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May 17, 1999

VIA HAND DELIVERY

ROBERT M. C. ROSE
OF COUNSEL

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

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99 MAY 17 PM 4:55
RECORDS AND REPORTING

Re: Town and Country Utilities Company ; PSC Docket No. 981288-WU
Application for Original Certificate
Our File No. 33040.01

Dear Ms. Bayo:

Attached for filing in the above-referenced matter are the direct testimonies of Mr. Robert C. Nixon, C.P.A. and Mr. Lonnie Howard, P.E. The witnesses who will sponsor the Utility's application in this case to the extent this matter is required to go to hearing. We are currently in the process of negotiating a possible settlement with the last remaining protestant and hopefully a hearing will not be necessary.

Should you have any questions in this regard, please let me know.

Sincerely,

ROSE, SUNDBSTROM & BENTLEY, LLP

Marty Deterding /SD

F. Marshall Deterding
For The Firm

Dictated by Mr. Deterding
but signed in his absence
to avoid delay in mailing.

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FPSC-BUREAU OF RECORDS

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FMD/tmg
Enclosures

cc: Donna Clemons, Esquire
Alice Crosby, Esquire
David M. Owen, Assistant County Attorney
Richard S. Cuda

babcock\4bayo.ltr

Nixon
DOCUMENT NUMBER-DATE

06239 MAY 17 99

FPSC-RECORDS/REPORTING

Howard
DOCUMENT NUMBER-DATE

06240 MAY 17 99

FPSC-RECORDS/REPORTING

1 and the revisions to certain pages filed with this testimony as Exhibit RCN-1.

2 Q: Briefly describe the types of information contained in these Exhibits.

3 A: Exhibit B contains the cost study and the proposed initial rates and charges for Town and
4 Country Utilities Company. The study includes schedules of actual and estimated rate base,
5 operating income, detailed operation and maintenance (O&M) expenses, accumulated
6 depreciation, contributions in aid of Construction (CIAC), accumulated amortization of
7 CIAC, and cost of capital. This information is presented for each of the three types of
8 service for which the Utility is requesting initial rates: potable water; non-potable agricultural
9 water; and bulk raw water.

10 Q: Please explain the revised pages filed as Exhibit RCN-1.

11 A: The proposed rates in Exhibit B were based, in part, on recovery of O&M expenses which
12 included rent expense for lease of the real property at each potable well site and the land to
13 be utilized for the bulk raw water facilities.

14 The revised schedules eliminate the rent expense associated with each water facility
15 site and substitute a purchased water expense based on \$.20 per 1,000 gallons.

16 Q: What is the impact of this revision on the proposed rates for potable water service and bulk
17 water service?

18 A: The proposed potable water rates have been materially reduced. The original-proposed base
19 facility charge has decreased from \$14.71 to \$7.98 (5/8" x 3/4" meter), and the proposed
20 gallonage charge has dropped from \$3.09 to \$2.57.

21 The proposed bulk raw water rate has increased from \$.30 to \$.50 per 1,000 gallons.

22 Q: What was the source of the information used to prepare the information in Exhibits B and
23 Exhibit RCN-1?

24 A: The source of most of the information is the Engineering Report filed as Exhibit A. Certain
25 general and administrative expenses were my own estimates based on experience and are in

1 line with amounts previously approved by the Commission in original certificate
2 proceedings.

3 Q: Does Town and Country Utilities Company have the financial ability to provide the service
4 as proposed in its application?

5 A: Yes. As is reflected in Exhibit "D," the parent company has ample financial resources in
6 order to fund the Utility's operation as and when needed and by the Affidavit filed with that
7 Financial Statement, the parent company has promised to do so.

8 Q: Do you have anything further to add at this time?

9 A: Not at this time. As issues and questions are developed during the course of this proceeding,
10 we will respond with additional testimony and exhibits as may be required.

