UTILITIES, INC.

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ORIGINAL

October 16, 1998

Ms. Blanco S. Bayo, Director
Division of Records and Reporting
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, FL 32399-0850

RE: **Docket No. 971186-SU**
Application for Approval of a Reuse Project Plan

Dear Ms. Bayo:

Below are responses to the questions put forth in a letter from Ms. Rosanne Gervasi dated September 28, 1998.

1. **What is the present status of the utility's DEP wastewater permit application for the Wekiva Hunt Club WWTP?**

   The permit is still under protest by the Sweetwater Oaks Homeowners Association (SOHOA). The administrative hearing to resolve that protest is still being held in abeyance pending resolution of a settlement agreement between the Utility and the SOHOA.

2. **Has the protest of the permit application been resolved? If no, what is the status of the negotiations to resolve the protest?**

   The Utility and the SOHOA continue discussions committed to resolving the protest and the Utility is actively investigating mutually-acceptable solutions.

3. **Does the utility anticipate incurring any capital improvement costs related to the resolution of the protest of the permit application? If yes, what is the nature of these costs, and are they reflected in the capital budget already submitted?**

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Yes. There may be significant capital costs associated with the protest resolution. The nature of the work is primarily dredging or excavation of the Cove Lake system and some structural work on the control structures. The goal is to return the Cove Lake system to a white sand bottom. In addition, some process control modifications at the Wekiva WWTP are being considered. At this time we are soliciting informal bids from interested contractors for portions of the Cove Lake work contemplated. We do not expect bid responses until mid to late October. These capital costs are not included in the capital budget submitted because their scope and timing have not been determined.

For the following requests, please refer to the utility's Capital Budget Plan:

Capital Budget, Page 1 of 4

4. **Please explain the three different project priorities, describing how they were determined and assigned.**

   Priority 1 items are those that the utility believes are crucial to continued utility operations including major equipment repairs/replacement and those items necessary for regulatory compliance. Priority 2 items are those that have a slightly lower priority at this time but have the potential to become priority 1 items. Priority 3 items are those that would enhance utility operations but are not critical at this time for continued operation and compliance.

Capital Budget, Page 2 of 4

Water Plant Operations

5. **Two options are given for auxiliary power (G1 for $54,000, and G2 for $20,000). Which option is the utility proposing?**

   G1.

6. **The utility states the upgrade of well controls eliminates the need for leased telephone lines. What is the cost of these leased lines?**

   The monthly cost of the leased lines, including tax, is $137.72.

Wastewater Plant Operations

7. Two options are given for auxiliary power (Al for $60,000, arid A2 for $6,500). Which option is the utility proposing?

A2.

Capital Budget, Page 3 of 4

Wastewater Collection System

8. Item "A" lists a 5CY VacCon Truck lease for 84 months with the utility retaining it for 10 years. Will the utility have an option to purchase the truck after 84 months? Will the utility renew the lease?

Yes. It is the Utility's intent to exercise the buyout option and retain the equipment beyond the lease duration for the useful life of the truck.

Capital Budget, Page 4 of 4

9. Lift station maintenance and repair: What is the disposition of the 3/4 ton hoist (2A) at the conclusion of the 5 year lease?

It is the Utility's intent to exercise the buyout option and retain the equipment beyond the lease duration for the useful life of the equipment.

10 Maintenance shop: What is the disposition of the equipment in leases A, B, C, D, E, and F at the conclusion of the leases?

It is the Utility's intent to exercise the buyout option and retain the equipment beyond the lease duration for the useful life of the equipment.

Operation and Maintenance Enhancements, Page 1 of 2

Water Plant Operations

11. Item "1B" shows a contractor inspection of high service pumps followed by recurring inspections every three years. Why isn't the $4,750 cost amortized over a three year period?

This budget was developed as a guide to capital expenditures for the Utility, not as a rate-making device. It reflects expenditures in the year in which they occur. Any cost that is not annual in nature could certainly be annualized/amortized, but that was not the purpose of the document.

12. **Item "1J" lists painting of ground storage tanks every three years. Why isn't the $16,160 cost amortized over 3 years? Why are only 4 storage tanks proposed for scheduled painting when SanIando's 1997 annual report lists 7 storage tanks?**

    See response to question 11. The line item was incorrect. It should have reflected 7 tanks. We have made the correction.

