

February 17, 2012

VIA HAND DELIVERY

Ann Cole, Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

Re: **PSC Docket No. 110298-SU; Farmton Water Resources, LLC
Application for Wastewater Certificate in Brevard County**

Dear Ms. Cole,

I am writing to you in order to provide the responses of Farmton Water Resources, LLC ("FWR" or "Farmton" or "Utility") to the Commission staff's letter dated February 6, 2012. I have provided the answers to the additional information requested, numbered in accordance with the Commission staff's letter.

1. Land Ownership. Please confirm whether Miami Corporation owns 100 percent of the land located within the amended requested service territory in Brevard County. If not, please provide the approximate regions of the service territory owned by other parties and the names of those parties.

Related parties Miami Corporation and Swallowtail LLC own almost all of the land proposed for certification by Farmton Water Resources LLC ("FWR") with the exception of five (5) parcels. Swallowtail LLC is actively seeking to acquire three of these parcels, which are identified as Parcels 1, 2 and 4 in the enclosed Figure 8 (Property Ownership Map). The fifth parcel (identified as Parcel 5 in Figure 8) represents a portion of the East Central Regional Rail Trail that lies within the proposed wastewater service territory which is owned by the state of Florida. This fifth parcel will remain under the ownership of the state of Florida. Each of these parcels are discussed separately below.

Parcels 1 and 2. These two parcels totaling approximately 2.4 acres together are currently owned by Brevard County. While Swallowtail, LLC is currently in negotiation with Brevard County about the acquisition of those parcels, at the present time no contract for their acquisition has been finalized. However, Brevard County was noticed of the Application to include that property within the proposed wastewater service territory of Farmton Water Resources and Brevard County has specifically declined to object to the application.

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Parcel 3. This parcel of 1.31 acres is owned by Billy R. and Angela Roark Estate. Swallowtail, LLC has discussed with the owners the potential acquisition of that property; however, to date no agreement has been reached for its acquisition. Furthermore, the owners of Parcel 3 were not separately noticed of the Application. Consequently, Farmton Water Resources is willing to restrictively amend its Application in order to exclude that property if the Commission deems doing so is necessary.

Parcel 4. This parcel comprises approximately 1.01 acres of property and is owned by Jack Bruning. However, since May of 2011, this property has been under contract for purchase by Swallowtail, LLC and is simply awaiting the resolution of one probate issue in order to close on ownership of that property. As such, Swallowtail, LLC has an ownership interest in that property and was properly noticed.

Parcel 5. This parcel is the former Florida East Coast Railroad right of way which has now been converted to the "East Central Regional Rail Trail" and is currently owned by the state of Florida, Division of State Lands. It comprises 16.62 acres. However, Farmton Water Resources does not believe a piece of property such as this requires separate notification any more than a road right of way requires separate notification for inclusion into a certificate of a proposed utility service provider.

Based upon the above, Farmton Water Resources, LLC proposes to restrictively amend its Application to remove the 1.31 acre Parcel 3, as outlined above, if the Commission deems that to be necessary. If the Commission believes such a restrictive amendment is appropriate, Farmton will file revised maps and legal descriptions in order to recognize that restrictive amendment immediately upon notification by the Commission of the need to do so.

2. Construction Cost Opinion. Please explain how the unit costs in Table 17 on page 41 of Exhibit 2 (Engineer's Report) were determined. If estimates, please describe upon what information these estimates are based.

The unit costs specified in Table 17 on page 41 of Exhibit 2 were derived from historic bid pricing associated with projects that are similar in scope and nature to the proposed improvements. The consulting Engineer who prepared the Table utilized his recent experience with such unit costs on similar projects as a basis for these preliminary cost estimates for this project and believes that such unit costs form a very accurate basis for the estimates depicted on that table.

3. Allowance. Table 17 of page 41 of the Engineer's Report indicates an allowance of 25 percent, which accounts for conformance with general requirements, contingent costs, and the provision of engineering and permitting services, according to Note 3.

a. Please describe how 25 percent was determined to be the appropriate amount for this allowance.

