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August 11, 2000

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Blanca Bayó
Director, Records and Reporting
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399

Re: Docket No. 000694-WU

Dear Ms. Bayó:

Enclosed for filing on behalf of Water Management Services, are the original and five copies of its Response to Staff's Data Request.

Very truly yours,

Sharon Nevy for

Richard D. Melson

cc: Gene Brown
Jason K. Fudge
Frank Seidman
Les Thomas
Marshall Willis

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ELIZABETH C. BOWMAN

August 11, 1999

Ms. Blanca Bayo
Director, Records and Reporting
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399

Re: Docket No. 000694-WU - Petition by Water Management Services, Inc. for limited proceeding to increase water rates in Franklin County.

Dear Ms. Bayo:

Water Management Services, Inc. provides the following response to the data requests set out in the July 28, 2000 letter from Mr. Jason K. Fudge, Staff Attorney.

1) **What is the capacity of the existing water transmission system with the 8" main?**

Response: The capacity of the existing water transmission system with the 8" main is 670 gpm or 964,800 GPD for a 24 hour day. Based on the current, maximum day demand of 612 GPD/ERC, this equates to 1,576 ERCs.

2) **What is the proposed capacity of the water transmission system with the 12" main?**

Response: The proposed capacity of the water transmission system with the 12" main is 1,502.8 gpm or 2,164,032 GPD for a 24 hour day. Based on the current maximum day demand of 612 GPD/ERC, this equates to 3,536 ERCs.

3) **What is the limiting factor that determines the capacity of the existing and proposed water transmission system?**

Response: The physical limiting factor is the strength of the pipe itself. That is, physically, flows are limited to the maximum volume of water that can pass

through the pipe, at the pressure rating of the pipe, with due consideration to a safety factor and good engineering practice.

4) **What is the absolute capacity of the existing 8" main and the proposed 12" main without regard to the existing consumptive use permit, well capacity or existing pump capacity?**

Response: The absolute capacity of the existing 8" main without regard to the existing consumptive use permit, well capacity or existing pump capacity is 670 gpm or 964,800 GPD. The absolute capacity of the proposed 12" main without regard to the existing consumptive use permit, well capacity or existing pump capacity is 2,090 gpm or 3,009,600 GPD. In both cases, these capacities are based on the minimum delivery pressure required at the aerator, the friction and head losses in the transmission main, the 160 psi design (operating pressure) rating of the PVC portion of the transmission system and a 150% safety factor for surges.

5) **Were methods other than increasing the water transmission main size considered when designing the water transmission system? If so, please describe the other methods considered, providing any documentation describing the options considered. If not, please explain why no other methods were considered.**

Response: Yes, methods other than increasing the size of the water transmission main were considered. The alternative means of providing additional water to the system users that were analyzed were:

A. WMSI explored drilling production wells on the island into the underlying brackish water and constructing an advanced water treatment plant on the island (reverse osmosis). This method was reviewed with the Florida Department of Environmental Protection. DEP had no problem with the concept but cautioned about having a good plan for disposing of the waste from the treatment process (brine). We considered disposing of the brine discharge into Apalachicola Bay. We dismissed this option because of concerns with the possibility of and liability for damage to the oyster beds. We then considered constructing an outfall line further out into the Gulf of Mexico to dispose of treatment waste. The preliminary calculations of costs for this method were:

RO plant	$3.0- 6.0 million
Wells on the island	1.0 million
Gulf Outfall line	3.5 million
Total	$7.5-10.5 million

B. Another option considered was to construct a storage tank on the island. An 8" line could deliver approximately 964,000 GPD. The system presently experiences a maximum day demand four days over holidays. It would be necessary to construct a storage facility which would store, ahead of the holiday period, the difference between maximum day demand and the pipeline capacity. In five years that would necessitate constructing a tank to hold five days at 250,000 GPD or a 1,250,000 gallon storage tank. At buildout, it would require five 1,200,000 gallon tanks for a total of 6,000,000 gallon storage capacity. At an estimated cost for ground storage tanks of $1.50 per gallon, WMSI would incur construction costs of $1.8 million every five years, or a present day cost of $9 million. The cost of land would be in addition to these costs. In addition, DEP regulations do not allow storage solely for maximum day demand. It is required that the water be deliverable each day and that storage be used only to meet peak demands. Finally, there are the environmental and aesthetic considerations. St. George Island is a nationally recognized premiere beach resort on the Gulf Coast. There is a serious question as to whether a tank farm, or even scattered tank sites, would be an acceptable alternative for this community.

C. To assure itself that all reasonable alternatives were considered, WMSI also looked into the possibility of either laying the main on the floor of the bay or drilling and burying the main below the floor of the bay. It was determined that laying the main on the floor of the bay was environmentally unacceptable and drilling to bury the main was economically prohibitive.

The above options were not formally investigated nor recorded. They were the product of meetings between WMSI's management and its engineering consultant. The options explored did not warrant documentation, as their relative cost and/or practicality were evident on their face.

