

# ORIGINAL

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September 16, 2003

Mr. Troy Rendell  
Division of Economic Regulation  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, FL 32399-0850

Re: North Peninsula Utilities Corporation  
Rate Investigation; PSC Docket No. 030601-SU  
Our File No. 26097.03

Dear Mr. Rendell:

As a result of our recent conversations and my discussions with the accountants, contractors and management at North Peninsula, I believe that we can demonstrate to the staff that the overearnings alleged in the recent Commission decision for this Utility do not currently exist and are not expected to exist in the future. As such, we believe a settlement of this proceeding is in order to avoid the unnecessary expenditure of funds by both the Commission and the Utility.

I have outlined below some of the things that must be considered in making a determination of actual earnings for 2002, as well as anticipated earnings for 2003 and 2004. I have separated these by the actual and anticipated below:

2002 Actual Overearnings - The staff's analysis of 2002 overearnings was based upon the 2002 Annual Report. However, because of an index implemented in July of 2002, the staff did an annualization of revenue calculation which assumed not only year end revenues, but year end customers as well. In calculating actual overearnings for the year 2002, these two adjustments are inappropriate. While those assumptions about annualization of revenues may be appropriate for some purposes, they are not appropriate for judging actual overearnings during that historic year. The Utility was also aware of several adjustments that needed to be made to the 2002 revenue figures, including 2001 revenue collected in 2002 and 2003 revenue collected early that was booked during 2002. All of these errors were reflected in the revenues reported in the Annual Report and should be adjusted in judging 2002 earnings. I believe the auditors have already been shown these latter adjustment figures

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Mr. Troy Rendell  
September 16, 2003  
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and the amount of these errors.

However, to appropriately review 2002 earnings the revenue should be calculated based upon the actual number of customers that were in place during the test year and the rates that were in effect during that 2002 year. As such, the attached schedule shows the actual revenues that should have been collected at approved rates for calendar year 2002. This schedule shows actual revenue for 2002 of \$177,126.

Based upon the corrected revenues ( $\$183,405 - \$177,126 = \$6,279$  over statement), the actual overearnings for 2002 is only approximately \$6,518.

Because the index was placed into service for less than  $\frac{1}{2}$  year (August through December service), the only portion of any alleged overearnings for 2002 which is related to the index itself is at most  $\frac{5}{12}$  the total index increase of \$2,724 or \$1,135.

Therefore, in order to liberally construe the amount of excess earnings that occurred during 2002 as the result of implementation of the index in August of 2002, the Utility would agree to refund the entire \$1,135 as a credit to customers' bills in that amount.

2003 and 2004 Projected Earnings - The Utility will undertake several significant improvements to its system which will have a significant effect on anticipated earnings for 2003 and 2004. I am attaching hereto a calculation of the cost of those improvements based upon estimates provided to the Utility by the construction company who will perform those required improvements. I am also attaching a detailed description of the required improvements from the construction company.

As the attached schedule shows, the Utility will be required to make \$30,564 in required capital improvements by the end of calendar year 2003 and \$40,549 in such improvements during calendar year 2004. All of these are required by DEP (see the attached letter from DEP).

In addition to the capital improvements, several repairs proposed for amortization over a four year period will have to be undertaken, both in 2003 and 2004. The rebuilding of two plant pumps at a cost of \$4,207 each and the

rebuilding of a lift station pump at an estimated cost of \$4,742 totals \$13,156 in repairs during 2003. The amortization of those repairs (and other minor items reflected on the attached schedule) over a four year period has been proposed by the Utility's outside accountant, Robert F. Dodrill, Sr., for an additional annual expense of \$3,348.

Depreciation on the DEP required improvements during 2003 at 6.67% equals \$2,039 in annual increase in depreciation expense for 2003.

The depreciation expense on the 2004 additions at 6.67% totals \$2,706.

Therefore, adding both the DEP required improvements in 2003 and the amortized repairs which will be completed during 2003, totals over \$5,387 in additional operating expenses anticipated, above and beyond those determined in 2002. With an allowed return on these plant additions of 7%, the Utility will not overearn in 2003.

In addition to those costs outlined for 2003 (which will recur in 2004), the capital additions and repairs expected to be undertaken during 2004 will increase depreciation and amortization expense by approximately \$6,922 based upon Mr. Dodrill's attached schedule. As with 2003, this increase is before consideration of the additional approximately \$2,800 in the return at 7% to which the Utility will be entitled once it makes these investments.