As detailed in Schedule No. B-3 (Note 1) of Exhibit 6 (Cost Study), the 25 percent allowance for conformance with general requirements, contingent costs, and provision of engineering and permitting services is itemized as follows:

- General Requirements – 5 percent
- Contingent Costs – 10 percent
- Engineering and Permitting – 10 percent

Conformance with general requirements covers miscellaneous services and products provided by the contractor during the course of a construction project. Such services and products typically include the following items: mobilization and demobilization; project coordination and administration; provision of bonds and insurance; safety programs; traffic regulation; provision of temporary facilities and construction aids; provision of record documents; and other such miscellaneous services and products as necessary to complete the project in conformance with the plans and specifications. Based on the Engineer's experience with projects that are similar in scope and nature to the proposed improvements, a 5 percent allowance for conformance with general requirements is a reasonable estimate in the opinion of the consulting engineer who prepared this Table.

Contingent costs are intended to cover unexpected costs that invariably surface during the course of a construction project. The percentage assigned to contingent costs is a function of the project stage, i.e., if the project is in the conceptual stage, a higher percentage should be assigned, since there is a higher probability of encountering unexpected costs as the project proceeds through the subsequent design, permitting and bidding stages. On the other hand, once the project is completely designed, permitted and bid, there is a lower probability of encountering unexpected costs due to the detailed research that has been conducted during the aforementioned project stages. At the current project stage, which is preliminary in nature, it is reasonable and customary in the Engineer's opinion to assign a 10 percent contingent cost factor.

The necessity to provide a reasonable allowance for the provision of required engineering and permitting services associated with the construction of the proposed improvements is self-evident. Accordingly, the 10 percent allowance assigned to engineering and permitting is derived from the Engineer's experience with projects that are similar in scope and nature to the proposed improvements.

b. According to Schedule No. B-3 of Exhibit 6 (Cost Study), the items comprised by this allowance account for approximately 18 percent of total utility plant costs (calculated as 862,586 divided by 4,776,503). Please describe the discrepancy between the 25 percent allowance in the Engineer's report and the 18 percent allowance in the Cost Study.

Please be aware that in Schedule No. B-3, the 25 percent allowance was not applied to organization costs (\$100,000), since organization costs are not construction-related. Furthermore, the 25-percent allowance was also not applied to reuse meters and installations (\$200,700), since the underlying cost factor (\$300 per ERC) already incorporates an allowance for conformance with general requirements, contingent costs, and provision of engineering and permitting services. Accordingly, once these two items are deducted, the net "Total Costs before AFUDC" is \$4,312,926 (\$4,613,626 - \$300,700).

In addition, please be aware that once you add a 25 percent markup to a subtotal, dividing the markup amount by the resulting total amount will equal 20 percent, not 25 percent. For example, for a subtotal of \$1,000, a 25 percent markup (\$250) provides a \$1,250 total amount. Dividing \$250 by \$1,250 equates to 20 percent. Similarly, dividing the 25 percent allowance (\$862,586) by the net "Total Costs before AFUDC" (\$4,312,926) also equates to 20 percent.

c. According to Note 2 of Schedule No. B-3 of the Cost Study, the organization costs of \$100,000 are based upon the total estimated legal, accounting, and engineering costs incurred to obtain an original certificate and initial rates and charges. Please confirm whether the organization costs are in addition to the 25 percent allowance.

Yes, the \$100,000 estimate for organization costs is in addition to the 25 percent allowance for those construction-related costs that are described in response to Question 3(a) above. The \$100,000 estimate for organization costs is not construction-related, but rather is intended to cover legal, accounting, and engineering costs incurred to obtain an original PSC certificate and initial rates and charges.

4. Plant Contract Operator. According to Note 3 to Table 20A (page 45) of the Engineer's Report, a contract operator will be hired to provide labor for wastewater system operations. Similarly, Note 3 to Table 20B (page 46) of the Engineer's Report states that a contract operator will be hired to provide labor for reclaimed water system operations. Please explain whether FWR intends to employ a single plant operator to be responsible for both the wastewater and reuse plants.

