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April 22, 1998

FEDERAL EXPRESS

Ms. Blanca Bayo, Director
Division of Records and Reporting
Florida Public Service Commission
Capital Circle Office Center
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

Re: Docket No. 971186-SU - Application for approval of reuse project plan and increase in wastewater rates in Seminole County by Sanlando Utilities Corporation.

Dear Ms. Bayo:

Enclosed for filing with the Public Service Commission is the original and 15 copies of Sanlando Utilities Corporation Response to Citizens' Comments on Sanlando's Reuse Application.

If you have any questions, please give me a call.

Very truly yours,

Cleatous J. Simmons

- ACK _____
- AFA 3 _____
- APP _____
- CAF _____
- CMU CJS/tlf _____
- CTR C _____ Mr. Robert Mandell (w/enclosure)
- EAG _____ Mr. Hamp Conley (w/enclosure)
- LEG 2 _____ Mr. Jerry Salsano (w/enclosure)
- LIN 3 _____ John F. Lowndes, Esquire (w/enclosure)
- OPC _____ Jennifer Springfield, Esquire (w/enclosure)
- RCH _____ Stephen C. Reilly, Esquire (w/enclosure)
- SEC _____ Jack Shreve, Public Counsel (w/enclosure)
- SEC _____ Rosanne Gervasi, Esquire (w/enclosure)
- WAS (001080/54729) _____
- OTH _____

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A MEMBER OF COMMERCIAL LAW AFFILIATES, A WORLDWIDE ORGANIZATION OF INDEPENDENT LAW FIRMS.

APR 23 1998

04569-98

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Application for Approval of Reuse)
Project Plan and Increase in Wastewater)
Rates in Seminole County by Sanlando)
Utilities Corporation)

Docket No. 971186-SU
Filed: April 22, 1998

SANLANDO UTILITIES CORPORATION
RESPONSE TO CITIZENS' COMMENTS
ON SANLANDO'S REUSE APPLICATION

Sanlando Utilities Corporation (the "Utility") by and through its undersigned attorneys files this response to Citizens' Comments on Sanlando's Reuse Application.

OVERVIEW

No comment is required to the Overview portion of the Citizens' comments as it simply restates a portion of the application filed by the Utility.

CONCERNS WITH APPLICATION

The Citizens' comments are in error in several respects, and the Utility takes exception to the Citizens' comments. The following is a section by section response to the Citizens' comments.

Operation and Maintenance (O&M) Expense

The Citizens' comments are an over-simplification of the O&M situation. It is entirely possible, and in fact likely, that O&M expenses will be incurred during construction. At least one, and possibly more, reuse customer(s) may be on-line and receiving reclaimed water before the balance of distribution lines are completed. This fact notwithstanding, the Utility concurs that it may not be appropriate to collect full O&M expenses during construction. However, because of the complexity of potential multiple rate structures required to address all possible scenarios, the Utility asserts that it is more appropriate to leave the O&M expenses in the proposed rate(s) and to use an annual true up to address any potential overearnings.

Allowance for Funds Used During Construction (AFDC)

As the Utility indicated to Commission Staff in the Utility's December 9, 1997 response to the November 5, 1997 Staff Data Request 48, the capitalization of AFDC as part of the reuse project cost was an error in the filing. The Utility concurs that AFDC should be removed during calculation of the rates.

DOCUMENT IDENTIFICATION DATE
04559 APR 23 1998
COMMUNICATIONS SECTION

Interest Coverage Requirement

In addition to erroneous factual information, the Citizens' analysis of "interest coverage requirement" is not consistent with the Commission's determination of the allowable return on investment and, therefore, would not provide the Company with sufficient earnings to attract the capital needed for effluent reuse facilities.

The Commission determines an allowable rate of return on the basis of a capital structure synchronized to rate base, and then applies that rate of return to the rate base (net investment in utility plant in service) in order to calculate utility operating income. The Citizens' analysis fails to consider the Utility's rate base, which is less than the total outstanding debt (which has in fact been refinanced in 1998). Utility rates include an opportunity to earn a return on rate base, not on capital which exceeds rate base. Potential lenders will rely on earnings achievable through allowable rate setting methods, not on below-the-line, non-utility or shareholder supplied funds. The Commission's recommendation to in effect have shareholders subsidize the utility operating income (including amounts needed for coverage), would not only represent confiscation but would preclude any chance of financing the required effluent reuse facilities.