Proposed Settlement - Based upon the above and the attached schedules, it is clear that the Utility only overearned in 2002 by a maximum of \$6,518 and only \$1,135 of that is related to the index itself. During 2003, the additional expenses and depreciation and return anticipated based upon improvements required by the Florida Department of Environmental Protection will more than offset any estimated overearnings calculated by the staff. The same is true for anticipated capital improvements as required by DEP and the effects on expenses and earnings during 2004.

The Utility is agreeable to making a refund of all of the index amount collected for calendar year 2002.

Because overearnings are clearly not anticipated in 2003 and 2004 based upon these required improvements, the Utility proposes that the Commission issue an Order

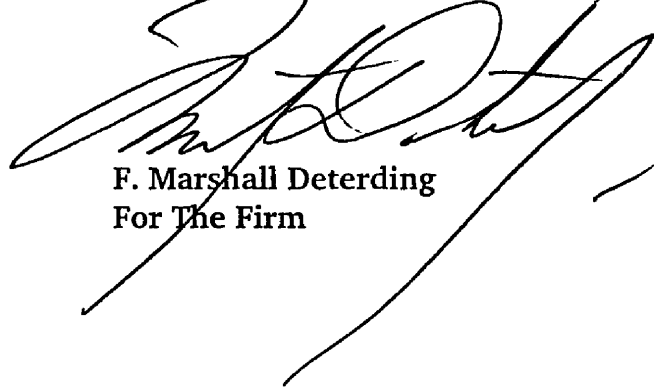
Mr. Troy Rendell  
September 16, 2003  
Page 4

holding those revenues up to the amount of potential overearnings after correction of the 2002 revenue figure subject to refund for the next six months and then the Utility will file with the Commission by February 28, 2004 proof of the actual expenditures and their revenue impact, as outlined herein and in Mr. Dodrill's attached schedule. Upon filing that proof, the Commission staff can then close this docket if in fact those improvements have been made in sufficient amount to offset the corrected potential overearnings.

Please review this information and these facts and let me know if you need anything further. We would propose that the staff move forward with presenting this settlement proposal to the Commissioners if you are agreeable, if not, please let me know what concerns you still have.

Sincerely,

ROSE, SUNDBSTROM & BENTLEY, LLP

A large, stylized handwritten signature in black ink, appearing to read 'F. Marshall Deterding', is written over the typed name and firm name.

F. Marshall Deterding  
For The Firm

FMD/tms

cc: Blanca S. Bayo, Director  
Katherine Fleming, Esq.  
Mr. Robert L. Hillman

North Peninsula Utilities Corporation  
Revenue Reconciliation  
For the Year Ended 12/31/02

Monthly Customer Billings (revenues):

<u>Month</u>	<u>Rate</u>	<u># of Customers</u>	<u>Total</u>
January	\$ 27.46	529	\$ 14,526
February	27.46	530	14,554
March	27.46	530	14,554
April	27.46	530	14,554
May	27.46	530	14,554
June	27.46	530	14,554
July	27.46	530	14,554
August	27.89	530	14,782
September	27.89	533	14,865
October	27.89	539	15,033
November	27.89	548	15,284
December	27.89	549	<u>15,312</u>

