

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-

DATE: July 10, 2017

TO: Carlotta S. Stauffer, Commission Clerk, Office of Commission Clerk

FROM: Phillip O. Ellis, Public Utilities Supervisor, Division of Engineering ^{PoE}

RE: Docket 20160165-SU - Application for staff-assisted rate case in Gulf County by ESAD Enterprises, Inc. d/b/a Beaches Sewer Systems, Inc.

Please file the attached document from the Utility in the above docket file.

Thank you.

E S A D Enterprises, Inc.
DBA Beaches Sewer System
P O Box 503
Port St Joe, FL 32457

July 7, 2017

Commissioners Brown, Graham, Brise and Polmann
Staff that assisted on rate case Docket No 160165-SU
Florida Public Service Commission
Tallahassee, FL

RE: Docket No 160165-SU

Dear Ladies and Gentlemen:

We would like to response to the staff recommendations on the above docket. We believe that there are a few things that are not correct.

1) Salaries - The staff recommends the salary for the president of the utility to be \$ 32,400 annually, this is an hourly rate of \$ 19.78. On page 35 of the report staff said that the hourly rate for someone doing repairs should be \$ 41.00 per hour, this was an average of two rate from other utilities - \$ 30.00 and \$ 52.00 per hour. We believe that the person who is running the company and doing at time repairs, managing the company, doing all the billing should at least get paid at a rate of \$ 30.00. This would result in a salary for the President of \$ 49,140.00 a year. Remember that the president averages 31.5 hours a week.

2) Payroll Taxes – Needs to be increased because of fair increase to President’s salary, this is \$ 1,280.00 per year.

3) Issue 16 – This is regard to pro forma items, the one item on page 35 is on cleaning the ponds. This is an expense that we will have every year. The DEP requires us to keep the ponds cleaned of all vegetation, in the year 2016 we spent \$ 3,010 in November. We have to do it again. This should be in our current operation and maintenance expense. Staff says we have to expense it over four years, this goes against section 25-30.140 Depreciation. It states under (g) Capitalization that expenses that “neither materially add to the value or prolong it’s life” should be a maintenance expense.

I have recalculated what the rate should be, see the exhibits attached. Old rate of \$ 32.20 per month, 42.08% increase equals new rate of \$ 45.75.

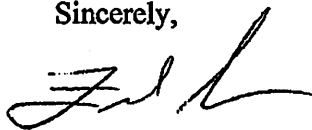
I realize that this is a very large increase but remember we have not had an increase since 1987, thirty years for an average each year of 1.4%.

The two other entities around us, City of Port St Joe and City of Mexico Beach sewer rates are still much higher than what we request.

My only other issue is that I requested to meet with the staff before they came up with their recommendations but was told that it was against their rules. I feel like this would have been a great help to both us and them. One example was the generator we need, they picked the lowest bid. It will not run the plant, the lift stations only. Lowest bid does not always work.

Thanks you for considering all this,

Sincerely,

A handwritten signature in black ink, appearing to read 'Frank J Seifert', written in a cursive style.

Frank J Seifert,
President

Staff requested the Utility provide several bids and/or quotes for each pro forma project on several occasions, yet was only provided with one bid for many of the projects. Staff notes that several of the bids date to late 2014 and early 2015, while several other much needed pro forma items have no bids. Beaches indicated that it had difficulty finding companies or persons to provide quotes and perform specific jobs. During the site visit, staff observed the condition of Beaches' plant and believes the majority of the pro forma projects are warranted.

Pro Forma Expense

Beaches requested three pro forma expense items, totaling \$27,390, which are summarized in the table above and discussed in additional detail below.

Landscaping

The Utility requested \$2,500 to install landscaping at the WWTP and lift stations. The Utility did not provide any bids describing the nature of the work to be performed, or a cost breakdown of materials and labor to justify the expense. Absent additional support documentation, staff removed the expense from Phase II consideration.

