM GDB, AFFILIATES AND 3RD PARTY FUNDS		**$3,417,765.06**

SUMMARY	
COSTS OF OPERATIONS (NOT INCLUDING ACCT. 145)	$4,616,103.06
FUNDS FROM RATEPAYERS	$1,198,338.00

DEFICIT FURNISHED BY GDB/AFFILIATES/3RD PARTIES	**$3,417,765.06**
	=============

* Plant additions in 2003 were $2,851,837. This includes $1,889,314 C.W.I.P. increase during 2003.

WMSI
FINANCIAL SOURCES AND USES
2004

	RATEPAYERS		
	SOURCES & USES OF RESOURCES		
Annual Rpt			
Reference		**Debit**	**Credit**
W-9	Billing Revenue from Ratepayers	$1,419,587.00	
W-8(a)	CIAC from Ratepayers	$99,351.00	
W-10(a)	Utility Expenses		$791,065.00
W-3	Utility Taxes & Fees		$112,397.00
W-4(a)	Utility Plant Additions (Net of C.W.I.P Decrease) *		$615,476.00
	TOTAL FUNDS FROM RATEPAYERS	**$1,518,938.00**	
	TOTAL PAID FROM RATEPAYER FUNDS		**$1,518,938.00**
	GENE BROWN, AFFILIATES & 3RD PARTIES		
	SOURCES & USES OF RESOURCES		
	Remainder of Utility Plant Additions (Net of C.W.I.P Decrease) *		$78,719.00
	D.E.P. Loan Payments		$418,517.89
	Citizen's Bank of Perry Payments		$142,539.66
	Wachovia Bank Payments		$14,253.42
	Gulf State Bank Payments		$93,230.35
	Farmers & Merchants Bank Payments		$83,635.42
	Envision Payments		$2,624.08
	Utility Expenses not included on W-10(a) above		$320,700.65
	Cash from third parties	$413,956.58	
	Cash from affiliates not shown by Acct. 123		
	Cash from Loans Secured by GDB/Affiliates	$888,329.95	
F-1(a), F-10	Net funds to GDB/Affiliates as per Account 123	(110,532.48)	
F-1(a)	Net funds from GDB/Affiliates as per Account 145	240,306.33	
	Adjustment to convert from accrual to cash basis		277,839.91
	TOTAL FUNDS FROM GDB, AFFILIATES & 3RD PARTIES	**$1,432,060.38**	
	TOTAL PAID FROM GDB, AFFILIATES AND 3RD PARTY FUNDS		**$1,432,060.38**

SUMMARY	
COSTS OF OPERATIONS (NOT INCLUDING ACCT. 123)	$2,950,998.38
FUNDS FROM RATEPAYERS	$1,518,938.00

DEFICIT FURNISHED BY GDB/AFFILIATES/3RD PARTIES	**$1,432,060.38**
	=============

* Plant additions in 2004 were $5,001,428. This included $4,307,233 in C.W.I.P. at the beginning of 2004 for work done from 2000 thru 2003. (See F-7 of 2003 annual report.

WMSI
FINANCIAL SOURCES AND USES
2005

	RATEPAYERS		
	SOURCES & USES OF RESOURCES		
Annual Rpt			
Reference		**Debit**	**Credit**
W-9	Billing Revenue from Ratepayers	$1,427,665.00	
W-8(a)	CIAC from Ratepayers	$77,109.00	
W-10(a)	Utility Expenses		$775,113.00
W-3	Utility Taxes & Fees		$112,431.00
W-4(a)	Utility Plant Additions		$134,740.00
	D.E.P. Loan Payments		$417,389.78
	Citizen's Bank of Perry Payments		$65,100.22
	TOTAL FUNDS FROM RATEPAYERS	**$1,504,774.00**	
	TOTAL PAID FROM RATEPAYER FUNDS		**$1,504,774.00**

	GENE BROWN, AFFILIATES & 3RD PARTIES		
	SOURCES & USES OF RESOURCES		
	Remainder of Citizen's Bank of Perry Payments		$99,279.65
	Gulf State Bank Payments		$175,808.02
	Farmers & Merchants Bank Payments		$121,274.23
	Capital City Bank Payments		$3,423.54
	Envision Payments		$7,872.24
	Wakulla Bank Payments		$3,128.27
	Hitachi Capital Payments		$3,807.48
	Utility Expenses not included on W-10(a) above		$58,560.82
	Cash from third parties	$151,822.51	
	Cash from Loans Secured by GDB/Affiliates	$709,875.14	
F-1(a), F-10	Net funds to GDB/Affiliates as per Account 123	(535,315.97)	
	Adjustment to convert from accrual to cash basis		(146,772.57)
	TOTAL FUNDS FROM GDB, AFFILIATES & 3RD PARTIES	**$326,381.68**	
	TOTAL PAID FROM GDB, AFFILIATES AND 3RD PARTY FUNDS		**$326,381.68**