Actual billings per monthly detail

\$177,126

North Pennisulia Utilities, Inc. Proposal Analysis 1 & 2 Set Up - August 08, 2003		Source: Contractors Projections in File File: Protim03			Robert F. Dodrill Sr. - Printed: Day 09-Sep-03 11:08 AM		
CWO#	Construction Subproject	'03 or Year	Est. Month	Proforma Capital \$ Est	Ret. Y/N	Expense desc.	Proforma Expense \$ Est
LSRE01b	1b Rebuild plant site pump #2*	3	9	XXXX		3,156	1,051
LSRE02	2 Rebuild pump JA Lift Sta *	3	9	XXXX		3,556	1,186
LSRE01a	1a Rebuild plant site pump #1*	3	9	XXXX		3,156	1,051
90SP5	5 Install total blower assemb	3	9	5,796	Y		XXXX
2ACSP03	3 2 New Auto composite Samp.	3	10	5,394	N		0
60SP01	1 New gear drive & motor	3	10	4,870	Y		XXXX
90SP2	2 Replace sludge return	3	10	6,438	Y		XXXX
90SP4	4 Level effluent weir	3	12	XXXX			60
JALSPP02	2 One new Pump for JA L/S	3	12	5,876	Y		0
90SP6	6 Replace Bad diffusers etc.	3	12	2,190	Y		XXXX
				30,564			3,348
60SP02a	2a Replace bad handrails	4	1	1,844	Y		XXXX
60SP02b	2b Repair walkway sections	4	1	XXXX			850
60SP05a	5a Coat interior w/epoxy *	4	3	XXXX		1,874	468
60CP03a	3a New motor starters	4	3	2,285	Y		XXXX
60CP03b	3b New Alternator	4	3	173	Y		XXXX
90SP8	8 Replace bad walkways	4	3	3,493	Y	Def.	XXXX
GASCLP01	1 New Gas Chlorination System	4	3	\$4,428	N		0
60SP04a	4a Sandblast STP interior *	4	3	XXXX		2,283	571
60CP01a	1a Total Rippe airlift	4	3	1,354	Y		XXXX
60SP05b	5b Coat exterior w/epoxy *	4	3	XXXX		1,138	284
60CP03	3 Main blower panel	4	3	XXXX			XXXX
60CP02	2 Install total blower assemb	4	3	4,856	Y		XXXX
60CP01b	1b Total Rippe sludge return	4	3	1,000	Y		XXXX
60CP03d	3d New breakers	4	3	1,427	Y		XXXX
60CP03c	3c New timedclock	4	3	241	Y		XXXX
90SP9	9 Sandblast STP interior *	4	3	XXXX		1,709	427
90SP11	11 Sandblast & Coat Exterior *	4	3	XXXX		1,322	330
60SP03	3 Install total blower assemb.	4	3	5,193	Y	Def.	XXXX
90SP3	3 Install new air lift	4	3	576	Y		XXXX
90SP7	7 Replace bad handrails	4	3	3,314	Y		XXXX
60SP04b	4b Sandblast STP exterior *	4	3	XXXX		2,606	652
90SP10	10 Coat interior w/epoxy *	4	3	XXXX		1,234	309
90SP1	1 Replace defective plate	4	3	4,142	Y	Repair balance as nexed	0
				34,326			3,891
TRIP02	2 Replace bad handrails	4	4	648	Y		XXXX
TRIP03	3 Replace bad walkway/sup	4	4	625	Y	Def.	XXXX
TRIP04	4 Sandblast station & piping *	4	4	XXXX		640	160
TRIP05	5 Epoxy Station and piping *	4	4	XXXX		664	166
TRIP01	1 Replace bad steel	4	4	4,950	Y		XXXX
				6,223			326
RECAP						Full Yr. Depr. @ 6.67%	Exp.
DEP Required Improvements for		Year 03		\$30,564	'03	\$2,039	\$3,348
		1Qtr-04		34,326			3,891
		April 04		6,223			326
DEP Required Improvements for		Year 04		40,549	'04	\$2,705	4,217
Total Proforma Upgrade				\$71,113			

***Wetherell Treatment Systems, Inc.***  
***600 Hull Road***  
***Ormond Beach, Florida 32174***  
***386-673-4161***

July 14, 2003

North Peninsula Utilities  
P.O. Box 2803  
Ormond Beach, Florida 32175

RE: Seabridge Sewage Treatment Plant Rehab

***PROPOSAL***

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As per our discussion and agreement, Wetherell Treatment Systems agrees to provide all equipment, material and labor to renovate the existing steel plants and make corrections, repairs, and changes to operation as required by Department of Environmental Protection. The scope and completion of required work is as follows:

***90,000 Gallon Steel Sewage Plant***

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1. Replace defective steel plate and repair any leaks in older steel plant.
2. Replace existing sludge return through in older steel plant with new return through and supports as required.
3. Install new chlorine contact air lift in older plant.
4. Level effluent weir in older plant.
5. Install one new positive displacement blower and motor complete with new equipment stand, air filters, sheaves and belt guard
6. Replace all defective air diffusers, fittings and valves.
7. Replace all defective handrailings and fittings.
8. Replace all defective walkway supports and any defective walkway bar grading.
9. Upon completion of all steel work and repairs Wetherell Treatment Systems shall sandblast the top 2' to 3' of the interior of the sewage treatment plant.
10. Upon completion of sandblasting, Wetherell Treatment System shall coat the top 2' to 3' of the interior of the sewage treatment plant with two coats of epoxy coal tar 6 to 8 mils DFT each coat.

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July 14, 2003  
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11. The exterior of the sewage plant shall be sandblasted as necessary. After sandblasting the exterior shall be coated with hi-build epoxy 5 to 7 mils DFT.

