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DATE: August 25, 2005

TO: Kay B. Flynn, Chief of Records, Division of the Commission Clerk & Administrative Services

FROM: Stephanie Clapp, Regulatory Analyst IV, Division of Economic Regulation

RE: Docket No. 050323 – North Fort Myers Utility, Inc./PSC Transfer Proceeding

Please add the attached correspondence received from Mr. Martin Friedman, Law Offices of Rose, Sundstrom & Bentley, LLP, to Docket No. 050323.

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Attachment

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MARTIN S. FRIEDMAN, P.A.
VALERIE L. LORD

August 23, 2005

Ms. Stephanie Clapp
DIVISION OF ECONOMIC REGULATION
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399

Re: Docket No.: 050323; North Fort Myers Utility, Inc./PSC Transfer Proceeding
Our File No.: 16319.66

Dear Stephanie:

This correspondence is in response to the questions you and Patti Daniel raised in our recent conference regarding the above-referenced proceeding. I believe that I have previously adequately addressed the issues raised in your August 2, 2005, e-mail in my August 8, 2005, correspondence to you.

1. Why not keep Heron's Glen Utility operating for current customers under current rates and get NFMU to provide service for new connections under NFMU's Tariff?

The cost of continuing to operate the current wastewater treatment plant for a finite number of customers while at the same time a collection system is available to serve those customers is not the best financial solution for the Utility or the customers as there would be duplicative regulatory and operating expenses. Further, it is the goal to provide centralized wastewater treatment to northern Lee County, and NFMU has stepped in to fulfill that obligation.

2. Who will pay for the interconnect?

Both the wastewater collection main and the reuse water main which are being constructed by NFMU to serve the Heron's Glen Development will be paid for by NFMU.

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3. Please provide more details on the impact on revenues and expenses of the interconnection on NFMU.

Attached hereto are financial schedules prepared by Paul DeChario of Cronin, Jackson, Nixon & Wilson, which show the stand alone net operating income after acquisition. You will note that even utilizing NFMU's rates, the system will still have a negative net operating income. The implementation of NFMU's rates will result in a decrease in the base facility charge and an increase in the gallonage charge.. Further, you will note that even eliminating the Heron's Glen wastewater treatment plant assets from rate base, the net rate base will still exceed the \$3,000,000.00 purchase price. However, NFMU is not requesting an acquisition adjustment.

4. How does charging Heron's Glen customers the NFMU rates impact NFMU's earnings? Would there be possible overearnings?

As can be seen in the schedules referenced in the response to paragraph 3 above, the additional revenue from the Heron's Glen Development will not cause NFMU to overearn.

5. What is the actual purchase price? How does the \$600,000 from the Seller affect the purchase price?

The purchase price is \$3,000,000 as set forth in the purchase contract. The \$600,000 represents prepaid connections from the Developer. Please keep in mind that the Developer and Utility are a single legal entity.

6. What is the capacity of NFMU's wastewater plant? How much is used today? How much additional would be used by Heron's Glen?

The NFMU regional wastewater treatment plant is currently permitted at 3.5 million gallons per day and is currently in design for an expansion to 7 million gallons per day. Current average flows are approximately 1.7 million gallons per day. The customers of Heron's Glen will add approximately 250,000 gallons per day.

7. What is the effect of the transfer of Heron's Glen on the NFMU existing customers?

The addition of the Heron's Glen customers will benefit the existing customers in that the continued growth in the NFMU system has allowed it to operate without having had a major rate case in many years. This benefits existing as well as future customers of NFMU.

8. The Developer's CLIF System provides landscape irrigation to the Homeowners' Association property, including the medians, and some residential homes. The water supplying the CLIF System comes from surface water bodies and not reclaimed water from the wastewater treatment plant. There is insufficient reuse from the existing wastewater treatment plant to provide reuse to the CLIF as all of the reuse is being used by the Recreation District on its golf course.

Please keep in mind that NFMU is 100% reuse, and thus, has not had to incur the expense of land acquisition for effluent disposal. The acquisition of land for effluent storage ponds in an area such as North Fort Myers, Florida, would be cost prohibitive.

You also asked that I explain why NFMU did not propose to continue the \$0.05 per 1,000 gallon charge for reuse to the golf course owned by the Recreation District. In this limited proceeding, NFMU has requested that it be allowed to impose its rates and charges upon the customers of Heron's Glen and believed that it would be inconsistent to impose the rates and charges for wastewater service but not those for reuse service. If the Staff does not view that as an inconsistency, then I would propose that NFMU continue to charge the \$0.05 per 1,000 gallons even after reuse to that golf course is being provided from the NFMU central wastewater facility.