SUMMARY	
COSTS OF OPERATIONS (NOT INCLUDING ACCT. 123)	$1,831,155.68
FUNDS FROM RATEPAYERS	$1,504,774.00

DEFICIT FURNISHED BY GDB/AFFILIATES/3RD PARTIES	**$326,381.68**
	=============

WMSI
FINANCIAL SOURCES AND USES
2006

	RATEPAYERS		
	SOURCES & USES OF RESOURCES		
Annual Rpt Reference		**Debit**	**Credit**
W-9	Billing Revenue from Ratepayers	$1,487,200.00	
W-8(a)	CIAC from Ratepayers	$38,633.00	
W-10(a)	Utility Expenses		$910,801.00
W-3	Utility Taxes & Fees		$115,195.00
W-4(a)	Utility Plant Additions		$499,837.00
	TOTAL FUNDS FROM RATEPAYERS	**$1,525,833.00**	
	TOTAL PAID FROM RATEPAYER FUNDS		**$1,525,833.00**

	GENE BROWN, AFFILIATES & 3RD PARTIES		
	SOURCES & USES OF RESOURCES		
W-4(a)	Remainder of Utility Plant Additions		$19,250.00
	D.E.P. Payment		$417,389.78
	Citizens's Bank of Perry Payments		$1,827,515.00
	Gulf State Bank Payments		$897,301.64
	Farmers & Merchants Bank Payments		$32,552.52
	Capital City Bank Payments		$35,013.03
	Envision Payments		$7,872.24
	Bank of Tallahassee Payments		$18,315.77
	Wakulla Bank Payments		$195,833.85
	Hitachi Capital Payments		$11,422.44
	GMAC Payments		$740.40
	Utility Expenses not included on W-10(a) above		$78,146.14
	Cash from third parties	$129,752.60	
	Cash from affiliates not shown by Acct. 123	$7,000.00	
	Cash from Loans Secured by GDB/Affiliates	$3,402,081.68	
F-1(a), F-10	Net funds to GDB/Affiliates as per Account 123	(127,585.52)	
	Adjustment to convert from accrual to cash basis		(130,104.05)
	TOTAL FUNDS FROM GDB, AFFILIATES & 3RD PARTIES	**$3,411,248.76**	
	TOTAL PAID FROM GDB, AFFILIATES AND 3RD PARTY FUNDS		**$3,411,248.76**

SUMMARY	
COSTS OF OPERATIONS (NOT INCLUDING ACCT. 123)	$4,937,081.76
FUNDS FROM RATEPAYERS	$1,525,833.00

DEFICIT FURNISHED BY GDB/AFFILIATES/3RD PARTIES	**$3,411,248.76**
	============

WMSI
FINANCIAL SOURCES AND USES
2007

Annual Rpt Reference	RATEPAYERS SOURCES & USES OF RESOURCES	Debit	Credit
W-9	Billing Revenue from Ratepayers	$1,501,205.00	
W-8(a)	CIAC from Ratepayers	$26,264.00	
W-10(a)	Utility Expenses		$959,148.00
W-3	Utility Taxes & Fees		$119,309.00
W-4(a)	Utility Plant Additions		$90,527.00
	Partial Payment to D.E.P.		$358,485.00
	TOTAL FUNDS FROM RATEPAYERS	**$1,527,469.00**	
	TOTAL PAID FROM RATEPAYER FUNDS		**$1,527,469.00**

	GENE BROWN, AFFILIATES & 3RD PARTIES SOURCES & USES OF RESOURCES		
	Remainder of D.E.P. Payment		$58,904.78
	Gulf State Bank Payments		$290,159.55
	Farmers & Merchants Bank Payments		$27,759.20
	Capital City Bank Payments		$1,536.10
	Envision Payments		$7,872.24
	S.E. Toyota Payments		$1,691.68
	Bank of Tallahassee Payments		$18,657.83
	Wakulla Bank Payments		$4,470.83
	Hitachi Capital Payments		$1,903.74
	GMAC Payments		$6,663.60
	Utility Expenses not included on W-10(a) above		$106,685.91
	Cash from third parties	$302,550.21	
	Cash from affiliates not shown by Acct. 123	$243,722.56	
	Cash from Loans Secured by GDB/Affiliates	$159,472.24	
F-1(a), F-10	Net funds to GDB/Affiliates as per Account 123	(151,183.10)	
	Adjustment to convert from accrual to cash basis		28,256.45
	TOTAL FUNDS FROM GDB, AFFILIATES & 3RD PARTIES	**$554,561.91**	
	TOTAL PAID FROM GDB, AFFILIATES AND 3RD PARTY FUNDS		**$554,561.91**

