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January 10, 2007

HAND DELIVERY

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

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COMMISSION
CLERK

RE: Docket No. 060246-WS; Gold Coast Utility Corp.'s Application for an Increase in Water and Wastewater Rates in Polk, County, Florida
Our File No.: 40057.05

Dear Ms. Bayo:

Gold Coast Utility Corp., provides the following responses to Staff's first data request dated December 14, 2006:

- CMP _____
- COM _____ A. The following items relate to the pro forma plant additions reflected in adjustment
- CTR _____ (A)(1) Work Orders on MFR Schedule A-3. For each addition, provide the following:
- ECR _____ 1. For each addition, provide the following:
- GCL _____
- OPC _____ (a) a statement why each addition is necessary;
- RCA _____ RESPONSE: Please refer to composite Exhibit 1 attached hereto.
- SCR _____
- SGA _____ (b) a copy of all invoices and other support documentation if the plant addition has been completed;
- SEC I _____
- OTH _____

DOCUMENT NUMBER-DATE

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FPSC-COMMISSION CLERK

Ms. Blanca Bayo
Commission Clerk and Administrative Services Director
Florida Public Service Commission
January 10, 2007
Page 2

- (b) a copy of all invoices and other support documentation if the plant addition has been completed;

RESPONSE: Please refer to composite Exhibit 1 attached hereto.

- c) a copy of the signed contract or any bids, if the plant addition has not been completed;

RESPONSE: Please refer to composite Exhibit 1 attached hereto.

- (d) a status of the engineering and permitting efforts, if the plant addition has not been through the bidding process; and

RESPONSE: Please refer to composite Exhibit 1 attached hereto.

- (e) the projected in-service date, or the updated projected in-service date, for each outstanding plant addition.

RESPONSE: Please refer to composite Exhibit 1 attached hereto.

- (f) All retirement entries, as well as the methodology and calculations used to calculate the retirements of any items that are replacements for existing plant.

RESPONSE: Please refer to composite Exhibit 1 attached hereto.

- (g) Since the preparation of the MFRs, has any other plant been identified as a result of replacement by pro forma plant? If so, please provide the costs retired and the associated accumulated depreciation and expense.

RESPONSE: Please refer to composite Exhibit 1 attached hereto.

2. The following questions relate to Schedule B-3, Adjustments to Operating Income. The utility requested increases to salaries and wages, employees pension and

Ms. Blanca Bayo
Commission Clerk and Administrative Services Director
Florida Public Service Commission
January 10, 2007
Page 3

benefits, contractual services- other, and workmen's comp. However, the Utility's March 15, 2006, test year approval letter stated that its historic test year ending December 31, 2005, was representative of a normal full year of operation.

- (a) If the historic test year ending December 31, 2005 is representative of a normal full year of operation, explain why salaries and wages, employee benefits, and contractual services other would need to be increased.

RESPONSE: A test year being representative of a normal full year of operation does not mean that there are not adjustments which may increase or decrease operating expenses. It is representative, not exact. For the substantial reasons set forth in the responses to data requests 3, 4 and 5 below, salaries during the test year were insufficient to operate and maintain the Utility's water and wastewater systems in accordance with regulatory requirements. Had the Utility not included those pro forma expenses in this rate case, then it would have been compelled to file another rate case based upon a 2006 or 2007 test year, which would not appear to be a prudent decision. See, Order No. PSC-02-0593-FOF-WU.

3. With regard to Account Nos. 601 & 701, Salaries & Wages – Employees, the utility reflected salaries of \$50,066 on MFR Schedule B-5 and \$65,607 on MFR Schedule B06. According to MFR Schedule B-3, Gold Coast has proposed a pro forma salary adjustment of \$36,499 for water and \$47,828 for wastewater. These adjustments represent a salary increase of 73% for water and wastewater.

- (a) Please provide all of the utility's calculations, bases, work papers, and support documentation for the above salary increase.

RESPONSE: According to the Utility's 2005 annual report, the Utility had total Salaries & Wages in account 601 & 701 of \$115,673. It is requesting pro forma salary adjustments for a total of \$200,000. The amounts are calculated by taking the difference of \$84,327 and, using the same allocation that was used in the 2005 annual report of 56.7% wastewater and 43.2% water, results in adjustments of \$36,499 for water and \$47,828 for wastewater. These are the

Ms. Blanca Bayo
Commission Clerk and Administrative Services Director
Florida Public Service Commission
January 10, 2007
Page 4

- adjustments that the Utility is requesting on Schedule B-3 of the MFR's.
- (b) Please explain, in detail, why the utility's salary adjustment is significantly greater than the Commission's 2006 Index of 2.74%.