It is my understanding from our meeting that the Staff does not intend to recommend that rate base be established in connection with the assets being acquired by NFMU in this proceeding. Although we do not wish to delay the Commission's consideration of this transfer, we do think it would be prudent to establish rate base as to the purchased assets. Although NFMU is obtaining copies of all relevant documents with which to establish rate base, I believe it would be prudent to do so at this time in case issues arise that need

Ms. Stephanie Clapp
DIVISION OF ECONOMIC REGULATION
Florida Public Service Commission
August 23, 2005
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additional documentation which may not be readily available in the future.

Should you have any further questions regarding this matter, please do not hesitate to give me a call.

Very truly yours,



MARTIN S. FRIEDMAN
For the Firm

MSF/mp
Enclosure

cc: Mr. Jack Schenkman (w/o enclosure)
Dr. Joel Schenkman (w/o enclosure)
Dr. Michael Schenkman (w/o enclosure)
Mr. Tony Reeves (w/enclosure)

M:\1 ALTAMONTE\NFMU\(.66) HERONS GLEN - PSC TRANSFER PROCEEDING\Clapp, Stephanie 02.ltr.wpd

North Fort Myers Utility, Inc.
 Projected Net Operating Income after the
 Acquisition of Herons Glen Utility
 December 31, 2005

Herons Glen Rate Base	<u>12/31/2004</u>	<u>Adjustments</u>	<u>12/31/2005</u>
Plant in Service	\$ 3,328,131	\$ 858,942 A	\$ 4,187,073
Accumulated Depreciation	(783,230)	212,333 B	(570,897)
Contributions in Aid of Construction (CIAC)	(818,786)	818,786 C	-
Accumulated Amortization of CIAC	267,278	(267,278) D	-
Working Capital (1/8 O&M)	<u>26,852</u>	<u>(7,385) E</u>	<u>19,467</u>
 Net Rate Base	 <u>\$ 2,020,245</u>	 <u>\$ 1,615,398</u>	 <u>\$ 3,635,643</u>
 Revenue:			
	<u>Customers/ Gallons (000)</u>	<u>Rate Differential</u>	
Base Residential	10,272	\$ (3.48)	\$ 153,156
Gallonge Residential	28,672	1.77	68,239
Base Commercial	12	(27.68)	1,411
Gallonge Commercial	1,979	1.77	4,710
			<u>3,503 F</u>
 Total Revenue			 <u>227,516</u>
			<u>18,173</u>
			<u>245,689</u>
 Operations & Maintenance Expenses:			
Salaries and Wages - Employees		\$ (43,212) G	\$ 10,400
Sludge Removal Expense		10,637 G	16,562
Purchased Power			44,498
Fuel for Power Purchased			876
Chemicals		(5,593) G	-
Materials and Supplies		(1,357) G	20,769
Contractual Services - Accounting		(9,429) G	-
Contractual Services - Legal		(130) G	-
Contractual Services - Other		(16,010) G	35,544
Rental of Equipment		(192) G	-
Transportation Expense		(1,152) G	-
Insurance - General Liability		3,990 G	3,990
Insurance - Workmen's Comp.		82 G	82
Bad Debt Expense			14,571
Miscellaneous Expenses		3,285 G	7,440
			<u>214,813</u>
			<u>(59,081)</u>
			<u>155,732</u>
 Depreciation		12,734 H	107,467
CIAC Amortization		21,402 I	-
			<u>73,331</u>
			<u>34,136</u>
			<u>107,467</u>
 Taxes Other Than Income			
Regulatory Assessment Fees		818 J	11,056
Property Taxes			8,762
Payroll Taxes		796 K	796
Other Taxes			-
			<u>19,000</u>
			<u>1,614</u>
			<u>20,614</u>
 Total Operating Expenses		 <u>(23,331)</u>	 <u>283,813</u>
 Net Operating Income		 <u>\$ 41,504</u>	 <u>\$ (38,124)</u>
 Return on Rate Base		 <u>2.57 %</u>	 <u>(1.05) %</u>

North Fort Myers Utility, Inc.
 Projected Net Operating Income after the
 Acquisition of Herons Glen Utility
 Adjustments
 December 31, 2005