SUMMARY	
COSTS OF OPERATIONS (NOT INCLUDING ACCT. 123)	$2,082,030.91
FUNDS FROM RATEPAYERS	$1,527,469.00

DEFICIT FURNISHED BY GDB/AFFILIATES/3RD PARTIES	**$554,561.91**
	============

WMSI
FINANCIAL SOURCES AND USES
2008

Annual Rpt Reference		Debit	Credit
	RATEPAYERS		
	SOURCES & USES OF RESOURCES		
Annual Rpt Reference		**Debit**	**Credit**
W-9	Billing Revenue from Ratepayers	$1,374,799.00	
W-8(a)	CIAC from Ratepayers	$29,967.00	
W-10(a)	Utility Expenses		$940,311.00
W-3	Utility Taxes & Fees		$108,243.00
W-4(a)	Utility Plant Additions		$96,215.00
	Partial Payment to D.E.P.		$259,997.00
	TOTAL FUNDS FROM RATEPAYERS	**$1,404,766.00**	
	TOTAL PAID FROM RATEPAYER FUNDS		**$1,404,766.00**
	GENE BROWN, AFFILIATES & 3RD PARTIES		
	SOURCES & USES OF RESOURCES		
	Remainder of D.E.P. Payment		$157,393.00
	Gulf State Bank Payments		$299,736.00
	Farmers & Merchants Bank Payments		$28,508.00
	Capital City Bank Payments		$9,217.00
	Envision Payments		$4,592.00
	S.E. Toyota Payments		$10,150.00
	Utility Expenses not included on W-10(a) above		$162,791.64
	Cash from third parties	$806,189.15	
	Cash from affiliates not shown by Acct. 123	$61,621.91	
F-1(a), F-10	Net funds to GDB/Affiliates as per Account 123	(236,086.27)	
	Adjustment to convert from accrual to cash basis		(40,662.85)
	TOTAL FUNDS FROM GDB, AFFILIATES & 3RD PARTIES	**$631,724.79**	
	TOTAL PAID FROM GDB, AFFILIATES AND 3RD PARTY FUNDS		**$631,724.79**

SUMMARY

COSTS OF OPERATIONS OF WMSI (NOT INCLUDING ACCT. 123	$2,036,490.79
FUNDS FROM RATEPAYERS	$1,404,766.00
DEFICIT FURNISHED BY GDB/AFFILIATES/3RD PARTIES	**$631,724.79**

WMSI
FINANCIAL SOURCES AND USES
2009

	RATEPAYERS		
	SOURCES & USES OF RESOURCES		
Annual Rpt			
Reference		**Debit**	**Credit**
W-9	Billing Revenue from Ratepayers	$1,319,558.00	
W-8(a)	CIAC from Ratepayers	$26,939.00	
W-10(a)	Utility Expenses		$1,057,196.00
W-3	Utility Taxes & Fees		$100,197.00
W-4(a)	Utility Plant Additions		$21,487.00
	Partial Contribution to D.E.P. Payment		$167,617.00
	TOTAL FUNDS FROM RATEPAYERS	**$1,346,497.00**	
	TOTAL PAID FROM RATEPAYER FUNDS		**$1,346,497.00**
	GENE BROWN, AFFILIATES & 3RD PARTIES		
	SOURCES & USES OF RESOURCES		
	Balance of D.E.P. Payment		$41,017.00
	Gulf State Bank Payments		$175,359.00
	Farmers & Merchants Bank Payments		$25,872.00
	Capital City Bank Payments		$9,217.00
	Envision Payments		$3,850.00
	Florida Commerce Credit Union Payments		$4,094.00
	Utility Expenses not included on W-10(a) above		$72,174.00
	Cash from third parties	$9,246.00	
	Cash from affiliates not shown by Acct. 123	$58,672.00	
	Cash from Loans Secured by GDB/Affiliates	$57,329.00	
F-1(a), F-10	Net funds to GDB/Affiliates as per Account 123	($53,202.00)	
	Adjustment to convert from accrual to cash basis		($259,538.00)
	TOTAL FUNDS FROM GDB, AFFILIATES & 3RD PARTIES	**$72,045.00**	
	TOTAL PAID FROM GDB, AFFILIATES AND 3RD PARTY FUNDS		**$72,045.00**
	SUMMARY		
	COSTS OF OPERATION OF WMSI (NOT INCLUDING ACCT. 123)	$1,418,542.00	
	FUNDS FROM RATEPAYERS	$1,346,497.00	

