

ORIGINAL

**UTILITY PLANT CONSULTING**  
**FOR THE REGULATED WATER INDUSTRIES**

2307 Amherst Ave. Orlando, Florida 32804-5401  
Phone 407-843-9060 Cell 321-217-6407 FAX 407-843-0990

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COMMISSION  
CLERK

August 2, 2004

Florida Public Service Commission  
Commission Clerk and Administrative Services  
2540 Shumard Oak Boulevard  
Tallahassee, FL 32399-0850

Dear Sirs'

Please find the response to the audit report for Tymber Creek Docket No. 040300-SU Audit Control No. 04-124-3-1 Staff Assisted Rate Case.

Please forward this packet of information to Ms. Tracy Biggins.

Sincerely,



Robert F. Dodrill Sr.  
Tymber Creek Utilities, Consultant

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

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DOCUMENT NUMBER-DATE  
08444 AUG-4 3  
FPSC-COMMISSION CLERK

# Regulated Plant Consulting

2307 Amherst Ave. Orlando, Florida 32804-5401  
Phone 407-843-9060 Cell 321-217-6407 FAX 407-843-0990

August 2, 2004

Re: Response to Audit Report Docket No. 040300-SU Audit Control No. 04-124-3-1

SARC of:

Tymber Creek Utilities, Inc.  
1951 West Granada Blvd.  
Ormond Beach, FL 32174

Dear Ms. Biggins,

The following areas of the audit report need to be reviewed by your office. In addition to the narrative below I have attached and referenced documentation for your convenience.

**Exception No.1 Books and Records** The auditor failed to state that the Books and Records of Tymber Creek Utilities have been in full compliance with NARUC since 2002.

**Exception No. 3 Land** There are two parcels of land involved in Tymber Creeks Sewer's plant in service. The first parcel is the land under the Treatment Plant itself. This was correctly identified and accepted by the Commission under Land on page 8 of its March 7, 1991 Order No.24206. It was stated in that order that the original cost of that land was established to be \$4,524. This utility owned land remains in service as documented by the property tax bill which follows. (Exhibit # A3 of 4) A1

The second parcel of land was addressed in paragraph two of page 5 of the above Order No. 24206. In the last paragraph of page 5, the commission staff assigns the cost of \$49,432 to the percolation pond land and includes it in rate base. This was done, before the current Commission procedure requiring an audited entity to provide an affidavit of ownership or long term lease. Because the owner of Tymber Creek Utilities percolation pond land, Stan Shirah, is evaluating the sale of the utility to a local governmental entity, he prefers to maintain control of the utility land. The alternative would be letting the land go to the utility buyer with the other assets. (Exhibit# A4 of 4) A2 of 4

In 2002, Tymber Creek removed a land cost of \$49,432 from the Wastewater Rate Base because the Utility Corporation never purchased the land under the percolation ponds. The Tymber Creek Utility, Corporation - Wastewater instead entered into a long term lease agreement with Stan Shirah for a monthly lease payment of \$540.00 per month. This land lease is in place of having \$49,432 worth of land in the rate base.

The correct balance for the Wastewater Land account is the previously ordered \$4,524.

**Disclosure No. 1      Projected Increases in Operating Expenses** All of the Salary, Employee and Contract compensation increases relate to an effort by the utility to improve its plant accounting procedures. The utility will benefit by maintaining more accurate unit in-service and retirement costs. The percentages look high but the absolute increases are low. Each increase detailed below represents more accurate plant cost accounting for long term lower cost for the customer.

The managing officer will receive \$46 per month for reviewing plant additions and coordinating necessary construction and retirement by the contract construction company. This represents an annual increase of \$552.

The utility accountant salary increase is projected to be \$80 per month. This is for learning and using capitalization techniques and maintaining Continuing Property Records for all utility assets. This increase represents a projected annual increase of \$960

Part time addition of office staff is projected for a person who can file utility documents and post customer payments under the direction of the utility manager above. The estimated part time salary which will be required is \$335 per month or \$4,020 per year.

The plant accounting consultant increase is projected to be one hour a month for instruction and internal auditing. The one hour increase a month is \$65.00 for an annual increase of \$780.00

#### Wastewater Plant Operating Permit

The DEP Operating permit renewal cost is understated in this disclosure. The engineering fee for the extensive documentation required by the Department of Environmental Protection is included at \$6,700 or a five year prorata amount of \$1,340. The actual permit payment of \$3,000 to DEP is omitted.

The 5-year prorata portion of \$600 should be added to this profoma expense. Documentation of these costs have been provided to the PSC Audit Staff. Should additional copies of these permit renewal costs (\$6,700 engineering and \$3,000 5 year permit fee) be needed, please contact the utility.

#### **Disclosure No. 2      Additions of \$9,243 constructed Utility Manholes**

When the Gravity Collection System was booked by a previous Tymber Creek accountant, she did not recognize that \$9,243 of manholes were a part of the Sanitary Sewer System. Because of this, the manholes were left on the books of J.K Shirah and Sons. This plant was not included in the last wastewater rate base and should be included at this time.

Documentation was provided to the FPSC Audit Staff.

appropriate balance of accumulated CIAC amortization for the wastewater system is \$99,074.

