FLORIDA PUBLIC SERVICE COMMISSION
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MEMORANDUM

July 2, 1997

TO: DIRECTOR, DIVISION OF RECORDS AND REPORTING (BAYO)

FROM: DIVISION OF WATER & WASTEWATER (CASEY, DAVIS) for PC+TD
DIVISION OF LEGAL SERVICES (VACCARO)

RE: DOCKET NO. 960975-WS - USEPPA ISLAND UTILITY, INC. - APPLICATION FOR A STAFF ASSISTED RATE CASE (SARC)
COUNTY: LEE

AGENDA: 07/15/97 - REGULAR AGENDA - PROPOSED AGENCY ACTION - EXCEPT ISSUES NOS. 11, 13 AND 14 - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: 15-MONTH SARC STATUTORY DEADLINE HAS BEEN WAIVED BY THE UTILITY

SPECIAL INSTRUCTIONS: S:\PSC\WAW\WP\960975WS.RCM

DOCKET NO. 960975-WS
DATE: 07/15/97

TABLE OF CONTENTS

DOCKET NO. 960975-WS
DATE: 07/15/97

CASE BACKGROUND

Useppa Island Utility, Inc. (Useppa or Utility) is a class C water and wastewater utility located in Lee County. Useppa Island is located off the coast of North Fort Myers. The island covers approximately 100 acres which offers over two miles of waterfront. The utility serves a membership of clients known as the Useppa Island Club. Members of the Useppa Island Club create a seasonal customer base that visits the island for holidays and special events. Only a limited number of the utility's customers are year-round residents. The utility is a 100% owned subsidiary of the Useppa Inn and Dock Company. The utility provides service to approximately 144 water customers and 137 wastewater customers.

Lee County became jurisdictional in February, 1970. This utility was organized in 1981 and the Commission granted it Operating Certificates Nos. 354-W and 310-S by Order No. 10900, issued June 16, 1982 in Docket No. 810268-WS.

The utility has had two staff assisted rate cases (SARCs) before the Commission, Docket No. 850206-WS (Order No. 16104 issued May 13, 1986), and Docket No. 921049-WS (Order No. PSC-93-0930-FOF-WS, issued June 21, 1993). The utility has also been granted rate adjustments through the application of a 1990 pass-through and a 1992 price index. On August 26, 1996, the utility applied for this SARC and has paid the appropriate filing fee. The official filing date has been set as October 25,1996. Useppa has waived the fifteen month SARC statutory deadline as a result of a customer request to postpone the customer meeting from February 5, 1997 to March 19, 1997.

In preparation for this report, staff audited the utility's records for compliance with Commission rules and orders and examined all components necessary for rate setting. The staff engineer has also conducted a field investigation, which included a visual inspection of the water and wastewater treatment facilities along with the service area. The utility's operating expenses, maps, files and rate application were also reviewed to determine reasonableness of maintenance expenses, regulatory compliance, utility plant-in-service and quality of service. Staff has selected an historical test year ended July 31, 1996.

Based on the staff analysis, the utility's test year revenue was $71,453 for the water system and $34,590 for the wastewater system. Test year operating expenses were $119,787 for water and $65,781 for wastewater. This resulted in operating losses of $48,334 and $31,191, respectively.

Lee County is located in the South Florida Water Management District (SWFWMD). The utility is located in a critical use county on environmentally sensitive land. The SWFWMD does not have a consumptive use permit on file for the utility and they are presently contacting the utility to investigate further.

The customer meeting for this utility was originally scheduled for February 5, 1997, but was postponed to March 19, 1997 at the request of customers, to allow more part time residents to be on the island, and attend the meeting. The March 19, 1997 customer meeting was held in the utility's service area to receive quality of service testimony, which is discussed in Issue No. 1.

DISCUSSION OF ISSUES

QUALITY OF SERVICE

ISSUE 1: Is the Quality of Service provided by Useppa Island Utility in Lee County considered satisfactory?

RECOMMENDATION: The quality of service for the water system should be considered satisfactory, and the quality of service for the wastewater system should be considered unsatisfactory.(DAVIS)

STAFF ANALYSIS: A customer meeting was held on March 19, 1997, in the Tarpon Room of the Marina Side Club House, on Useppa Island. Thirteen (13) customers from the utility's 143 customer base (estimated to be 170 ERCs) attended the meeting. During the course of the meeting, quality of service issues were discussed concerning the need for an auxiliary power generator, the condition of the primary wastewater effluent pond, and periodic drops in water pressure.

The overall quality of service provided by the utility is determined by the evaluation of three separate components of Utility Operations: (1) Quality of Utility's Product (water and wastewater service provided); (2) Operational Conditions of Utility's Plant or Facility; and (3) Customer Satisfaction of services rendered.