13. **Item "2E" shows pigging all raw water lines on a 3 year cycle. Why isn't the $15,000 cost amortized over a three year period?**

    See response to question 11.

14. **Item "3C" lists two additional personnel at the Wekiva Plant. Is the addition of these two people required by DSP? Will they be licensed operators?**

    No. Under current manning we staff our plant during the evening shift with only one operator. That operator also does lab analysis. The purpose of adding the two additional staff persons is two-fold. First, to adequately staff the second shift with two persons for safety reasons and second, to allow significantly more laboratory man-hours for increased process and regulatory compliance testing.

<u>Wastewater Plant Operations</u>

15. **Item "1B3" lists a Sand Dragon Contract for cleaning diffusers Why isn't the $23,000 cost amortized over a five year period?**

    See response to question 11

16. **Item "1C" lists operation and maintenance costs to remove the old Des Pinar wastewater treatment plant. Why isn't the $19,000 removal cost being charged to the accumulated depreciation account as required by the NARUC System of Accounts?**

    This budget was developed as a guide to capital expenditures for the Utility, not as a rate-making device. It reflects expenditures in the year in which they occur. Accounting for the capital projects will be in compliance with the USoA.

<u>Please provide the following</u>:

17. **Operation and Maintenance Enhancements, Page 2 of 2. We are missing operation and maintenance enhancements for the water distribution system, wastewater collection system, lift station maintenance and repair, maintenance shop, and engineering and administrative.**

We apologize for the missing page. Enclosed herewith is a complete revised budget, including the missing page.

18. **A timetable showing a breakdown of the capital expenditures by water and wastewater system, and the estimated time of completion by month and year.**

Attached is the 10-year breakdown. This budget has not been finalized or approved. Therefore, months and years cannot be detailed.

19. **Copies of any proposed contracts or estimates that correspond with the projected budget.**

No such information exists as of this writing. The budget is based on historical data and verbal proposals from vendors.

20. **The retirement amounts of items to be replaced.**

The retirement amount will be determined when and if any item is replaced.

21. **Copies of the company's capital budget for the past four years (1995, 1996, 1997, 1998), and statements as to whether the projects were completed or not.**

The utility did not create a capital budget for the previous 5 years. This is the only instrument available.

22. **Copies of approvals or permits for construction for proposed expenditures.**

Such approvals and permits have not yet been applied for.

23. **Copies or any order(s) or correspondence of local, state, or federal regulatory authorities, which require the utility to undertake any of the listed capital projects.**

No such orders or correspondence exist

24. **Will any of the equipment contained in the proposed capital expenditures be used for utility systems other than Sanlando (Pick-up Trucks, Backhoe, Vacuum Truck, Dump Truck)?**

The equipment may be used in other systems . However, Sanlando will be the primary point of use for this equipment.

25. **If rates were to be set for Sanlando's reuse project, what capital structure would be used to determine the cost of the capital for purposes of setting rates? For purposes of this response, please show the component balances, cost rates, relative percentages, and weighted average cost of capital.**

    Consistent with the treatment afforded other Utilities, Inc. subsidiaries in Florida, the capital structure and cost rates of the Utilities, Inc. consolidated group of companies should be used for setting Sanlando's reuse rates. For specific components, see the response to question 26 below.

26. **Now that Sanlando is a subsidiary of Utilities, Inc., what is Sanlando's projected capital structure for December 31, 1998? For purposes of this response, please show the capital component balances, cost rates, relative percentages, and weighted average cost of capital.**

    Attached is an estimate of the December 31, 1998 capital structure of Utilities, Inc. and subsidiaries.

Please feel free to contact me with any additional questions.

