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BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION
 DOCKET NO. 950495 - WS
 DIRECT TESTIMONY OF MICHAEL WOELFFER
 ON BEHALF OF
MARCO ISLAND CIVIC ASSOCIATION, INC.
 FEBRUARY 6, 1996

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 FPSC-RECORDS/REPORTING

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2 BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION
3 ON BEHALF OF
4 MARCO ISLAND CIVIC ASSOCIATION, INC.
5 Docket No. 950495-WS

6 Q Please state your name and address.

7 A My name is Mike Woelffer and my address is 1285 Holiday Drive, Englewood,
8 Florida 34223.

9 Q Please briefly outline and highlight your educational qualifications and
10 experience.

11 A I received a Bachelor of Science degree in Business Administration in 1973 and
12 a Master of Science in Business Administration degree with a concentration in
13 Finance in 1974, both from Illinois State University. My relevant experience in
14 the private sector includes sales and marketing, management, finance, and
15 administration with Morton Chemical Company, Sambo's Restaurant, IBM,
16 Oklahoma City Chamber of Commerce, and Ligma Corporation. For seven
17 years I was employed by the State of Illinois. My last three years in Illinois I
18 served as the Director of the Illinois Department of Commerce and Community
19 Affairs, a cabinet level official. In addition I have received formal training in the
20 private sector in business applications, finance, and management as well as
21 having served on numerous governmental and civic boards and commissions.

22 Q What specific experience from your background qualifies you to testify as
23 an expert at this hearing?

24 A I have experience in government with the State of Illinois serving as the director
25 of a \$500,000,000 per year agency managing approximately 500 employees and

1 administering approximately 70 different programs. I have testified before
2 numerous state and local units of government on the development of financial
3 lending, training, and incentive programs developed to attract, retain, and expand
4 businesses. This involved developing, writing, and passing legislation. I
5 reviewed business plans, did financial analysis of applications ranging from
6 Small Business Administration loans to direct loans to companies through small
7 and large business loan programs that were developed, administered, and
8 passed into legislation by the agency I headed. Approximately 1,000 companies
9 were involved and received assistance during my tenure as director. I also
10 served on the Board of the Illinois Development Finance Authority reviewing,
11 analyzing, and approving industrial revenue bonds for businesses.

12 A program that I administered was the Illinois Enterprise Zone which
13 involved developing and coordinating with the Illinois Commerce Commission on
14 special utility rates for companies located in such areas. I have dealt with
15 complex state and federal legislation and have been responsible for block grant
16 programs such as Community Development Block Grants which were used to
17 develop local infrastructures such as sewer and water plants. In addition my
18 experience in economic development required working with local utility
19 companies on rates, service, and availability for the attraction of industry.

20 While employed as the vice president of finance and administration for
21 Ligma Corporation I had responsibility for all aspects of business planning and
22 projection, cost analysis, accounting, taxes, financing, and personnel for a
23 \$100,000,000 start-up company. My formal and informal education in business
24 and finance and the applications of those principles to this case also serve to
25 qualify my testimony.

1 Q What practical experience do you have that relates to the setting of water
2 and wastewater utility rates?

3 A Since 1991 I have spent in excess of 1,500 hours researching water and
4 wastewater utility regulatory issues such as: PSC rules, regulations, and
5 decisions, state laws, court decisions, and county utility regulation. This was the
6 result of my involvement as an intervenor in the West Charlotte Utilities, Inc. rate
7 case before Charlotte County. In addition I have provided testimony on behalf of
8 the Attorney General of the State of Florida on utility regulation issues in the West
9 Charlotte Utilities bankruptcy proceedings and in the lawsuit Englewood Water
10 District versus the Attorney General of the State of Florida.

11 Q In what specific areas are you asking the PSC to consider your testimony
12 as an expert?

13 A Based on my education, training, and experience in business, finance, and
14 government, I am requesting that my testimony on the issues included be
15 qualified as expert testimony.

16 Q What is the purpose of your testimony?

17 A The purpose of my testimony is to identify and discuss thirteen distinct issues
18 effecting the fairness and reasonableness of SSU's rate increase request that
19 have been developed in conjunction with the Marco Island Civic Association, Inc.,
20 an intervenor in this rate case.

21 Q Have you ever testified before the Florida Public Service Commission as
22 an expert witness?

23 A No, I have not.

24 ISSUE #1

25 COST OF CAPITAL CALCULATION ON A STAND ALONE BASIS

1 Q What is Issue #1 that you wish to discuss?

2 A Issue #1 is the cost of capital calculation on a stand alone basis for the Marco
3 Island facilities.

4 Q Do you agree with SSU's cost of debt calculation for Marco Island on a
5 stand alone basis?

6 A No. SSU failed to break out the portion of long term debt that is directly attributed
7 to the Marco Island facilities.

8 Q Is that the Collier 1990 and 1992 Series Bonds?

9 A Yes. When SSU calculated a stand alone cost of debt for Marco Island, they
10 failed to allocate those bonds and their associated lower interest rate cost directly
11 to the Marco Island customers. Instead, SSU used a system wide weighted cost
12 of long term debt.

13 Q What effect does this have on the Marco Island customers?

14 A By SSU not reconciling or matching the source of long term debt with the specific
15 assets, Marco Island customers will pay higher rates which will provide a subsidy
16 to other SSU customers.

17 Q Have you calculated what Marco Island's stand alone cost of debt for 1996
18 would be if the Collier 1990 and 1992 Series Bonds were reconciled to the
19 Marco Island facilities?

20 A Yes, I have prepared Schedule MTW-1 showing the calculations and
21 components of debt used.

22 Q Would it be correct to say that SSU requested 10.32% weighted cost of
23 debt for Marco Island on a stand alone basis while your calculation shows
24 only a 10.11% weighted cost of debt when the Collier County Bonds are
25 considered?

1 A Yes. Marco Island customers would be required to pay .21% more interest cost
2 on rate base or a subsidy of an additional \$99,315 per year in higher rates
3 because they were not given credit for the locally issued tax-exempt bonds used
4 to finance their specific facilities.

5 Q Is it your recommendation that the PSC reduce Marco Island's cost of
6 capital by .21% in calculating SSU's rate of return on rate base?

7 A My recommendation is that the PSC accurately match or reconcile debt with the
8 appropriate assets in stand alone cost of debt calculation. In Marco Island's case
9 the .21% difference is based on SSU's filing. It is my understanding that SSU
10 has recently refinanced these specific bonds to take advantage of lower interest
11 rates. When SSU makes that information available to the PSC the difference will
12 be greater than the .21% calculated using SSU's filed testimony.

13 Q In response to Marco Island Civic Association, Inc.'s Interrogatory #5,
14 SSU's Scott W. Vierima has stated, "It is not possible to calculate a true
15 stand alone cost of debt because no stand alone credit analysis or rating
16 exists for the Marco Island Plant." Are you recommending a true stand
17 alone cost of debt calculation for Marco Island?

18 A No. I am recommending a proper matching of assets and debt in the cost of
19 capital calculation for Marco Island's stand alone rates. In SSU's Schedule D-5
20 of the MFR, two Collier County bond issues, a Lee County bond issue, and a
21 Volusia County bond are clearly identified. These debt issues can be easily
22 matched with assets when calculating stand alone rates. When the counties
23 issued the bonds they were to be used for a specific purpose and to benefit the
24 counties' residents. On stand alone rate cost of debt calculation, the bonds can
25 quite easily be matched with the appropriate assets financed with the bonds.

1 Collier, Lee, and Volusia residents should each enjoy the benefits of the tax
2 exempt bonds issued by their local government.

3 **ISSUE #2**

4 **PROJECTION BASIS USED BY SSU TO FORECAST 1996**

5 **Q What is Issue #2?**

6 **A Issue #2 is the projection basis used by SSU to forecast 1996 water revenues.**

7 **Q Do you agree with SSU's figures for projecting 1996 revenues?**

8 **A No. The problem is that SSU has provided conflicting data in the MFR's. In**
9 **addition SSU is using the number of bills as a way to project growth instead of**
10 **the actual number of ERC's.**

11 **Q Would you point out the first discrepancy in SSU's calculations.**

12 **A The first discrepancy is in Schedule E2-1, page 11 and Schedule E2-2, page 10**
13 **of the MFR's. These schedules should accurately reflect the actual number of**
14 **ERC's and gallonage sold in 1994 in order to be used as a basis for projections.**
15 **Schedule E2-1 shows the total booked revenues of \$8.1 million for 1994.**
16 **Schedule E2-2 shows \$7.9 million and provides no explanation of the \$200,000**
17 **deficiency. Another approach is to look at Schedule E2-1, line 64 where unbilled**
18 **revenue is listed as \$216,657. If the ERC's and gallonage sold are not added to**
19 **this schedule, so that it matches actual booked revenue, all projections using**
20 **these schedules will understate revenue. SSU uses these schedules to project**
21 **1995 and 1996 revenues.**

22 **Q Have you prepared any schedules showing these and other discrepancies**
23 **in SSU's Marco Island projections for water rates?**

24 **A Yes. Schedule MTW-2 summarizes ERC and consumption for 1994 through**
25 **1996. Schedule MTW-3 shows CIAC and ERC discrepancies. Schedule MTW-**

1 4 shows the gallonage discrepancy.

