



Sanlando Utilities CORPORATION ORIGINAL

Ms. Blanca S. Bayò
Director
Division of Records & Reporting
Public Service Commission
Capital Circle Office Center
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

March 17, 1998

Re: Docket No. 97-1186 – SU – Sanlando Utilities Corporation
Audit Report – Limited Scope Audit of Accounts
Audit Control #98-029-3-1
Utility Response to Letter from Blanca S. Bayò dated March 4, 1998

Dear Ms. Bayò:

Pursuant to your letter dated March 4, 1998, Sanlando Utilities Corporation (the "Utility") hereby files its response to the Exceptions and Disclosures contained in the Audit Report referenced above.

Very truly yours,

Hampton P. Conley
Hampton P. Conley
Executive Vice President

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Exception No. 1

Subject: Legal Retainer

Recommendation: Because of lack of documentation of utility benefits, and the Board of Director nature of other business subjects discussed (cafeteria, profit-sharing, consultants, and bookkeeping, etc.) and the non-utility nature of the Bill Sundstrom conferences (the potential buyer of Sanlando), the \$36,000 retainer (\$19,080 and \$16,920 for Water and Sewer respectively) should be disallowed. This would leave \$41,357 (\$77,357 - \$36,000) in the legal accounts. \$40,000 per year was left in the legal accounts by the PSC Sanlando Order No. 23809 as stated above.

Sanlando Utility's Response.

The Utility is entitled to competent legal representation. John Lowndes is the senior partner of the largest law firm in Central Florida. He has almost 40 years experience as a lawyer, and a substantial portion of that experience involves representation of utilities. The starting salary of a non-experienced law school graduate in Central Florida in large law firms is in the \$50,000 to \$60,000 range, not including benefits. Major businesses in the Central Florida area with in-house legal counsel pay starting salaries in the same range as those paid by large law firms. If the Utility were to hire an in-house counsel with any experience at all it would pay substantially in excess of \$77,000 for legal services. The ability to call upon the services of John Lowndes, and other experienced members of his firm, for the annual sum of approximately \$77,000 is not only justified, but necessary. The Utility disagrees with the recommendation. Regardless of the level of documentation, the amount of fees is appropriate, reasonable and necessary and should be allowed.

Exception No. 2

Subject: Annual Maintenance Fee

Recommendation: Staff recommends, for rate purposes, that Account 735 be reduced by \$20,000 and wastewater net operating income be increased by the same based on the non-recurring nature of the charge that was absent during 1997 operations.

Sanlando Utility's Response.

Utility concurs that the payments under the Agreement with the Homeowners' Association did terminate. However, as the PSC staff is aware, the same Homeowners' Association is protesting the current permit renewal application filed by the Utility with the Florida Department of Environmental Regulation (FDEP) for the Utility's wastewater operating permit for its Wekiva Plant. The same Homeowners' Association and members of that association have also filed a civil suit regarding the same issues raised in the permit renewal protest. As of March 11, 1998, the Utility reached a tentative agreement with the Homeowners' Association and its members. While the settlement agreement is not formalized at this time, it does contain a component that will require the Utility to pay the Homeowners' Association for some costs to maintain the Cove Lake system. As noted in the auditor's findings, the payment was graduated over time, and reduced each year by \$2,500 until 1996 when it was \$20,000. The annual average was \$25,000. The 1996 payment does not accurately reflect the annual cost of maintenance and it is expected that the new settlement agreement will require annual payments which could be as high, or higher, than the Account 735 amount. The Utility does not concur that the Account 735 amount should be reduced, and would argue that if anything, it should be increased.

Exception No. 3

Subject: Contractual Services – Other

Recommendation: Staff has concluded that the consulting fees are out-of-period and non-recurring and for rate purposes should be excluded from 1996 test year operating expenses. Staff recommends that Accounts 635 and 735 be reduced by \$2,943 and \$2,507, respectively, and that water and wastewater net operating income be increased by the same amounts.

Sanlando Utility's Response.

Utility concurs.

Exception No. 4

Subject: Rate Case Expense

Recommendation: In accordance with F.S. 367.0816, rate case expenses shall be apportioned for recovery over a four-year period. Staff recommends that water and wastewater Accounts 635 and 735, Contractual Services-Other, be reduced by \$2,476.76 ($\$2,830.59 - (\$2,830.59/4/2)$) and \$2,196 ($\$2,510.14 - (\$2,510.14/4/2)$), respectively, to comply with said statute.

Sanlando Utility's Response.

Utility concurs.

Disclosure No. 1

Subject: Office Building Rent

Recommendation: [Summarized by Utility] Staff recomputed the rent on 5,774 sq. ft. at the net overall rate of \$12.18 or \$70,327 and it recommends reducing Sanlando's office rental by \$79,053 (\$149,381 - \$70,327) for the water and sewer utilities respectively at \$42,260 and \$36,793).

Sanlando Utility's Response.

Utility strongly disagrees with Staff's recommendation. The C&W study cited in the Staff's recommendation is not representative of the rental market where the Utility's offices are located, nor representative of the type of space occupied by the Utility. Utility has independently obtained information from a reputable and highly experienced real estate broker in the Central Florida area, CB Commercial Real Estate Group, Inc., who specializes in the rental of office space. Due to the current tight rental market, the type of space occupied by the Utility, and the location of the Utility's offices, the real estate broker informed the Utility that a representative rental rate would be \$22.00 per sq. ft., with an additional rental pass through for common area charges, utilities, maintenance, etc., of \$6.50 per sq. ft., making a representative rental for the space occupied by Utility \$28.50 per sq. ft. on an annual basis.