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1 the following companies:

2	<u>Name of Company</u>	<u>Order No.</u>	<u>Date</u>
3	Clay Utility Company	14305	04/22/85
4	Twin County Utility Company	14380	05/17/85
5	Sanlando Utilities Corp.	15887	03/25/86
6	Park Manor Waterworks, Inc.	15831	03/12/86
7	Forest Utilities, Inc.	14557	07/10/85
8	Eagle Ridge Utilities, Inc.	14133	02/17/85
9	Martin Downs Utilities, Inc.	17269	03/10/87
10	Ocean Reef Utility Co.	17532	05/08/87
11	Rolling Oaks Utilities, Inc.	17760	06/06/87
12	St. Johns Service Company	18551	12/15/87
13	Limited investigation into		
14	rate settling procedures and		
15	alternatives for water and		
16	sewer companies	21202	05/08/89
17	Radnor Plantation Corp. DBA		
18	Plantation Utilities	21415	06/20/89
19	Hydratech Utilities, Inc.	22226	11/27/89
20	Martin Downs Utilities, Inc.	22869	04/27/90
21	Request by Florida Waterworks		
22	Association for investigation		
23	of proposed repeal of		
24	Section 118(b) IRC (CIAC)	23541	10/01/90

	<u>Name of Company</u>	<u>Order No.</u>	<u>Date</u>
1			
2	Southern States Utilities, Inc.	24715	06/26/91
3	FFEC-Six, Ltd.	24733	07/01/91
4	East Central Florida Services	PSC-92-0104-FOF	03/27/92
5	Aloha Utilities, Inc.	PSC-92-0578-FOF-SU	06/29/93
6	Mad Hatter Utility, Inc.	PSC-93-0295-FOF-WS	02/24/93
7	Lehigh Utilities, Inc.	PSC-93-0301-FOF-WS	02/25/93
8	Jasmine Lakes Utility Corp.	PSC-93-1675-FOF-WS	11/18/93
9	Gulf Utility Company	PSC-93-1207-FOF-WS	08/18/93
10	Key Haven Utility Company	PSC-94-1557-S-SU	12/13/94
11	JJ's Mobile Homes, Inc.	PSC-95-1319-FOF-WS	10/30/95
12	Little Sumter Utility	PSC-96-1132-FOF-WS	09/11/96
13	Aloha Utilities, Inc.	PSC-97-0280-FOF-WS	03/12/97
14	Gulf Utility Company	PSC-97-0847-FOF-WS	10/22/97
15	Lindrick Service Corporation	PSC-97-1501-FOF-WS	11/25/97

TOWN AND COUNTRY UTILITIES COMPANY

Revised Pages

EXHIBIT RCN-1

Town & Country Utility Company

Revised Pages to Special Report

Dated September 15, 1998

Original Certificate Application

Cronin, Jackson, Nixon & Wilson, CPA's

SECTION A

PROPOSED RATES & CHARGES

(REVISED)

Town & Country Utility Company
Phase 1 Potable Water Service
Proposed Monthly Rates
August 31, 1998

<u>Line No.</u>		<u>Proposed Monthly Rates</u>
1	<u>Residential & General Service</u>	
2	Base facility charges:	
3	"5/8" x 3/4"	\$ 7.98
4	"1"	19.95
5	"1 1/2"	39.90
6	"2"	63.84
7	"3"	127.68
8	"4"	199.50
9	"6"	399.00
10	"8"	638.40
11	Gallorage charge per 1,000 gallons	2.57

Town & Country Utility Company
Bulk Raw Water Service
Proposed Bulk Rate and Plant Capacity Charge
August 31, 1998

<u>Line No.</u>		
1	A.	<u>Proposed Bulk Raw Water Rate</u>
2		Rate per 1,000 gallons <u>\$ 0.50</u>
3	B.	<u>Proposed Plant Capacity Charge</u>
4		Plant capacity charge per ERC (350 gpd) (Schedule No. 20) <u>\$ 115</u>
5		Charge per gallon of capacity (Schedule No. 20) <u>\$ 0.33</u>

SECTION C

PHASE 1 POTABLE WATER SERVICE

(REVISED)

Town & Country Utility Company
Phase 1 Potable Water Service
Constructed Statement of Operations