2 **Q** Would you explain these schedules.

3 **A** Schedule MTW-3 shows two areas where discrepancies exist. The first is the
4 discrepancy in the number of ERC's reported historically on SSU's Schedule F-
5 9(w) and those used in the revenue projection. Line 22 indicates the average
6 number of ERC's reported by SSU on Schedule F-9(w). The average number
7 of ERC's used by SSU in their revenue projections are included on line 25.
8 SSU's schedules have a discrepancy of 287.60 ERC's that are not included in
9 their 1994 revenue schedules.

10 The second discrepancy is that SSU's numbers do not add up as shown
11 on Schedule MTW-3, lines 1-11. On line 2 the plant capacity charges SSU
12 collected or projects to collect are included. In 1994 SSU reported that \$113,895
13 in plant capacity charges were collected. At \$452 per ERC, 252 new ERC's were
14 added to SSU's Marco Island water system. From the beginning number of
15 ERC's of 14,266.8 in 1993, SSU is claiming that 571 ERC's were lost through
16 1994 while reporting collection of plant capacity charges for 252 new ERC's in
17 1994.

18 **Q** Were there any discrepancies in gallons sold for Marco Island's water
19 revenues?

20 **A** Yes. Schedule MTW-4 , line 29 shows a discrepancy of 29,677,000 gallons of
21 water sold between SSU's Schedule F-9(w) and the schedules that SSU used to
22 project revenue.

23 **Q** If the PSC used the proposed 1994 Schedule F2-1 for Marco Island water
24 revenue projections do you believe fair and reasonable rates would be
25 set?

1 A No. There is an approximate revenue deficiency in 1994 of \$174,741 that is
2 unexplained by SSU. SSU's revenue and growth projection for 1995 and 1996
3 are based on this Schedule F2-1. The understatement of revenue will be carried
4 forward unless the 1994 schedule is corrected for ERC's and gallonage sold.

5 Q Have you prepared a revised 1994 Schedule F2-1 for Marco Island water
6 revenue?

7 A No. Marco Island Civic Association, Inc. has requested documents from SSU.
8 However, at the time of preparing this testimony the documents had not yet been
9 received. Therefore, I will need to submit a late filed exhibit.

10 To estimate the correction needed the \$174,741 of unexplained missing
11 revenue from Schedule F2-1 can be translated into ERC's at the 153,000 gallons
12 per year usage rate. At current rates of \$7.89 a month and \$2.96 per 1,000
13 gallons, each ERC is equivalent to \$557.44 in yearly revenue. Therefore, the
14 \$174,741 represents 313 ERC's with gallonage that needs to be added to the
15 1995 and 1996 revenue projections.

16 ISSUE #3

17 PRICE ELASTICITY FACTORS USED FOR MARCO ISLAND

18 Q What is Issue #3?

19 A Issue #3 is price elasticity factors used for Marco Island.

20 Q Have you reviewed SSU's elasticity factor used to justify lower gallonage
21 usage per ERC than the actual historical usage?

22 A Yes.

23 Q Do you believe fair and reasonable rates will result for the Marco Island
24 customers if the PSC allows SSU a price elasticity adjustment for Marco
25 Island?

1 A No, I do not. Based upon my experience with financial forecasting a more
2 realistic basis for forecasting gallons sold in 1996 would be the actual historical
3 data SSU submitted in the MFR's. The evidence submitted by SSU and the
4 results of the 105% revenue increase granted by the PSC in Docket #920655-
5 WS resulted in rate shock for the people of Marco Island. The PSC adopted an
6 aggressive water conservation rate of 20% base and 80% gallonage charge.
7 Actual historical data is included in the MFR's and would be a more reliable basis
8 for projecting gallonage elasticity.

9 Q Was there a significant reduction in gallons sold per ERC in the historical
10 data submitted by SSU in the MFR's after the implementation of the rate
11 increase that would support SSU's elasticity model predictions?

12 A No, just the opposite occurred. The historical data from Schedule F-9(w) shows
13 that in 1991 before the rate increase or implementation of the conservation rate
14 structure, the gallons sold per ERC were 153,000 gallons in 1991, 152,000
15 gallons in 1992, 151,000 gallons in 1993, and 153,000 gallons in 1994. The
16 interim rates were implemented in late 1992 and the final rates adopted in the
17 middle of 1993. The gallons billed per ERC are the same today after
18 implementation of a large rate increase and a more aggressive conservation rate
19 as they were in 1991. This historical evidence should be used to predict future
20 consumption levels per ERC that might occur due to any rate increase.

21 ISSUE #4

22 WEATHER NORMALIZATION CLAUSE

23 Q What is Issue #4?

24 A Issue #4 is the weather normalization clause.

25 Q SSU is proposing the adoption of a weather normalization clause for Marco

1 **Island. Does the historical variations in gallons sold support SSU's claim**
2 **of a need for such a clause?**

3 **A** No, it does not. The historical gallons per ERC billed in Schedule F-9(w) do not
4 show significant year to year variations for Marco Island. From 1991 through
5 1994 the maximum yearly variations per ERC per year were 2,000 gallons out
6 of 153,000 gallons used. This represents a maximum 1.3% variation in usage.
7 There is no evidence in the MFR's to support that this small variation in usage
8 was caused by weather or rate increases.

9 **Q** **From your conversations with Marco Island residents do you feel the**
10 **addition of a weather normalization clause will be confusing to them?**

11 **A** Yes. SSU's proposed uniform rates, stand alone rates, cap stand alone rates
12 have confused the customers. The addition of a weather normalization
13 calculation on monthly bills will only increase confusion among customers.

14 **Q** **What is the benefit of the weather normalization clause for SSU's Marco**
15 **Island customers?**

16 **A** I do not see any benefit for the Marco Island customers. The weather
17 normalization clause is a risk shifting mechanism. Seasonal variations in water
18 sales due to weather is a risk of SSU. Adoption of a weather normalization
19 clause is nothing more than a mechanism to shift a business risk from SSU to the
20 customers. SSU is asking the PSC to use average historical data over a multi-
21 year period to project gallonage sales in the future. These projection factors
22 already take into account yearly variance that may be due to weather.

23 **ISSUE #5**

24 **EXPENSE**

25 **Q** **What is Issue #5?**

1 A Issues #5 is expense.

2 Q **Have you identified any expense categories for which you would like to**
3 **submit testimony?**

4 A Yes. I am submitting testimony on the following three account categories:
5 Account 620.1.8 (materials and supplies), Account 635.1.8 (contractual services,
6 other), Account 675.1.8 (miscellaneous expenses). Marco Island Civic
7 Association, Inc. has submitted document requests for the detailed invoice and
8 expense records for these account categories. Late filed testimony will need to
9 be submitted since the records have not been received from SSU as of the date
10 of preparation of this testimony.

11 **ISSUE #6**

12 **AMORTIZATION OF THE \$1,465,810 EXPENSE FOR MARCO ISLAND**
13 **WATER SUPPLY**

14 Q **What is Issue #6?**

15 A Issue #6 is the amortization of the \$1,465,810 expense for Marco Island water
16 supply studies.

17 Q **SSU has requested a five-year amortization period in Kimball's testimony**
18 **and a ten-year amortization in Bencini's testimony for the \$1,465,808 of**
19 **differed expense associated with obtaining a water source necessary for**
20 **Marco Island. In your opinion will the five-year or ten-year period result in**
21 **fair and equitable rates for the customers?**

22 A Neither will result in fair and equitable rates for the customers. SSU has
23 expended funds developing a long term asset, a water supply. Costs directly
24 attributed to the asset should be included in the total cost of the asset and
25 depreciated accordingly.

1 Q What would the effect on customer rates be?

2 A The net effect is if the asset is amortized over five years, rather than the expected
3 life of 40 years, rates to the customers would increase. Five-year amortization
4 results in an annual expense of \$293,162 and a forty-year amortization results
5 in a \$36,645 annual expense.

6 ISSUE #7

7 PURCHASE OF THE COLLIER PITS PROPERTY

8 Q What is Issue #7?

9 A Issue #7 is the purchase of the Collier Pits Property.

10 Q Do you wish to submit additional testimony on the Collier Pits property
11 purchase by SSU?

12 A Yes. At the time of preparing this testimony, documents had not been received
13 from SSU. Late filed testimony on this issue will be necessary after SSU
14 responds to Marco Island Civic Association, Inc.'s request for documents is
15 provided.