FWR intends to contract with an independent company that will provide licensed operator services as required to properly operate the proposed wastewater and reclaimed water systems in accordance with all applicable regulatory requirements. The number of licensed operators engaged in this effort will be at the discretion of the contracted company. The estimated cost is for a contract operator (either individual or team) who will perform both functions related to Wastewater treatment and reuse plant operation and the cost thereof is based on the consulting Engineers knowledge and experience with the cost of contract operations for such services.

5. **Reuse Rates and Charges.** In Exhibit 4 (Proposed Tariff Sheets), on Original Sheet No. 14.0, the Utility's proposed reuse rates are provided, including a base facility charge (BFC) of \$5.31 for a 5/8" x 3/4" meter and a gallonage charge of \$1.04 per 1,000 gallons. Original Sheet No. 17.0 indicates a reuse main extension charge of \$140, a plant capacity charge of \$350, and a meter installation fee of \$300 for a 5/8" x 3/4" meter. However, First Revised Sheet No. 12.0 of the Utility's existing water tariff indicates a general service water BFC of \$5.11 for a 5/8" x 3/4" meter and a gallonage charge of \$0.91 per 1,000 gallons. Original Sheet No. 19.0 indicates a water system capacity charge of \$356.65 and no main extension, plant capacity, or meter installation charges. Please explain the Utility's expectation that customers will use reclaimed water, given that the rates and charges for such are higher than those for potable water.

It is acknowledged that the proposed rates and charges for reclaimed water are higher than existing rates and charges for potable water. This discrepancy is primarily due to the following three factors:

- Potable water rates and charges for general service and residential customers, as contained within the existing FWR water tariff, are based on a relatively low cost supply system that includes a well pump and motor, chlorinator, and hydropneumatic bladder tank. In contrast, the proposed reclaimed water rates and charges are based on a sophisticated and advanced treatment system designed to convert raw wastewater into a finished product that is safe for public access irrigation. Thus, the cost of treatment to provide reclaimed water is higher in comparison to the cost of treatment to provide potable water as reflected in the existing water tariff.
- Once FWR begins providing retail water services to the commercial activities envisioned for service by the wastewater system in Phase I, the water system may have to seek approval of a new class of service rates in order to cover the costs of providing potable water service to those same commercial customers.
- Allocating overall infrastructure costs between the wastewater system and the reclaimed water system is a subjective exercise. Accordingly, if more infrastructure costs were allocated to the wastewater system, then the rates and charges associated with the reclaimed water system would be correspondingly reduced.

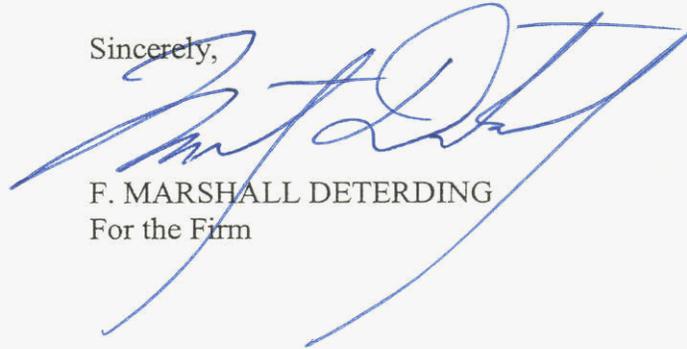
Regardless of the rate design, it is important to note that customers will be required to irrigate with reclaimed water as a condition of service. This mandate is reflective of Subsection 40C-2.301(4)(f), FAC (see enclosed chapter excerpt), which mandates that when reclaimed water is readily available, it must be used in place of higher quality water sources, unless such use is demonstrated to be economically, environmentally or technologically infeasible. Also, from a practical perspective, a separate reclaimed water transmission and distribution system will be constructed as described in the Engineer's Report, with customer irrigation systems required to be connected to this separate piping system as opposed to the potable water piping system.