Line No.		Estimated Cost	Proforma Adjustments	Proforma Balance
1	Operating revenue		\$ 97,336 (C)	\$ 97,336
2	Operating expenses:			
3	O&M (Schedule No. 15)	\$ 74,237		74,237
4	Depreciation (Schedules No. 9 & 13) (1)	3,024		3,024
5	Taxes other than income		7,394 (A)	7,394
6	Income taxes		2,518 (B)	2,518
7		77,261	9,912	87,173
8	Operating income (loss)	\$ (77,261)	\$ 87,424	\$ 10,163
9	Rate base			\$ 99,830
10	Rate of return			10.18%
11	Proforma adjustments:			
12	A. <u>Taxes other than income</u>			
13	1. <u>Property taxes</u>			
14	Net book value of utility plant			\$ 150,724
15	Estimated tax rate based on 20 mills			0.02
16	Estimated property taxes			3,014
17	2. <u>Regulatory Assessment Fees (RAFs)</u>			
18	Total revenue required			97,336
19	RAF tax rate			4.5
20	Total RAFs			4,380
21	Total taxes other than income			\$ 7,394
22	B. <u>Income taxes</u>			
23	Potable water rate base			\$ 99,830
24	Weighted cost of equity (Schedule No. 23)			4.18
25	Regulatory net income			4,173
26	Pre-tax expansion factor			1.6033
27	Regulatory pre-tax income			6,691
28	Regulatory net income per above			(4,173)
29	Provision for income taxes			\$ 2,518
30	C. <u>Revenue requirement</u>			
31	Revenue required by the Utility to realize a 10.18% rate of return on rate base			\$ 97,336
32	(1) Total depreciation expense of \$5,112, less accumulated amortization of CIAC of \$2,088.			

Town & Country Utility Company
Phase 1 Potable Water Service
Summary of Detailed Operation & Maintenance (O&M) Expense
August 31, 1998

Line No.	NARUC Account	Description	Estimated Amount (1)
1	601	Salaries & wages - employees	\$ 16,500
2	604	Employee benefits (2)	3,300
3	610	Purchased water (5)	7,037
4	615	Purchased power	7,800
5	618	Chemicals	5,200
6	620	Materials & supplies - maintenance	6,900
7	632/633	Contractual services - accounting & legal (3)	3,000
8	634	Contractual services - management fees (4)	17,000
9	635	Contractual services - testing	<u>7,500</u>
10		Total estimated O&M expense	<u>\$ 74,237</u>

11 Notes: (1) Except as noted, all operations expenses are based on engineering estimates
12 of Johnson Engineering, Inc. See page 2 of this schedule and Sections 3 and 4 of the
13 Engineering Report.

14 (2) Employee benefits for payroll taxes and insurance are based on 20% of the
15 estimated salaries & wages.

16 (3) One-third of total estimated legal & accounting expense of \$9,000. See
17 Schedule No. 7 for a detailed estimate of these costs.

18 (4) One-third of total estimated management fees of \$51,000. See Schedule
19 No. 7 for a detailed estimate of these costs.

20 (5) $96,400 \text{ gpd} \times 365 \text{ days} / 1,000 = 35,186 \times \$0.20 \text{ per } 1,000 \text{ gallons} = \$7,037.$

Town & Country Utility Company
Phase 1 Potable Water Service
Engineer's Estimate of Operation Expenses by Plant Facility
August 31, 1998

Line No.	Facility (1)	601 Salaries & Wages	615 Purchased Power	618 Chemicals	620 Repairs & Maintenance	635 Testing	Total
1	<u>Existing Plant</u>						
2	Telegraph Cypress Field Club	\$ 2,000	\$ 600	\$ 800	\$ 600	\$ 2,500	\$ 6,500
3	Earth Source Rock Mine	2,000	600	300	500		3,400
4	Crossroads Wilderness Institute	4,000	1,000	1,500	1,500	2,500	10,500
5	S.R. 31 Fire Station	1,000	600	400	300		2,300
6	C.R. 74 Fire Tower	1,000	600	400	300		2,300
7	S.R. 31 Farming Residence	500	600		500		1,600
8	Recreation Facilities	1,000	2,200		1,200		4,400
9	<u>Proposed Plant</u>						
10	Babcock Family Community	3,000	1,000	1,500	1,500	2,500	9,500
11	S.R. 31 A.G. Facility	2,000	600	300	500		3,400
12	Total	<u>\$ 16,500</u>	<u>\$ 7,800</u>	<u>\$ 5,200</u>	<u>\$ 6,900</u>	<u>\$ 7,500</u>	<u>\$ 43,900</u>

13 (1) Operation & Maintenance expenses are based on the engineering estimates of Johnson Engineering, Inc. See Sections 3 and 4
14 of the Engineering Report.