QUALITY OF PRODUCT

In Lee County, the potable water program is regulated by the Lee County Public Health Unit (LCPHU). By the nature of the raw water available to the island, the utility must treat its water resource by reverse osmosis. According to the LCPHU, the utility is currently up to date with all chemical analyses and all test results are satisfactory. The LCPHU has determined that the utility serves water which meets or exceeds all standards for safe, potable water.

One customer at the customer meeting did express a concern over the condition of the effluent retention/percolation pond. This customer had noted that the pond had become "unsightly." Standards required of wastewater facilities in Lee County is under the jurisdiction of the Department of Environmental Protection (DEP). On January 2, 1997, the DEP had performed a field inspection of the wastewater treatment plant. As a result, the utility was cited for several deficiencies relating to the operating conditions of the plant which are discussed below.

OPERATIONAL CONDITIONS AT THE PLANT

While there were no complaints of sewage backups, there was the concern over the condition of the ponds. This concern was also expressed during the latest field inspection performed by the DEP, where it noted the following violations:

* Violation of Rule 62-600.440(4)b, Florida Administrative Code (F.A.C.), concerning failure to maintain proper Chlorine level for at least 15 minutes contact time.
* Violation of Rule 62-600.440(2)(b)4, F.A.C., for exceeding 800 fecal coliform colonies per 100 ml in fecal coliform grab sample.
* Violation of Rule 62-600.740(1)(b)1.d, F.A.C., for exceeding 60 ml of Carbonaceous Biochemical Oxygen Demand (CBOD).
* Violation of Rule 62-600.410(6), F.A.C., for allowing sludge to build up in the holding pond.
* Violation of Rule 62-600.410(6), F.A.C., for allowing sludge to build up in the Chlorine contact chamber.

The DEP has recently drafted a Consent Order (CO) against Useppa Island Utilities, File Number 97-0280-36-DW, which was drafted to correct the above violations concerning the treatment and disposal of Useppa's domestic wastewater. According to the DEP, the effluent being discharged does not meet standards, and the disposal ponds are being deteriorated as a result.

Under these conditions, plant operations are unsatisfactory. The Florida Statutes and case law authorize the Commission to reduce Useppa's return on equity based upon unsatisfactory quality of service. See, Section 367.111(2), Florida Statutes, and Gulf Power Co. v. Wilson, 597 So. 2d 270 (Fla. 1992). However, staff believes that such action should not be taken at this time, based on the type of violations being cited. The violations are plant deficiencies due to growth and the application of current regulatory standards. Growth has increased flows that challenge the existing plant capacity, and current regulatory standards are being applied to a plant that was constructed under previous, less strict, standards.

In addition, the parties have not yet met to lay out a course of action for the appropriate corrective measures. When this meeting occurs, the finalization of the CO will be the primary issue. After signing the CO, the utility will be under strict deadlines to provide an independent engineering study to determine corrective options which will precede the filing for a construction

permit with the DEP. An engineering study of this nature will take weeks of analysis before completion and the issuance of a construction permit is a three month process, at minimum. The above violations are symptoms of a more serious problem; i.e., a plant that is hydraulically overloaded. The staff engineer believes that the utility will need to expand the wastewater treatment plant in order to correct these violations. Determining the costs associated with compliance will not be possible until the DEP issues the construction permit and the utility signs contracts to have the approved corrections performed. Action on the Commission's part would appear premature at this time since it is estimated that the utility will need approximately two (2) years to accomplish full compliance. A pro forma allowance in this rate case to correct these treatment plant violations is not practical.

The quality and capacity of the water treatment plant is the primary influence on water quality. The reverse osmosis (R/O) water plant has just been upgraded to increase water production from 30,000 gallons per day (gpd) to 60,000 gpd. The utility's engineer has certified the construction with the county health department, and the new units have been placed into operation. The new R/O units were installed within the frame building as a direct replacement of the units purchased in 1991. While the analyses results for the old R/O units indicated the water met or exceeded standards for safe drinking water, providing adequate supplies at sufficient pressure was becoming more difficult. The utility believes that the new units will more efficiently meet current demands while maintaining water quality criteria required by the board of health. The quality of water service is considered satisfactory.

CUSTOMER SATISFACTION

Those customers attending the customer meeting did not express dissatisfaction with the utility. They did express concern about a power generator (due to outages), periodic drops in water pressure per square inch (psi), and the condition of the primary wastewater effluent pond. The condition of the effluent pond, as discussed above, is being monitored by the DEP. The DEP is in the process of bringing the utility into compliance.