	DEFICIT FURNISHED BY GDB/AFFILIATES/3RD PARTIES	**$72,045.00**	
		============	

WMSI
FINANCIAL SOURCES AND USES
2010

Annual Rpt Reference		Debit	Credit
	RATEPAYERS		
	SOURCES & USES OF RESOURCES		
Annual Rpt Reference		**Debit**	**Credit**
W-9	Billing Revenue from Ratepayers	$1,291,957.50	
W-8(a)	CIAC from Ratepayers	$149,108.66	
W-10(a)	Utility Expenses		$1,115,100.17
W-3	Utility Taxes & Fees		$107,671.79
W-4(a)	Utility Plant Additions		$218,294.20
	TOTAL FUNDS FROM RATEPAYERS	**$1,441,066.16**	
	TOTAL PAID FROM RATEPAYER FUNDS		**$1,441,066.16**
	GENE BROWN, AFFILIATES & 3RD PARTIES		
	SOURCES & USES OF RESOURCES		
	Remainder of Utility Plant Additions		$267,208.60
	Gulf State Bank Payments		$160,745.64
	Farmers & Merchants Bank Payments		$22,686.92
	Capital City Bank Payments		$24,029.58
	GMAC Payments		$41,652.62
	Envision Payments		$4,620.00
	Florida Commerce Credit Union Payments		$4,943.16
	Utility Expenses not included on W-10(a) above		$330,080.70
	Cash from third parties	$61,205.49	
	Cash from affiliates not shown by Acct. 123	$102,651.75	
	Cash from Loans Secured by GDB/family and Affiliates	$502,578.36	
F-1(a), F-10	Net funds to/from GDB/Affiliates as per Account 123	$38,830.18	
	Adjustment to convert from accrual to cash basis		($150,701.44)
	TOTAL FUNDS FROM GDB, AFFILIATES & 3RD PARTIES	**$705,265.78**	
	TOTAL PAID FROM GDB, AFFILIATES AND 3RD PARTY FUNDS		**$705,265.78**

SUMMARY

COSTS OF OPERATION OF WMSI (NOT INCLUDING ACCT. 123)	$2,146,331.94
FUNDS FROM RATEPAYERS	$1,441,066.16

DEFICIT FURNISHED BY GDB/AFFILIATES/3RD PARTIES	**$705,265.78**
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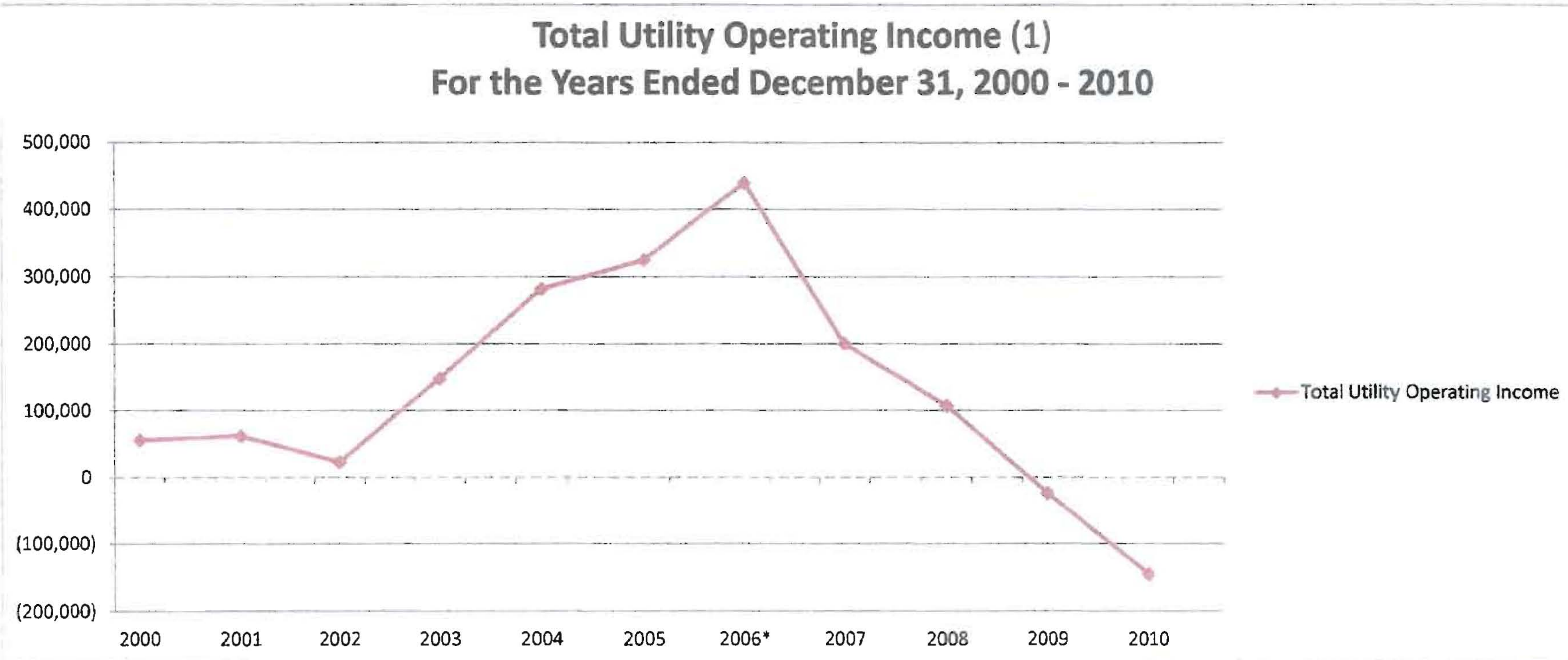
COMPOSITE EXHIBIT "B"