As further evidence of this fact, CB Commercial Real Estate Group, Inc., provided information regarding the rental rates for two commercial office buildings which it manages that are located immediately adjacent to the Utility's office. One of the buildings has been fully rented for some time, with an average rental rate of approximately \$18.00 per sq. ft. If a \$6.50 pass through is added to that rental rate, and not taking into account any increase due to market factors since that building was leased up which would increase the average rent, the rent in that building is approximately \$24.50 per sq. ft.

Not only is the C&W analysis flawed, but it is grossly under market. The annual per sq. ft. rental of \$25.87 found by the Staff based upon the Utility's annual rent of \$149,381 divided by 5,774 ($\$149,381/5,774 = \25.87) is a reasonable and representative rate for the area where the Utility's offices are located.

See attached Composite Exhibit "1" which is a summary of rental rates obtained by Utility from CB Commercial Real Estate Group, Inc.

**CB COMMERCIAL REAL ESTATE GROUP, INC
AVAILABLE OFFICE SPAC**

BLDG ID AREA #	BLDG ADDRESS	YR BLT # FLR	TOTAL NRA FLOOR SIZE	VAC SF % VAC	MIN AVL MAX CNTG	LEASE RATE	PARK RATIO LOAD
279870 5	TOWER PLACE 1900 SUMMIT TOWER BLVD	1990 14	300,000	1,883 0.60%	770 1,113	\$22.00 - \$22.01 GROSS / RENTABLE	3.5 : 1 16%
279871 5	SOUTHPOINT 151 SOUTHHALL LANE	1990 4	137,000 31,441 - 37,659			\$19.50 GROSS / RENTABLE	4.0 : 1 13%
279872 5	MAITLAND SUMMIT I 1950 SUMMIT PARK DRIVE	1992 6	136,000 10,000 - 23,000	2,480 1.80%	2,480 2,480	\$22.50 GROSS / RENTABLE	4.0 : 1
279880 5	PARAGON @ MAITLAND 1060 MAITLAND CTR COMMON	1986 4	139,521	1,415 1.00%	1,415 8,500	\$19.50 GROSS / RENTABLE	4.0 : 1 13%
279885 5	MAITLAND COLONNADES 2301 LUCIEN WAY	1986 4	252,000	18,613 7.40%	1,113 24,500	\$20.00 GROSS / RENTABLE	4.0 : 1 13%
39600001 5	MAITLAND SUMMIT II SUMMIT PARK DRIVE	1996 3	136,000			\$23.00 GROSS / RENTABLE	4.0 : 1
39600289 5	LUCIEN POINTE SOUTHHALL LANE	1998 4	87,000	40,000 46.00%	5,000 40,000	\$23.00 GROSS / RENTABLE	4.0 : 1 13%
39600293 5	PEMBROOK COMMONS PEMBROOK	1998 4	120,215 27,500 - 27,500	120,215 100.00%	1,000 120,215	\$21.50 - \$22.00 GROSS / RENTABLE	4.0 : 1
39600296 5	EDS BUILDING MAITLAND BOULEVARD	1998 4	120,000 29,600	45,000 37.50%	5,000 45,000	\$19.50 - \$20.00 GROSS / RENTABLE	5.0 : 1
39600328 5	THE SUMMITT MAITLAND BOULEVARD	1998 2	30,000 15,000 - 15,000			\$19.00 - \$20.00 GROSS / RENTABLE	4.0 : 1
# OF PROPERTIES: 10		TOTAL NRA: 1,457,736		TOTAL VACANT SQFT: 229,606			
				% VACANT: 15.8%			

The above information was obtained from sources believed to be reliable, but CB Commercial has not verified nor has any knowledge regarding the accuracy or completeness of the information and makes no representation or warranty concerning same. Therefore, CB Commercial disclaims all liabilities in connection with any inaccuracies or incompleteness.

CB COMMERCIAL REAL ESTATE GROUP, INC
AVAILABLE OFFICE SPAC

BLDG ID AREA #	BLDG ADDRESS	YR BLT # FLR	TOTAL NRA FLOOR SIZE	VAC SF % VAC	MIN AVL MAX CNTG	LEASE RATE	PARK RATIO LOAD
241829 16	SANLANDO CENTER PH I 2170 W ST RD 434	1984 4	108,000 26,500	1,358 1.30%	1,358	\$18.50 GROSS / RENTABLE	4.0 : 1 13%
241830 16	SANLANDO CENTER II 2180 W ST RD 434	1987 6	162,000	8,169 5.00%	1,388 3,349	\$17.75 GROSS / RENTABLE	5.0 : 1 15%
# OF PROPERTIES: 2		TOTAL NRA: 270,000		TOTAL VACANT SQFT: 9,527			
				% VACANT:		3.5%	

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Disclosure No. 2

Subject: Water Conservation Program

Recommendation: The analyst should review the legal invoices in question and make a final determination about whether they are appropriate expenses for Sanlando's Water Conservation Program.

Sanlando Utility's Response.

See Utility's Answer to Interrogatory No. 1 propounded by Commission Staff in Docket No. 971186-SU which is the Rate Case filed by the Utility for its Reuse Facility. (Copy attached as Exhibit "2")