Pond Clearing

The Utility has also requested the inclusion of \$5,880 to clear the ponds of vegetation, add sand, and apply a growth inhibitor to prevent unwanted vegetation in the future. Staff notes that the Beaches' DEP permit requires the Utility to rotate ponds weekly. According to the Utility, that has become increasingly difficult due to the growth of vegetation and the deficient lines. As with the fencing bid included in pro forma plant below, staff takes issue with the hourly labor rate included in the Gulf Coast Property Services, LLC bid for the vegetation clearing. Staff notes the single bid for the project comes from the same company that provided the fencing bid. It also happens to be the same company that provides the Utility's grounds keeping services and is owned by the Utility's Vice-President. Staff believes the labor rate of \$65/hour is excessive given the type of work to be performed. While not directly analogous to the contractual relationships between Ni Florida and Utility Group of Florida, LLC (UGF), or several other utilities' relationship with U.S. Water Services Corporation (USWS), staff believes a similar situation exists here. Staff compared the labor rates charged under the UGF and USWS service agreements for general maintenance or labor to review the reasonableness of the rate included in the bid here. The rate was \$30 per hour for UGF and \$52 per hour for USWS, which result in an average hourly rate of \$41 per hour. As such, staff applied an average labor rate of \$41 per hour instead of \$65 per hour here and in the pro forma fencing project. This reduces the labor component of the bid from \$4,680 (72 hrs. x \$65/hr.) to \$2,952 (72 hrs. x \$41/hr.). All other portions of the bid appear reasonable. As such, staff recommends pro forma pond clearing expense of \$4,152 amortized over five years, or \$830 per year (\$4,152 / 5 years).

Sand and Grit Removal

In addition, the Utility requested \$19,010 for sand and grit removal from the wastewater treatment plant. According to the Utility, this has not been done since the current owner took over approximately 17 years ago. As a result, this has caused the Utility's air lines to become clogged. The Utility believes that once done, this project will not need to be done again for at least five more years. The Utility has estimated that one half of the project will be completed by August 30, 2017, and the other half by July 30, 2018. Staff believes that the project is necessary

25-30.140 Depreciation.

(1) For the purpose of the rule, the following definitions apply:

(a) Account - Water and wastewater plant accounts are defined in the NARUC Uniform System of Accounts adopted by Rule 25-30.115, F.A.C.

(b) Amortization - The gradual extinguishment of an amount in an account by distributing such amount over a fixed period.

(c) Asset - Any owned physical object (tangible) or right (intangible) having economic value to its owner.

(d) Average Remaining Life - The future expected service in years of the surviving plant at a given age.

(e) Average Service Life - The period of service that can be reasonably expected from the plant type in question. It is measured by the period of time the subject plant and its associated investment is included on the company's books as in service to the public. The average service life will typically be less than the potential physical life due to factors such as governmental requirements, growth or adverse operating conditions.

(f) Average Service Life Depreciation Rate - The depreciation rate based on the expected average service to be experienced by the investment or account in question.

$$\text{A.S.L. Rate} = 100\% - \frac{\text{Average Net Salvage \%}}{\text{Average Service Life}}$$

(g) Capitalization - Measures of the propriety of capitalization versus expensing as follows:

1. The addition of any retirement unit, or

2. Any replacement with a retirement unit that materially enhances the value, use, life expectancy, strength or capacity of the asset prior to replacement shall be capitalized.

3. The cost of incidental repairs that neither materially add to the value of the property nor appreciably prolong its life and that were made to keep the property in an ordinary efficient operating condition shall be accounted for as a maintenance expense.

(h) Cost of removal - The cost of demolishing, dismantling, tearing down or otherwise removing utility plant, including the cost of transportation and handling incidental thereto.

(i) Continuing Property Record (CPR) - A perpetual collection of records required by the NARUC Uniform System of Accounts showing the detailed original costs, quantities, and locations of plant in service. Generally, a CPR should contain 1) an inventory of property record units which can be readily checked for proof of physical existence, 2) the association of costs with such property record units to ensure accurate accounting for retirements, and 3) the dates of installation and removal of plant to provide data for use in connection with depreciation studies.

(j) Depreciation - As applied to depreciable utility plant, the loss in service value not restored by current maintenance incurred in connection with the consumption or prospective retirement of utility plant in the course of service from causes that are known to be in current operation and against which the utility is not protected by insurance. Among the causes to be given consideration are wear and tear, decay, action of the elements, inadequacy, obsolescence, changes in the art, changes in demand and requirements of public authorities. The intent of depreciation per this rule is to provide for recovery of invested capital and to match this recovery as nearly as possible to the useful life of the depreciable investment.

(k) Depreciation Accounting - The process of charging the book cost of depreciable property, adjusted for net salvage, to operations over the associated useful life.

(l) Depreciation Expense - The periodic charge to expense to allocate the original cost of a depreciable group of assets over the life of those assets.

