

COMMISSIONERS:
BRAULIO L. BAEZ, CHAIRMAN
J. TERRY DEASON
RUDOLPH "RUDY" BRADLEY
LISA POLAK EDGAR

STATE OF FLORIDA



ORIGINAL

TIMOTHY DEVLIN, DIRECTOR
DIVISION OF ECONOMIC REGULATION
(850) 413-6900

Public Service Commission

October 25, 2005

Mr. Gary Deremer
U.S. Water Services Corporation
4939 Cross Bayou Boulevard
New Port Richey, FL 34652

RECEIVED-FPSC
OCT 26 PM 3:22
COMMISSION
CLERK

Re: Docket No 050449-WU - Dixie Groves Utility Company in Pasco County

Dear Mr. Deremer:

We are in the process of reviewing the Application of Dixie Groves Utility Company for a Staff Assisted Rate Case (SARC) in Pasco County. In the documents provided to PSC staff, the utility proposed to: replace the entire distribution system in the Dixie Groves service area, install a new pressure tank for Well # 2, install a propane generator, and install a security and telemetry system at the plant. The U.S. Water Services Corporation (USWC) estimated that it will cost \$1,042,457.66 to complete these pro forma projects. In order to complete this SARC, staff requests that you provide a minimum of three estimates with different contractors for the above pro forma projects, including the one from USWC.

Also, the utility submitted invoice # 04-3776, dated February 27, 2004, totaling of \$10,843 in costs regarding the preliminary engineering study for re-designing the Dixie Groves' distribution system. Did Dixie Groves obtain estimates from other engineering consultant firms regarding this engineering service. If yes, please provide staff a copy of those estimates. If no other estimates were obtained, provide an explanation as to why no such estimates were obtained from other companies.

- CMP _____
- COM _____
- CTR _____
- ECR _____
- GCL _____
- OPC _____
- RCA _____
- SCR _____
- SGA _____
- SEC 1
- OTH _____

In the Commission's review process of rate cases, PSC staff usually requests all utilities to provide three estimates for each plant project. In this case, staff notes that a related party relationship exists between USWC and the utility for its pro forma projects. While related party transactions require close scrutiny, the fact that the transaction is between related parties does not mean that the transaction is unreasonable. It is the utility's burden to prove that its costs are reasonable. Florida Power Corp. v. Cresse, 413 So. 2d 1187, 1191 (Fla. 1982). The burden is even greater when the transaction is between related parties. In GTE Florida Inc. v. Deason, 642 So. 2d 545 (Fla. 1994), the court established that the standard to use in evaluating affiliate transactions is whether those transactions exceed the going market rate or are otherwise inherently unfair.

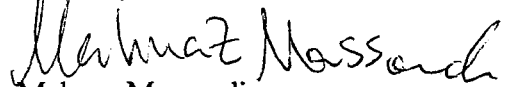
DOCUMENT NUMBER-050449
10406 OCT 26 05
FPSC-COMMISSION CLERK

Mr. Gary Deremer
U.S. Water Services Corporation
October 25, 2005
Page 2

Given the above, it is essential that the utility provide two more estimates for each plant project in order for staff to fully evaluate these related party transactions. If no other estimates are obtainable, you should provide a detailed explanation to justify why the utility is using an affiliated company without obtaining outside bids.

Please provide the requested data no later than November 23, 2005, to Mahnaz Massoudi at 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850. If you have any further questions, please contact Mahnaz Massoudi at (850) 413-6946, or Troy Rendell at (850) 413-6934.

Sincerely,



Mahnaz Massoudi
Engineer IV

cc: Division of Economic Regulation (Rendell, Biggings)
Office of the General Counsel (Jaeger)
Division of Commission Clerk and Administrator Services (Docket No. 050449-WU)