RESPONSE: These pro forma adjustments are necessary for two reasons: (1) The Utility must raise the salaries of current employees to remain competitive in the job market and also to keep continuity in utility operations; and (2) the Utility must have an additional employee to permit it to maintain the Utility's facilities in good operating condition. Copies of the job descriptions for the Utility's employees are attached as Exhibit 3.

In 2005 the Utility had three employees working full time:

(1) Mr. David Pearce, the lead operator and dual certified for water and wastewater operations. His annual salary was \$57,200.

(2) Mr. Kent Hardee, a certified wastewater plant operator. Mr. Hardee no longer works for the Utility. He was replaced by Mr. Terry Hackney who also no longer works for the Utility, who was replaced by Mr. Nathan Eckstein, who currently hold this position. Mr. Hardee's annual salary was \$29,236.50.

(3) Mr. John Ridgway, is a certified wastewater plant operator. His annual salary was \$29,236.50

Their salaries are well below what the market would pay if they were to find employment elsewhere at a county or municipal facility. These same people also do above and beyond what an "operator" does. These men mow lawns, fix breaks, maintenance equipment, are on call 24 hours seven days a week, and also make the weekend visits, as required by the Utility's permits. The Utility requests that these employees be paid a fair wage in accordance to what others in the market would receive, given similar qualifications and experience. The requested annual salaries are:

Ms. Blanca Bayo
Commission Clerk and Administrative Services Director
Florida Public Service Commission
January 10, 2007
Page 5

Mr. David Pearce Old: \$57,200 New: \$65,000
Mr. John Ridgway Old: \$29,236.50 New: \$45,000
Mr. Nathan Eckstein Old: \$29,236.50 New: \$45,000

The Utility believes that the requested salaries will allow the Utility to be competitive in the job market, build employee loyalty, and provide for smooth running operations.

The Utility also requires this pro forma adjustment to hire a new employee that is needed to keep up with the daily workload and free up the lead operator to deal with the many new regulations that the FDEP has mandated. This new employee will also be needed to keep up with the growing daily demand of the general upkeep of the spray field and the repair requirements of the spray field. The Utility's permit requires the wastewater plant must be staffed by a certified operator for at least six hours a day, and the water plant must be staffed by a certified operator for at least five hours a day. This leaves the third employee to keep up with the spray field maintenance, mowing lawns, and filling in for the other operators when they are sick or on vacation. This does not take into consideration the time needed for necessary repairs, water leaks, lift station problems, or any other daily work duty. Currently, the Utility is keeping up with the daily responsibilities, but it urgently requires an additional employee to prevent it from falling behind in maintenance projects that will need attention. This new employee will be hired at a salary of \$45,000 and be required to go through operator training.

4. With regard to Account Nos. 603 & 703, Salaries and Wages - Officers, the utility reflected salaries of \$4,500 on MFR Schedule B-5 and \$4,500 on MFR Schedule B-6. According to MFR Schedule B-3, Gold Coast has proposed a pro forma salary adjustment of \$35,663 for water and \$45,337 for wastewater. This adjustment represents a salary increase of 793% for water and 1007% for wastewater.
 - (a) Please provide all of the utility's calculations, bases, work papers, and support documentation for the above salary increase.

RESPONSE: The following are the calculations on which the Utility bases this pro forma adjustment and percentage increase. There is a typographical error on schedule B-3. It should read that the proposed pro forma salary adjustment be \$31,700 for water and \$40,300 for wastewater. This adjustment represents a salary increase of 704% for water and 896% for wastewater. The annual salary that the Utility is requesting for this position is \$72,000.

- (b) Please explain, in detail, why the utility's salary adjustment is significantly greater than the Commission's 2006 Index of 2.74%.

RESPONSE: These pro forma adjustments are necessary for many reasons. The most obvious one is that the Utility was not properly managed. The following is a list of deficiencies in the way that the Utility was being run both financially and operationally.

- (A) The employees had no worker's compensation coverage which is a violation of Federal labor Laws.
- (B) The water plant had no emergency standby generation equipment as mandated by the FDEP.
- (C) There is no cross connection control program and no protection on any meters or the flat rate apartments to prevent water distribution system contamination.
- (D) At the time of take over there was no emergency response plan.
- (E) There was no written operation & maintenance manual as required by the FDEP at the time of takeover.
- (F) Both water and wastewater facilities were well operated but the equipment was not being updated and replaced as it should have been. This resulted in efficiency ratings well below what they should have

been. The employees were spending more time repairing equipment than operating it.