Total Cost Of Above Work Installed----- \$31,340.00 plus tax

***60,000 Gallon Per Day Steel Sewage Plant***

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1. Wetherell Treatment Systems shall supply and install a new mechanical geardrive and motor for the clarifer.
2. Replace all defective handrailing and repair any defective walkway sections.
3. Supply and install one new positive displacement blower and motor assembly complete with new motor base, air filter and guard.
- 4 Sandblast the top 2' to 3' of the interior and exterior of the sewage plant as necessary.
5. Upon completion of steel work and sandblasting Wetherell Treatment Systems will apply two coats of coal tar epoxy to the top 2' to 3' of the interior of the sewage plant 6 to 8 mils DFT each coat. The exterior of the sewage plant shall receive two coats of Hi-Build epoxy 5 to 7 mils DFT.

Total Cost Of Above work installed----- \$22,633.00 plus tax

***60,000 Gallon Per Day Concrete Sewage Plant***

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1. Completely repipe both clarifer airlifts and sludge return pipe. Each air lifts shall have a separate 6" PVC sludge return line with necessary valving.
2. Supply and install one positive displacement blower and motor assembly complete with new motor base, air filter, guard and sheaves.
3. Rewire main blower panel with new motor starters, alternator, time clock, and breakers

Total Cost Of Above Work Installed----- \$11,336.00 plus tax



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July 14, 2003  
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***Triplex Flow Distribution Station***

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- 1. Replace defective steel
- 2. Replace all handrail.
- 3. Replace defective walkway and walkway support
- 4. Sandblast, distribution station and piping
- 5. Apply two coats of Hi-Build epoxy to sandblasted distribution station and related hardware and piping.

Total Cost Of Above Work Installed----- \$7,853.00 plus tax

***Lift Station Repairs***

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- 1. Completely rebuild two plant site lift station pumps.
- 2. Rebuild one pump at John Anderson lift station.

Total Cost Of Above Work Installed----- \$13,156.00 plus tax

***Additional Equipment that is needed:***

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- 1. New gas chlorination system.-----\$4,428.00 plus tax
- 2. One new lift station pump for John Anderson lift Station-----\$5,876.00 plus tax
- 3. Two new automatic composite samplers----- \$5,394.00 plus tax

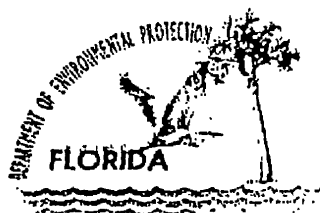
Mr. Hillman, as you know per your instructions, some of this work has already been completed, other portions of work are under way and some equipment has already been ordered.

Read and Agreed To By:  
Peninsular Utilities

Wetherell Treatment Systems

\_\_\_\_\_  
Bob Hillman    date

\_\_\_\_\_  
Glenn Wetherell    date



# Department of Environmental Protection

Jeb Bush  
Governor

Central District  
3319 Maguire Boulevard, Suite 232  
Orlando, Florida 32803-3767

David B. Struhs  
Secretary

NORTH PENINSULA UTILITIES CORPORATION  
PO BOX 2803  
ORMOND BEACH FL 32176

OCD-C-WW-03-0009

ATTENTION ROBERT HILLMAN  
VICE PRESIDENT

Volusia County - DW  
Seabridge WWTF  
Wastewater Facility - Permit No. FLA011188  
Noncompliance Letter

Dear Mr. Hillman:

On December 11, 2002, Department personnel conducted a routine inspection of your wastewater facility. A copy of the inspection report is enclosed for your review. During the course of the inspection, and/or determined from records on file in this office, the following deficiencies were noted:

1. The influent and effluent composite samples were not flow-proportioned composite samples. The permit states that the flow-proportional composite samples must be collected at these locations. This was noted in the previous Noncompliance Letter Number OCD-C-WW-02-0241 dated April 24, 2002 and not adequately addressed in the response (see the inspection report for details).
2. The maintenance and operation logbook was incomplete. Maintenance and operation information must be contained in a bound logbook with numbered pages. The logbook must contain a minimum of three (3) months of data, identification of the plant, the signature and certification number of the operator, date and time in and out, specific operation and maintenance performed, tests performed, samples taken, and major repairs made.
3. A copy of the license for each certified operator that services this facility was not on-site.
4. In general, the steel in the facility is badly corroded and in need of repair or replacement (see the inspection report for specific details).
5. Aeration does not appear to be even throughout the aeration basin in steel plant #1.
6. The traveling sludge return was extremely rusty and had rusted through in places.
7. The clarifier weir was not level in any of the plants (see inspection report for details).