While the Utility does not yet know the specific coverage requirements that will satisfy a lender, its consultant advises that a pretax "interest" coverage of 1.25 times will likely not be sufficient. For small companies, particularly those whose rate base is small in relation to the total cost of utility plant in service, interest coverage levels generally far exceed 2.0 times, and invariably do not include below-the-line or non-utility income. Since the Utility's existing debt exceeds rate base, and depreciation allowances under Commission guideline depreciation rates are less than the anticipated term of debt amortization schedule (a maximum of 20 years), the use for rate setting purposes of a 1.25 times "debt service" coverage is reasonable.

Contrary to Citizens assertion, implementing rates to cover the costs associated with the start up phase of the effluent reuse project represents payment by the customers of the cost the Utility must incur to provide this environmentally desirable service, not a partial funding of the project by rate payers in advance. The proposed rates do not anticipate any capital advances or contributions by customers for the facilities included in rate base. Contrary to Citizens' analysis regarding equity levels, the Utility could not meet coverage requirements when its utility operating income is calculated on a rate base which is less than total debt. Contrary to Citizens assertion, interest income from affiliates to pay for interest on debt in excess of rate base was not "earned" through rates charged to rate payers and can not be used for coverage requirements in setting rates.

Overearnings

It is not clear to the Utility what overearnings the Citizens refer to; therefore the Utility disagrees with this comment.

Rate Case Expenses

Guastella Associates, Inc. has been recognized by regulatory agencies, utilities and other consulting firms around the country as being highly qualified in virtually every aspect of utility rate setting and valuation. On the basis of work performed by Guastella in this and other assignments over the years, the Utility felt that Guastella's expertise was necessary to deal with complex issues and the work was performed in a cost-effective manner. In any event, the average hourly rate for Guastella's billings in this case for all time and time charges amounts to less than \$144. Thus the Utility's has received the benefit of Mr. Guastella's expertise and the economic use of his staff. The Citizens' recommendation to reduce rate case expenses is without merit and should be rejected.

Staff Audit Report

As its response to the Citizens' comments, the Utility respectfully refers the Staff and Commission to its March 17, 1997 response to the Exceptions and Disclosures contained in the Staff Audit Report.

Projection Period and Returns

It is not clear to the Utility why the Citizens would assert completion by mid 2001. The Utility intends to make every effort to meet the in-service date required by both the draft FDEP WWTP Operating Permit and the Utility's existing Saint Johns River Water Management District Consumptive Use Permit, which in service-date is currently set for the later part of 1999. The Utility did not take into account customer growth because the growth rate in the Sanlando service area is less than ½ of 1 percent annually. The effect on rates of one year of growth would be minimal - on the order of 1/10 of one cent per 1000 gallons. Regardless of the construction duration and customer growth, the Utility asserts that any minor adjustments due to these two factors are more appropriately made in an annual true up.

Conclusion

For the foregoing reasons, the Utility believes that the Citizens' comments are in error and unfounded, or based upon incomplete information. The Utility would urge the Commission to grant the rates requested by the Utility in its application, adjusted only to the extent necessary to accommodate the submissions made by the Utility in response to Staff comments since the original date of the Utility's application.

Respectfully submitted,
Lowndes, Drosdick, Doster,
Kantor & Reed, P.A.
Attorneys for Applicant

By: _____


Cleatous J. Simmons

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CERTIFICATE OF SERVICE
DOCKET NO. 971186-SU

I HEREBY CERTIFY that a true and correct copy of the foregoing Sanlando Utilities Corporation Response to Citizens' Comments on Sanlando's Reuse Application has been furnished by U.S. Mail to the following parties on this 22nd day of April, 1998.

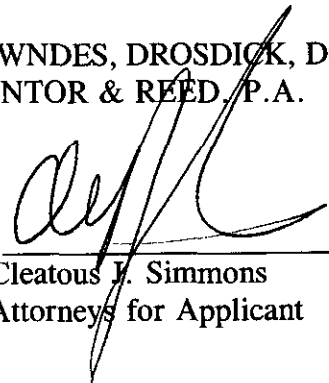
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