Respectfully submitted,

Carl J. Wenz
Vice President, Regulatory Matters

Sanlando Utilities Corporation

Capital Budget

Description	TOTAL	1	2	3	4	5	6	7	8	9	10
All Water Costs (Plant, Dist Sys)											
Capital Expenditure Total	745,306	185,045	104,943	119,943	80,535	70,535	70,535	71,183	51,982	51,982	52,690
All Wastewater Costs (Plant, Collect, LS Maint)											
Capital Expenditure Total	1,297,971	270,766	111,288	111,288	207,281	174,281	187,612	113,974	80,503	80,503	81,211
All Other Costs (Shop, Engineering, and Admin)											
Capital Expenditure Total	235,516	111,890	48,995	48,995	50,808	50,808	55,497	57,478	57,478	57,478	59,643
TOTAL CAPITAL EXPENDITURES	2,278,793	567,701	265,226	280,226	338,624	295,624	313,644	242,635	189,964	189,964	193,544
Capital Cost Summary by Priority											
Priority 1	1,485,259	417,736	163,533	163,533	261,931	228,931	245,021	174,497	131,266	131,266	134,846
Priority 2	749,434	141,865	91,693	96,693	76,693	66,693	68,623	68,137	58,698	58,698	58,698
Priority 3	44,100	14,100	10,000	20,000	-	-	-	-	-	-	-

Notes:
1. Budget does not include centralized control and monitoring of all wells and high service pumps.
2. Assumes Well 8 generator will satisfy DEP requirement.

Loan and Lease Factors Used For Amortization (note: changing these values changes the entire spreadsheet

Rate	Term		FACTOR
8.50%	30	Long Term Finance Option	0.7689%
8.36%	7	Suntrust Seven Year Lease Factor quoted 6/5/98	1.5764%
8.13%	5	Suntrust Five Year Lease Factor quoted 6/5/98	2.0340%
8.00%	3	Assumed Three Year Lease Factor by JMS	3.1336%

Santando Utilities Corporation

Capital Budget

Priority	Type	Water Plant Operations Description	Qty	Unit Cost	Total Cost	Year 1	2	3	4	5	6	7	8	9	10
1 A	Cap	Install 18" gate valve at Wekiva plant to allow pump maintenance and repair and other maintenance without plant shut-down			5,000	5,000									
1 D	Cap	Upgrade WTP controls at Des Pinar--controller for wells, H.S. pumps with pressure-level transducers (Consolidated Electric pump station panel) System is original, obsolete, difficult to maintain and obtain replacement parts for.			7,800	7,800									
1 E	Cap	Replace exhaust system at Des Pinar WTP building			5,000	5,000									
1 F	Cap	Contractor replacement of high service pump rotating assemblies on 10 year cycle. Prices for 10 pumps range from $3,565 to $11,390 and average $6,500 per pump.			6,500	6,500	6,500	6,500	6,500	6,500	6,500	6,500	6,500	6,500	6,500
1 G1	Cap	Add 250 KW auxiliary power generator to Well 8. Cost of generator and auto transfer panel. Bare cost is $34,410. Include fuel tank, tax and installation ($10,690 est.) + 20% for design and contingency			54,000	54,000									
1 G2	Cap	Alternative to 1G1--If Wekiva STP generator is replaced, the existing 250 KW generator can be moved to Well 8. Costs: Auto transfer switch--$7500, Tank--$3500 (est.), Remove and reinstall-$5,000 (est.) + 25% for design and contigency. **(funded with long-term debt)**			20,000	1,845	1,845	1,845	1,845	1,845	1,845	1,845	1,845	1,845	1,845
1 H	Cap	Replace Panel, Well #2, Des Pinar	1	5,630	5,630	5,630									
2 A	Cap	Increased fuel capacity for standby power at Wekiva from existing 1000 gallons to a total of 3000 gallons. (WTP consumes 31.0 gal/hr., STP consumes 19.0 gal/hr. Generator fuel tank is 1000 gallons yielding 20 hours of operation.) **(funded with long-term debt)**			9,555	882	882	882	882	882	882	882	882	882	882
2 B	Cap	Increased fuel capacity for standby power at Des Pinar WTP from existing 500 gallons to a total of 1000 gallons. (Generator consumes 20.8 gal/hr. Generator fuel tank is 500 gallons yielding 24 hours of operation.) **(funded with long-term debt)**			5,375	496	496	496	496	496	496	496	496	496	496
2 C	Cap	Install pump and raw water line for Well 2B--Orginal estimate of RWL=$204K and Pump=$50K indexed to 1998 **(funded with long-term debt)**			375,274	34,626	34,626	34,626	34,626	34,626	34,626	34,626	34,626	34,626	34,626
2 D	Cap	Flowmeters for all wells (11 wells in service), Wek-5, DP-4, KW-2	11	5,000	55,000		25,000	20,000	10,000						
2 F	Cap	Replace Doors, Knollwood WTP	1	2,072	2,072	2,072									
2 G	Cap	Mobile Flowmeter (Can also be used by field crews)	1	6,000	6,000	6,000									
3 A	Cap	Upgrade well controls at Wekiva WTP--Include radio telemetry for Wells 5, 6, 7, & 9. This eliminates the need for the existing leased telephone lines. Does not include central control.			20,000			20,000							
3 B	Cap	Upgrade well controls at Des Pinar WTP--Include radio telemetry for Wells 1, 1A, 2, 2A and 2B. Old system. Does not include central control.			10,000		10,000								
		Capital Expenditure Total			**587,206**	**129,851**	**79,349**	**84,349**	**54,349**	**44,349**	**44,349**	**44,349**	**44,349**	**44,349**	**44,349**

