

State of Florida



## Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD  
TALLAHASSEE, FLORIDA 32399-0850

**-M-E-M-O-R-A-N-D-U-M-**

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**DATE:** January 5, 2017  
**TO:** Carlotta S. Stauffer, Commission Clerk, Office of Commission Clerk  
**FROM:** Melinda Watts, Engineering Specialist, Division of Engineering *MW 24*  
**RE:** Docket No.130105-WS-Application for certificates to provide water and wastewater service in Hendry and Collier Counties, by Consolidated Services of Hendry & Collier, LLC.

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Please file the attached response to Staff's Second Data Request in the above mentioned docket file.

Thank you ~



Ms. Melinda Watts  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, Florida 32399

December 16, 2016

**Re: Response to Second Data Request - Docket No. 130105-WS**

Ms. Watts,

In response to the Second data request dated December 7, 2016, and the following letter from Amber Norris, also dated December 7, please find the following answers to each of the questions that you asked. Per our conversation, I have excluded the questions that you received satisfactory answers to in the last request.

Through the process of these responses, I have updated the spreadsheets used to calculate the rates. The excel file for these calculations is attached with this response as well. Should you have any questions with any of this information, please do not hesitate to contact me.

1. In response to staff's first data request, Item 12, the Utility provided the amount of land required for each treatment facility. Based on these allocations, the land for the projected water plant is valued at \$23,200 per acre and the land for the projected wastewater plant is valued at \$4,160 per acre.

2. Please explain why land is included in rate base if the Utility is leasing the land.

*The lease will be an annual expense and not a capital cost. Therefore the land and land cost amount has been removed from the rate base and added into the O&M cost for both the water and wastewater. The lease rate that we are assuming is the current market rate - \$500/acre.*

3. On August 18, 2016, the Office of Public Counsel filed a letter, which was placed in the docket file, stating concerns about the inclusion of the land lease and royalty payments. Please respond to these concerns.

*Mr. Wharton will respond to the Office of Public Counsel letter under separate cover.*

5. Please provide an explanation for the difference in estimated Equivalent Residential Connections (ERCs) between water and wastewater services shown in Exhibit D.

*The ERC number has been updated to show 300 ERCs for both water and wastewater. All of the spreadsheets that included calculations for the rates have been based on 300 ERCs for both water and wastewater.*

8. Pursuant to Rule 25-30.033(1)(p), F.A.C., a utility is required to provide a schedule showing how the miscellaneous service charges were developed, consistent with Rule 25- 30.460, F.A.C. Please provide an estimated cost justification for miscellaneous service charges, including administrative labor costs, field labor costs, and transportation costs associated with initial connections, normal reconnections and premise visits.

**Staff hourly rate - \$30**

**After Business Hours Rate - \$45**

**¾ hour to perform services during regular business hours**

**1 hour to perform services after business hours**

<b>Cost During Business Hours (¾ hour)</b>	<b>Cost After Business Hours (1 Hr.)</b>
<b>\$30*.75=\$22.5</b>	<b>\$45*1=\$45</b>

**Late Payment Fee:**

**\$7.50**

**Labor – ¼ Hour**

**\$0.47**

**Postage**

**\$0.53**

**Cost of paper, printing and envelope**

**\$8.50**

9. Pursuant to Rule 25-30.3 11, F.A.C., please provide proposed customer deposits with a schedule showing how they were developed, consistent with Rule 25-30.033( 1 )(p ), F.A.C.

**Customer Deposits will be calculated based on the average of the typical 3,000 gallon bill for two months. For water, the Customer Deposit will be \$48.58. For wastewater the Customer Deposit will be \$49.52.**

10. Please refer to Exhibit E (Wastewater) of Consolidated's Rate Study, submitted on July 19, 2016. For NARUC Account Nos. 360 and 361, Collection Sewers - Force and Collection Sewers - Gravity, respectively, please provide the proposed number of linear feet of each diameter pipe used to calculate the respective Utility Plan In Service (UPIS) amounts shown.

**5,000 linear feet - 8" PVC SDR 26 (0-6' depth)**

**5,800 linear feet - 8" PVC SDR 26 (6-12' depth)**

**1,800 linear feet - 8" PVC SDR 26 (12-18' depth)**

**625 linear feet - 4" PVC Force Main**

**5,000 linear feet – 6" PVC Force Main**

**Letter from Amber Mitchell Norris**

The following items relate to the Utility's response to staffs first data request, items 1 and 2, regarding its proposed capital structure.

1) What was the basis for projecting equity?