Water Management Services, Inc.



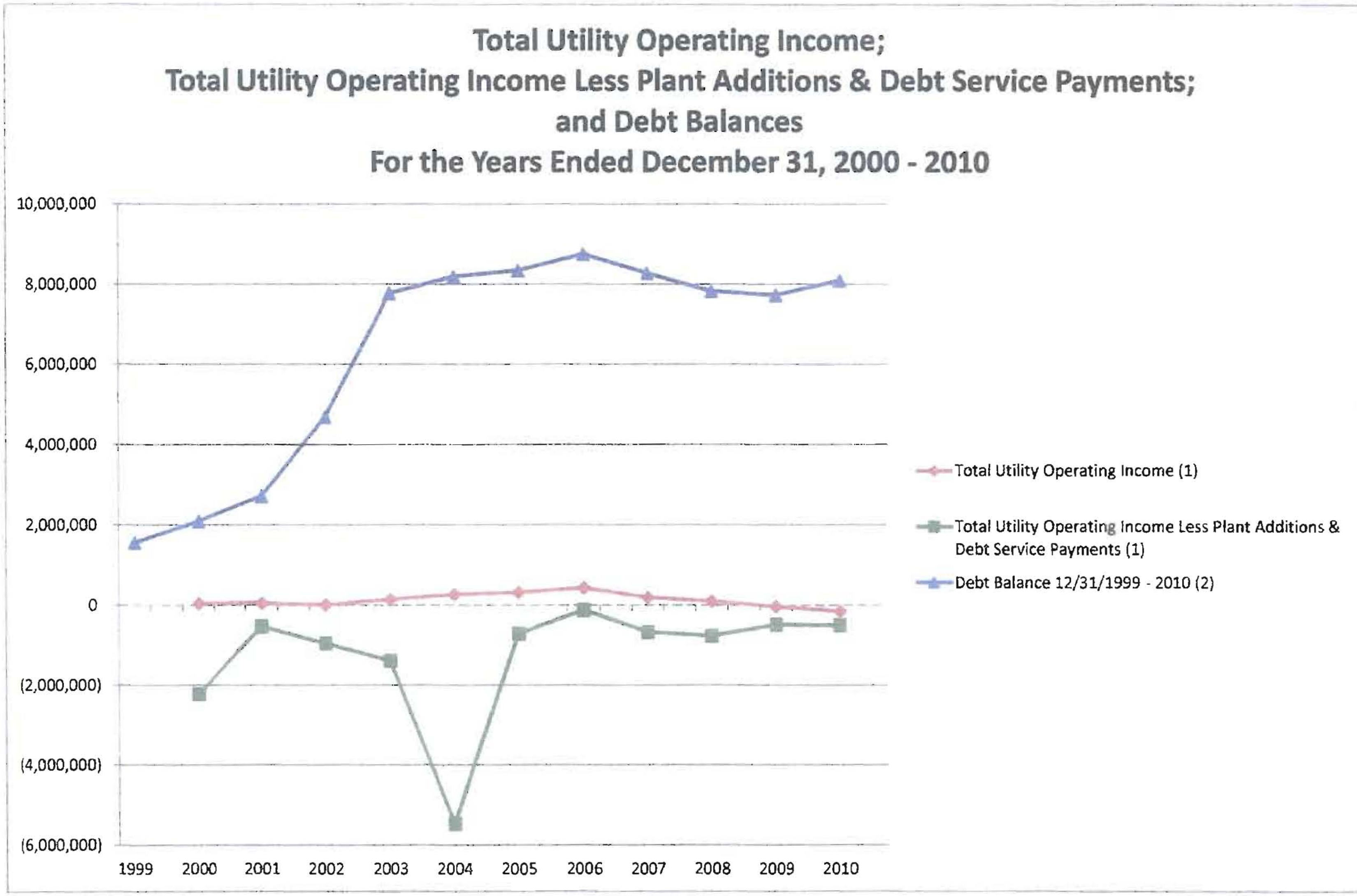
Source of Information:

