

State of Florida



ORIGINAL

Public Service Commission  
-M-E-M-O-R-A-N-D-U-M-

RECEIVED - PSC  
03 SEP 12 PM 12:28  
COMMISSION  
CLERK

---

**DATE:** September 12, 2003  
**TO:** Division of the Commission Clerk and Administrative Services  
**FROM:** Division of Economic Regulations (Biggins)  
**RE:** Docket No. 030748-SU

---

Please enter into Docket File 030748-SU.

- AUS \_\_\_\_\_
- CAF \_\_\_\_\_
- CMP \_\_\_\_\_
- COM \_\_\_\_\_
- CTR \_\_\_\_\_
- ECR \_\_\_\_\_
- GCL \_\_\_\_\_
- OPC \_\_\_\_\_
- MMS \_\_\_\_\_
- SEC   1
- OTH \_\_\_\_\_

DOCUMENT NUMBER - DATE  
08634 SEP 12 8  
PSC-COMMISSION CLERK

LAW OFFICES  
**ROSE, SUNDBSTROM & BENTLEY, LLP**  
2548 BLAIRSTONE PINES DRIVE  
TALLAHASSEE, FLORIDA 32301

CHRIS H. BENTLEY, P.A.  
ROBERT C. BRANNAN  
DAVID F. CHESTER  
F. MARSHALL DETERDING  
JOHN R. JENKINS, P.A.  
STEVEN T. MINDLIN, P.A.  
DAREN L. SHIPPY  
WILLIAM E. SUNDBSTROM, P.A.  
DIANE D. TREMOR, P.A.  
JOHN L. WHARTON  
ROBERT M. C. ROSE, *OF COUNSEL*  
WAYNE L. SCHIEFELBEIN, *OF COUNSEL*

(850) 877-6555  
FAX (850) 656-4029  
www.rsbattorneys.com

CENTRAL FLORIDA OFFICE  
600 S. NORTH LAKE BLVD., SUITE 160  
ALTAMONTE SPRINGS, FLORIDA 32701  
(407) 830-6331  
FAX (407) 830-8522

September 10, 2003  
**VIA HAND DELIVERY**

MARTIN S. FRIEDMAN, P.A.  
VALERIE L. LORD, *OF COUNSEL*  
(LICENSED IN TEXAS ONLY)

Troy Rendell  
Division of Economic Regulation  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, Florida 32399-0873

Re: Forest Utilities, Inc.; PSC Docket No. 030748-SU  
Interconnection and Bulk Service to Jamaica Bay Mobile Home Park  
Our File No. 25052.03

Dear Troy:

Attached is a set of two schedules prepared by Bob Nixon, based upon information provided to him by the management and staff of Forest Utilities, Inc. These constitute our estimate of the major changes in operating income and expenses that are likely to result over the next year. Some of these are directly related to the increased bulk flow from the Jamaica Bay subdivision if that bulk service agreement is finalized; and some are simply related to change in operations expected during the coming year.

While the additions to plant in service and resulting changes in operating expenses that were submitted to the Commission and analyzed in Docket No. 011682-SU and 011683-SU have not been included in Mr. Nixon's attached analysis, they too would have a substantial impact on the earnings picture for the Utility in 2003 and more importantly in 2004 whether or not this bulk service arrangement is finalized.

In conclusion, as you can see from these schedules, based upon estimates from management and Mr. Nixon's calculation of their effect on overall revenue and expense impact, we believe that there will be a net decrease in operating income resulting from all of these changes combined, even if the bulk service arrangement is finalized and the Jamaica Bay system becomes a bulk service customer for the entire year of 2004.

Please review this and give me your thoughts. While I certainly understand the staff's desire to ensure that no overearnings will occur as a result of this new class of service, I believe the attached schedules clearly demonstrate that there are not likely to be any such overearnings.

In addition, as I have previously noted to you, gallonage charges have generally been set by the Commission in the past, so as to allow the Utility to recover the variable

Economic Regulation  
03 SEP 11 AM 9:47

DOCUMENT NO.  
081634-03  
9.12.03

Mr. Troy Rendell  
September 10, 2003  
Page 2

expenses of operation and therefore, it is logical to assume that the great majority of the additional revenue derived from the new bulk service will likely be offset by expenses. I believe the attached schedules show this basic rate making and rate design theory are correct in this instance.

The Utility believes that moving forward with approval of the bulk rate is needed immediately. While we do not believe that there is any significant likelihood of overearnings resulting from this change as evidenced by the information outlined herein and in the attached schedules, and the Commission's previous dockets recognizing substantial increases in plant in the future, we are willing to discuss with the Commission future review of the effect of such revenues and other overall earnings after 2004, if the Commission truly believes that it is necessary. To the extent that you do believe it is necessary, we suggest that the staff carefully review the additional expenses outlined, we believe these will show you that the likelihood of such occurrence and the need for holding any monies potentially subject to refund should be minimized.