16 ISSUE #8

17 USED AND USEFUL OF MARCO ISLAND WATER AND WASTEWATER
18 COLLECTION AND DISTRIBUTION SYSTEMS

19 Q What is Issue #8?

20 A Issue #8 is the used and useful of the Marco Island water and wastewater
21 collection and distribution systems.

22 Q SSU is requesting 100% used and useful of its collection and distribution
23 and transmission facilities for Marco Island's water and wastewater
24 facilities. What is the basis for that request?

25 A In reviewing the MFR's the only basis SSU claims is that in the 1992 Rate Case,

1 Docket #9206SS-WS, the PSC found the facilities to be 100% used and useful
2 and therefore should again be considered 100% used and useful.

3 **Q Did you review Order #PSC-93-1070-FOS-WS from the 1992 Rate Case and**
4 **find the basis for the PSC finding the Marco Island facilities 100% used**
5 **and useful?**

6 **A** Yes. In the case of both water and wastewater systems, it was based on the
7 fact that in Order #17600 issued May 26, 1987 the PSC found those facilities
8 100% used and useful.

9 **Q Why should the PSC not automatically adopt the same 100% used and**
10 **useful for the Marco Island systems in this rate case?**

11 **A** I have prepared Schedule MTW-5 which summarizes the investment SSU
12 represents that it has made in the water and wastewater system since the 1992
13 Rate Case. SSU has added a total of \$18,177,880 for its water system and
14 \$6,452,847 for its wastewater system. The investments made are not
15 categorized by the facility's need to service the existing customer base or need
16 for future customers. The fact that a review has not been performed by the PSC
17 and the large investment being made should signal the need to perform a review
18 of the transmission and distribution systems to insure that a fair and equitable
19 rate structure is implemented for Marco Island.

20 **Q What do you mean by a fair and equitable rate structure?**

21 **A** Used and useful is basically a financial concept which was developed to provide
22 the utility a reasonable return on prudent investment to serve future customers
23 while not burdening the existing customers through the monthly rates. This has
24 not been done for SSU's Marco Island water and wastewater distribution and
25 collection systems. The PSC has not developed capital contribution fees for

1 the collection and distribution systems with an appropriate AFPI charge. Existing
2 customers are paying for the investment made by SSU to serve future customers.

3 **Q Have you reviewed the water and wastewater distribution system maps for**
4 **Marco Island provided by SSU in this rate case?**

5 **A** Yes. Sheet 6 of 13 can be used as an example of the need for the PSC to review
6 used and useful for the collection and distributions systems. For example SSU
7 has invested in a water distribution system on Edgewater Court which has 62
8 platted lots. Only 18 of the 62 lots or 29% are currently water customers of SSU.
9 The investment SSU made in the pipes on that street as well as the correct sizing
10 of the transmission and pumping lines all the way to the actual water plant to
11 handle the expected volume when all 62 lots are built out is now being included
12 in monthly rates.

13 **Q How would the adoption of collection and distribution CIAC charges by**
14 **the PSC for SSU's Marco Island facilities affect existing customers?**

15 **A** By developing appropriate capital contribution charges and AFPI charges for the
16 collection and distribution systems, the rates for existing SSU customers will be
17 reduced from those being requested. More importantly future rate increases will
18 be less likely if SSU is required to pay for expansion of those facilities through
19 CIAC charges and AFPI charges. The resulting rates developed will represent
20 more fair and reasonable distribution of costs between current and future
21 customers than those currently being proposed by SSU.

22 **ISSUE #9**

23 **USE OF PEAK DAY DEMAND IN CALCULATING PLANT CAPACITY USED**
24 **AND USEFUL**

25 **Q What is Issue #9?**

1 A Issue #9 is the use of peak day demand in calculating plant capacity used and
2 useful.

3 Q SSU's testimony by Gerald Hartman, page 3, line 13-14, he states, "I agree
4 with the used and useful methodologies Southern States has proposed,
5 and I adopt them as my own." Has Mr. Hartman used other methodologies
6 in determining used and useful percentages in other cases of which you
7 are aware?

8 A Yes. Attached as MTW Exhibit -1 is a July 19, 1995 document from Hartman
9 and Associates, Inc. to the Board of Supervisors of Englewood Water District on
10 wastewater system capital contribution charges. In determining the nonutilized
11 plant for Englewood Water District, Mr. Hartman did not use or even mention
12 maximum peak day demand. Instead, he used a simple daily average which was
13 derived at by taking a twelve-month total treated wastewater flow and dividing by
14 365 days in the year. The same Florida Department of Environmental Protection
15 rules apply to Englewood Water District as to SSU. One must question the
16 reason why at the time Mr. Hartman was preparing testimony for this rate case
17 on the need to use maximum daily peak demand, he was also writing memos to
18 Englewood Water District stating the proper methodology is to use yearly daily
19 average demand in calculating used and useful percentages.

20 Q From a financial perspective how does the use of maximum day peak
21 demand effect customer rates?

22 A Using SSU's Domestic Wastewater Treatment Plan, DEP Monthly Operating
23 Report for March 1994 as an example the effect is to artificially load more of the
24 asset costs into monthly rates. For wastewater plants DEP regulates capacity
25 based on the three-month average daily flow. SSU's MOR for March 1994,

1 Exhibit MTW-2 represents the peak capacity utilization of permitted capacity of
2 65%. The maximum peak day occurred on March 4, 1994 and was 2.870 million
3 gallons per day or 82% of permitted capacity. I am not aware of any regulation
4 of DEP that does not allow a utility to operate at its permit capacity as calculated
5 using the three-month average daily flow. If the PSC adopts the peak day then
6 82% of the wastewater asset value versus 65% will be included in the monthly
7 rate calculation. This means monthly rates will be higher for existing customers.
8 From a financial perspective existing customers are being asked to pay for a
9 greater portion of SSU's facilities even though the facilities are available, can be
10 used, and should be paid for by future customers.

11 **ISSUE #10**

12 **UNIFORM RATES AND DISCRIMINATION TOWARDS MARCO ISLAND**

13 **Q What is Issue #10?**

14 **A Issue #10 involves uniform rates and discrimination toward Marco Island.**

15 **Q Is there evidence in SSU's MFR's that statewide uniform rates would**
16 **require Marco Island residents to subsidize through higher rates SSU's**
17 **revenue requirement?**

18 **A Yes.**

19 **Q What is the amount of the subsidy for the 1996 projected test that Marco**
20 **Island residents would be asked to pay if the PSC were to implement the**
21 **final uniform proposed rates?**

22 **A The total subsidy through higher water and wastewater rates is \$1,568,026.**

23 **Q Would you identify where that information is located in the MFR's?**

24 **A For wastewater and water uniform rates information is contained in Volume V,**
25 **Book 1 or 1. For stand alone rates the information is located in Volume V-B,**

1 Book 3 of 3. The information came from Schedule F2-1 for wastewater and
2 water, (calculation of annualized sales revenue), for Marco Island. The total
3 subsidy of \$1.5 million comes from simply subtracting the amount of revenue that
4 the proposed uniform rates generate from the amount stand alone rates generate.
5 These schedules use identical information to calculate revenue that is generated
6 using proposed rates for each scenario.

7 **ISSUE #11**

8 **REUSE PROJECTIONS**

9 **Q What is Issue #11?**

10 **A Issue #11 consists of the reuse projections.**

11 **Q Has SSU proposed an adjustment for Marco Island reuse projections?**

12 **A Yes. SSU has reduced Marco Island's gallons sold in its 1996 revenue**
13 **projections by 62,050,000 gallons for reuse projections. At a requested rate of**
14 **\$3.27 per 1,000 gallons this is equal to a \$202,903 loss of revenue.**

15 **Q How will the revenue be replaced?**

16 **A SSU is proposing that Marco Island customers pay for the \$202,903 loss of**
17 **revenue by increasing their water rates.**

18 **Q From a financial perspective what concerns do you have regarding this**
19 **adjustment.**

20 **A SSU is attempting to get approval for reuse projects and rates using the theory**
21 **that any reuse project is good and 100% of the costs should be included in**
22 **current customer rates. This approach fails to take into account the fairness,**
23 **financial feasibility, and necessity of such projects. SSU has included in its 1996**
24 **capital improvements a one million gallon per day flat expansion to the reverse**
25 **osmosis plant. One hundred percent or \$1.5 million of those costs are requested**

1 to be recovered from the customers through higher monthly rates. SSU has
2 proposed an additional reduction of 79,022,500 gallons of water sold due to water
3 conservation efforts. At \$3.27 per 1,000 this equates to a revenue loss of more
4 than \$258,000 per year. SSU has again requested monthly rate increases to pay
5 for that revenue loss. SSU's request is discriminatory in nature. Existing water
6 customers are being asked to pay for a reduction in usage but not being offered
7 the same ability to lower their bills for reuse water.