(1) Annual Reports filed with the Florida Public Service Commission, Schedule W-3 Water Operating Statement.

* Fiscal year 2006 includes Gains (losses) From Disposition of Utility Property of $227,098.

EXHIBIT "B-1"

Water Management Services, Inc.



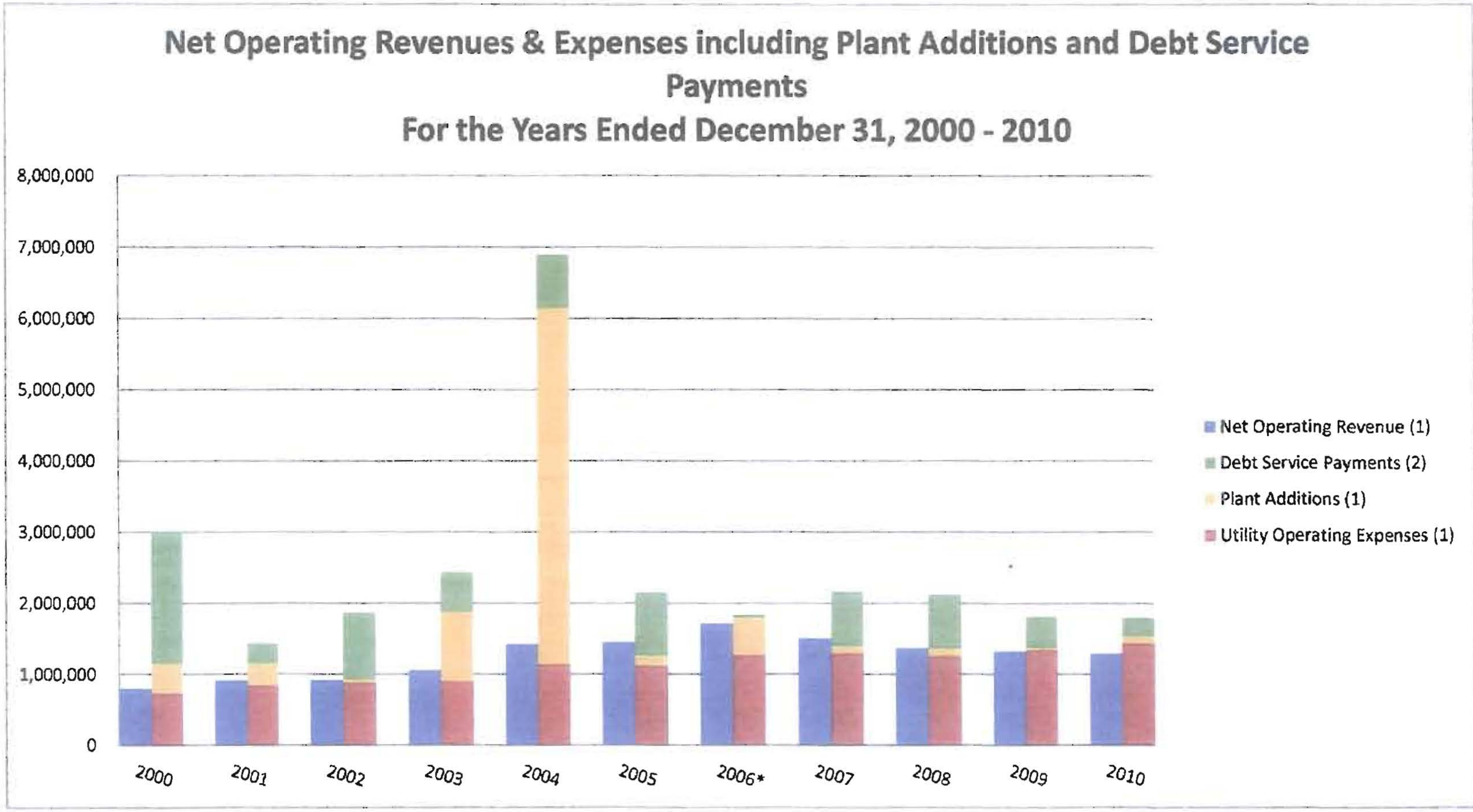
Source of Information:

(1) Annual Reports filed with the Florida Public Service Commission, W-3 Water Operating Statement.