Priority	Type	Wastewater Plant Operations Description	Qty	Unit Cost	Total Cost	Year 1	2	3	4	5	6	7	8	9	10
1 A1	Cap	Install 250 KW standby generator for Des Pinar STP--Cost of generator and auto transfer panel. Bare cost is $37,000. Include fuel tank, tax and installation (13,000 est.) + 20% for engineering and contigency = $60,000. **(Fund with long-term debt)**	1	60,000	60,000	5,536	5,536	5,536	5,536	5,536	5,536	5,536	5,536	5,536	5,536
1 D	Cap	Rehab STP#2, Wekiva	1	20,000	20,000	20,000									
1 E	Cap	Laboratory equipment for process control (STP), Wekiva	1	3,000	3,000	3,000									
1 F	Cap	Chlorine and Sulfur Dioxide Regulators (Spare)	1	2,278	2,278	2,278									
1 G	Cap	Reconstruct foundation and wall of Des Pinar STP Lab/Office			20,000	20,000									
2 A	Cap	Increase Wekiva STP generator capacity to power entire process for all three plants. 600 KW generator with auto transfer switch bare cost = $87K. Include fuel tank, tax and installation ($23K est.) + 20% for engineering and contingency = $132K **(fund with long-term debt)**	1	132,000	132,000	12,180	12,180	12,180	12,180	12,180	12,180	12,180	12,180	12,180	12,180
2 B	Cap	Purchase and install additional laboratory equipment to include: Hand-held Dissolved Oxygen Meter, Bench Dissolved Oxygen Meter and Isco automatic samplers (Wek-1, DP-1)			5,000	5,000									
2 C	Cap	Construct roof over each sludge storage area at Wekiva and Des Pinar Plants to keep rain off and reduce heat-induced odors.			25,000	25,000									
3 A	Cap	Back-up sulfunator regulator for sulfur dioxide feed at Wekiva Plant			1,500	1,500									
		Capital Expenditure Total			**268,778**	**94,494**	**17,716**	**17,716**	**17,716**	**17,716**	**17,716**	**17,716**	**17,716**	**17,716**	**17,716**