8 **Q Should the reduction of 62,050,000 gallons of water sold to the 1996**
9 **revenue projections be allowed?**

10 **A No. To selectively replace existing gallonage sales when additional capacity is**
11 **available and being requested in increased monthly rates to current customers**
12 **is unfair and unreasonable. Expansion costs should be held for future use and**
13 **revenue loss should be looked at as capacity held for future use. SSU would be**
14 **allowed to earn the required return on investment through CIAC charges and**
15 **AFPI charges.**

16 **ISSUE #12**

17 **\$209,000 OF COSTS IN THE MFR'S FOR MPL'S SHAREHOLDERS'**
18 **REPORTING COSTS**

19 **Q What is Issue #12?**

20 **A Issue #12 is the \$209,000 of costs in the MFR'S for MPL's shareholders'**
21 **reporting costs.**

22 **Q SSU is requesting that \$209,000 be added to its cost of service which**
23 **represents a cost to MPL for shareholders' reporting and communications.**
24 **Is this an appropriate cost to include in SSU rates?**

25 **A No. SSU is not a publicly traded company. One hundred percent of the stock is**

1 owned by the Topeka Group whose stock is owned by MPL. Each are separate
2 legal entities. Shareholders are compensated through dividends or growth in
3 share value. They own a financial instrument of the corporation. The PSC
4 should not allow shareholders to increase their rate of return by attempting to
5 write off their personal expenses.

6 **ISSUE #13**

7 **100% USED AND USEFUL OF WASTEWATER REUSE PROJECT ASSETS**

8 **Q What is Issue #13?**

9 **A Issue #13 is the inclusion of 100% used and useful of the wastewater reuse
10 project assets.**

11 **Q Do you agree with SSU's inclusion of the cost of the reuse project as 100%
12 used and useful in waste water rate base for Marco island?**

13 **A No. In SSU's Exhibit JF6-2, Marco Island Effluent Reuse Study, Guastello
14 Associate, Inc. has identified \$2.8 million of waste water utility plant in service.
15 The PSC has the flexibility to allow SSU to recover its investment and operating
16 costs of its reuse efforts from reuse customers. In Marco Island's case I believe
17 that allocating 100% of those costs and investments to reuse customers to be the
18 most fair and equitable methodology to the customers. As stated in Issue #11,
19 unless all customers have the option of replacing expensive water with reuse
20 water then they should not have to pay for the cost of providing it through their
21 monthly rates. When adequate capacity has already been built and included in
22 the monthly rates, the PSC should not be encouraging through water capacity
23 reduction the replacement of revenues in the water system through reuse sales.
24 Reuse should be fiscally sound as a stand alone project when adequate capacity
25 already is included in the customers rates for water and effluent disposal.**

1 Q Does that conclude your testimony?

2 A Yes, it does.

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COST OF DEBT 1996

MARCO ISLAND WATER AND WASTEWATER

A	B	C	D	E	F	
	TOTAL	RATIO	COST RATE	WEIGHTED COST		
1						
2						
3	CO BANK	\$24,196,250	62.34%	10.50%	6.55%	
4	ADDITIONAL FINANCING	\$14,615,385	37.66%	9.29%	3.50%	
5	LONG TERM TOTAL	\$38,811,635	100.00%		10.04%	
6						
7						
8						
9	COLLIER BONDS-90 SERIES	\$7,894,231	7.49%	D-5		
10	COLLIER BONDS-92 SERIES	\$6,971,154	7.59%	D-5		
11	TOTAL	\$14,865,385				
12						
13						
14						
15						
16						
17	CLASS OF CAPITAL	WATER	WASTE WATER	TOTAL	TOTAL MARCO BONDS	ACTUAL LT DEBT
18	LONG TERM DEBT	\$21,308,481	\$6,661,769	\$27,968,250	(\$14,865,385)	\$13,102,865
19	SHORT TERM DEBT	\$0	\$0	\$0		
20	CUSTOMER DEPOSITS	\$315,131	\$98,530	\$413,661		
21	DEFERRED ITC	\$240,110	\$75,074	\$315,184		
22	DEFERRED INCOME TAXES	\$0	\$0	\$0		
23	PREFERRED STOCK	\$0	\$0	\$0		
24	EQUITY	\$14,887,041	\$4,654,641	\$19,541,682		
25	ADJUSTMENT FOR GAS	(\$266,207)	(\$83,233)	(\$349,440)		
26	TOTAL	\$36,482,556	\$11,406,781	\$47,889,337		
27						
28	CLASS OF CAPITAL	TOTAL	RATIO	COST RATE	WEIGHTED COST	
29	LONG TERM DEBT	\$13,102,865	27.36%	10.04%	2.75%	
30	COLLIER BONDS-90 SERIES	\$7,894,231	16.48%	7.49%	1.23%	
31	COLLIER BONDS-92 SERIES	\$6,971,154	14.56%	7.59%	1.10%	
32	SHORT TERM DEBT	\$0	0.00%	0.00%	0.00%	
33	CUSTOMER DEPOSITS	\$413,661	0.86%	6.00%	0.05%	
34	DEFERRED ITC	\$315,184	0.66%	9.68%	0.06%	
35	DEFERRED INCOME TAXES	\$0	0.00%	0.00%	0.00%	
36	PREFERRED STOCK	\$0	0.00%	0.00%	0.00%	
37	EQUITY	\$19,541,682	40.81%	12.25%	5.00%	
38	ADJUSTMENT FOR GAS	(\$349,440)	-0.73%	12.25%	-0.09%	
39	TOTAL	\$47,889,337	100.00%		10.11%	
40						
41	COST OF CAPITAL					
42	REQUESTED	10.32%				
43	ADJUSTED	10.11%				
44	DIFFERENCE	0.21%				
45	YEARLY SUBSIDY	\$99,315				

COMPARISON OF ERC GROWTH		MARCO ISLAND (WATER)										
A	B	C	D	E	F	G	H	I	J	K	L	M
	1994	1995	1996	DEMAND	1994	1995	1996	1995	1996	1994	1995	1996
Class/Meter Size	Bills	Bills	Bills	FACTOR	ERCS	ERCS	ERCS	GROWTH	GROWTH	Consp(MG)	Consp(MG)	Consp(MG)
RESIDENTIAL												
4 5/8"x3/4"	25,766	26,531	27,296	1.00	2,148.83	2,210.82	2,274.83	62.08	63.92			
5 Full 3/4"	2	2	2	1.50	0.25	0.25	0.25	0.00	0.00			
6 1"	34,131	35,117	36,132	2.50	7,114.23	7,319.78	7,531.32	205.62	211.57			
7 1 1/2"	126	130	133	5.00	52.53	54.19	55.44	1.67	1.25			
8 2"	14	14	15	8.00	9.34	9.34	10.00	0.00	0.67			
9 Gallonage Charge/MG												
10 All Gallonage										1,051,492	1,063,265	1,075,241
11 Total RESIDENTIAL	60,059	61,794	63,580		9,325.16	9,594.45	9,871.85	289.27	277.40	1,051,492	1,063,265	1,075,241
12 Ave cust/cons/bill/mth	5,005											
13 GALS/ERC/DAY					308.93	309.33	298.41					
MULTI-FAMILY												
16 5/8"x3/4"	54	56	57	1.00	4.50	4.67	4.75	0.17	0.08			
17 1"	54	56	57	2.50	11.26	11.67	11.88	0.42	0.21			
18 1 1/2"	254	261	269	5.00	105.89	108.61	112.14	2.92	3.34			
19 2"	710	731	752	8.00	473.56	487.57	501.57	14.01	14.01			
20 3"	324	333	343	16.01	432.21	444.21	457.55	12.01	13.34			
21 4"	382	393	404	25.01	796.20	819.12	842.05	22.93	22.93			
22 6"	32	33	34	50.02	133.40	137.57	141.73	4.17	4.17			
23 Gallonage Charge/MG												
24 All Gallonage										309,716	319,075	261,962
25 Total MULTI-FAMILY	1,810	1,863	1,916		1,957.00	2,013.61	2,071.98	56.61	58.07	309,716	319,075	261,962
26 Ave cust/cons/bill/mth												
27 GALS/ERC/DAY					433.59	434.13	346.44					
COMMERCIAL												
30 5/8"x3/4"	1,890	1,945	2,001	1.00	157.50	162.08	166.75	4.58	4.67			
31 1"	1,209	1,244	1,280	2.50	252.00	259.30	266.80	7.30	7.50			
32 1 1/2"	461	474	488	5.00	192.18	197.60	203.44	5.42	5.84			
33 2"	394	405	417	8.00	262.79	270.13	278.13	7.34	8.00			
34 3"	12	12	13	16.01	16.01	16.01	17.34	0.00	1.33			
35 4"	25	26	26	25.01	52.11	54.19	54.19	2.08	0.00			
36 6"	24	25	25	50.02	100.05	104.22	104.22	4.17	0.00			
37 10"	12	12	13	115.05	115.05	115.05	124.64	0.00	9.59			
38 Gallonage Charge/MG												
39 All Gallonage										291,832	300,650	291,123
40 Total COMMERCIAL	4,027	4,143	4,263		1,147.69	1,178.58	1,215.51	30.89	36.93	291,832	300,650	291,123
41 Ave cust/cons/bill/mth												
42 GALS/ERC/DAY					696.65	696.89	656.18					
IRRIGATION												
45 5/8"x3/4"	121	124	128	1.00	10.08	10.33	10.67	0.25	0.33			
46 1"	654	673	692	2.50	136.32	140.28	144.24	3.98	3.96			
47 1 1/2"	703	723	744	5.00	293.07	301.40	310.16	8.34	8.75			
48 2"	1,105	1,137	1,170	8.00	737.02	758.36	780.37	21.34	22.01			
49 3"	48	49	51	16.01	64.03	65.36	68.03	1.33	2.67			
50 4"	12	12	13	25.01	25.01	25.01	27.10	0.00	2.08			
51 Gallonage Charge/MG												
52 All Gallonage										459,589	473,477	459,970
53 Total IRRIGATION	2,643	2,718	2,798		1,265.53	1,300.75	1,340.56	35.23	39.81	459,589	473,477	459,970
54 Ave cust/cons/bill/mth												
55 GALS/ERC/DAY					994.96	997.27	960.48					
RAW WATER												
56 6"	12	12	12									
57 Gallonage Charge/MG												
58 All Gallonage										35,838	36,938	38,072
59 Total RAW WATER	12	12	12							35,838	36,938	38,072
60 Ave cust/cons/bill/mth												
FIRE PROTECTION												
61 3"	3	3	3									
62 4"	142	146	150									
63 6"	441	454	467									
64 8"	445	458	471									
65 10"	58	60	61									
66 Gallonage Charge/MG												
67 All Gallonage										0	0	0
68 Total FIRE PROTECTION	1,089	1,121	1,152							0	0	0
69 Ave cust/cons/bill/mth												
70												
71 TOTAL ERC					13,695.40	14,087.40	14,499.61	391.99	412.21			