***Debt and equity were calculated based on the 2015 order establishing the authorized range of return on common equity for water and wastewater utilities (order # PSC-15-0259-PAA-WS). Consolidated Services could finance the utilities without any debt. However, when calculating rates, the required return on investment is higher than the anticipated cost of capital. Therefore, to keep rates lower, we assumed 40% debt. However, in reviewing the Bluefield submittal, debt was assumed at 60%. We have amended the spreadsheet to include 60% debt and 40% equity, further reducing anticipated customer rates.***

2) Please identify and provide support for the referenced rate studies used to calculate the debt projection found in Exhibit F of the Rate Study. The following items relate to the Utility's response to staffs first data request, item 3.

***Prior to the submittal, there had not been a specific source to calculate the amount of debt anticipated. However, as stated above, the attached revised spreadsheets are consistent with the Bluefield submittal.***

3) The Utility stated that the O&M expenses have been revised and are based upon the assumptions accepted by staff in Docket No. 090459- WS. Please explain the Utility's basis for using Bluefield to project O&M and provide the characteristics of Consolidated Services that make this a suitable comparison.

***Both Bluefield (Docket No. 090459-WS) and Silver Lake (Docket No. 060726-WS) were used as baselines for different aspects of this submittal. Both utilities are serving areas that are currently agriculture and owned by agricultural companies. Both utilities have a very small customer base, which will in turn have an anticipate impact on specific per ERC costs.***

***Bluefield estimated 248 ERCs in the test year for water, and 228 ERCs in the test year for wastewater. This is compared to Consolidated Services projection of 240 ERCs for both water and wastewater in the test year. Phase 1 of the Bluefield utility was projected to have 279 ERCs for water and 259 ERCs for wastewater, compared with the 300 ERCs anticipated for Consolidated Services.***

***While Silver Lake is also considered a very small utility, the average rate base was projected to be about double Consolidated Services' projections. Therefore, Silver Lake, was used more as a guide to adjust the projections in Bluefield. For the purposes of the assumptions used for Consolidated Services, Silver Lakes 2007 approval (Docket No. 060726-WS) and the 2016 audit (Docket No. 150149-WS) were used.***

4) The Utility also stated that the O&M expenses were adjusted for differences in the compactness of the subject Utility. Please explain what differences were taken into consideration for the compactness of the subject Utility.

***We did not use the same mileage amount to account for shorter distances traveled. Bluefield is a utility servicing a much larger territory of large lots in four separate areas. The proposed plan for Consolidate Services is much smaller and compact.***

5) Please provide the basis for the rate of \$30.00/hour for salary expense.

*Bluefield assumed \$30/hour for labor costs. Specific details of the duties of "labor" were not defined. Similarly, the hourly rate for labor in Silver Lake Utilities' 2007 approval was \$27.50/hour for labor. Based on these comparisons \$30/hour for labor (meter installation, connections and general operation of the utility) is a reasonable amount for this type of utility employee. As a way of comparison, the \$27.50 hourly rate for staff in Silver Lake Utilities in 2007 would equate to \$31.67 in 2016 dollars after adjusting for inflation.*

6) For purchased power expense, please provide the basis for the per ERC amounts of \$77/ERC for water and \$60/ERC for wastewater.

*These numbers used Bluefield as the baseline for Consolidated Service's projection.*

7) Please provide the basis for the contractual services expense and list the services included for this expense and the associated amount for each service.

*For each, Bluefield was assumed as the baseline, adjusted upward to be conservative.*

8) Please provide the basis for each of the following O&M expenses:

Chemicals expense - *Bluefield was assumed as the baseline for water. Although Bluefield used a per gallon assumption for wastewater for both chemicals and electricity, the total amounts are generally consistent.*

Transportation expense – *estimate based on the compactness of the site plan and the area served.*

Insurance expense - *Bluefield was assumed as the baseline.*

Maintenance expense - *Bluefield assumed \$1/month/ERC.*

Should you have additional question, or would like to discuss any part of this application, please do not hesitate to contact me.

Best regards.

DeLisi, Inc.



Daniel DeLisi

cc. John Wharton, Dean Mead Law Firm  
Mitchel Hutchcraft, Consolidated Services of Hendry & Collier, LLC

