



# Public Service Commission

**-M-E-M-O-R-A-N-D-U-M-**

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**DATE:** February 28, 2001  
**TO:** Division of Records and Reporting  
**FROM:** Division of Economic Regulation (Ryan Fitch)  
**RE:** Docket# 001382-WS, Pennbrooke Utilities, Inc.

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Attached is a copy of a response from a customer of Pennbrooke Utilities, Inc. to staff's report for the customer meeting on March 1, 2001. Staff is requesting that this document be added to the docket file.

Cc: Division of Economic Regulation (Walker)

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FLORIDA PUBLIC SERVICE  
32833 Timberwood Drive  
Leesburg, FL 34748  
February 01 2001 10:44

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ECONOMIC REGULATION

Director, Division of Records and Reporting  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, FL 32399-0850

Re: Docket No. 001382-WS - Application of Pennbrooke  
Utilities, Inc. for a Staff Assisted Rate Case in  
Lake County, Issued February 14, 2001

Gentlemen:

I am a resident at Pennbrooke Fairways in Lake County and I am writing this letter in response to the subject document. In this letter I provide general comments on the document and attempt to address what I consider inappropriate application of procedures if one's objective in setting rates is to obtain a fair return for the owner and at the same time being equally fair to the customer. Specifically I present the case for a variable adjusted rate structure which assures a fair return for the owner while at the same time equally assures that the customers are justly charged for services as rendered. As in the referenced document, I shall assume that a year is the proper unit of time for comparing income versus outgo. We should perhaps keep in mind that I am not familiar with Florida law on these matters nor am I cognizant with the restrictions under which you work.

I have read the document and find that it is well prepared and fairly easy to understand by a layman such as myself. I did discuss the document with a retired state employee from another state who worked in a position similar to that of your staff. He informs me that, in his opinion, the evaluation of the subject water facility and wastewater facility are adequate and typical of the approach taken in most situations. He feels that the cost evaluations of the facilities reasonably represent the current situation. Specifically he feels that the revenue requirement as presented on page 33 of your document is reasonable for the time period of the evaluation. Upon asking him about the future costs he said the the only items to change significantly would be the Adjusted O & M Expenses. He suggested that a twenty percent increase would be required to accommodate 99 new housing units as projected by the staff document on a yearly basis. He also noted that there would probably be some capital cost around 2005 as suggested in your staff's report. The procedure I am

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suggesting makes the change of the Adjusted Base Rate easy.

For purposes of this discussion I shall start my evaluation for the year beginning July 1, 2001 which should be reasonably close to when any rate changes would be put into effect. As I understand it your staff evaluation is based on 624 housing units with three more added to account for the Activity Center, etc. Thus I am going to associate 627 houses with those built by September 30, 2000. First I wish to address the number of housing units actually in existence. My notes from a HOA meeting reveal that 684 housing would be closed by December 31, 2000. Using the staff document of a growth of 99 housing units per year I am going to prorate the housing units to the beginning date of this evaluation, July 1, 2001. Thus this evaluation starts out with 687 (with 3 added as above) housing units. On 7/01/01, there should be 737 housing units (prorated as 687 plus 99/2). For 7/1/2002, the housing units are 836, for 7/1/2003, 935, for 7/1/2004, 1034, for 7/1/2005, 1133. The above figure of 737 appears reasonable since 705 housing units had been closed on by February 20, 2001, an increase of 21.

Assuming an averaging out of closings, I shall use the average number of housing units for a year since units are proportional to revenue. Thus the housing units I shall use in this evaluation are as follows:

Year	Number of Housing Units
2001	787
2002	886
2003	995
2004	1094
2005	1193

Note: The year 2001 is from July 1, 2001 to June 30, 2002, etc. The number 787 is the average of 737 and 836, etc.

Next I wish to address the cost of the operation. As I understand it, the only item which would have a significant change on a yearly basis is the Adjusted O & M Expense as listed on page 33 of your document. The yearly adjustment rate is to be prorated at 20% for 99 housing units. On a yearly basis the adjustment is \$15480 for water and \$16415 for wastewater. I shall first update the Adjusted O & M Expense to July 1, 2001. Since there are 787 housing units projected for the year 2001, 787 divided by 627 is 1.2552. Thus the increase in Adjusted O & M Expense from September 30, 2000 to July 1, 2001, the beginning of this evaluation, is \$19430 for water (i. e., 1.2552 x \$15480) and for wastewater, \$20604 (i. e., 1.2552 x \$16415). For years following the adjustments per year are \$15480 for water and \$16415 for wastewater. These increases are to be added, by

year, to the Revenue Requirements given on page 33 of your staff report. The Revenue Requirements are given below.

#### YEARLY REVENUE REQUIREMENTS

Year	Water	Wastewater
2001	\$177910	\$237522
2002	\$193390	\$253937
2003	\$208870	\$270352
2004	\$224450	\$286767
2005	\$239830	\$303182

Note: Additional capital outlays, if any, in the later year or so are not included.