ERC GROWTH

MARCO ISLAND WATER

COMPARISON OF PROJECTED PLANT CAPACITY CHARGES TO
ERC GROWTH IN REVENUE PROJECTIONS

	A	B	C	D	E	F	G	H
1	PROJECTED CIAC	1994	1995	1996				
2	PLANT CAPACITY CHARGES	\$113,895	\$221,480	\$106,220	A12-W			
3	PER ERC CHARGE	\$452	\$452	\$452				
4	ERC GROWTH	252	490	235				
5								
6								
7								
8								
9	REVENUE PROJECTIONS	1994	1995	1996				
10	PROJECTED ERC GROWTH		392	412				
11	PLANT CAPACITY CHARGES		\$177,184	\$186,224				
12								
13	DIFFERENCE		<u>(\$44,296)</u>	<u>\$80,004</u>				
14								
15	NET ADJUSTMENT TO CIAC		<u>\$35,708</u>					
16								
17								
18								
19	ERC GROWTH SUMMARY							
20								
21		1990	1991	1992	1993	1994	1995	1996
22	AVERAGE # OF ERC'S	12,915.50	13,795.00	14,150.50	14,136.00	13,983.00		
23	SCHEDULE F-9(W)							
24								
25	AVERAGE # OF ERC'S					13,695.40	14,087.40	14,499.61
26	REVENUE PROJECTIONS							
27								
28	DISCREPANCY					<u>287.60</u>		
29								
30								
31	ERC GROWTH		879.50	355.50	(14.50)	(153.00)	392.00	412.21
32						(440.60)		

<u>COMPARISON OF CONSUMPTION</u>		<u>MARCO ISLAND</u>			<u>(WATER)</u>	
<u>A</u>	<u>B</u>	<u>C</u>	<u>D</u>	<u>E</u>	<u>F</u>	
	1994	1995	1996	1996	PROJECTED 1996	
			PROJECTED	AFTER P/E ADJ	USING 1995	
					GALS/ERC/DAY	
1						
2						
3	<u>Class/Meter Size</u>					
4	<u>RESIDENTIAL</u>					
5	All Gallonage	1,051,492	1,083,265	1,075,241	1,049,435	1,114,585
6	ERCS	9,325	9,594	9,872	9,872	9,872
7	GALS/ERC/DAY	308.93	309.33	298.41	291.25	309.33
8						
9	<u>MULTI-FAMILY</u>					
10	All Gallonage	309,716	319,075	261,962	261,962	328,277
11	ERCS	1,957	2,014	2,072	2,072	2,072
12	GALS/ERC/DAY	433.59	434.13	346.44	346.44	434.13
13						
14	<u>COMMERCIAL</u>					
15	All Gallonage	291,832	300,650	291,123	279,478	310,072
16	ERCS	1,148	1,179	1,216	1,216	1,216
17	GALS/ERC/DAY	696.65	698.89	656.18	629.93	698.89
18						
19	<u>IRRIGATION</u>					
20	All Gallonage	459,589	473,477	469,970	451,171	487,969
21	ERCS	1,266	1,301	1,341	1,341	1,341
22	GALS/ERC/DAY	994.96	997.27	960.48	922.06	997.27
23						
24	TOTAL GALLONS SOLD	2,112,629	2,176,468	2,098,296	2,042,046	2,240,902
25						
26	TOTAL GALLONS SOLD					
27	PER SCHEDULE F-9(W)	2,142,306				
28						
29	DISCREPANCY	(29,677)				

NET CAPITAL ADDITIONS TO PLANT IN SERVICE

MARCO ISLAND WATER AND WASTEWATER A-4(W)

A	B 1992	C 1993	D 1994	E 1995	F 1996	G TOTAL	
1							
2	<u>WATER SYSTEM</u>	\$714,687	\$423,917	\$7,510,551	\$5,385,103	\$4,143,622	<u>\$18,177,880</u>
3							
4							
5	<u>WASTE WATER</u>	\$5,433,038	\$1,019,101	(\$165,093)	\$131,824	\$33,977	<u>\$6,452,847</u>
6	<u>SYSTEM</u>						
7							
8							

WATER BY CATEGORY A-5(W)

9						
10						
11	INTANGIBLE		\$0	\$0	\$0	
12	SUPPLY & PUMPING		\$4,519,366	\$4,666,052	\$168,200	
13	WATER TREATMENT		\$1,928,393	\$502,939	\$3,592,052	
14	TRANSMISSION & DIST.		\$891,576	\$69,518	\$74,633	
15	GENERAL PLANT		\$171,216	\$146,593	\$87,882	
16	<u>TOTAL</u>		<u>\$7,510,551</u>	<u>\$5,385,102</u>	<u>\$3,922,767</u>	
17						
18						

WASTEWATER BY CATEGORY A-6(S)

19						
20						
21	INTANGIBLE		\$0	\$0	\$0	
22	COLLECTION		\$4,130	\$5,967	\$0	
23	SYSTEM PUMPING		\$26,190	\$34,537	\$4,900	
24	TREATMENT & DISP		(\$252,061)	\$42,818	\$0	
25	GENERAL PLANT		\$56,649	\$48,502	\$29,077	
26	<u>TOTAL</u>		<u>(\$165,092)</u>	<u>\$131,824</u>	<u>\$33,977</u>	

HARTMAN & ASSOCIATES, INC.

engineers, hydrogeologists, surveyors & management consultants

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July 19, 1995

HAI #94-543.02

Board of Supervisors
Englewood Water District
P.O. Box 1399
Englewood, Florida 34295-1399

Subject: Wastewater System Capital Contribution Charges

Ladies and Gentlemen:

We have recently completed our study of the capital contribution charges for the Englewood Water District's ("EWD" or "the District") wastewater system and have summarized the results of our analyses, assumptions and conclusions in this letter report which is respectfully submitted for your consideration. The analysis of the schedule of wastewater capital contribution charges provided herein includes two options for the Board's consideration. The first option provides the District with capital contribution charges for each of the three wastewater components currently charged for by the District, namely, the treatment, transmission and collection components. The second option combines the treatment and transmission components into a single capital contribution charge.

Background

Pursuant to the request by the District, Hartman & Associates, Inc. (HAI) was hired to determine the appropriate schedule of capital contribution charges relative to the treatment plant and transmission systems for the wastewater system.