6) **When will the proposed water transmission system with 12" main reach maximum capacity without further expansion?**

Response: The 12" main will meet projected system demands through buildout. The line will transfer 3,009,600 GPD safely. The projected demand at buildout is 2,164,032.

7) **Please provide projections of customer growth and consumption for a ten year period, along with an explanation of your projection methodology.**

Response: Metered customers increased from 760 in 1990 to 1,461 in 2000, or about 70 per year. A conservative average growth rate is projected to be 60 ERCs per year, excluding any planned unit development (PUD) type projects that might take place.

	Customers	A.D.F	Max Day	Total *GPD*
Present	1461	350	612	894,132
2001	1521	350	612	930,852
2002	1581	350	612	967,572
2003*	1864	350	612	1,140,768
2004	1924	350	612	1,177,488
2005	1984	350	612	1,214,208
2006	2044	350	612	1,250,928
2007	2104	350	612	1,287,648
2008	2164	350	612	1,324,368
2009	2224	350	612	1,361,088
2010	2284	350	612	1,397,808
-	-	-	-	--
2031 (Buildout)	3536	350	612	2,164,032

* Year 2003 customers are increased by 223 ERCs reflecting the addition of a PUD in that year.

8) **Are any future actions being considered to increase the capacity of the water transmission system, such as, but not limited to higher capacity pumps, additional storage, increase in consumptive use permit or new wells? If so provide an estimate of the cost of adding the additional plant.**

Response: WMSI is presently constructing a fourth water well to provide additional water. We are planning for a fifth well and searching for a site. Our long range plan was to parallel portions of the existing water

transmission main to continue to increase its capacity. Because of the DOT removal of the existing bridge, our plan is to construct the new 12" main on the new bridge. An 8" main would be at capacity and not meet demands by 2003 without paralleling portions of that existing line, but the existing 8" line must be removed by 2003 because the bridge on which it hangs will be removed by DOT. Storage options are discussed under Item No. 5.

9) **Please state, in detail, what the utility believes would be the consequence(s) of not having new rates in effect on November 1, 2000.**

Response: If new rates are not in effect by November 1, 2000 the utility will be sued by FDOT and its contractor for holding up construction of the new bridge. The FDOT contractor is scheduled to start construction on the approaches to the new bridge on October 16, 2000. This will require the utility to remove and replace over 7,300 feet of its existing transmission main soon after the start of this construction. The cost of this work, including engineering, is approximately $400,000. The utility has made arrangements to refinance all of its existing debt for the maximum amount that can be secured based upon existing rates. This will cover the engineering and permitting of the work to begin this fall, but there are no funds to pay for construction. Without increased rates, it is impossible for the utility to secure the necessary construction funds. The FDOT and its contractor have repeatedly threatened, both verbally and in writing, to sue the utility if it holds up their bridge project. This litigation will be the primary adverse consequence if new rates are delayed past November 1, 2000. Attached as Composite Exhibit No. 1 are examples of some of the FDOT's threats to sue.

10) **Please provide details of proposed construction financing, including:**

a. name of committed lender, if any;

Response: The utility does not have a committed lender. However, the utility has made application to FDEP for construction financing under FDEP's revolving loan

fund. A hearing is scheduled for September 2000 during which the utility plans to obtain preliminary approval for the first phase of its loan request.

b. other lenders from whom financing was sought, if any;

Response: The utility recently received construction financing for its fourth well from the Gulf State Bank in Apalachicola, Florida. Additional construction funding for the utility's initial bridge work can also be obtained from Gulf State Bank provided new rates are in effect. The utility also recently received a commitment from the Citizens Bank of Perry for a $1,900,000 loan to refinance all of the utility's existing debt based upon a Farmers Home Administration guarantee. This loan was secured to pay for all of the "soft costs" connected with the St. George Island bridge project, such as engineering fees, rate consultant fees and attorney's fees, including fees to attorneys handling the litigation with FDOT which has been ongoing for over a year. However, the loan from the Citizens Bank of Perry represents the maximum amount that can be borrowed based upon the utility's current rate structure, and it does not include funds for construction. No lender is going to make a loan to this utility for additional construction funds until and unless new rates are in effect.

c. copies of correspondence or other documentation detailing terms of financing, including interest rate, timing of draws, repayment schedule, and any other covenants or requirements imposed by the lender(s);

Response: Attached as Composite Exhibit No. 2 are copies of correspondence and other documentation regarding the utility's current loan activity. The utility has established credit with at least three commercial banks which will make construction loans to the utility when rates are approved to cover the debt service. However, it is not feasible to pursue these loans in detail until the exact new rate structure is established.

d. whether consideration has been given to re-financing existing debt; and

Response: Yes, as discussed in (b) above, the utility

has recently obtained a commitment to refinance all of the utility's existing debt. This is a $1,900,000 loan, which will also pay for the several hundred thousand dollars in "soft costs" incurred by the utility as a result of FDOT's decision to tear down the bridge to St. George Island.

e. the source of Exhibit K, Schedule 4, page 1 (specifically, the handwritten note).