(m) Depreciable Group - A homogeneous grouping of assets expected to experience similar life and salvage patterns. Unless otherwise ordered by the Commission, depreciable groups are the accounts defined in the NARUC Uniform System of Accounts adopted by Rule 25-30.115, F.A.C.

(n) Function - defined as follows:

Water

Source of Supply

(Accounts 304 to 311 and 339)

Water Treatment Plant

(Accounts 304, 310, 311, 320, and 339)

Wastewater

Collection Plant

(Accounts 354, 355 and 360 to 367)

Pumping Plant

(Accounts 354, 355, 370, 371)

Treatment & Disposal Plant

(Accounts 354 and 380 to 389)

Table 9-1 revised
Percentage Service Rate Increase

1 Total Test Year Revenues	\$131,256
2 Less: Test Year Miscellaneous Revenues	\$2,160
3 Test year Revenue from Service Rate	\$129,096
4 Revenue Increase	\$55,996
5 Less: Incremental Increase in Miscellaneous Revenues	\$1,660
6 Adjusted Revenue Increase	\$54,336
7 Percentage Service Rate Increase (Line6/Line 3)	42.08%

ESAD Enterprises Inc.
Schedule no 3-C

	Total Per Utility	Staff Adjust- ment	Total Per Staff	Utility Adjust- ment	Total Per Utility
703 Salaries and Wages - Officers	56274	4926	61200	16740	77940
Directors Fees	2000		2000	0	2000
711 Sludge Removal Expense	0	2600	2600	0	2600
715 Purchased Power	8335	260	8595	0	8595
718 Chemicals	2752	0	2752	0	2752
730 Contractual Services Billing	18545	-18545	0	0	0
731 Contractual Services Professional	0	2500	2500	0	2500
735 Contractual Services Testing	0	1545	1545	0	1545
736 Contractual Services Other	0	13600	13600	0	13600
740 Rents	7200	0	7200	0	7200
750 Transportation Expense	0	10178	10178		10178
755 Insurance Expense Liability		2335	2335	0	2335
755 Insurance Expense Vehicles	5856	-5856	0		0
765 Regulatory Commission Expense	0	523	523	0	523
770 Bad Debt Expense	2971	0	2971	0	2971
775 Miscellaneous Expense	27928	-7918	20010		20010
775 Miscellaneous Expense note 1			0	3010	3010
Total	131861	6148	138009	19750	157759

Note 1

Ponds Cleaning 3010

ESAD Enterprises Inc
Schedule of Wastewater Operating Income

	Test Year per Utility	Staff Adjust- ments	Staff Test Year	Adjust For Increase	Revenue Require- ment	Utility Adjust- ment	Revenue Require- ment	Adjust for Increase	Revenue Require- ment
Operating Revenues	\$131,149	107	\$131,256	33976	\$165,232	0	\$165,232	22020	\$187,252
Operating Expenses									
Operation & Maintenance	\$131,861	6148	\$138,009		\$138,009	19750	\$157,759	0	\$157,759
Depreciation	7306	5504	\$12,810		\$12,810	0	\$12,810	0	\$12,810
Amortization	-6407	-6403	(\$12,810)		(\$12,810)	0	-\$12,810	0	-\$12,810
Taxes Other than Income	13284	2411	\$15,695	1529	\$17,223	1280	\$18,503	991	\$19,494
Income Taxes	0								
Total Operating Expenses	\$146,044	\$7,660	\$153,704	\$1,529	\$155,232	\$21,030	\$176,262	\$991	\$177,253
Operating Income (Loss)	(\$14,895)		(\$22,448)		\$10,000		-\$11,030	\$21,029	\$9,999
Wastewater O & M Expense	\$131,861		\$138,009		\$138,009		\$157,759		\$157,759

ESAD Enterprises Inc
Schedule of Taxes

	Test Year per Utility	Staff Adjust- ments	Staff Adjust- ments	Staff Test Year	Utility Adjust- ment	Total per Utility
Property	\$6,976	-2242	67	\$4,801	0	\$4,801
RAF	6008	-100	1345	\$7,253	1945	\$9,198
State	300	-150		\$150	0	\$150
Payroll Taxes	0	3993	842	\$4,835	1280	\$6,115
Total Taxes	\$13,284	\$1,501	\$2,254	\$17,039	\$3,225	\$20,264