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REPLY TO ALTAMONTE SPRINGS

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

February 17, 2004

HAND DELIVERY

RECEIVED - FPSC  
FEB 17 PM 12:05  
COMMISSION CLERK

Ms. Blanca Bayo  
Commission Clerk and Administrative Services Director  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, FL 32399

Re: Docket No. 030445-SU; Application by Utilities, Inc. of Eagle Ridge for Rate Increase in Lee County, Florida  
Our File No.: 30057.43

Dear Ms. Bayo:

In response to Mr. Tim Devlin's second deficiency letter dated February 2, 2004, regarding the above-referenced Application, we provide the following supplemental responses on behalf of Utilities, Inc. of Eagle Ridge:

**Supplemental Response - Code 4 - Distribution of Computer Costs**

Explain why the allocation method is used and why the depreciation of computer costs is allocated on Code 5, not on Code 4 consistent with other computer costs.

Response: Code 4 is primarily used to distribute computer costs. This method of allocation is appropriate for computer costs because these costs are substantially driven by the amount of bills and computerized billing records that have to be calculated, recorded, and printed, as well as the number of invoices processed through the computer by Accounts Payable personnel. However, all depreciation allocated through SE. 60, distribution of WSC expenses, is allocated on Code 5. In order to consistently allocate depreciation, depreciation of computer costs is also distributed based on Code 5.

**Supplemental Response - Code 5 - Allocation of Office Expense**

Explain why the description of Code 5 in the WSC DOE states "allocated based on number of employees". Employee numbers are not shown on this schedule.

Response: Employee numbers are shown on the allocation schedule for Code 5. These

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COM \_\_\_\_\_  
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are the numbers shown directly below the description "allocated based on the number of employees". For 2002, these numbers are 23 admin/accounting employees, 5 customer service employees, and 5 computer service employees, for a total of 33 employees.

**Supplemental Response - Code 6 - Allocation of Pensions and ESOP**

In the WSC DOE, Code 6, pages 1-9, the numerator and denominator of the allocation percentages has not been provided.

Response: The numerator and denominator have been provided. The numerator is always the total salary for each operating subsidiary. For example, in 2002, the numerator for Utilities, Inc. of Eagle Ridge is 20,151. The denominator is always the total salary listed under "Co. - 02 balance". For 2002, this number is 1,761,832. Please see the enclosed example for Utilities, Inc. of Eagle Ridge showing this allocation.

**Supplemental Response - Code 7 - Distribution of Insurance Expenses**

Explain how elevated storage tanks relate to wastewater plants. Provide the numerator and denominator to show how the \$4,150,000 in Northbrook costs were allocated. Staff is also unable to calculate the weighted percentages shown.

Response: Elevated storage tanks relate to water plants. Accordingly, only systems with water plants would have an elevated storage tank. This is consistent with what is listed in Code 7. The \$4,150,000 are not costs that were allocated. This is the property value of the Northbrook office that is verified each year by Utilities, Inc.'s insurance company. This number is instrumental in determining how much of the Northbrook property value should be allocated to each system in order to ultimately determine how much general property insurance expense should be allocated to each system. Accordingly, the Company distributes Northbrook property values on Code 5. This is consistent with how most WSC expenses and WSC rate base are distributed.

In addition, each utility runs a portion of its operations out of its regional office. All these offices have property values as well. For Florida, the total property value of the regional office is \$1,175,000. This amount also is not a cost that is allocated, rather it is one of the factors used in determining how much general property insurance expense should be allocated to each system. The regional office property values are allocated based on customer equivalents for the systems that use that office. For example, the State of Florida had 63,458 customer equivalents in 2002. Utilities, Inc. of Eagle Ridge had 2,792 customer equivalents for 2002.  $2,792 / 63,458 = 4.3997\%$ .  $4.3997\%$  multiplied by the Florida office property value of \$1,175,000 equals \$51,697.

In order to calculate the percentage for Code 7, one must add all property value amounts allocated to a system. Continuing on with Utilities, Inc. of Eagle Ridge as an example, we

see that Utilities, Inc. of Eagle Ridge was allocated \$44,115 of property value from the Northbrook office and \$51,697 of property value from the Florida office. This totals \$95,812, which is 0.469% ( $95,812 / 20,421,000$ ) of total property values for all Utilities, Inc. operating companies. Therefore, Utilities, Inc. of Eagle Ridge will be allocated 0.469% of general property insurance expense. Please see the enclosed example for Utilities, Inc. of Eagle Ridge showing this allocation.

**Supplemental Response - Code 8 - Excess Liability Insurance**

Staff is unable to calculate the weighted percentages shown. Explain why excess liability insurance relates to miles of sewer mains, gallons of water sold, and operations payroll.

Response: The Company pays excess liability premiums for umbrella policies on general liability, auto insurance, and workman's compensation. The WSC DOE states that this premium is based on miles of sewer mains, gallons of water sold, and operations payroll. However, miles of sewer mains is determined by multiplying the number of sewer customers by an average of 40 feet of main per customer and dividing by 5,280 feet. Since this same multiplier is used for each sewer system, the real allocation factor is number of sewer customers. Similarly, the number of gallons of water sold is determined by multiplying the number of water customers by an average of 200 gallons per day and then by 365 days a year. Since this multiplier is used for each water system, the real allocation factor is number of water customers.

It is rational to base excess liability insurance on the number of customers. The number of customers drives many things, including the Company's investment in plant and in vehicles. In turn, the Company's investment in plant and vehicles directly relates to the amount of insurance premium the Company is charged. The Company uses operations payroll as its third basis factor for excess liability because the standard worker's compensation policy is allocated based on operations payroll.