Useppa Island is supplied electricity via a subaqueous power cable from the mainland. Periodic outages do occur. One such occurrence took place on October 18, 1996, when one leg of the electric service lost power. According to the utility, "brown" outs are common on the island which cause the high service pumps (located at the twin ground storage tanks) to shut down. When the

high service pumps are out-of-service, water for the island is limited to stored supplies and remaining psi in the pressure tank. The utility has a full-time operator that commutes to the island daily and is on duty during normal business hours. During normal business hours he checks and resets the high service controls as needed. After normal business hours, other maintenance staff have been instructed and are expected to reset the high service pumps if needed. A power generator with automatic switch-over capabilities is not required by Rule until a utility serves more than 350 persons. Useppa Island Utilities is exempt from the DEP requirement to provide auxiliary power. Useppa Island Club would not be precluded from purchasing a generator and contributing it to the utility if the club members believe that a generator is truly needed.

According to the utility's log, a repair was made to a four inch (4") main near the fire station on December 13, 1996. This was considered to be an emergency outage and repairs appear to have been completed in a timely manner. The drops in water pressure are consider to be associated to emergency outages and electrical "brown" outs. Any drops in water pressure related to plant capacity and water demand should be improved with the new upgrade that is now providing additional capacity. According to the records reviewed by the staff engineer, the county health department has not cited the utility for failure to maintain the minimum required water pressure.

This utility is within the SFWMD. When SFWMD was contacted for information concerning a Consumptive Use Permit (CUP), SFWMD had no records concerning Useppa Island. Florida has an abundance of salt water. Since the utility uses groundwater rich in Chlorides, monitoring is not as critical. The SFWMD is currently investigating Useppa Island to determine if obtaining a CUP is required.

All things considered, it is recommended that the recently upgraded water system should be considered satisfactory. It is recommended that the wastewater system with its outstanding violations be considered unsatisfactory. However, the DEP has just recently initiated enforcement action through a CO, the parties have not yet finalized the agreement, and the corrective measures will most likely trigger a new rate case. Therefore, pending the utility's compliance with DEP requirements, staff recommends that no action be taken against the utility at this time.

RATE BASE

ISSUE 2: What portions of water and wastewater plants-in-service are used and useful?

RECOMMENDATION: The water treatment plant should be considered 91.12% used and useful. The water distribution system should be considered 91.22% used and useful with the exception of account number 334, which should be 100% used and useful. The wastewater plant should be considered 100% used and useful. The collection system should be 91.22% used and useful with the exception of Account Number 363, which should be 100% used and useful. (DAVIS)

STAFF ANALYSIS: The water treatment plant is a reverse osmosis processing plant that converts artesian groundwater, rich in chlorides and total dissolved solids (TDS), into safe drinking water. Due to the recent installation of a new reverse osmosis package plant, the capacity of the water treatment plant has been increased to 60,000 gpd. This was constructed to provide sufficient water flow to the potential customer base of 188 ERCs, as well as, the existing 170 ERCs. The pro-rata share of the 60,000 gpd plant with the potential 188 ERCs is 319 gpd, which is less than the national standard of 350 gpd for an ERC. With the new plant, the flow from the plant going into the twin ground storage tank is less than 42 gallons per minute (gpm). The total pumping capacity of the high service pumps is approximately 130 gpm and feeds directly into a 500 gallon hydropneumatic tank. Fire code requires a minimum of 500 gpm which must be sustained over a four hour period of time. It is the staff engineer's opinion that there is not sufficient reserve capacity to include fire flow in the used and useful formula. During the last rate case, the used and useful portion of the water plant was calculated to be 100% used and useful. Since the utility has expanded its capacity, this used and useful calculation is evaluated on a pro-rata share of the number of potential customers compared to the pro-rata demand of the existing customers. By the formula calculation, used as an indicator of useful plant, it is recommended that useful water treatment plant be considered 91.12% used and useful (See Attachment "A").

The used and useful formula, valuable as an indicator of useful plant, yields a percentage based on the quantitative association of plant facilities available compared to plant facilities used. During the last rate case, the used and useful percentage applied to the water distribution system in the final recommendation was 89.53 percent. The calculation during this rate case yields 91.22 percent. The staff engineer recommends the distribution system be considered 91.22% used and useful (See

Attachment "B"). The one exception to this is Account No. 334 (Meters and Meter Installations) which is based on growth demand and should be considered 100% used and useful.