#### Land

TCU provided this Commission with satisfactory evidence that it owns the land on which its facilities are located during the certification process. Currently, the water system utilizes approximately 0.5 acres, and the wastewater system utilizes approximately 2.0 acres. Given the land's 1973 purchase price of \$2,000 per acre, we calculate the appropriate original land values are \$1,000 for the water system and \$4,000 for the wastewater system. However, since the land was purchased by J. K. Shirah & Sons in 1973 and was not dedicated to utility use until 1976, we have applied the land-values index mentioned earlier to the land's original purchase price in order to approximate the value of the land when it was dedicated to public service. Therefore, we find that the appropriate values for land in the rate base calculation are \$1,131 for the water system and \$4,524 for the wastewater system.

#### Working Capital

We have used the formula method (one-eighth of operating and maintenance expenses) to calculate the working capital requirements of this utility. As we have found in a later section of this Order, the appropriate amounts for operating and maintenance expense are \$33,449 for the water system and \$55,914 for the wastewater system. Therefore, the appropriate amounts of working capital to be included in rate base are \$4,181 for the water system and \$6,989 for the wastewater system.

#### Test Year Rate Base

In consideration of the foregoing, we find that the appropriate test year rate bases are \$17,712 for the water system and \$244,796 for the wastewater system.

#### COST OF CAPITAL

Our calculation of the appropriate cost of capital, including our adjustments, is depicted on Schedule No. 2. Those adjustments which are self-explanatory or which are essentially mechanical in

Presently, the utility has not obtained contracts for this work. Therefore, the utility shall file signed contracts for the aforementioned improvements within six months of the date of this Order. We shall keep this docket open pending receipt and review of said documents.

In addition to replacing the wastewater plant, the utility plans to construct four additional percolation ponds to increase its capacity for effluent disposal. However, the utility must first acquire an additional three acres of land needed for these ponds as it has no extra land of its own. The land which the utility seeks to purchase for the ponds is owned by J. K. Shirah and Sons, a company owned by the utility's partners, the Shirah brothers. J. K. Shirah and Sons originally purchased the land in question in the early 1970's for approximately \$2,000 per acre. According to an estimate performed by an appraiser and submitted to us by the utility, the land's present value is between \$26,971 and \$32,988 per acre. In reliance on the estimate, the utility proposes that \$32,000 per acre, a total of \$96,000 for the three acres, be used as the appropriate value to be included in rate base.

In a similar case involving Orange-Osceola Utilities, Inc., Order No. 17366, this Commission found it reasonable to adjust the value of land purchased by the utility from a related party at a significant margin above the original purchase price. In that case, the Commission used the Consumer Price Index (CPI) to adjust the original purchase price for inflation, and thus arrived at a reasonable valuation.

We do not believe that the CPI would be an accurate indicator of the change in land value in Volusia County. As a reasonable alternative, however, we have used a land-value index derived from the changes in assessed property values in Volusia County from 1973 to 1991. Upon applying this index to the \$2,000 per acre price paid in 1973, we find that the appropriate value of land to include in rate base as proforma plant is \$16,477 per acre, or a total of \$49,432 for three acres.



County of Volusia

REAL ESTATE

2003 2476206.0000

PARCEL NUMBER	ALTERNATE KEY	ASSESSED VALUE	EXEMPTIONS	TAXABLE VALUE	MILLAGE CODE
412500000182	2476206	138,915		138,915	201

25 14 31 IRREG PARCEL IN NE 1/4 OF NW 1/4 LYING N & W OF TYMBER CREEK PHASE I MB 34 PGS 98 TO 10 3 INC & BEING E 670.25 FT OF W 7 40.25 FT MEAS ON N/L OF N 686.89 See Additional Legal on Tax Roll

*Timber Creek Apt's + Belle Pond*

SHIRAH J STANELY  
1951 W GRANADA BLVD  
ORMOND BEACH FL 32174-6740

RE03-1652-4

**AD VALOREM TAXES**

TAXING AUTHORITY	MILLAGE RATE	ADD'L EX.	ADJ. TAXABLE VALUE	TAXES LEVIED
0057 VOLUSIA FOREVER	20000			27.78
0058 VOLUSIA ECHO	20000			27.78
0520 MOSQUITO CONTROL	23800			33.06
0530 PONCE INLET/PORT AUTHO	09000			12.50
0015 SCHOOL-I&S	47200			65.57
0050 COUNTY	6.20400			861.83
0180 ORMOND BEACH	2.66165			369.74
0181 ORMOND BEACH I&S 2002	62583			86.94
0182 ORMOND BEACH I&S 2003	05094			7.08
0060 ST JOHNS RIVER WATER M	46200			64.18
0065 FLORIDA INLAND NAVIGAT	03850			5.35
0100 HALIFAX HOSPITAL	2.30000			319.50
0010 SCHOOL	8.22700			1,142.85
<b>TOTAL MILLAGE</b>	<b>21.76992</b>	<b>AD VALOREM TAXES</b>		<b>3,024.16</b>

*TU*  
*2210236*  
*3/10 = 870.96*

**NON-AD VALOREM ASSESSMENTS**

LEVYING AUTHORITY	RATE	AMOUNT
<i>2,903.19</i>		
<i>x 3</i>		
<i>8709.57 ÷ 10 = 870.96 - TU</i>		
		<i>2032.23</i>
<b>COMBINED TAXES AND ASSESSMENTS</b>	Nov 30 2003 Dec 31 2003 Jan 31 2004 Feb 29 2004 Mar 31 2004	2,903.19 2,933.44 2,963.68 2,993.92 3,024.16

\* See reverse side for important information

Rep. Don Conner Ownership Verification 4 of 4