## Consolidated Services of Hendry Collier County

Naruc Account	Description Item	Amount	Unit	Cost	UPIS	Depreciation Rate	Annual Depreciation	
303	Land and Land Rights	1	EA		\$0	0.0000	\$0	
304	Structures and Improve./ Site Work	1	L.S.	\$106,256	\$106,256	0.0370	\$3,931	
307	Wells and Springs	2	EA	\$27,000	\$54,000	0.0370	\$1,998	
309	Supply Mains/ Yard piping	1	L.S.	\$138,440	\$138,440	0.0313	\$4,333	
311	Pumping Equip./ Vertical Well Pump	1	EA	\$175,000	\$175,000	0.0667	\$11,673	
320	Water Treatment/ Liquid Chlorine	1	EA	\$175,000	\$175,000	0.0588	\$10,290	
330	Distribution Reservoirs /Hydo Tank	1	EA	\$220,000	\$220,000	0.0333	\$7,326	
331	Transmission Distribution/ 8" pvc	18000	LF	\$52	\$936,000	0.0250	\$23,400	
333	Services	300	EA	\$900	\$270,000	0.0286	\$7,722	
334	Meter and Meter Installation	300	EA	\$300	\$90,000	0.0588	\$5,292	
335	Hydrants	30	EA	\$8,500	\$255,000	0.0250	\$6,375	
<b>Total</b>					<b>\$2,419,696</b>	<b>0.0340</b>	<b>\$82,340</b>	
				<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>Year 5</b>
Capacity (ERCs)				300	300	300	300	300
Existing Connections				0	20	45	75	110
Additional Connections (ERCs)				20	25	30	35	40
Utility Plant In Service				\$ 1,188,352	\$ 1,269,172	\$ 1,366,156	\$ 1,479,304	\$ 1,608,616
Accumulated Depreciation				\$ 20,219	\$ 62,033	\$ 106,872	\$ 155,286	\$ 207,826
Contributions in Aid of Construction				\$ 118,400	\$ 266,400	\$ 444,000	\$ 651,200	\$ 888,000
Accumulated Amortization of CIAC				\$ 2,015	\$ 8,562	\$ 20,649	\$ 39,283	\$ 65,472
Contribution Level				9.96%	21.36%	33.62%	46.22%	58.72%
Meter Installation Charge		\$	300					
Plant Capacity Charge		\$	1,600					
Main Extension Charge/Donated Lines		\$	4,020					
Total Service Availability Charges		\$	5,920					
Minimum CIAC		49.84%						
Maximum CIAC		75.00%						

## Consolidated Services of Hendry Collier County

Naruc Account	Description Item	UPIS	Depreciation Rate	Annual Depreciation
353	Land and Land Rights		0.0000	\$0
354	Structures and Improvements	\$ 21,000	0.0370	\$777
360	Collection Sewers - Force	\$ 278,125	0.0333	\$9,262
361	Collection Sewers - Gravity	\$ 1,260,050	0.0222	\$27,973
363	Services to Customers	\$ 850.00 300 \$ 255,000	0.0263	\$6,707
370	Receiving Wells	\$ -	0.0333	\$0
371	Pumping Equipment	\$ 90,000	0.0555	\$4,995
380	Treatment	\$ 450,533	0.0588	\$26,491
	<b>Total</b>	<b>\$ 2,354,708</b>	<b>0.0324</b>	<b>\$76,205</b>

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8
Capacity (ERCs)	300	300	300	300	300	300	300	300
Existing Connections	0	20	45	75	110	150	190	240
Additional Connections (ERCs)	20	25	30	35	40	40	50	60
Utility Plant In Service	\$940,661	\$1,066,916	\$1,218,421	\$1,395,176	\$1,597,183	\$1,799,190	\$2,051,698	\$2,354,708
Accumulated Depreciation	\$15,221	\$47,706	\$84,686	\$126,977	\$175,398	\$230,356	\$292,668	\$363,969
Contributions in Aid of Construction	\$119,545.00	\$268,976.25	\$448,293.75	\$657,498	\$896,588	\$1,135,678	\$1,434,540	\$1,793,175
Accumulated Amortization of CIAC	\$1,934	\$8,221	\$19,828	\$37,721	\$62,868	\$68,187	\$74,861	\$82,986
<b>Contribution Level</b>	<b>12.71%</b>	<b>25.58%</b>	<b>37.79%</b>	<b>48.87%</b>	<b>58.64%</b>	<b>68.04%</b>	<b>77.30%</b>	<b>85.91%</b>

Main Extension Charge \$5,977  
 Total Service Availability Charges \$5,977

Minimum CIAC 76.15%  
 Maximum CIAC

Schedule 1  
Cost of Capital Schedule

Description	Utility Capital	Weight	Cost Rate	Weighted Cost
Common equity	\$ 283,894.96	40%	11.16%	4.46%
Debt (prime +1)	\$ 425,842.44	60%	4.25%	2.55%
Total	\$ 709,737.40	100%		7.01%

Range of Reasonableness High Low  
Common Equity

## Schedule 2

### Water Rate Base

Utility Plant in Service	\$ 1,899,568	80%
Accumulated Depreciation	\$ (326,656)	80%
Contributions in Aid of Construction (CIAC)	\$ (1,420,800)	80%
Accumulated Amortization of CIAC	\$ 143,031	80%
Working Capital Allowance	\$ 8,190	1/8 O&M
<b>Water Rate Base</b>	<b>\$ 303,333</b>	