Adjustments to Rate Base:		
A	Plant in Service Adjust plant for unrecorded additions, Commission adjustments and plant not transferred and retired.	<u>\$ 858,942</u>
B	Accumulated Depreciation Adjust accumulated depreciation for prior year depreciation of unrecorded additions.	<u>\$ 212,333</u>
C	Contributions In Aid of Construction Remove capacity fees associated with plant not transferred and retired.	<u>\$ 818,786</u>
D	Accumulated Amortization of CIAC Remove accumulated amortization of capacity fees associated with plant not transferred and retired.	<u>\$ (267,278)</u>
E	Working Capital Allowance Adjust working capital allowance for change in expense due to consolidated operations.	<u>\$ (7,385)</u>
F	Change in Revenue due to rate differential	
	Residential - Base	\$ (35,747)
	Gallorage	50,749
	Commercial - Base	(332)
	Gallorage	<u>3,503</u>
	Total change in revenue due to adoption of North Ft. Myers Utilities rates.	<u>\$ 18,173</u>
G	Change in Operations & Maintenance Expenses:	
	Salaries and Wages - Employees	\$ (43,212)
	Sludge Removal Expense	10,637
	Purchased Power	-
	Fuel for Power Purchased	-
	Chemicals	(5,593)
	Materials and Supplies	(1,357)
	Contractual Services - Accounting	(9,429)
	Contractual Services - Legal	(130)
	Contractual Services - Other	(16,010)
	Rental of Equipment	(192)
	Transportation Expense	(1,152)
	Insurance - General Liability	3,990
	Insurance - Workmen's Comp.	82
	Bad Debt Expense	-
	Miscellaneous Expenses	<u>3,285</u>
	Total change in operations and maintenance expenses due to consolidated operations.	<u>\$ (59,081)</u>
H	Change in depreciation expense Adjust due to unrecorded and unacquired assets and force/reuse main interconnection.	<u>\$ 12,734</u>

North Fort Myers Utility, Inc.
Projected Net Operating Income after the
Acquisition of Herons Glen Utility
Adjustments
December 31, 2005

I	CIAC amortization expense	
	Remove CIAC amortization due to retirement of treatment facilities.	<u>\$ 21,402</u>
J	Regulatory assessment fees	
	Record additional regulatory assessment fees due to adoption of North Ft. Myers Utilities rates.	<u>\$ 818</u>
K	Payroll taxes	
	Record impact of adding new employee for portion which impacts Herons Glen operations only..	<u>\$ 796</u>

North Fort Myers Utility, Inc.
 Projected Net Operating Income after the
 Acquisition of Herons Glen Utility
 Calculations and Assumptions Worksheet
 December 31, 2005

A Adjustments to Rate Base:

Plant in Service:			
Add unrecorded plant per 2004 examination		\$	371,018
Add cost of force and reuse mains interconnected to HG Systems			1,800,000
Remove Commission adjustment to land			(113,000)
Retire unacquired plant:			
Land-STP	(27,736)		
Structures & Improvements	(571,670)		
Pumping Equipment	(11,122)		
Treatment & Disposal Equipment	(401,759)		
Reuse Treatment & Disposal	(1,488)		
Plant Sewers	(57,190)		
Other Plant/Misc Equip	(128,111)		(1,199,076)
			<u>(1,199,076)</u>
Net adjustment to plant in service		\$	<u>858,942</u>

B Accumulated Depreciation:

Add unrecorded plant per 2004 examination		\$	(205,711)
Add one year depreciation of force main/reuse main interconnect			(45,000)
Retire unacquired plant:			
Structures & Improvements	194,746		
Pumping Equipment	1,302		
Treatment & Disposal Equipment	147,570		
Reuse Treatment & Disposal	41		
Plant Sewers	4,085		
Other Plant/Misc Equip	115,300		463,044
			<u>463,044</u>
Net adjustment to accumulated depreciation		\$	<u>212,333</u>

F Rate Differential:

	N. Fort Myers	Heron's Glen	Increase (Decrease)
Residential			
Base Rate	\$ 11.43	\$ 14.91	\$ (3.48)
Gallage Rate	4.15	2.38	1.77
Commercial			
Base Rate (2")	89.94	117.62	(27.68)
Gallage Rate	4.15	2.38	1.77

G Change in Operations & Maintenance Expenses:

Salaries and Wages - Employees	\$ 10,400	\$ 53,612	\$ (43,212)
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No employees from Heron's Glen will be retained by North Fort Myers. North Fort Myers will be hiring an additional employee at \$20,800 annually, approximately 50% which will be attributable to the acquisition of Heron's Glen

Sludge Removal Expense

Total cost of sludge removal, NFMU	\$ 177,306		
Total gallons of sludge processed - NFMU (000)	<u>539,747</u>		
Processing cost per 1,000 gallons	0.3285		
Total gallons of sludge processed - Heron's Glen (000)	<u>50,418</u>		
	<u>\$ 16,562</u>	5,925	10,637

The cost of sludge removal will increase based on North Fort Myers Utility's rate.