Response: Exhibit "K" is an internal utility memo. The handwritten part was written by Bob Mitchell, the utility's accountant, to notify management that the rate on the utility's current financing was going to increase to 11.5% per annum effective July 1, 2000. The subject loan is a $1,300,000 first mortgage loan from Transamerica Corporation.

11) **The Utility has included, in its formula for calculating revenue requirement, factors for depreciation and property taxes Please provide:**

a. Justification for including depreciation on plant prior to its being placed in service; and

Response: The intent of the filing is to provide revenues sufficient to cover payments of the loan, as they occur. Depending on how the loan is structured, initial payments may be either interest only or interest plus capital repayment. If the payments are required to cover both interest and capital repayment, then recovery of depreciation expense will be necessary. It is hoped that the Commission will provide the means for rate relief before the loan processing is finalized; therefore, the proposed revenue increase is constructed to include the possibility that capital repayment will be required. If it is not, then upon true up, the difference will be accounted for, and depreciation will be adjusted to commence when such payments begin. It is understood that in traditional ratemaking, depreciation commences when plant is placed in service. However, this is not a traditional capital expenditure, either in size relative to existing plant amounts or in its purpose. If the utility is to be able to make the expenditure, it must be have the funds available as needed.

b. A schedule showing the expected timing of property

tax assessments and tax payments on the new construction.

Response: The estimated date of completion of the main is 1st Qtr 2003. Property placed in service during 2003 will be assessed during the 1st Qtr 2004. The first tax payment will be due, with discounts, beginning in November, 2004 and without a discount, between March 1-31, 2005.

12) **In Exhibit F, the time frame for bidding and selecting a contractor is stated as February 1, 2001 to May 1, 2001. In Exhibit G, page 2, expenditures for construction of an 8" PVC water main are scheduled to commence in January, 2001. Please explain why these expenditures would need to be incurred before selection of a contractor.**

Response: The DOT contractor is mobilizing and will begin construction of both approach ends to the bridge October, 15, 2000. Our existing water main conflicts with their approach construction. Accordingly, our construction plans and costs have been modified (see attached revised Exhibit G.) We must commence construction of the first phase - the 12" main on the island and mainland at that time. The estimated cost of Phase I is $ 880,803. The second and final phase will be constructed beginning in August 2002 and completed on January 1, 2003. The bridge will be removed March 1, 2003. The second and final phase is now estimated to cost $5,087,364 and the revised total estimated project cost is $ 5,968,167. The impact of these modifications of the estimated cost and the construction schedule is shown on the attached revised Exhibit J and revised Exhibit K, Schedules 1, 2 and 4.

13) **(Second Item 11 in 7/28 letter). In Exhibit G, the total costs of the project include an amount for "Construction Contingency" consisting of 10% of the cost of the new plant assets (but not engineering costs). The schedule in Exhibit G, page 2, shows prorations of this amount being incurred beginning in June, 2000. Please explain why the timing of incurring the contingency amounts should not correspond with the expenditure of the related construction costs.**

Response: By definition, a contingency is a possible or

unforeseen occurrence. Therefore if, when or how much is unknown until it occurs. The timing of the contingency costs is a matter of judgment. Since its timing and amount are unknown, it is not unreasonable to begin incurring the reserve for it as soon as the project begins and be ready for its occurrence. However, in Revised Exhibit G, the construction contingency has been restated to follow the actual construction periods.

14) **(Second Item 12 in 7/28 letter). Please explain why the revenue requirement for each phase should not be based upon the average construction draws outstanding during the period, rather than the total construction expenditures through the end of the period.**

Response: There is no reason that the revenue requirements for each phase cannot be based upon average rather than total expenditures during any period, as long as, through the phasing and true-up process, the proceeds are sufficient to have covered the costs incurred in financing WMSI's investment in the new main and associated appurtenances and sufficient to generate cash flow to support repayment of the debt from the date of the first draw.

15) **(Item 13 in 7/28 letter). In Exhibit K, Schedule 1, the Phase I revenue requirement is calculated based on costs projected through December, 2001; however, according to Exhibit G, the bulk of construction is not projected to commence until June, 2001. Please explain why it would not be reasonable to calculate a Phase I revenue requirement based on costs projected through May, 2001, with additional phases beginning June 1, 2001 and June 1, 2002, followed by a "true-up" phase.**

Response: The phasing presented in the above data request is not unreasonable. It just results in three phases plus a true-up instead of two phases plus a true-up. WMSI's proposal was based on the premise that fewer rate changes might be more palatable and less confusing to the customers, however, WMSI is not adverse to changing the number and timing of the phases.

16) (Item 14 in 7/28 letter). Please update Exhibit L to show the total amount of CIAC collected through June 1, 2000.

Response: The total CIAC collected in year 2000, through June 1, is $53,999.00. For the preceding five year period ending December 31, 1999, WMSI collected $621,622 in CIAC and recorded $838,328 in net plant additions.

I trust the above responses are helpful in reviewing WMSI's petition. Please contact me if you have any questions.

Very truly yours,

for

Richard D. Melson

cc: Jason K. Fudge (Hand Delivered)
Gene Brown
Les Thomas
Frank Seidman
Marshall Willis