### Revenue Requirement

Operating Revenue	\$ 108,704
O&M Expense	\$ 65,521
Depreciation Expense	\$ 68,194
Amortization of CIAC Expense	\$ (51,007)
Taxes other than income	\$ 4,726
Total Operating Expense	\$ 87,435
Net Operating Income	\$ 21,270
Water Rate Base	\$ 303,333
Rate of Return	7.01%

### Monthly Service Rates

Base Facility Charge		
5/8" x 3/4"	\$ 15.10	\$ 43,481.80
Charge per 1,000 gallons	\$ 3.06	\$ 65,222.69

### Typical Residential Bills

3,000 Gallons	\$ 24.29
5,000 Gallons	\$ 30.42

The operating expenses are somewhat low.

base facility charge = 40% of the revenue requirement and divided by the 1  
gallage charge = 60% of the revenue requirement by the number of gallo  
(240 connections, 100 gallons per day for 2 people, 30 days per month, 12 1

Assumption of 90 gpd per person and 2.7 people per unit

number of bills at 80% of design capacity.  
ns expected to be sold  
months) and multiplied times 1000.

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**Assumption of 90 gpd per person and 2.7 people per unit**

**number of bills at 80% of design capacity.  
ns expected to be sold  
months) and multiplied times 1000.**

### Schedule 3

#### Wastewater Rate Base

Utility Plant in Service	2,051,698	80%
Accumulated Depreciation	(292,668)	80%
Contributions in Aid of Construction (CIAC)	(1,434,540)	80%
Accumulated Amortization of CIAC	74,861	80%
Working Capital Allowance	7,053	1/8 O&M
<b>Wastewater Rate Base</b>	<b>406,404</b>	

#### Revenue Requirement

Operating Revenue	110,824
O&M Expense	56,425
Depreciation Expense	65,654
Amortization of CIAC Expense	-45,905
Taxes other than income (prop tax + 4.5% of Revenue)	6,153
Total Operating Expense	82,327
Net Operating Income	28,497

Wastewater Rate Base	406,404
Rate of Return	7.01%

#### Monthly Service Rates

Base Facility Charge	\$ 15.39	\$ 44,329.45
Charge per 1,000 gallons	\$ 3.12	\$ 66,494.17

#### Typical Residential Bills

3,000 Gallons	\$ 24.76
5,000 Gallons	\$ 31.01

### O&M Water Expenses

	Units	Total
Land Lease	\$500/acre	\$ 125.00
Salaries and Wages – Employees (601)	\$30/Hr. @1,820 hrs.	\$ 27,300.00
Purchased Power (615)	\$77/ERC	\$ 23,100.00
Fuel for Power Production (616)	\$250	\$ 250.00
Contractual Services (630)		\$ 2,000.00
Chemicals (618)	\$35/ERC	\$ 10,500.00
Transportation Expense (650)	700	\$ 700.00
Insurance Expense (655)	600	\$ 600.00
Bad Debt Expense (670)	1% of gross revenue	\$ 870.00
Misc Service Charges		\$ 76.00
<b>Total</b>		<b>\$ 65,521.00</b>

### O&M Wastewater Expenses

	Units	Total
Land Lease	\$500/acre	\$ 1,125.00
Salaries and Wages	\$30/Hr. @1,820 hrs.	\$ 27,300.00
Chemicals	\$17/ERC	\$ 5,100.00
Electricity	\$60/ERC	\$ 18,000.00
Maintenance	\$12/ERC	\$ 3,600.00
Insurance	300	\$ 300.00
Contractual Services	\$1,000	\$ 1,000.00
Misc Service Charges		\$ 76.00
<b>Total</b>		<b>\$ 56,425.00</b>

**Notes**

**Shared employee Water and Waste Water**

**Notes**

**Shared employee Water and Waste Water**

### Miscellaneous Service Charges

Description	Normal Hours	After Hours
<b>Water Service</b>		
Initial Connection	\$20.00	N/A
Normal Reconnection	\$20.00	\$40.00
Violation Reconnection	\$20.00	\$40.00
Premises Visit Charge	\$20.00	\$40.00
Late Payment Charge	\$5.00	N/A
<b>Wastewater Service</b>		
Initial Connection	\$20.00	N/A
Normal Reconnection	\$20.00	\$40.00
Violation Reconnection	Actual Cost	Actual Cost
Premises Visit Charge	\$20.00	\$40.00
Late Payment Charge	\$5.00	N/A