SECTION D

BULK RAW WATER SERVICE

(REVISED)

Town & Country Utility Company
Bulk Raw Water Service
Constructed Statement of Operations
August 31, 1998

Line No.		<u>Estimated Amount</u>	<u>Proforma Adjustments</u>	<u>Proforma Balance</u>
1	Operating revenue		\$ 362,782 (C)	\$ 362,782
2	Operating expenses:			
3	O&M (Schedule No. 22)	\$ 291,800		291,800
4	Depreciation (Schedules 18 & 19) (1)	8,044		8,044
5	Taxes other than income		33,276 (A)	33,276
6	Income taxes		5,889 (B)	5,889
7		<u>299,844</u>	<u>39,165</u>	<u>339,009</u>
8	Operating income (loss)	<u>\$ (299,844)</u>	<u>\$ 323,617</u>	<u>\$ 23,773</u>
9	Rate base			<u>\$ 233,530</u>
10	Rate of return			<u>10.18%</u>
11	<u>Proforma adjustments:</u>			
12	A. <u>Taxes other than income</u>			
13	1. <u>Property taxes</u>			
14	Net book value of Phase 1 bulk raw water plant			\$ 847,568
15	Property tax rate based on 20 mills			<u>0.02</u>
16	Estimated property taxes			<u>16,951</u>
17	2. <u>Regulatory Assessment Fees (RAFs)</u>			
18	Total revenue required			362,782
19	RAF tax rate			<u>4.5</u>
20	RAFs			<u>16,325</u>
21	Total taxes other than income			<u>\$ 33,276</u>
22	B. <u>Income taxes</u>			
23	Phase 1 bulk raw water rate base			\$ 233,530
24	Weighted cost of equity			<u>4.18</u>
25	Regulatory net income			9,762
26	Factor for regulatory pre-tax income			<u>1.6033</u>
27	Regulatory pre-tax income			15,651
28	Regulatory net income per above			<u>(9,762)</u>
29	Provision for income taxes			<u>\$ 5,889</u>
30	C. <u>Operating revenue</u>			
31	Revenue required by the Utility to realize a 10.18%			
32	rate of return on Phase 1 rate base			<u>\$ 362,782</u>

33 (1) Gross depreciation expense of \$31,766, less CIAC amortization of \$23,722.

Town & Country Utility Company
Bulk Raw Water Service
Estimated Phase 1 O&M Expense

Line No.	Account	Description	Estimated Amount (1)
1	601	Salaries & wages - employees	\$ 64,000
2	604	Employee benefits (2)	12,800
3	610	Purchased water (6)	146,000
4	615	Purchased power	4,400
5	620	Materials & supplies (maintenance) (3)	18,000
6	631	Contract Services - Engineering	17,000
7	632/633	Accounting & legal (4)	3,000
8	634	Contract services - management fees (5)	17,000
9	635	Contract services - testing	<u>9,600</u>
10		Total O&M expense	<u><u>\$ 291,800</u></u>

11 Notes: (1) Except as noted, all operations expenses are engineering
12 estimates of Johnson Engineering, Inc. See Section 6 of the
13 Engineering Report.

14 (2) Employee benefits for payroll taxes and insurance are
15 based on 20% of the estimated salaries & wages.

16 (3) Based on engineer's estimate as follows:

17	Wellhead repairs	\$ 9,000
18	General maintenance & mowing	7,000
19	Access road maintenance	<u>2,000</u>

20 Total \$ 18,000

21 (4) One-third of estimated legal & accounting expense of
22 \$9,000. See Schedule No. 7 for a detailed estimate of these costs.

23 (5) One-third of total estimated management fees of \$51,000.
24 See Schedule No. 7 for a detailed estimate of these costs.

25 (6) $2.0 \text{ mgd} \times 365 \text{ days}/1,000 = 730,000 \times \$0.20 = \$146,000$.