Purchased Power	44,498	44,498	-
No change is anticipated in the historic cost of purchased power for lift station operations			
The cost reduction due to the decommissioning of the treatment facilities is anticipated to be offset by the increase in purchased power costs for the increased load at the North Fort Myers treatment facility.			

North Fort Myers Utility, Inc.
 Projected Net Operating Income after the
 Acquisition of Herons Glen Utility
 Calculations and Assumptions Worksheet
 December 31, 2005

	N. Fort Myers	Heron's Glen	Increase (Decrease)
G Change in Operations & Maintenance Expenses (Continued):			
Fuel for Power Purchased	\$ 876	\$ 876	-
No change is calculated in the fuel costs to operate the Company's generators. However, due to the increase in fuel costs, it is anticipated that an increase is probable.			
Chemicals		5,593	\$ (5,593)
Chemical treatment is included in North Fort Myers contract for plant operations, therefore, no amount is included for this item.			
Materials and Supplies	20,769	22,126	(1,357)
The cost of routine repairs and maintenance will remain at Heron's Glen experience rate. The cost of office supplies is removed from expense.			
Contractual Services - Accounting		9,429	(9,429)
North Fort Myers anticipates that any cost increase for accounting will be nominal, unless separate reporting of this consolidated division is required by the Commission.			
Contractual Services - Legal		130	(130)
North Fort Myers anticipates that any cost increase for legal will be nominal, unless separate reporting of this consolidated division is required by the Commission.			
Contractual Services - Other	34,000	52,554	(18,554)
The contract operator will be hiring an additional person to, in part, service this area. The contract increase for this employee, the additional chemical treatment, and the added transportation costs is \$68,000. Approximately 50% will be attributable to the acquisition of Heron's Glen.			
Lee County Billing	2,544		2,544
Lee County provides water service and renders to the utility the results of meter reading. The increase in cost for this service is based on a rate of \$0.212 per customer and 1,000 customers			
Net decrease in Contract Services - Other			(16,010)
Rental of Equipment		192	(192)
Equipment rental will remain with Earthmark.			
Transportation Expense		1,152	(1,152)
Transportation costs are included in the contract operations costs.			
Insurance - General Liability			
Total Plant in service	\$ 28,740,425	\$ 4,187,073	
Total General Liability Insurance	27,390		
Ratio of General Liability Insurance to gross plant	0.0953 %	0.0953 %	
Total anticipated increase		\$ 3,990	3,990
Insurance - Worker's Compensation			
Total Employee Salaries	\$ 144,644	\$ 10,400	(1)
Total Workers Compensation Insurance	1,141		
Ratio of Workers Compensation Insurance to total Employee Salaries	0.7888 %	0.7888 %	
Net increase in Workers Compensation Insurance		\$ 82	82
Bad Debt Expense	14,571	14,571	-
Heron's Glen experience in collection of bad debts will be retained.			
Miscellaneous Expenses	7,440	4,155	3,285
The cost of annual billings is expected to increase North Fort Myers expenses (Computer = \$.25 x 1,000 bills; postage = .37 x 1,000 bills).			
			\$ (59,081)

North Fort Myers Utility, Inc.
 Projected Net Operating Income after the
 Acquisition of Herons Glen Utility
 Calculations and Assumptions Worksheet
 December 31, 2005

H	Depreciation Expense		
	Additional depreciation expense for unrecorded plant for 2004	\$	18,698
	Add depreciation for Force and Reuse mains (\$1,800,000 / 40 years)		45,000
	Retire depreciation of unacquired plant:		
	Structures & Improvements	\$ (17,864)	
	Pumping Equipment	(618)	
	Treatment & Disposal Equipment	(22,266)	
	Reuse Treatment & Disposal	(41)	
	Plant Sewers	(1,634)	
	Other Plant/Misc Equip	(8,541)	(50,964)
	Net adjustment to depreciation expense	\$	<u>12,734</u>
J	Regulatory Assessment Fees		
	Additional revenue	\$	18,173
	Regulatory assessment fee rate		<u>0.045</u>
	Increase in regulatory assessment fees	\$	<u>818</u>
K	Payroll Taxes		
	Gross wages for new employee	\$	20,800
	Portion related to Heron's Glen		<u>0.50</u>
	Net salary		10,400 (1)
	Payroll tax rate		<u>0.0765</u>
	Net increase in payroll taxes	\$	<u>796</u>

Note (1): Salary amount used is the amount included in Salaries and Wages for continued operations by North Fort Myers Utility.