This request by the District included a study of the capital contribution charges for the treatment plant and transmission components of the wastewater system with the option of either combining the capital contribution charges for these two components into a single charge or maintaining separate charges. The analysis of these two options is provided due to several factors. The first is the fact that the District currently has a capital contribution schedule in place for the water system which combines the water treatment plant and transmission system components into a single capital contribution charge with a separate contribution charge for the water distribution

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system. On the other hand, the current wastewater capital contribution schedule has separate capital contribution charges for all three components. Thus, in order to promote consistency with the District's water capital contribution schedule, the District wished to examine the possibility of combining the capital contribution for the wastewater treatment plant and transmission systems into a single capital contribution charge.

The District's existing water and wastewater capital contribution charge schedules are as follows:

	<u>Existing Capital Contribution Charge per ERC *</u>
<u>Water System:</u>	
Plant/Transmission Facility Charge	\$1,190.00
Distribution Facility Charge	670.00
<u>Wastewater System:</u>	
Plant Facility Charge	\$ 196.00
Transmission Facility Charge	289.00
Collection Facility Charge	2,075.00

* ERC equates to capacity allocated for a single-family residence on an average daily flow basis.

The second reason for the analysis of the wastewater treatment plant and transmission system is the expansion of the District's South wastewater treatment plant to 1.6 MGD and the concurrent decommissioning of the District's remaining three wastewater treatment plants. However, it should be noted that although the treatment facilities will be designed for 1.6 MGD, the plant will initially be permitted for 1.2 MGD. The plants to be decommissioned are the Englewood Isles, Holiday Ventures and the North plants. Thus, with such a change in the capital assets of the District's wastewater treatment/transmission system, it was felt that a review of the level of the capital contribution charge for this component would be in order at this time.

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Analysis

The purpose of a capital contribution charge is to assign, to the extent practical, growth-related capital costs to those customers responsible for such additional costs. To the extent new population growth imposes identifiable additional capital costs to municipal services, equity and good financial practices necessitate the assignment of such costs to those customers or system users responsible for the additional costs rather than the existing user base. Generally, this practice has been labeled as "growth paying its own way" without existing user cost burden. A more detailed discussion of the basis for the determination of capital contribution charges and the legal framework is included herein as Appendix A.

The pieces of information required for the calculation of the wastewater capital contribution charge for the treatment/transmission component are as follows:

1. the cost of existing assets;
2. the cost of future assets;
3. the capacity utilization; and
4. the number of future customers.

As mentioned previously, it is important to ensure that only those assets associated with future customers be reflected in the calculation of the capital contribution charges. Thus, the District's existing assets need to be allocated between existing and future customers. This was done by examining the current utilization of the District's wastewater system. In order to determine the estimated non-utilized amount in the existing assets, the District staff provided HAI with the total wastewater flow treated by each of the District's wastewater treatment plants from May 1994 through May 1995. This data allowed HAI to determine the current capacity utilization for the District's wastewater system. This is shown on Table 1. As can be seen, the total wastewater flow treated during this time was 172.9 million gallons. The average daily flow treated by the District's wastewater system was therefore approximately 0.474 MGD (million gallons per day).

This average daily flow is then divided into the total future design capacity of the District's wastewater treatment plants to determine the current percentage of utilization of the wastewater system. This is also shown on Table 1. As mentioned previously, the District anticipates decommissioning three of the plants and expanding the South Plant effectively to 1.6 MGD. As shown on Table 1, this results in a total design capacity of 1.6 MGD for the District's wastewater system. Dividing this capacity into the actual average daily flow observed during the previous year of 0.474 MGD results in a current capacity utilization of approximately 29.61 percent. Thus, approximately 70.39 percent of the District's wastewater system is non-utilized and is available to serve future customers. This equates to a non-utilized capacity of approximately 1.126 MGD which is currently being held for future customers. Based on the District's

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definition of one ERC for the wastewater system as 157 gallons per day per ERC, the available capacity of 1.126 MGD represents approximately 7,174 ERCs which are remaining to be served by the District's wastewater system.

The cost of the existing and future assets refers to the dollar amount of the non-utilized existing and future plant. This represents the net amount of utility assets which are applicable to future customers of the system. In order to determine this value, the District staff provided HAI a listing of the District's existing wastewater assets as of May 31, 1995. This information is summarized in Table 2 attached. In addition, the costs associated with the expansion of the South Plant was also provided and is included in Table 2. Finally, since the District anticipates decommissioning the remaining three wastewater treatment plants (the Englewood Isles, Holiday Ventures and North plants), an additional expense has been included to cover the cost of decommissioning. As can be seen on Table 2, the assets allocable for future use have been disaggregated between the wastewater treatment and transmissions systems as well.

As can be seen, as of May 31, 1995, the District's total wastewater system assets (including land) was \$12,721,839.88. However, these amounts include the assets associated with the collection system as well as the remaining plants. Therefore, the costs associated with these components must be deleted. The costs associated with the collection system include the value of the easements, lift stations and the gravity mains. While the value of the easements and lift stations were readily identifiable, the value of the gravity mains was combined with the value of the force mains, which are transmission related. Thus, in order to allocate between the two, an examination of the FY 1993 West Charlotte Utilities, Inc. (WCU) Annual Report, as filed with Charlotte County, was made. Since the vast majority of the District's wastewater assets were associated with WCU prior to their acquisition by the District, the approximate allocation between force and gravity mains shown in the WCU Annual Report was used to allocate the asset value of the mains shown on the District's books. This review showed that approximately 52.26 percent of the mains are allocable to the force mains and should therefore be considered in this capital contribution charge calculation. Thus, approximately \$3,091,432 in mains are allocable to the transmission system.

The last adjustment to the existing wastewater assets is to eliminate the asset values associated with the remaining plants which are to be decommissioned. Once again, the value of the Englewood Isles and Holiday Ventures wastewater treatment plants are easily eliminated. However, the existing North and South plants' assets are combined. Based on data utilized during the acquisition of WCU, it is estimated that approximately 44.90 percent of the North and South plants' assets shown on the District's books are associated with the South Plant and should be considered in the calculation. This amount is \$1,456,495. Thus, the remaining 55.10 percent associated with the North Plant is eliminated.

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These allocations result in a net existing wastewater treatment system asset value of \$3,837,979 and \$3,091,432 for the wastewater transmission system.

Relative to the future assets, the District provided HAI with the construction contract amount awarded for the expansion of the South Plant. This amount is shown on Table 2 and is equal to \$2,956,100. In addition, an allowance of \$300,000 is also included to cover the costs of decommissioning the three remaining plants. This results in a total future wastewater treatment system asset value of \$3,256,100 which is completely allocable to future customers.

Now that the percent non-utilized has been determined to be approximately 60.53 percent and the existing and future assets for both the treatment and transmission systems have been determined, the calculation of the wastewater capital contribution charge for the treatment and transmission systems can be determined. This is shown on Table 3. As determined on Table 2, approximately \$3,837,979 of the District's existing wastewater assets are allocable to the treatment system while \$3,091,432 is allocable to the transmission system. However, as mentioned previously, only those costs associated with future customers is to be reflected in the capital contribution charge. Thus, these asset values are multiplied by the percent non-utilization of the system to allocate the costs associated or held for future customers. Based on the non-utilization factor determined in Table 1 of 70.39 percent, only \$2,701,701 of the District's existing wastewater treatment assets and \$2,176,178 of the District's existing wastewater transmission assets are to be reflected in the treatment and transmission capital contribution charges. Table 3 then adds the cost of the future treatment system assets determined in Table 2 (\$3,256,100) to arrive at a total treatment system asset cost of \$5,957,801 which is to be recovered by the treatment capital contribution charge. Finally, these costs are divided by the remaining number of ERCs as shown in Table 1. Thus, based on an asset value of \$5,957,801 and 7,174 ERCs, the wastewater treatment capital contribution charge is estimated to be \$830 per ERC (rounded). Based on a total asset value of \$2,176,178 for the transmission system and 7,174 ERCs, the transmission capital contribution charge is estimated to be \$305 per ERC (rounded).

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Results and Analyses

Based on the above analyses, the wastewater capital contribution charge schedule for each option is as follows:

**Option 1
Combined Treatment/Transmission
Capital Contribution Charge**

Wastewater Component	Capital Contribution Charge per ERC
Plant/Transmission Facility Charge	\$1,135
Collection Facility Charge ^{(1) (2) (3)}	\$2,075

- (1) This amount may be determined on a case-by-case basis.
- (2) If the developer dedicates the collection system, this dedication is in lieu of this charge.
- (3) The collection portion will be substituted in the assessment areas in favor of the assessment amount.

**Option 2
Separate Treatment/Transmission
Capital Contribution Charges**

Wastewater Component	Capital Contribution Charge per ERC
Treatment Plant Facility Charge	\$ 830
Transmission Facility Charge	\$ 305
Collection Facility Charge ^{(1) (2) (3)}	\$2,075

- (1) This amount may be determined on a case-by-case basis.
- (2) If the developer dedicates the collection system, this dedication is in lieu of this charge.
- (3) The collection portion will be substituted in the assessment areas in favor of the assessment amount.