Seabridge WWTF  
OCD-C-WW-03-0009  
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8. The return sludge system for the concrete plant was leaking sludge back into the clarifier.
9. A review of the ground water files for this facility indicates the following deficiencies:
  - a) The Department received a response letter (dated 4/30/02) that replied to the ground water deficiencies noted in non-compliance letter OCD-C-WW-02-0421 (dated 4/24/02). All ground water responses were sufficient, except to Ground Water item 8c from the previous non-compliance letter OCD-C-WW-00-0643 (dated 6/27/00). Item 8c concerns confirming what the correct top of casing elevations are for background wells MW-1A and MW-1B. As of December 2002, the Department has not received the confirmed top of casing elevations for the two background wells. However, please submit the correct top of casing elevation (in feet NGVD or feet MSL) for only background well MW-1B because MW-1A was damaged and approved for abandonment by the Department.
  - b) After receiving the renewed permit, please abandon background well MW-1A. The well abandonment shall be carried out by cement grouting in accordance with the requirements stipulated in Rule 62-532.440, F.A.C. Once abandonment is complete, please submit to the Central District office the well abandonment log of existing well MW-1A with a copy to the local Water Management District.
  - c) In the second and third quarters of 2002, the abbreviation "ND" (none detected) was reported as the result for the fecal coliform parameter for all monitoring wells. In addition, "ND" was reported for the nitrate result for compliance well MW-4 in the third quarter of 2002. An actual numerical value should be reported for each parameter.

On laboratory sheets that were attached to the reports, detection limits for fecal coliform were recorded and consisted of 1.0 CFU/100 mL and 4.0 CFU/100 mL for the second and third quarters of 2002, respectively. Also on the laboratory sheets, a detection limit of 0.25 mg/L for the nitrate parameter was recorded for the third quarter of 2002.

Please note that if a result is below the corresponding detection limit, then the numerical value shall be compared to the detection limit. For example, if the detection limit of fecal coliform is 1.0 CFU/100 mL and a result is not detectable (ND), then the concentration would be recorded as < (less than) 1.0 CFU/100 mL. Furthermore, if a data qualifier code such as "U" is reported with a result, then this code shall be recorded next to the numerical value of the result and defined in the comment section of the correlating report form.

- d) For the third quarter of 2001, the ground water samples that were collected on September 28, 2001 were not tested for the nitrate parameter. However, the facility collected samples for nitrate on October 4, 2001. This sample date fell outside of the report period for the third quarter. Please remember to collect ground water samples for all sampling events, including resamplings, during the report period for the corresponding and correct quarter.


Seabridge WWTF  
OCD-C-WW-03-0009  
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- e) A certification form was not submitted with the ground water monitoring reports for the third and fourth quarters of 2001 as well as the first through the third quarters of 2002. This was noted in the previous inspection report and ground water review. Please complete and submit the enclosed certification form with each quarterly ground water monitoring report. The authorized representative of the facility must sign the Certification Form. Please provide a copy of the certification form to all facility and laboratory personnel that are involved in the quarterly submittals. For facilities with a new or renewed permit in the year 2001 to current, please disregard the request for a Comp QAP/HRS certification number in the quality assurance section (Part II) and instead record the DOH (Department of Health) Certification number.

For the first and second quarters of 2002, the facility submitted data on their own report forms that did not contain columns for Store Codes, detection limits, and/or preservatives added. Detection limits, however, were recorded on laboratory sheets that were attached to the report for the first quarter of 2002. If the facility or consultant is planning to continue submitting data on their own report forms, then please ensure that all required information from the Department's forms are transferred over.

Please respond to these items, in writing, with a schedule of corrective action. Pursuant to Rule 62-4.100(2), F.A.C., failure to comply with pollution control rules shall be grounds for permit suspension or revocation and initiation of formal enforcement action. Your reply is requested within 14 days from the date of this letter. Ground water questions should be directed to Lynn Lukacs, at (407) 893-3308, Ext. 2233. Your reply and any other questions should be addressed to Ed Fitzgerald at (407) 893-3313.

Sincerely,

  
Gary P. Miller  
Program Manager  
Wastewater Compliance/Enforcement

Date: January 8, 2003

<sup>KLF</sup>  
GM/etf/ww

Enclosures

cc: Volusia County Environmental Management  
FDEP, Ground Water Section