- (G) The accounting system was not properly maintained. Things were expensed when they should have been capitalized.
- (H) The rate base of this Utility has continually declined year after year. Management either did not know how to fix the problem or decided to ignore it.
- (I) Management also has not filed yearly price indexes and pass through's with the Florida Public Service Commission. The last application for an index was filed with the FPSC in 1991. This has put the Utility in dire financial condition and has necessitated a large rate case. The yearly filing of indexes is encouraged by the FPSC as long as it does not exceed the utility's allowed rate of return established by the FPSC.
- (J) Most all of the equipment is antiquated and has to be changed out. This should have been done as years progressed, but instead a large rate increase is needed to address just the minimal needs.
- (K) The Utility now has management that is hands on and not absentee. Current management understands the daily needs of the Utility and is meeting those needs. What once was a utility that was less than compliant is now more compliant with today's rules and regulations that governed utilities.

There are many more issues that have not been addressed above that require attention. The simple fact is that a lead operator needs to focus on the day to day operations of the facilities and spray field. There is a need for a Director of Utility Operations that is able to oversee not only the plant operations but also the financial operations of the utility as well. Mr. Burge has extensive experience running the day to day operations of utilities and is well aware of the rules and regulations of the Florida Public Service

Commission and other regulatory bodies that govern utility operations. A description of Mr. Burge's daily activities and duties is attached as Exhibit 3.

5. With regard to Account Nos. 604 & 704, Employee Pensions and Benefits reflected on MFR Schedule B-5, the utility reflected pensions & benefits of \$10,465 for water and \$15,121 for wastewater. According to MFR Schedule B-3, Gold Coast has proposed a pro forma pensions & benefits adjustment of \$18,474 for water and \$22,800 for wastewater which is associated with the utility's pro forma salary adjustment of \$35,663 for water and \$45,337 for wastewater. This adjustment represents a pensions & benefits increase of 177% for water and 151% for wastewater.
- (a) Please provide all of the utility's calculations, bases, work papers, and support documentation for the \$18,474 for water and \$22,800 for wastewater pensions & benefits adjustment.

RESPONSE: This pro forma adjustment is needed to be competitive in the job market. The Utility must be able to provide benefits to keep good employees. Local and county-operated utilities give benefits to their employees and the Utility must be allowed to do the same to remain competitive. The employees are entitled to receive health benefits and retirement benefits. The total amount of benefits that the Utility is asking for, including those benefits already in 2005, are \$28,939 for water and 37,921 for wastewater. These amounts break down as follows:

3 current employees- health insurance at \$1000.00 per month and per employee	\$36000.00
(1) Pro forma additional employee- Health insurance at \$1000 per month	\$12,000.00
(1) Director of utility operations- Health insurance at \$550.00 per month	\$6,600.00

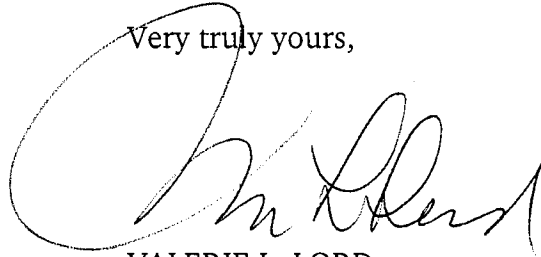
Ms. Blanca Bayo
Commission Clerk and Administrative Services Director
Florida Public Service Commission
January 10, 2007
Page 9

Personal disability income protection at \$177.98 per month	\$2135.76
Long term health care insurance at \$2125.96 annually	\$2125.96
(1) Pension plan for the employees of the Utility. This does not include any benefit for the Director of Utility Operations. Equals 8% of the pro forma requested total employee salary of \$200,000	\$8000.00

These expenses total \$66,862 for employee benefits. If the same allocations as used in the 2005 annual report of 43.28% water and 56.72% wastewater are used, the allocation is \$28,938 for water and \$37,924 for wastewater.

Please do not hesitate to contact me if you should have any questions.

Very truly yours,



VALERIE L. LORD
For the Firm

VLL/tlc
Enclosures

Ms. Blanca Bayo
Commission Clerk and Administrative Services Director
Florida Public Service Commission
January 10, 2007
Page 10

cc: Katherine E. Fleming, Esquire, Office of General Counsel (w/o enc. - via hand del.)
Mr. Troy Rendell, Economic Regulation (w/enclosures - via hand delivery)
Ms. Cheryl Bulecza-Banks, Economic Regulation (w/enclosures - via hand delivery)
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