(2) Annual Reports filed with the Florida Public Service Commission, Comparative Balance Sheet, Schedule F-2(a), Accounts 224 and 232.

EXHIBIT "B-2"

Water Management Services, Inc.



Source of Information:

(1) Annual Reports filed with the Florida Public Service Commission, Schedules W-3 Water Operating Statement and W-4(a) Column D of Water Utility Plant Account.

(2) Principal and interest payments on outstanding debt.

*Fiscal year 2006 includes Gains (losses) From Disposition of Utility Property of $227,098.

WMSI does not disagree with the auditor's finding regarding this issue, except as discussed in the utility's response to Finding 4 above.

FINDING 7: CASH FLOW ANALYSIS UPDATE

Since this finding does not relate to an issue that is directly before the Commission in this docket, WMSI will provide only a cursory response at this time. If this becomes an issue, WMSI will provide a more complete and detailed response.

The following points are offered at this time:

(1) The PSC audit report confirms the balance in account 123, Investments in Associated Companies, that has consistently been shown by WMSI in its annual reports and general ledgers provided to the Commission. WMSI's numbers were correct, to the exact dollar amount of $1,215,075. This balance includes amounts that were transferred from other accounts in 2004, so it is really a balance of all investments in associated companies since WMSI was formed.

(2) The PSC audit report also confirms the total revenue from WMSI ratepayers as shown by the utility's cash flow audit and general ledgers provided to the PSC staff as part of this audit. The PSC audit report shows $11,639,415 in cash receipts from ratepayers during the 8 year period from 2004-2011, including CIAC. The WMSI audit report and general ledgers provided to the Commission show $11,647,666 in cash receipts during the same 8 year period, including CIAC. The $8,251 difference is in miscellaneous fees and charges included in the WMSI cash flow audit.

(3) The PSC audit report is based upon year end balances allocated into "operating," "investing" and "financing" activities, but it does not show the deficits between ratepayer revenue and cash operating requirements during the 8 year audit period. The WMSI audit report is based on the same raw numbers, but it does show the operating deficits by comparing the total cash operating requirements with the total funds received from ratepayers. Based on that analysis, the cash operating deficit was $7,133,292 for the period 2004-2010, and was $16,237,529 for the period 2000-2010, as shown by the audit reports previously submitted to the PSC.

(4) The PSC audit report does not indicate or suggest that the revenue from ratepayers was ever adequate to cover all utility operating cash requirements, or that any ratepayer funds were ever transferred to Gene Brown or any of his associated companies. That fact was confirmed by the WMSI audits based on the same raw numbers. Not only did WMSI never have sufficient ratepayer revenue to operate, WMSI never received the earnings allowed by the Commission after 2000, when the State began tearing down the utility's supply main to the island. WMSI's loss of PSC authorized earnings totaled ($633,506) between 2000 and 2010, as shown

EXHIBIT "C"

by the numbers in WMSI's annual reports on file with the Commission which are summarized below:

YEAR	RATE BASE	EARNINGS	ACHIEVED RATE OF RETURN	COST OF CAPITAL	ALLOWED EARNINGS	OVER (UNDER) EARNINGS
2000	$657,050	$52,690	8.02%	10.23%	$67,216	($14,526)
2001	751,711	59,601	7.92%	8.95%	67,368	(7,767)
2002	598,176	20,355	3.40%	5.18%	30,986	(10,631)
2003	5,621,735	145,403	2.59%	3.95%	222,059	(76,656)
2004	5,463,876	273,656	5.01%	4.18%	228,390	45,266
2005	5,311,725	301,462	5.68%	4.69%	249,120	52,342
2006	5,387,188	211,704	3.93%	5.38%	289,831	(78,127)
2007	4,943,816	200,468	4.05%	5.00%	247,191	(46,723)
2008	4,047,544	114,730	2.83%	3.56%	144,093	(29,363)
2009	3,877,452	(28,242)	-0.73%	3.85%	149,282	(177,524)
2010	3,759,162	(145,071)	-3.86%	3.85%	144,728	(289,799)
		$1,206,756			$1,840,262	($633,506)