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As shown above, relative to the District's existing wastewater collection component, regardless of which option is chosen by the Board, it is recommended that the District 1) determine the fee on a case-by-case basis, 2) waive the charge if a developer dedicates the collection system in favor of this dedication and 3) substitute the assessment amount for the collection component of the wastewater capital contribution charge in the assessment areas.

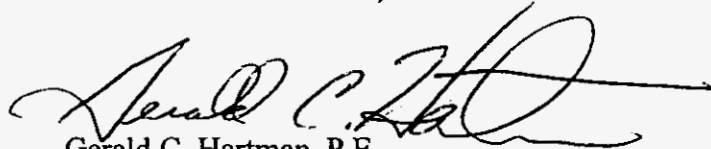
It should be noted that the determination of the treatment and transmission components of the wastewater capital contribution charge schedules does not consider additional future capital improvement projects due to the uncertainty of those projects at this time. Should the District elect to fund such future projects from capital contribution charges rather than other capital recovery mechanisms (such as service revenue or assessment programs), the charges recommended herein may need to be reviewed and updated at that time.

Finally, a comparison of the combined wastewater treatment/transmission capital contribution charge per ERC with those of other area wastewater systems was conducted and is presented on Table 4. The charges shown for other utilities on Table 4 range from a low of \$1,171 for the proposed fee by Sarasota County for the Bent Tree service area to a high of \$2,688 for Charlotte County. As can be seen on Table 4, the combined charge of \$1,135 per ERC for the District is the lowest charge and well below the average charge for the area of \$1,619.

We appreciate the fine cooperation and valuable assistance given to us by the District and its staff in the completion of this study.

Respectfully submitted,

Hartman & Associates, Inc.



Gerald C. Hartman, P.E.
President

Enclosures

RCC/kh/C7/EWD-CCC.rcc

Table 1

Englewood Water District
Wastewater System
Current Capacity Utilization Analysis

Line No.	Description	
	Total Wastewater Flow Treated (Gal.) (May 1994 -- May 1995)(1)	
1	E/W Isles	36,600,000
2	Holiday Ventures	7,500,000
3	North Plant	46,100,000
4	South Plant	<u>82,700,000</u>
5	Total Wastewater Flow Treated (Gal.)	172,900,000
6	Average Daily Flow (MGD)	<u>0.474</u>
	Total WWTP Design Capacities (MGD)	
7	E/W Isles (2)	0.000
8	Holiday Ventures (2)	0.000
9	North Plant (2)	0.000
10	Proposed South Plant (3)	<u>1.600</u>
11	Total WWTP Design Capacity (MGD)	<u>1.600</u>
12	Current Percent WWTP Utilization	29.61%
13	Current Percent WWTP Non-Utilized	<u>70.39%</u>
	Number of Remaining ERCs	
14	Capacity Available for Future (MGD)	1.126
15	Definition of One ERC (gallons/day/erc)	157
16	Number of Remaining ERCs	<u>7,174</u>

- (1) Amounts shown based on information provided by the District.
 (2) At this time, it is anticipated that the Englewood Isles plant, the Holiday Ventures plant and the North plant would all be decommissioned during the expansion of the South plant.
 (3) The South plant is anticipated to have a total available treatment capacity of 1.60 MGD after the expansion of the current plant although only 1.20 MGD will be initially permitted.

Table 2

**Englewood Water District
Wastewater System
Analysis and Allocation of Existing and Proposed Wastewater System Assets**

Line No.	Utility Plant Component	Asset Balance (1)	Percent Allocable To WW Treatment and/or Transmission	Amounts Allocable To WW Transmission	Amounts Allocable To WW Treatment
EXISTING WASTEWATER ASSETS					
Land					
1	E/W Isles	\$32,550	100.00%	\$0	\$32,550
2	Holiday Ventures	13,070	100.00%	0	13,070
3	FMF	50,000	100.00%	0	50,000
4	North/South Plants	<u>2,216,400</u>	100.00%	<u>0</u>	<u>2,216,400</u>
5	Total Land	\$2,312,020		\$0	\$2,312,020
6	Easements	\$133,132	0.00%	\$0	\$0
7	Mains	\$5,915,484	52.26% (2)	\$3,091,432	\$0
8	Equipment	\$69,464	100.00%	\$0	\$69,464
9	Lift Stations	\$824,240	0.00%	\$0	\$0
Treatment Plants					
10	E/W Isles	\$110,521	0.00%	\$0	\$0
11	Holiday Ventures	103,114	0.00%	0	0
12	FMF	10,000	0.00%	0	0
13	North/South Plants	<u>3,243,865</u>	<u>44.90% (3)</u>	<u>0</u>	<u>1,456,495</u>
14	Total Treatment Plants	\$3,467,500		\$0	\$1,456,495
15	TOTAL EXISTING WASTEWATER SYSTEM	<u>\$12,721,840</u>		<u>\$3,091,432</u>	<u>\$3,837,979</u>
FUTURE WASTEWATER ASSETS					
16	Construction Cost of South Plant Expansion	\$2,956,100	100.00%	\$0	\$2,956,100
17	Cost to Decommission Remaining Plants	<u>300,000</u>	100.00%	<u>0</u>	<u>300,000</u>
18	TOTAL FUTURE WASTEWATER ASSETS	<u>\$3,256,100</u>		<u>\$0</u>	<u>\$3,256,100</u>

- (1) Amounts shown based on information provided by the District.
 (2) Allocation based on information derived from the WCU FY 1993 Annual Report as filed with Charlotte County.
 (3) Allocation based on information developed during the acquisition of WCU by the District.

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Table 3

**Englewood Water District
Wastewater System
Determination of WW Treatment/Transmission Capital Contributions**

	Description	Allocation to Wastewater Treatment and Transmission Components		
		Transmission	Treatment	Combined
I.	Allocation of Capital Investment to Incremental Future Growth – Existing Assets			
	Existing WW Treatment/Trans. Assets (1) Percent WWTP Non-Utilized (2)	\$3,091,432 70.39%	\$3,837,979 70.39%	\$6,929,411 70.39%
	Allocation of Capital Investment to Incremental Future Growth – Existing Assets	\$2,176,178	\$2,701,701	\$4,877,878
II.	Allocation of Capital Investment to Incremental Future Growth – Future Assets			
	Future WW Treatment/Trans. Assets (1) Percent WWTP Non-Utilized (2)	\$0 100.00%	\$3,256,100 100.00%	\$3,256,100 100.00%
	Allocation of Capital Investment to Incremental Future Growth – Existing Assets	\$0	\$3,256,100	\$3,256,100
III.	Allocation of Capital Investment to Incremental Future Growth – Total Assets			
	Existing WW Treatment/Trans. Assets (1) Future WW Treatment/Trans. Assets (1)	\$2,176,178 0	\$2,701,701 3,256,100	\$4,877,878 3,256,100
	Allocation of Capital Investment to Incremental Future Growth – Total Assets	\$2,176,178	\$5,957,801	\$8,133,978
IV.	Total ERCs Available for Incremental Growth (2)	7,174	7,174	7,174
V.	WW Treatment/Transmission Capital Charge Per ERC			
	Allocation of Total Capital Investment to Growth Total ERCs Available for Incremental Growth	\$2,176,178 7,174	\$5,957,801 7,174	\$8,133,978 7,174
	WW Treatment/Transmission Capital Charges Per ERC	\$303.35	\$830.48	\$1,133.83
	Rounded	\$305.00	\$830.00	\$1,135.00

(1) Amounts shown taken from Table 2.

(2) Amounts shown taken from Table 1.

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Table 4

Englewood Water District
Wastewater System

Comparison of Proposed WW Treatment/Transmission
Capital Contribution Charges Per ERC

Line No.	Utility	Residential Wastewater Treatment/Transmission Capital Contribution Charge Per ERC
1	Englewood Water District – Combined Proposed	\$1,135
	<u>Other Utilities</u>	
2	Charlotte County	\$2,688
3	Collier County	1,340
4	Lee County	1,460
5	Manatee County	1,300
6	City Of Naples	\$1,220
7	City Of North Port	\$1,280
8	City Of Punta Gorda	1,500
9	City Of Sanibel (1)	\$2,440
10	City Of Sarasota	\$2,125
	Sarasota County (Proposed)	
11	Venice Gardens	\$1,282
12	Bent Tree Service Area	\$1,171
13	Average Other Utilities	<u>\$1,619</u>

- (1) City anticipates a 3% increase effective October 1995 over and above the amount shown.
 (2) Sarasota County is in the process of a rate study.

APPENDIX A

BASIS FOR DETERMINATION OF CAPITAL CONTRIBUTION CHARGES

A.1 GENERAL

This appendix provides a discussion of the basis for determination of a capital contribution charge. Included in this appendix is a discussion of the charge criteria, certain legal requirements of the charges, and other similar data and information.