Continuing to use Utilities, Inc. of Eagle Ridge as an example, one can calculate Code 8 by taking the percentage of Utilities, Inc. of Eagle Ridge sewer customers to total sewer customers, plus the percentage of Utilities, Inc. of Eagle Ridge water customers to total water customers, plus the percentage of Utilities, Inc. of Eagle Ridge operations payroll to total operations payroll. This total would then be divided by three to get the weighted average, which is Code 8. Please see the enclosed example for Utilities, Inc. of Eagle Ridge showing this allocation.

**Supplemental Response - Code 10 - Vehicles**

Some of the vehicles reflected are allocated. Explain how the number of vehicles is allocated. Neither the numerator nor denominator, or the basis for using this allocation method, were provided.

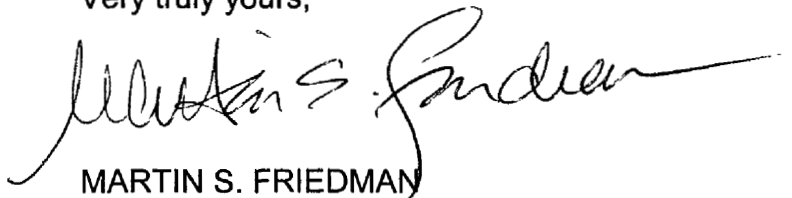
Ms. Blanca Bayo  
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Response: The amount paid for auto insurance is directly related to the number of vehicles, thereby making this method of allocation appropriate. The Company does allocate vehicles in some areas due to the fact that they are shared between systems. The allocated vehicles are based on the customer equivalents for the systems in that region that share vehicles only. For example, under the Florida column, Lake Placid, Utilities, Inc. of Florida, and Bayside Utility Services, Inc., share 30 vehicles. The allocation of those vehicles would be based on the customer equivalents for those systems only. To arrive at the vehicle allocation for a particular system, the numerator would be that particular system's customer equivalents, and the denominator would be total customer equivalents for systems within that region that allocate vehicles.

Should the Staff have any additional questions regarding this Application, they should not hesitate to give me a call.

Very truly yours,



MARTIN S. FRIEDMAN  
For the Firm

VLL/mp  
Enclosure

cc: Rosanne Gervasi, Esquire (w/enclosure)  
Ms. Tricia Merchant (w/enclosure)  
Mr. Steven M. Lubertozzi (w/enclosure)  
Mr. Patrick C. Flynn (w/enclosure)  
Mr. Frank Seidman (w/enclosure)

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**BAYSIDE UTILITY SERVICES, INC. - DOCKET NO. 030444-WS  
 UTILITIES, INC. OF EAGLE RIDGE - DOCKET NO. 030445-SU  
 MID-COUNTY SERVICES, INC. - DOCKET NO. 030446-SU**

**MFR DEFICIENCIES**

**Example of Code 6 allocation**

Eagle Ridge total salary (a)	20,151	
Total Co - 02 salary (b)	1,761,832	
Allocation percentage for Code 6 (c)	<u>1.144%</u>	

- (a) WSC DOE, Code 6, page 6 of 9
- (b) WSC DOE, Code 6 page 6 of 9
- (c) (a) / (b)

**Example of Code 7 allocation**

Eagle Ridge elevated tank (a)		
Total Northbrook property value (b)	4,150,000	
Code 5 percentage for Eagle Ridge (c)	<u>1.063%</u>	
Northbrook property value allocated to Eagle Ridge (d)		44,115
Total Florida office property value (e)	1,175,000	
Total Eagle Ridge customer equivalents (f)	2,792	
Total Florida customer equivalents (g)	63,458	
Eagle Ridge percentage of Florida customer equivalents (h)	<u>4.400%</u>	
Eagle Ridge office property value allocated to Eagle Ridge (i)		<u>51,697</u>
Total property value allocation (j)		95,812
Utilities, Inc. total property value (k)		20,421,000
Allocation percentage for Code 7 (l)		<u>0.469%</u>

- (a) WSC DOE, Code 7
- (b) WSC DOE, Code 7
- (c) WSC DOE, Code 7
- (d) (b) \* (c)
- (e) WSC DOE, Code 7
- (f) WSC DOE, Code 7
- (g) WSC DOE, Code 7, all Florida companies
- (h) (f) / (g)
- (i) (e) \* (h)
- (j) (a) + (d) + (i)
- (k) WSC DOE, Code 7
- (l) (j) / (k)

**Example of Code 8 allocation**

Eagle Ridge sewer customers (a)	2,792	
Total sewer customers (b)	105,693	
Eagle Ridge percentage of sewer customers (c)		2.642%
Eagle Ridge water customers (d)	-	
Total water customers (e)	-	
Eagle Ridge percentage of water customers (f)		0.000%
Eagle Ridge operators payroll (g)	126,258	
Total operators payroll (h)	9,275,778	
Eagle Ridge percentage of operators payroll (i)		1.361%
Allocation percentage for Code 8 (j)		<u>1.334%</u>

- (a) WSC DOE, Code 8
- (b) WSC DOE, Code 8
- (c) (a) / (b)
- (d) WSC DOE, Code 8
- (e) WSC DOE, Code 8
- (f) (d) / (e)
- (g) WSC DOE, Code 8
- (h) WSC DOE, Code 8
- (i) (g) / (h)
- (j) [(c) + (f) + (i)] / 3