(5) The PSC audit report shows $15,085,524 in cash receipts and $14,614,799 in cash disbursements from "Utility Activity" resulting in $470,725 of "Net cash for Utility Activity." But that should not be taken as any indication that there was ever an excess of $470,725 in "net cash" from the ratepayers. Only $11,722,859 of the $15,085,524 came from ratepayers. The other $3,362,665 came from loans personally secured by Gene Brown, including personal credit cards (which do not have to be repaid by ratepayers) or from other entrepreneurial activities of Gene Brown, such as an $800,000 damage settlement and the sale (and purchase) of certain other assets in which the ratepayers had no interest. These assets included, for example, two investment lots in Tallahassee that had nothing to do with the water company on St. George Island. The lots were purchased for $236,000 in 2006, which included a $220,000 loan personally endorsed by Gene Brown. In 2007, Brown Management Group bought the lots from WMSI for $480,000 by assuming and making the payments on the $220,000 loan and by giving WMSI a check for $229,723 at closing. As with many of the other transactions shown as "Utility Activity" in the PSC audit report, this investment lot transaction was a "Utility Activity" only in the sense that it involved property titled in the name of

the corporate entity, WMSI. It was not a "Utility Activity" in the sense of having anything to do with rate structure or the utility's ratepayers. Accordingly, the PSC audit report should not be interpreted so as to indicate that WMSI ever had a positive cash flow from activities regulated by the PSC under its rate structure policy and procedure, or from revenue funded by the ratepayers as authorized by PSC rate case policy and procedure.

(6) A reader of the PSC audit report should also not assume that the reference to investments in associated companies (Account 123) reflects the net total of all the transactions by, between or among WMSI, Gene Brown and his associated companies. For example, the 123 account does not include the cash from Brown Management Group to WMSI under the $480,00 lot purchase referenced above. It also does not include the $200,000 paid to WMSI by Brown Management Group as referenced in table 2 of the PSC audit report. And it does not include the debt service paid on outside loans used to fund advances to WMSI. It should also be noted that the balance in account 123 did not just build up over the 2004-2011 time period. A balance of $240,306 was brought forward from another account as of 1/1/04, so the final 12/31/11 balance is actually from the inception of WMSI. The following is a more accurate summary of the net funds back and forth between or among WMSI, Gene Brown and his associated companies during the period from 1/1/04 through 12/13/10.

Funds to Associated Companies-Account 123	$ 1,175,075
Less: Misstatement of Beginning Balance-1/1/04	(240,306)
Corrected Change in Account 123 Balance	934,769
Less: Lot Purchase Proceeds	(229,723)
Less: Note Payments	(200,000)
Less: Note Interest Payments	(43,946)
Actual Funds to Associated Companies	**$ 461,100**
Less: Personal Interest Payments on loans for funds advanced to the Utility	(196,602)
Funds to Associated Companies-Adjusted	**$ 264,498**

But whatever the final number may be determined to be after a more comprehensive and complete audit, none of this has had any impact or effect on the rate structure of WMSI or its ratepayers. The company, WMSI, owns all of the outstanding stock of the associated company, Brown Management Group, which has a documented net worth in excess of the $1,215,075 balance in account 123, "Investments in Associated Companies."

(7) In the audit report issued by the PSC auditor on July 29, 2011, the auditor states that the balance in account 123 should be zero, and that all the advances to associated companies over the years should be netted out and put back into

account 145, "Accounts Receivable from Associated Companies" or account 146, "Notes Receivable from Associated Companies." But that would require WMSI to violate the clear mandate of NARUC, which provides in the instructions under account 146 on page 66 as follows:

> Items which do not bear a specified due date but which have been carried for more than twelve months and items which are not paid within twelve months from due date shall be transferred to account 123 - Investment in Associated Companies. (Emphasis added.) See **Exhibit "K"** attached.

The instruction under account 145 on page 65 says: "See account 146."

The word "shall" is mandatory, and all advances to associated companies have been properly recorded in account 123, including those which were originally carried in accounts 145 and 146, but which were not paid within one year.

The reclassification of the 123 balance back into accounts 145 or 146 would also require WMSI to amend many years of Federal and State tax returns which have treated the funds represented in account 123 as equity, not debt, on the advice of WMSI's tax professionals. This would cause havoc with WMSI's tax accounting and would be unexplainable to the IRS and WMSI's lenders.

SUMMARY

This entire subject of WMSI's cash flow and account 123 is irrelevant to any issue properly before the Commission in this proceeding. Accordingly, WMSI will have nothing else to say on this subject until and unless the Commission enters an order which defines the precise legal issue involved in this docket, and the legal standard which either was or was not violated by WMSI.