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As previously indicated, the proposed reclaimed water rates and charges could be reduced if more infrastructure costs were shifted to the wastewater system. The Utility would not be opposed to such a reallocation if deemed prudent by the Commission.

I trust the above and attached information responds fully to the questions raised in the staff's letter. If there is anything additional that the staff needs or any additional questions that arise, please do not hesitate to contact me. We will be more than happy to assist staff in obtaining the information necessary to finalize approval of the certificate application of Farmton Water Resources, LLC.

Sincerely,



F. MARSHALL DETERDING
For the Firm

FMD/bsr

cc: Patti Daniel
Caroline Klancke
Melissa Jones-Alexis

975 Keller Road
Altamonte Springs, Florida 32714-1618
(407) 659-4800

St. Johns River Water Management District
525 Community College Pkwy., S.E.
Palm Bay, Florida 32909
(321) 984-4940

Rulemaking Authority 373.044, 373.113, 373.118, 373.171 FS. Law Implemented 373.073, 373.079, 373.083, 373.103, 373.109, 373.196, 373.219, 373.223, 373.229, 373.233, 373.236, 373.239, 373.250, 373.62 FS. History—New 1-1-83, Amended 5-31-84, Formerly 40C-2.101, 40C-2.0101, Amended 10-1-87, 1-1-89, 8-1-89, 10-4-89, 7-21-91, 7-23-91, 11-12-91, 9-16-92, 1-20-93, 12-6-93, 2-15-95, 7-10-95, 4-25-96, 10-2-96, 1-7-99, 2-9-99, 4-10-02, 2-15-06, 2-13-08, 8-12-08, 3-8-09, 12-27-10.

40C-2.301 Conditions for Issuance of Permits.

(1) To obtain a consumptive use permit for a use existing on the effective date of implementation, the applicant shall apply for a permit under the provisions of Section 373.226, Florida Statutes, and subsection 40C-2.041(2), F.A.C., and shall establish that it is a reasonable-beneficial use and is allowable under the common law of Florida.

(2) To obtain a consumptive use permit for a use which will commence after the effective date of implementation, the applicant must establish that the proposed use of water:

- (a) Is a reasonable-beneficial use;
- (b) Will not interfere with any presently existing legal use of water; and
- (c) Is consistent with the public interest.

(3) For purposes of paragraph (2)(b) above, "presently existing legal use of water" shall mean those legal uses which exist at the time of receipt of the application for the consumptive use permit.

(4) The following criteria must be met in order for a use to be considered reasonable-beneficial:

(a) The use must be in such quantity as is necessary for economic and efficient utilization.

(b) The use must be for a purpose that is both reasonable and consistent with the public interest.