A.2 CRITERIA FOR CAPITAL CONTRIBUTION CHARGES

The purpose of a capital contribution charge is to assign, to the extent practical, growth-related capital costs to those customers responsible for such additional costs. To the extent new population growth imposes identifiable additional capital costs to municipal services, equity and good financial practices necessitate the assignment of such costs to those customers or system users responsible for the additional costs rather than the existing user base. Generally, this practice has been labeled as "growth paying its own way" without existing user cost burdens.

The precedent for capital contribution charges in Florida was set in the District of Dunedin litigation and judgment which provides that an equitable cost recovery mechanism, such as capital contribution charges, can be levied for a specific purpose by a Florida municipality as a capital charge for services. A capital contribution charge should not be considered as a special assessment or an additional tax. A special assessment is predicated upon an estimated increment in value to the property assessed by virtue of the improvement being constructed in the vicinity of the property. Further, the assessment must be directly and reasonably related to the benefit of which the property receives. Capital contribution charges are not directly related to the value of the improvement to the property but rather to the usage of the facility required by the property. Until property is put to use (i.e., developed), there is no burden upon servicing facilities and the land use may be entirely unrelated to the value of the assessment basis of the underlying land. With respect to a comparison to taxes, capital contribution charges are distinguishable primarily in the direct relationship between the amount charged and the measurable quantity of public facilities required. In the case of taxation, there is no requirement that the payment be in proportion to the quantity of public services consumed, and funds received by a municipality from taxes can be expended for any legitimate public purpose.

In the Florida Supreme Court decision, Contractors and Builders Association of Pinellas County vs. District of Dunedin, Florida, regarding the validity of capital contribution charges or capital charges, certain conditions were identified as necessarily present in order to have a valid fee. Generally, it is our understanding that the court decision addressed the following:

- 1) The capital contribution charge should be reasonably equitable to all parties; that is, the amount of the charge must bear a relationship to the amount of services requested;
- 2) The system of fees and charges should be set up so that there is not an intentional windfall to existing users;
- 3) The capital contribution charge should, to the extent practicable, only cover the capital cost of construction and related costs thereto (engineering, legal, financing, administrative, etc.) for increases in or expansions of capacity or capital requirements that are required solely due to growth. Therefore, expenses due to normal renewal and replacement of a facility (e.g., replacement of a capital asset) should be borne by all users of the facility or municipality. Likewise, increased expenses due to operation and maintenance of that facility should be borne by all users of the facility;
- 4) The public entity must adopt a revenue producing ordinance which explicitly sets forth restrictions on revenues (uses thereof) that the imposition of the capital contribution charge generates. Therefore, the funds collected from the capital contribution charge should be set aside in a separate account, and separate accounting must be made for those funds to ensure that they are used only for the lawful purposes described.

Based on the criteria above, capital contribution charges developed herein: 1) include only the estimated incremental cost of all unused or new facilities necessary to serve only the anticipated new customer growth; 2) will not reflect costs associated with improvements associated with the renewal and replacement of any existing capital assets of the District which are allocable to exiting users of the System; and 3) will not include any costs of operation and maintenance of the facilities associated with the capital contribution charge.

It is also important to note the relationship of the District's Comprehensive Plan to the use of capital contribution charges for funding incremental capital improvements. The Local Government Comprehensive Planning and Land Development Regulation Act requires capital expenditures and local development regulations to be consistent with the provisions of the District's Comprehensive Plan. Capital contribution charges are included as a funding source used by the District to implement the elements of the Comprehensive Plan and is a legitimate exercise of the police powers delegated by the Act mentioned above to Florida municipalities.

A.3 OTHER LEGAL RAMIFICATIONS

In addition to the Dunedin decision, there have been several other landmark cases dealing with the levying of capital contribution charges in Florida. In the Hollywood, Inc. vs. Broward County case, a challenge was made regarding the applicability of levying a capital contribution charge for parks and recreation. Essentially, the Broward County ordinance provides for a park contribution agreement between the developer and the County and that a fee per each residential unit be collected. The court upheld the imposition of the fee and also addressed the more difficult question of whether the ordinance was constitutional. The major criteria associated with this case dealt with whether the fee was correlated to the benefit received (the "Rational Nexus Test"). As stated in the decision, the government must show a reasonable connection or correlation between the expenditures of the funds collected and the benefits which accrue to the payee. In order to satisfy this requirement, the ordinance must specifically earmark funds collected from the imposition of a capital contribution charge in acquiring capital facilities to benefit the new residents.

In Palm Beach County, the County adopted a "Fair Share Contribution for Road Improvements" ordinance which requires that a capital contribution charge for transportation improvements be paid prior to the issuance of a building permit. The ordinance was adopted as a result of the need for the continued maintenance of a consistent level of service which was being degraded as a result of increased growth. The capital contribution charge was based on estimated trip generation rates for particular customer classes. This charge, which was challenged by the Home Builders and Contractors Association of Palm Beach County, was determined not to be a tax since it did meet the Rational Nexus Test, was designed for only new development, and the expenditures were reasonable for the benefit of the development.

As determined and affirmed by the courts in Florida, the application of a capital contribution charge for the increased capital cost associated with the funding of incremental facilities appears to be valid. Specifically, the charge must be based on the incremental cost of the capital facilities required for the increased growth of the jurisdiction and there must exist some reasonable basis between the amount of the charge and the benefits accrued to the new or incremental customer.

DER FORM NO 17.001.000(1)
FORM TITLE Domestic Wastewater Treatment Plant
EFFECTIVE DATE July 1, 1991
DER APPLICATION NO

**Domestic Wastewater Treatment Plant
Monthly Operating Report**

Merced Island Month March Year 1994

(34)

Day of the Month	Flow (MGD)	Chlorine Residual After Contact	CBOD5 Influent (mg/L)	TSS Influent (mg/L)	CBOD5 Effluent (mg/L)	TSS Effluent (mg/L)	pH Influent (mg/L)	pH Effluent (mg/L)	TKN Effluent (mg/L)	NH3-N Effluent (mg/L)	Nitrate Effluent (mg/L)	Total P Effluent (mg/L)	Fecal Coliform	No Effluent delivered to Public Access
1	2.301	2.3		200		1.0	7.0	6.9					ND	
2	2.389	3.3		218		1.4	7.7	7.0					ND	
3	1.806	2.4	271	152	7.3	0.9	7.6	6.9					ND	*
4	2.870	2.7		188		0.8	7.7	6.9					ND	*
5	2.289	2.7		152		1.4	7.7	7.0					ND	*
6	2.435	3.0		212		1.3	7.6	6.9					ND	
7	2.005	2.4		212		0.8	8.2	7.1					ND	
8	2.718	3.0		196		1.1	7.7	7.0					ND	
9	2.890	3.9		156		1.1	7.5	6.9					ND	
10	2.274	2.9	323	304	5.3	2.3	7.8	6.9					ND	
11	2.440	3.4		212		1.6	7.4	6.9					NC	
12	2.078	2.3		152		1.6	7.4	6.8					ND	*
13	2.426	3.0		252		1.7	7.1	7.0					ND	
14	2.531	3.4		186		1.1	7.8	6.9					ND	
15	2.557	2.5		152		1.8	7.5	6.9					ND	
16	2.535	2.1		208		0.5	7.7	6.8					ND	
17	2.707	3.0	248	224	9.0	1.3	7.9	7.1					ND	
18	2.415	3.4		204		0.8	7.9	7.0					ND	
19	2.501	3.1		224		1.5	7.8	7.0					NC	
20	2.963	2.7		220		0.6	7.7	7.0					NC	
21	2.410	2.5		264		1.3	7.7	7.0					ND	
22	2.385	2.8		100		1.3	7.4	7.2					ND	
23	2.392	3.2		200		1.4	7.5	7.1					ND	
24	2.478	3.2	205	136	10.4	1.6	7.5	6.9					ND	
25	2.589	2.8		208		1.6	7.8	7.0					ND	
26	2.488	2.8		192		1.6	7.6	7.0					ND	
27	2.455	2.5		232		1.0	7.4	6.9					ND	
28	2.466	2.9		172		1.1	7.9	7.0					ND	
29	2.709	3.3		144		1.1	7.6	7.0					ND	
30	2.447	3.0		180		1.0	7.8	7.0					ND	
31	2.505	3.3	212	156	9.8	1.7	7.8	6.9					ND	*

Lead Operator: This is to certify that I am familiar with the information contained in the report and that to the best of my knowledge and belief, the information is true, complete and accurate.

Signed: *Gerald Boyce*
Name (Please Type) Gerald Boyce
Company Name Southern States Utilities

* No effluent delivered to public access on these days
Date: 04-13-94
Telephone No (Please Type) 813-364-5505