

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

ORIGINAL

FREDERICK L. ASCHAUER, JR.
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.rsbatorneys.com

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

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

May 25, 2004

HAND DELIVERY

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

RECEIVED-FPSC
MAY 25 PM 4:04
COMMISSION
CLERK

Re: Docket No. 030444-WS; Application by Bayside Utility Services, Inc., for Rate Increase in Bay County, Florida
Our File No.: 30057.57

Dear Ms. Bayo:

Bayside Utility Services, Inc., provides the following responses to Staff's data requests dated May 12, 2004:

DATA REQUEST NO. 1:

In the utility's 1998 transfer case, the application cited that economies of scale will be available to Bayside through its parent's management and vendor resources. Specifically, the application stated that Bayside has: 1) the ability to attract capital at a reasonable cost; 2) the financial ability to commit funds necessary to operate the purchased utility; 3) a professional staff experienced in managerial, technical and financial aspects of utility operations; 4) the ability to make necessary capital improvements; and 5) the ability to comply with DEP and other environmental agency requirements.

Provide specific examples of how the utility has achieved each of the five economies of scale factors cited above.

RESPONSE:

1) In 2002 Utilities, Inc., ("UI") the parent company of the utility went out for a new debt placement wherein UI was able to obtain an additional \$50 million dollars of long term debt at a rate of 5.41%. With this new debt placement UI's overall cost of debt was determined to be

CMP _____
COM _____
CTR _____
ECR _____
GCL _____
OPC _____
MMS _____
RCA _____
SCR _____
SEC 1
OTH _____

RECEIVED & FILED

Mas
FPSC-BUREAU OF RECORDS

DOCUMENT NUMBER-DATE

05971 MAY 25 04

FPSC-COMMISSION CLERK

approximately 8.00%. This embedded cost of debt is considerably lower than the prior owner's cost of debt which was just under 10.00%.

2) Water Service Corp., a subsidiary of UI that provide billing, accounting, operational and regulatory oversight has been able to pay all invoices received on behalf of the utility and is current on all outstanding receivables.

3) Our operational staff that oversees the Utility is located in our Altamonte Springs office. Patrick Flynn, the Regional Director has been a utility professional for almost 25 years and has provided expert testimony to the Public Service Commission. Mike Dunn the Regional Operations Manager for the utility has been a utility professional for over 25 years. The financial portion of the Utility's operations is handled out of the Northbrook office. The Director of Corporate Accounting, John Haynes has been involved in the regulatory process for numerous years and currently oversees the day-to-day accounting process. John has approximately 17 years of utility financial experience. In addition, our current President and CFO, Larry Schumacher started the utility portion of his career in 1992 and continues to provide unsurpassed financial guidance.

4) Water Service Corp., a subsidiary of UI that provide billing, accounting, operational and regulatory oversight has been able to pay all capital related expenditures received on behalf of the utility. In addition, the utility made approximately \$33,000 worth of capital improvements since in 2002.

5) The utility has been in compliance with all DEP and other environmental agency requirements since acquisition.

DATA REQUEST NO. 2:

Provide a detailed description of all water and wastewater system improvements UI has made since 1998 to date.

RESPONSE: Below please find a list of improvements since acquisition:

Replaced pumps in two lift stations and upsized horsepower

Cleaned and video inspect two-thirds of sewer system

Removed solids from the sewer system

Made repairs to sewer laterals

Made repairs to sewer main on Big Daddy Drive, near court G

Installed back flow preventer at master water meter

Replaced a number of water valves in systems

Relocated a 2 inch water line from under a unit on Linda Lane

Replace two of the seven fire hydrants and installed isolation valves at each location

Made repairs to pump house at middle lift station
Relocated numerous meters to more accessible locations
Made numerous repairs to water mains
Replumbed numerous sewer services, where there was conflict with blockages
Relocated two-inch water main along sea wall

DATA REQUEST NO. 3:

Explain why the utility has not initiated or completed the planned lift station improvements, when vendor estimates for these improvements were dated April 2003.

RESPONSE:

1. The developer and owner of Bayside MHP, Dorothy Burton, made application with FDEP to develop an additional 76 lots in Bayside. The permit to construct a collection system extension that was issued by FDEP identified the need on the part of the developer to upgrade the middle lift station to current standards. To date, the developer has not begun construction of the proposed development, even though on more than one occasion Leonard Jeter, the utility's General Manager, indicated the owner's intention to move ahead. In fact, he said that all of the units were pre-sold over one year ago.
2. FDEP has inspected the utility's collection system from time to time since the utility took ownership. FDEP has never indicated that the utility must upgrade the lift station independently of the developer's obligation. There has been no enforcement action taken, no notice of violation has been issued, nor has any warning letter been received.
3. The middle lift station contains a connecting pipe to a manhole located west of the middle lift station that is part of the Tiki lift station gravity system. Whenever the elevation of the middle lift station wet well rises to the invert of the connecting pipe, wastewater flows from the wet well to the Tiki lift station by gravity. In this way, sewer overflows are minimized.
4. Historically, the middle lift station has operated satisfactorily the great majority of the time. Overflows at the middle lift station have been rare and were most likely related to extended power outages or extreme wet weather events.
5. The Bay County Health Department has jurisdiction over public health issues including sewer backups into homes. To date, the Health Department has not cited the utility for any violation of public health code since taking ownership of the system.