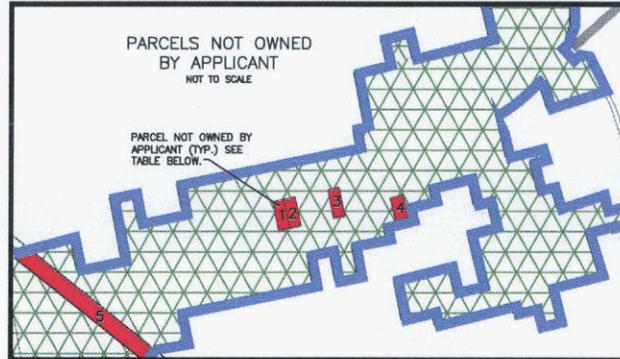
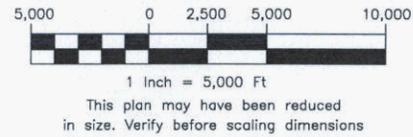
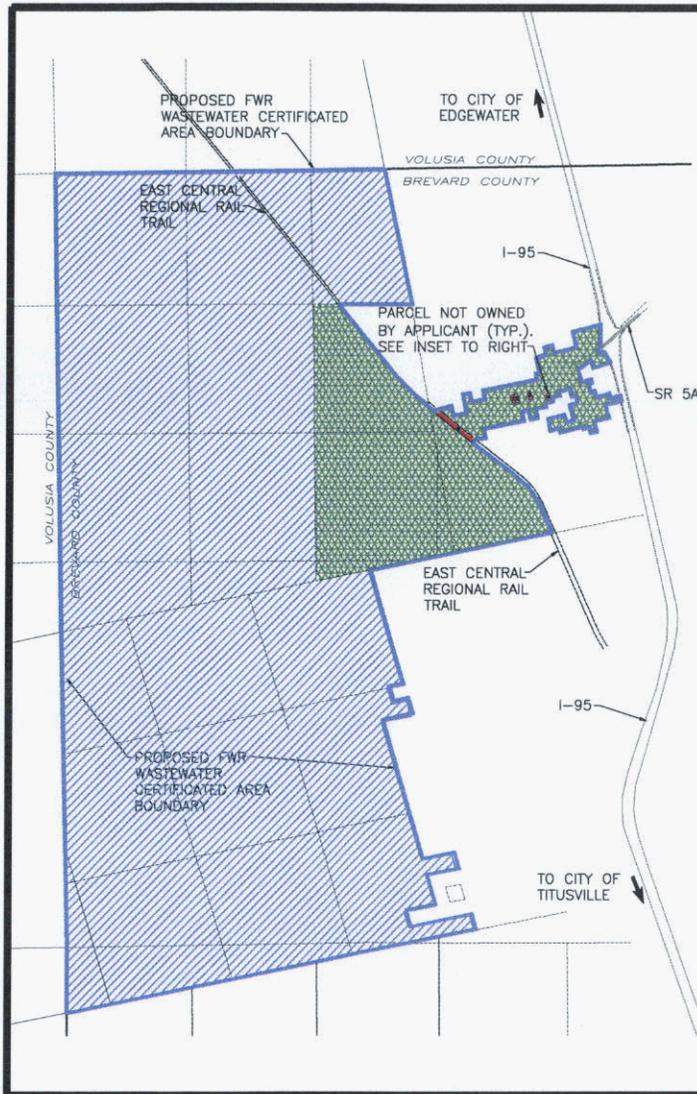
(c) The source of the water must be capable of producing the requested amounts of water.

(d) The environmental or economic harm caused by the consumptive use must be reduced to an acceptable amount.

(e) All available water conservation measures must be implemented unless the applicant demonstrates that implementation is not economically, environmentally or technologically feasible. Satisfaction of this criterion may be demonstrated by implementation of an approved water conservation plan as required in section 12.0., Applicant's Handbook: Consumptive Uses of Water.

(f) When reclaimed water is readily available it must be used in place of higher quality water sources unless the applicant demonstrates that its use is either not economically, environmentally or technologically feasible.

(g) For all uses except human food preparation and direct human consumption, the lowest



PARCELS NOT OWNED BY APPLICANT			
KEY #	OWNER NAME	PARCEL ID #	ACREAGE
1	BREVARD CO.; C/O ASSET MGMT.	20G-34-41-01-4.G-21.02	1.19 AC.
2	BREVARD CO.; C/O ASSET MGMT.	20G-34-41-01-4.G-21.01	1.19 AC.
3	BILLY R. & ANGELA ROARK ESTATE	20G-34-41-01-4.G-21.03	1.31 AC.
4	JACK BRUNING	20G-34-41-00-383	1.01 AC.
5	FLORIDA, STATE OF (ITF); DIVISION OF STATE LANDS; C/O FL DEPT/ENVIRON PROTECT	20G-34-41-00-431	16.62 AC.



FARMTON WATER RESOURCES

PROPOSED WASTEWATER TERRITORY PROPERTY OWNERSHIP MAP



SCALE: 1" = 5,000'
FEBRUARY 2012

FIGURE 8

BOYD
ENVIRONMENTAL ENGINEERING, INC.
788 EXECUTIVE DRIVE, SUITE B
OWENSO, FL 32765
C.O.A. # 6444 PHONE (407) 542-4910