Sanlando Utilities Corporation

Capital Budget

Water Distribution System

Priority	Type	Description	Qty	Unit Cost	Total Cost	Year 1	2	3	4	5	6	7	8	9	10
1 A	Cap	Trench Box, also to be used by WW rehab crew	1	4,500	4,500	4,500									
1 B	Cap	Tractor, Backhoe--with extended reach to replace old underpowered 19-year old Case with insufficient reach. Presently have the Case and a 12-year old John Deer. Need two units. 48 Mo. Lease with $1.00 buyout **(7-year lease)**	1	51,600	51,600	9,761	9,761	9,761	9,761	9,761	9,761	9,761			
1 D	Cap	Truck, 1/2 Ton for use by new backflow crew. 36 Mo. Lease with $1 Buyout. Turn back in and acquire new lease every three year assuming 3% increase per year for purchase price.	1	17,000	17,000	6,393	6,393	6,393	6,985	6,985	6,985	7,633	7,633	7,633	8,341
1 E	Cap	Meter Tester 1/2" - 8"	1	4,000	4,000	4,000									
2 A	Cap	Dump Truck--to replace a well-used 1978 model ($49,900 capital cost with 84 Mo. lease with $1 buyout.	1	49,900	49,900	9,439	9,439	9,439	9,439	9,439	9,439	9,439			
2 B	Cap	Pump, 4" Diaphragm--we have a 6" centrifugal and a 3" diaphragm. 4" will work well for well point system, do WW bypass pumping, and handle deeper excavations than we can currently pump out with either unit on hand.	1	6,000	6,000	6,000									
2 C	Cap	Detectors, Ferrous Metal and Detector, Ultrasonic Line 2 @ $1,000 and 1 @ 8,000			10,000	10,000									
2 E	Cap	Replacement Bead Blaster--Meter and Hydrant Maintenance	1	10,000	10,000			10,000							
3 A	Cap	Mixer, Concrete for small sidewalk replacement to save on minimum charges from redi-mix companies.	1	2,500	2,500	2,500									
3 B	Cap	Radio, Portable (UHF)	2	1,300	2,600	2,600									
		Capital Expenditure Total			**158,100**	**55,193**	**25,593**	**35,593**	**26,186**	**26,186**	**26,186**	**26,834**	**7,633**	**7,633**	**8,341**

Wastewater Collection System

Priority	Type	Description	Qty	Unit Cost	Total Cost	Year 1	2	3	4	5	6	7	8	9	10
1 A	Cap	Truck, 5CY VacCon--Have home-built anitquated pressure-only truck. Now rent this service at a cost of $154/hr (minimum 4 hr charge), including operator, but typically wait hours for service costing us man-hours. 84 Mo. lease and retain for 10 years	1	176,935	176,935	33,470	33,470	33,470	33,470	33,470	33,470	33,470			
1 B	Cap	Wekiva Influent Line Replacement	1	10,000	10,000	10,000									
1 E	Cap	Truck, 1/2 Ton for additional personnel. 36 Mo. Lease with $1 Buyout. Turn back in and acquire new lease every three year assuming 3% increase per year for purchase price.	1	17,000	17,000	6,393	6,393	6,393	6,985	6,985	6,985	7,633	7,633	7,633	8,341
1 F	Cap	Manhole Rehab and Repair Crew Tools and Equip: Air Compressor (1,500), Confined Space Retrieval System (5,300), Enclosed Trailer (Manhole Repair) (3,000), Pneumatic Saw (1,200), Pneumatic Tools Set (600), 3M InjectionRepair Kit (2,500)			14,100	14,100									
1 G	Cap	Line Camera, TV, and VCR	1	10,000	10,000	10,000									
2 A	Cap	Wastewater Crew Equipment: Detector, Metal (8,000), Detector, Line (Including locator ball for in lines) (1,000)			9,000	9,000									
2 C	Cap	Hammer Drill	1	300	300	300									
		Capital Expenditure Total			**237,335**	**83,263**	**39,863**	**39,863**	**40,456**	**40,456**	**40,456**	**41,104**	**7,633**	**7,633**	**8,341**