I shall now address the income part of this discussion. As documented in your staff report there are two major sources of income - base facility charge and charges based on the number of housing units and usage. I shall refer to these charges as Base and Consumption, respectively. Your staff identifies 13000 gpm as an average rate of consumption and I shall use that number, a number I shall discuss further later. Your staff document uses 21% of total revenue as Base revenue for water and 35% of total revenue for wastewater. The remainder of revenues are assigned to Consumption. I shall use this procedure.

I shall now separate the yearly revenue by the category under which they fall as follows:

YEAR	WATER		WASTEWATER	
	Base	Consumption	Base	Consumption
2001	\$37361	\$140549	\$83133	\$154522
2002	\$40612	\$152778	\$88878	\$165059
2003	\$43863	\$165007	\$94623	\$175729
2004	\$47135	\$177316	\$100368	\$186399
2005	\$50364	\$189466	\$106114	\$197068

To find the monthly Base rate per 1000 gallons we divide the yearly Base revenues by the product of 12 (the number of months in a year) and the average number of housing units for water and wastewater. For water the monthly consumption rate per thousand gallons is found by dividing the yearly consumption revenues by the product of 12, the number of housing units and the gallons of water. The gallons of water is 13000 gallons per month, the divisor being 13 for water; for wastewater the divisor is 10, the usage being capped at 10000 gallons per month as set forth in the staff report. (Note: the average in-house use of water is around 3000 gpm, perhaps less.)

The factors are given below.

DIVISORS (FACTORS) USED TO DETERMINE  
MONTHLY RATE BY YEAR

YEAR	WATER		WASTEWATER	
	Base	Consumption	Base	Consumption
2001	9444	122772	9444	94440
2002	10632	138216	10632	106320
2003	11940	155220	11940	119400
2004	13128	170664	13128	131280
2005	14316	186108	14316	143160

The monthly rates are given below.

MONTHLY RATES BY YEAR

YEAR	WATER		WASTEWATER	
	Base	Consumption <sup>a</sup>	Base	Consumption <sup>a</sup>
2001	\$3.96	\$1.14	\$8.80	\$1.64
2002	\$3.82	\$1.11	\$8.36	\$1.55
2003	\$3.67	\$1.06	\$7.92	\$1.47
2004	\$3.59	\$1.04	\$7.65	\$1.42
2005	\$3.52	\$1.02	\$7.41	\$1.38

<sup>a</sup>per thousand gallons

Now let us check this out a bit. Under the assumptions let us figure out the total revenues for 2001, say. Well, there are 787 houses average for the year and 13000 gallons of water is used. We have the following:

Water Base =  $787 \times 12 \times 3.96 = \$37398$   
 Water Consumption =  $787 \times 12 \times 13 \times 1.14 = \$139960$   
 Total Water Revenue =  $\$177358$

Wastewater Base =  $787 \times 12 \times 8.80 = \$83107$   
 Wastewater Consumption =  $787 \times 12 \times 10 \times 1.64 = \$154882$   
 Total Wastewater Revenue =  $\$237989$

The totals agree with those previously given considering I quoted rates in dollars and cents (rounded).

We thus see that the rates quoted above adequately cover the required revenue including a 10.5% return on investment.

Based on the above analyses let us now examine what an average homeowner pays per month for the year 2001. We have \$3.96 plus  $13 \times 1.14$  which equals \$18.78 for water. For wastewater we have \$8.80 plus  $10 \times 1.64$  equals \$25.20

Let us now examine the current rates: Water - for Base the rate is \$5.78 and for Consumption, \$1.76 per thousand gallons. We have  $5.78$  plus  $13 \times 1.76$  which equals

\$28.66. For wastewater the Base is \$5.66 and Consumption is \$1.21 per 1000 gallons. Thus for wastewater we have \$5.66 plus  $1.0 \times 1.21 = \$17.76$ .

Now let us examine the cost based on the rates suggested in the staff report. For water we have \$5.78 plus  $1.3 \times 1.76 = \$28.66$ . For Wastewater we have \$10.18 Base and  $1.0 \times 2.55$  Consumption = \$35.68.

Let us make some observations from the above. The current water rates vastly overstates revenue required for Water, in fact it overstates the required revenue by 53% and this percentage increases in future years. The staff report notes this of course but chose not to take any action.

The current rates vastly understates the required revenue for Wastewater as noted in the staff report - it actually understates it by 30%.

The staff report overstates the Water since it is the same as the current rates. The staff report also vastly overstates the required income for Wastewater - in fact by a percentage of 42%.