DATA REQUEST NO. 4:

By letter dated November 25, 1998, Mr. Carl Wenz responded to concerns of three Bayside customers, regarding the then-pending transfer application (letter attached). Specifically, Mr.

Wenz stated the following: "Under the current cost structure, approximately 45% of the operating expenses of the water and sewer system are associated with the purchase of bulk services from Panama City Beach. Consequently, our ability to achieve efficiencies is limited to the remaining 55% of operating expenses.... Our ability to achieve greater economies of scale will result in lower rates than otherwise could be achieved under the current ownership."

When purchased water and sewage treatment expenses are excluded, the remaining O&M expenses requested in Bayside's MFR's reflect an increase of 168.19% for water and 213.27% for wastewater, above those approved by the Commission for 1997. What evidence of economies of scale are reflected in the utility's 2002 O&M expenses? Further, what steps if any has the utility taken to lower the operating costs for Bayside, since UI purchased the system?

RESPONSE: Percentages can be deceiving. The 168.19% increase in water O&M amounts to \$28,759 annually. Of this amount, \$16,889 increases total annual salaries to \$22,618 from the \$5,729 under prior ownership. The 213.27% increase in wastewater O&M amounts to \$44,908 annually. Of this amount, \$15,256 increases total annual salaries to \$20,985 from the \$5,729 under prior ownership. There was also an additional increase of \$19,125 in material & supplies for wastewater and \$2,585 for sludge removal. These increases reflect actions taken to respond to the general lack of attention by the prior owner, the poor design and construction, and the difficulty of access to mains and services. All of this was explained in the MFR at Schedules B-7 and B8.

An economy of scale evaluation cannot be expected to result in cost decreases when comparisons are made to prior expenses that were inadequate to provide adequate levels of service. The evidence of economies of scale in this case is the ability to bring service up to an adequate level while maintaining personnel costs at the equivalent of only one qualified field person (\$43,603 combined W&S salary). That is, through the ability to allocate personnel time between several systems, the company is able to share the services of several qualified field and administrative personnel with this small utility; something that would not be, and obviously was not, possible, under a single utility organization.

Additionally, Utilities, Inc. recently increased the health care cost to its employees. This included increasing monthly deductions for all employees and increasing co-payments to healthcare service providers, including prescriptions. This increase in cost to employees effectively reduced the amount of expense being allocated to the company's customers.

Utilities, Inc. continues to lower operating costs by continuing with our growth strategy. The acquisition of additional operating utilities allows the utility's parent company's service provider, Water Service Corporation to lower the amount of expenses being allocated to Bayside through standard entry number sixty. This is also true for expenses allocated from Utilities, Inc. of

Florida's regional office located in Altamonte Springs Florida. Without continued growth in Florida and else where throughout the United States the portion of allocated expenses would continue to increase as expenses continue to climb.

DATA REQUEST NO. 5:

Based on a letter dated May 6, 2004, from Valerie Lord in this case, Bayside is not aware of any sewer snake or sewer rodding equipment included in the purchase of the utility and no such equipment was identified as being included in the utility's asset listing. Ms. Lord also stated that Bayside does not now nor has it ever owned or possessed any such equipment at either Bayside or Sandy Creek. However, Exhibit 2 (entitled Detailed List of Facilities to be Acquired by Purchaser) of the 1998 purchase agreement for Bayside (attached) reflects that UI acquired one "Electric Eel Sewer Rodder w/Trailer." In Staff's Second Data Request (IV. Rate Base - No. 21), we have asked questions regarding this sewer snake equipment.

a) If the utility does not know the original cost of the sewer snake equipment, please estimate the original cost of this equipment by starting with the current replacement value for this equipment and then use the Handy Whitman Index to index the replacement cost back to the year it was placed into service. b) If the utility believes that the snake equipment is not included in its 2002 test year plant in service, provide proof that this equipment is not reflected in the utility's 2002 general ledger plant balance.

RESPONSE:

a) The utility does not know the original cost of the sewer snake equipment. The utility has never seen this equipment, as it was not on the utility's property when the utility was acquired. The utility estimates the original cost of this asset at approximately \$1,000. The utility does not know when the asset was placed in service, therefore cannot use the Handy Whitman Index.

b) The utility does not believe that the "sewer-snake" equipment was transferred at the time of acquisition. In addition, upon review of the prior owner's annual report the utility does not believe that this piece of equipment was included in the prior owner's utility plant in service balance and therefore not included in the current rate proceeding. As represented in the prior owner's 1998 Annual Report account No. 395. Power Operated Equipment indicates at zero balance. Pursuant to the Uniform System of Accounts for Wastewater Utilities pipe cleaning machines (a/k/a sewer-snake equipment) should be booked to account No. 395.

Ms. Blanca Bayo
May 24, 2004
Page 6

Should you have any questions regarding these responses, please do not hesitate to give me a call.

Very truly yours,



VALERIE L. LORD
For the Firm

VLL/mp

cc: Ms. Tricia Merchant (via hand delivery)
Mr. Bart Fletcher (via hand delivery)
Mr. Steven M. Lubertoizzi
Mr. Patrick C. Flynn
Mr. Frank Seidman

G:\UTILITIE\bayside data response to bayo.vl.wpd