If you have any further questions or need any further information in this regard, please let me know.

Sincerely,

ROSE, SUNDSTROM & BENTLEY



F. Marshall Deterding  
For The Firm

FMD/tms  
cc: Jennifer Rodan, Esquire  
Ms. Tracey Biggins  
Mr. Wade Moser  
Robert C. Nixon, CPA

FOREST UTILITIES, INC.  
NET INCREASE (DECREASE) IN ESTIMATED OPERATING INCOME AND RATE OF RETURN  
WITH ADDITION OF PROPOSED BULK SERVICE CUSTOMER

(A)	<u>PROFORMA OPERATING INCOME</u>	
	ESTIMATED ANNUAL BULK SERVICE GALLONS SOLD (000)	27,375
	PROPOSED BULK RATE PER 1,000 GALLONS	<u>\$ 3.14</u>
	 ESTIMATED ANNUAL REVENUE FROM PROPOSED BULK SERVICE	 85,958
	INCREASE IN EXPENSES BY END OF 2004 RELATED TO BULK SERVICE & OTHER (SCHED. NO. 2)	(88,258)
	REGULATORY ASSESSMENT FEES ON BULK SERVICE REVENUE	(3,868)
	ADDITIONAL DEPRECIATION EXPENSE ON PLANT ADDITIONS REQUIRED TO PROVIDE BULK SERVICE (\$20,000 X 3.33% + \$20,000 X 5.56%)	<u>(1,778)</u>
	 NET INCREASE (DECREASE) IN EXPECTED OPERATING INCOME	 <u>\$ (7,946)</u>
(B)	<u>PROFORMA RATE BASE &amp; RATE OF RETURN</u>	
	2002 RATE BASE PER 2002 ANNUAL REPORT BEFORE WORKING CAPITAL	\$ 413,895
	PLANT ADDITIONS NECESSARY TO PROVIDE BULK SERVICE	40,000
	ADDITIONAL ACCUMULATED DEPRECIATION PER ABOVE	<u>(1,778)</u>
		452,117
	WORKING CAPITAL (O&M PER ANNUAL REPORT (\$522,713) + INCREASE IN O&M (\$86,836) X 12.50%	<u>76,194</u>
	 PROFORMA RATE BASE	 <u>\$ 528,311</u>
	PROFORMA OPERATING INCOME (NOI PER ANNUAL REPORT (\$37,777) - DECREASE PER ABOVE(\$7,946)	<u>\$ 29,831</u>
	 PROFORMA RATE OF RETURN BEFORE ANY OTHER PLANT INVESTMENT (NOTE(2) SCHEDULE NO.2)	 <u>5.65%</u>

FOREST UTILITIES, INC.  
ANALYSIS OF ADDITIONAL EXPENSES AND CAPITAL PLANT REQUIRED  
TO PROVIDE BULK SERVICE TO JAMAICA BAY