Let us make one more comparison. We shall consider the year 2004 using the staff report rates. We reasonably expect the average houses for that year to be 1094 and with probably no additional capital expenditures. The rates I have suggested above will bring in a revenue of \$224620 for Water and \$286847 for Wastewater. Using the staff report where they project only 1023 housing units (I am not sure of this number from reading the report, the number might should be 924), the total yearly revenue for water is  $1023 \times 1.2 \times 5.76$  plus  $1023 \times 1.2 \times 1.3 \times 1.76$  which equals \$351585; this is \$126965 above expenditures as I see it. Actually this means that instead of a return on investment of 10.5% we have a return on investment for Water of 59%. For Wastewater we have a staff report total yearly revenue of  $1023 \times 1.2 \times \$10.18$  plus  $1023 \times 1.2 \times 1.0 \times 2.55$  equals \$438008. This number exceed my projected revenue by \$151160, thus giving a return on investment of 34%.

Now why do the values in the staff report differ so much from the ones I have given herein. First, I believe I have a much more realistic evaluation of the housing units. Secondly, the staff report fails to take into account that revenues from an increase of 99 housing units per year vastly outpaces any increase in expenditures.

I note that extensive rate increases are set for deposits, general services and service charges. I would assume the current rates are on an as-cost basis. I see no reason to increase these rates unless the owner wishes to realize a profit which is justified. Is a 400% increase in

deposits justified? After all such deposits are drawing interest over the years. The same may be said for the rest of these items with only the percentage increase changing, down to 50% for service charges. If the owner chooses not to gouge people why should you encourage him. If the values you suggest are typical why should we be typical if the cost justifications are just not there?

There is a considerable discussion of conservative use of water at Pennbrooke Fairways noting the staff report claims that we use more water than we should. Let us consider that for a moment. First we are expected, even obligated, to keep our lawns green and fresh looking. With the lack of rain it is not too surprising that water usage is up. Replacing grass and plants killed for lack of water can be quite expensive. A neighbor, a snowbird, returned from his sojourn last fall to find part of his sprinkler system had failed, actually for only a few weeks. He paid \$700 for resodding just a portion of his yard. The average housing unit consumption of 13000 is probably about right for these dry times. However, when a new yard is put in, extensive watering is undertaken. For example the first full billing month (11/27 thru 12/28/99) I used 27010 gallons of water. The following billing period I used only 11630 gallons. It is recommended here that one water extensively new sod for at least 30 days, possibly more depending on the condition of the grass and plantings. Apparently I watered extensively for around 45 days. What we see here is an above average usage of about 20000 per new housing unit. For 99 new housing units per year this comes to 1980000 gallons of water for these initial purposes. This alone comes to only an average of around 3000 gallons per housing unit which is only about 2% of the total average consumption. This doesn't really seem like much but it is worth mentioning.

I am rather doubtful of mandatory conservative measures or attempts to raise costs in an effort to effect conservatism. For example, 1.5 gallon per flush commodes sound good but what is gained if often they have to be flushed twice to obtain a clean bowl. Middle class retired people which is the main makeup of Pennbrooke Fairways are generally conservative minded. Our yellow recycling baskets attest to this. Our social club made \$1800 last year just from collecting aluminum soda can in the Activity Center. I have observed no overt watering nor have I seen a lot of car washing. People are very seriously observing the water restrictions in Lake County.

With regard to water conservation and conservation in general I think a well informed community is the preferred to really achieve the conservation of water that you appear to be seeking. Since I believe that I have set forth a realistic cost evaluation of water usage at Pennbrooke

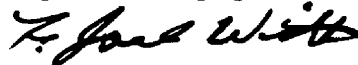
Fairways and feel that perhaps more emphasis should indeed be given to water conservation and if my proposal set forth below is viewed favorably, I shall personally ask the homeowners' association to adopt the current water restriction of Lake County as a permanent fixture at Pennbrooke Fairways, to be encouraged by peer pressure and common sense. Further I shall ask the homeowners' association or our VIP social club to set aside a day called Conservation Day. Such a day would be scheduled for winter prior to planting and the typical dry season. I would anticipate invited educational lectures and demonstrations appropriate to the theme. For example Conservation Day could be the day one checks the rainmeter on the sprinkling system as well as inspect for excess water leakage around the individual sprinklers. We also could do with a bit of education on how best to effect a beautiful community with reasonable work and outlay. I am sure your staff could assist us in developing ideas for an effective Conservation Day. Let us call this activity the Personal Challenge Experiment. Would you consider giving us a two year window to meet water conservation goals agreed to with you in exchange for accepting the rates I have set forth in this letter, the trial period starting when the rate change becomes official?

In closing I recommend that you adopt the rates that I have set forth. These variable rates most closely reflect the actual situation and could easily be adjusted should house closing objectives not be met or should closings exceed significantly those projected. Someone suggested that you may not be able to set variable or future rates such as I have proposed. Should this be the case then some sort of an average of the rates over the five year period could easily be worked out. A straight averaging would provide the owner with a lower return on investment than 10.5% in the early years but a return higher than 10.5% higher return in the later years.

I submit this letter in all sincerity and expect to discuss these results at a meeting with your staff. I shall be happy to explain items for which I have been less than clear and to consider any comments you wish to make.

Please place me on the mailing list for this case.

Respectfully yours,



F. Joel Witt