Sanlando Utilities Corporation

Capital Budget

Liftstation Maintenance and Repair

Priority	Type	Description	Qty	Unit Cost	Total Cost	Year 1	2	3	4	5	6	7	8	9	10
1 A	Cap	Replace Liftstation Panels (Material and Labor) **(fund with long term debt)**	9	8,700	78,300	7,225	7,225	7,225	7,225	7,225	7,225	7,225	7,225	7,225	7,225
1 B	Cap	Replace Liftstation Riser Assemblies **(fund with long term debt)**	15	6,000	90,000	8,304	8,304	8,304	8,304	8,304	8,304	8,304	8,304	8,304	8,304
1 C	Cap	Liftstation telemetry (52 @ 5,000=260,000), plus PC, laptop interface and modem to manage telemetry (25,000) = $285K plus 10% Design and Contingency = $313.5K. **(fund with long term debt)**			315,500	29,111	29,111	29,111	29,111	29,111	29,111	29,111	29,111	29,111	29,111
1 E	Cap	Upgrade Devonshire (A-4) and Wisteria (C-3) Liftstations to Flygt pumps and new control panel	2	15,000	30,000	30,000									
1 F	Cap	Convert three canned liftstations to submersible pump stations (F-1 @ $79.5K, L-2 @ $52K, and L-3 @ $61.5K plus 20% for design and contingency) Accomplish over 3 years.			231,600				95,400	62,400	73,800				
2 A	Cap	New 3/4 Ton 4x4 with Hoist (liftstation maint & repair). Use existing 3/4 ton with hoist for collection system maint. Truck: $23,237.40 + Bed & Hoist: $13921.00 **5 year lease**	1	37,158	37,158	9,070	9,070	9,070	9,070	9,070	11,000	10,514	10,514	10,514	10,514
2 B	Cap	Air Compressor	1	1,800	1,800	1,800									
3 A	Cap	Generator, Portable (8-10 KW)	1	1,000	1,000	1,000									
3 B	Cap	Pneumatic Tools Set	1	1,000	1,000	1,000									
3 C	Cap	Electric Bypass Pump with Panel (portable for extended bypassing)	1	5,000	5,000	5,000									
3 D	Cap	Measuring Device, Wet Level	1	500	500	500									
		Capital Expenditure Total			**791,858**	**93,010**	**53,710**	**53,710**	**149,110**	**116,110**	**129,440**	**55,154**	**55,154**	**55,154**	**55,154**

Maintenance Shop

Priority	Type	Description	Qty	Unit Cost	Total Cost	Year 1	2	3	4	5	6	7	8	9	10
1 A	Cap	Replacement Dump Truck, 5 year lease	1	61,000	61,000	14,889	14,889	14,889	14,889	14,889	17,260	17,260	17,260	17,260	17,260
1 B	Cap	Replacement Backhoe, 5 year lease	1	51,600	51,600	12,595	12,595	12,595	12,595	12,595	14,601	14,601	14,601	14,601	14,601
1 C	Cap	Replacement Backhoe Trailer, 5 year lease	1	8,025	8,025	1,959	1,959	1,959	1,959	1,959	2,271	2,271	2,271	2,271	2,271
1 D	Cap	Additional 1/2 Ton Pickup (Maintenance), 3 year lease	1	20,378	20,378	7,663	7,663	7,663	8,373	8,373	8,373	9,150	9,150	9,150	9,998
1 E	Cap	Replacement 1/2 Ton Pickup (Field), 3 year lease	1	15,809	15,809	5,945	5,945	5,945	6,496	6,496	6,496	7,098	7,098	7,098	7,757
1 F	Cap	Replacement 1/2 Ton Pickup (Des Pinar Plant), 3 year lease	1	15,809	15,809	5,945	5,945	5,945	6,496	6,496	6,496	7,098	7,098	7,098	7,757
2 B	Cap	Diagnostic Equipment (Set)	1	10,000	10,000	10,000									
		Capital Expenditure Total			**182,621**	**58,995**	**48,995**	**48,995**	**50,808**	**50,808**	**55,497**	**57,478**	**57,478**	**57,478**	**59,643**

Engineering and Administrative

Priority	Type	Description	Qty	Unit Cost	Total Cost	Year 1	2	3	4	5	6	7	8	9	10
1 B	Cap	Backflow Prevention Software	1	2,895	2,895	2,895									
1 E	Cap	Convert drawings to CAD	1	50,000	50,000	50,000									
		Capital Expenditure Total			**52,895**	**52,895**	-	-	-	-	-	-	-	-	-

SANLANDO UTILITIES CORPORATION
DOCKET No. 971186-SU
Utilities, Inc. and Subsidiaries
ESTIMATED Capital Structure at December 31, 1998

	ESTIMATED December 31 1998	Capital Structure	Cost	Weighted Cost
Total Common Shareholder's Equity	$ 49,581,612	44.52%	10.00%	4.45%
Total Long-Term Debt	$ 61,775,574	55.48%	8.59%	4.77%
TOTAL CAPITALIZATION	$ 111,357,186	100.00%		9.22%