<u>(A) INCREASED EXPENSES</u>			
<u>(1) FLOW DATA (NOTE 1)</u>			
EXPECTED INITIAL DAILY FLOW FROM JAMACIA BAY (000)		75	
DAYS		<u>365</u>	
ANNUAL EXPECTED FLOW (000)		<u>27,375</u>	
ACTUAL ANNUAL FLOW - YEAR ENDED DECEMBER 31, 2002		<u>85,729</u>	
<u>(2) PURCHASED POWER</u>			
2002 PURCHASED POWER EXPENSE		<u>\$ 36,413</u>	
DIVIDE BY ACTUAL 2002 FLOW (000)		<u>85,729</u>	
2002 COST PER 1,000 GALLONS		<u>\$ 0.4247</u>	
EXPECTED FLOW FROM JAMACIA BAY		<u>27,375</u>	
ESTIMATED INCREASED PURCHASED POWER		<u>\$ 11,626</u>	\$ 11,626
<u>(3) CHEMICALS</u>			
2002 CHEMICALS EXPENSE		<u>\$ 6,015</u>	
DIVIDE BY ACTUAL 2002 FLOW (000)		<u>85,729</u>	
2002 COST PER 1,000 GALLONS		<u>\$ 0.0702</u>	
EXPECTED FLOW FROM JAMACIA BAY		<u>27,375</u>	
ESTIMATED INCREASE IN CHEMICALS EXPENSE		<u>\$ 1,922</u>	1,922
<u>(4) SLUDGE REMOVAL</u>			
INCREASED FLOW WILL CAUSE UTILITY TO RETURN TO LIQUID SLUDGE HAULING AS OPPOSED TO CURRENT PRACTICE OF DRYING SLUDGE. THE COMPANY BELIEVES THAT APPROXIMATELY 30 LOADS OF 4,000 GALLONS WILL BE REQUIRED ANNUALLY.			
ESTIMATED NUMBER OF LOADS		30	
CURRENT COST PER LOAD		<u>\$ 235</u>	
ESTIMATED ANNUAL COST		7,050	
ACTUAL 2002 COST (DRIED SLUDGE)		<u>(2,884)</u>	
ESTIMATED INCREASE IN SLUDGE HAULING EXPENSE		<u>\$ 4,166</u>	4,166
<u>(5) ADDITIONAL PLANT OPERATOR</u>			
THE ADDITIONAL FLOW FROM JAMACIA BAY WILL REQUIRE A LICENSED PLANT OPERATOR ON SITE 12 HOURS PER DAY UNDER DEP REGULATIONS FOR REUSE PLANTS. THIS WILL REQUIRE THE HIRING OF AN ADDITIONAL OPERATOR AT AN HOURLY RATE OF \$18, OR \$37,440 ANNUALLY.			
		\$ 37,440	
PAYROLL TAXES, INSURANCE & PENSION LOADING FACTOR (AVERAGE 2002 BURDEN)		<u>1.35</u>	
TOTAL ADDITIONAL COST FOR ADDITIONAL PLANT OPERATOR		<u>\$ 50,544</u>	50,544
<u>(6) EXISTING EMPLOYEE WAGE INCREASE FOR 2004</u>			
BECAUSE OF COMPETITION WITH OTHER UTILITY SYSTEMS FOR QUALIFIED EMPLOYEES AND THE COMPANY'S DESIRE TO KEEP EMPLOYEE TURNOVER TO A MINIMUM, SALARIES WILL BE INCREASED IN 2004 BY APPROXIMATELY \$20,000. THIS WILL BRING FOREST'S SALARIES UP TO THE LEVELS OF SALARIES PAID BY OTHER COMPETING UTILITIES IN THE AREA FOR SIMILAR POSITIONS. THIS REPRESENTS AN OVERALL INCREASE OF APPROXIMATELY 9.98% (\$18,578) PLUS 7.65% PAYROLL TAXES (\$1,422).			
		<u>\$ 20,000</u>	<u>20,000</u>
TOTAL INCREASE IN EXPENSES			<u>\$ 88,258</u>

FOREST UTILITIES, INC.  
ANALYSIS OF ADDITIONAL EXPENSES AND CAPITAL PLANT REQUIRED  
TO PROVIDE BULK SERVICE TO JAMAICA BAY

(B) <u>ADDITIONAL CAPITAL PLANT REQUIRED (NOTE 2)</u>	
(1) FORCE MAIN MODIFICATIONS - 500 FT. OF 8" PIPE	\$ 20,000
LIFT STATION #25 UPGRADE TO HANDLE ADDITIONAL FLOWS	12,000
LIFT STATION #8 UPGRADE TO HANDLE ADDITIONAL FLOWS	<u>8,000</u>
 TOTAL ADDITIONS TO PLANT TO PROVIDE BULK SERVICE	 <u>\$ 40,000</u>

NOTES: (1) FLOWS FROM JAMAICA BAY ARE EXPECTED TO VARY FROM BETWEEN 50,000 GPD UP TO 100,000 GPD. THE UNCERTAINTY ARISES SINCE JAMAICA BAY WILL CONTINUE TO OPERATE ITS OWN PLANT TO THE EXTENT NOT OVERLOADED. FOR PURPOSES OF THIS ANALYSIS WE HAVE ASSUMED DAILY FLOWS TO BE 75,000GPD. IT IS UNLIKELY THAT 100,000 GPD WILL EVER ACTUALLY BE DIVERTED TO FOREST'S PLANT. HOWEVER, IN AN ABUNDANCE OF CAUTION, JAMAICA BAY IS ALLOWED UNDER THE PARTIES AGREEMENT TO DIVERT UP TO 100,000 GPD, GIVEN UNCERTAINTY CONCERNING ANY FUTURE ENFORCEMENT ACTIONS OF DEP AGAINST JAMAICA BAY.

(2) PLANT MODIFICATIONS REQUIRED TO MEET CLASS 1 RELIABILITY STANDARDS BY THE END OF 2004 WILL TOTAL APPROXIMATELY \$645,000 AS NOTED IN DOCKETS NOS. 011682-SU & 011683-SU. BY YEAR 2010 THE COMPANY WILL INCREASE PLANT BY \$3,088,000 TO MEET CLASS 1 RELIABILITY STANDARDS AND IMPROVE THE COLLECTION SYSTEM, AS DETERMINED IN THE ABOVE DOCKETS. NO ATTEMPT HAS BEEN MADE TO PROJECT RATE BASE OUT TO SPECIFIC FUTURE YEARS. HOWEVER, THE MAGNITUDE OF THESE FUTURE INVESTMENTS, TOGETHER WITH THE MINIMAL IMPACT OF BULK SERVICE ON OPERATING INCOME, SHOULD ALLEVIATE ANY CONCERNS ABOUT FUTURE OVEREARNINGS AT THIS TIME.