The capacity of the wastewater treatment plant is 15,000 gpd. During the last rate case, used and useful plant was determined to be 100 percent. This was based on the highest five-day average, measured by lapse time meters at each lift station and recorded on the monthly operator's report. During the field audit for this rate proceeding, it was noted that salty air and harsh weather conditions have rendered most of the lapse time meters non-functional. Flows recorded on the MOR are considered unreliable. While the highest five-day average of water production occurred in July, 1996, the highest average of metered water sold occurred in November, 1995. Staff's used and useful analysis of the wastewater plant relies upon figures for water sold during November, 1995, which was 35,000 gpd. Because the marina dock and the croquet/tennis court do not provide waste to the wastewater plant, metered water sold to these connections were excluded. Normally, 70% of metered water sold is passed to the wastewater plant. In this case, it is estimated that during the peak month of November, 1995, 24,500 gpd flowed into the treatment plant. By the formula calculation, it is recommended that the wastewater treatment plant be considered 100% used and useful (See Attachment "C").

The collection system on Useppa Island was constructed to employ numerous lift stations for the transport of raw influent into the plant. During the last rate case, the used and useful percentage applied in the final recommendation was 89.53 percent. The calculation during this rate case yields 91.22 percent. It is recommended that the collection system be considered 91.22% used and useful, except for account number 363 (Services to Customers) which should be considered 100% used and useful (See Attachment "D).

ISSUE 3: What is the appropriate average amount of test year rate base for each system?

RECOMMENDATION: The appropriate average amount of test year rate base for Useppa Island Utility, Inc. should be $101,752 for water and $24,583 for wastewater. (CASEY, DAVIS)

STAFF ANALYSIS: The appropriate components of Useppa's rate base include depreciable plant in service, land, non-used and useful plant, contributions in aid of construction (CIAC), accumulated depreciation, accumulated amortization of CIAC, and working capital allowance. Utility plant, land, depreciation, and CIAC balances were last determined as of September 30, 1992 in the utility's last staff assisted rate cases by Order No. PSC-93-0930-FOF-WS, issued June 21, 1993. Staff used the amounts set forth in that order as a base for rate base components updated in this recommendation. Further adjustments are necessary to reflect test year changes and used and useful determinations of the staff engineer. A discussion of each component follows.

Depreciable Plant-in-service: The water treatment plant serving Useppa Island Club is an open system, reverse osmosis (RO) plant. During the later part of 1991 and the early part of 1992, the utility installed a used RO package unit, on the skid, at a cost of $43,133. The utility installed this newer unit after filing the appropriate application with the Lee County Board of Health and obtaining a construction permit. This newer unit was a two-stage HFF (hollow fine fiber) membrane system that took the place of the existing Polymetrics R/O system installed in 1978.

Over the past six (6) years the utility incurred membrane failures, pump breakdowns, unanticipated expenses to clean the two-stage membranes, and periodic failures in meeting treatment standards. By the end of 1996, all the membranes for the two-stage system needed replacing. The make and model of the two-stage system was not commonly manufactured and membrane replacement proved to be expensive. Replacing all the needed membranes was estimated to cost the utility $35,000. After studying the situation for several months in-house, the utility believed it to be more prudent to replace the two-stage HFF system with another R/O system. This led the utility into a formal study for the appropriate membranes to handle their specific treatment needs. During February, 1997, the engineering consulting firm of Source, Inc. produced a study "to summarize the basis of design of the reverse osmosis water plant replacement at Useppa Utility Company..." This report recommended that the two-stage, HFF, system be replaced with a single-stage, spiral-wound R/O system.

The new system would increase total production from 30,000 gpd to 60,000 gpd, have more common (less expensive) replacement membranes and be less trouble to operate. The utility purchased such a plant through Hydropro, Inc., of Lake Park, FLORIDA, at a cost of $66,175. An additional $5,725 was paid for engineering/consulting and permits which totaled $71,900. The membranes (a total of 12) for the new plant cost $1,025 each ($12,300), and are separated from the $71,900, recorded in Account Number 320.2, and depreciated over a five year period. The remaining cost was recorded in Account Number 320 and depreciated over 17 years in accordance with Chapter 25-30.140(2)(a), F.A.C. The old two-stage R/O system installed during 1991/1992, along with the old membranes, were retired following procedures established in the National Association of Regulatory Utility Commissioners (NARUC) system of accounts.

After a careful analysis, staff believes that the installation of the two-stage R/O system in 1991/1992 was, at the time, a reasonable approach to resolve plant production problems. The county health department did review and approve the utility's plans to make the installation. The county health department did give the utility final clearance for operation. After the two-stage HFF plant was in full production, it became apparent to the utility and to the board of health that the HFF membrane system was not the optimum system for Useppa's specific treatment demands.

There remains two artesian wells on the island which are rated to have a total capacity of 150 gpm. There are three storage tanks which include a single ground storage tank (10,000 gallon capacity) along with two 15,000 gallon tanks south of the main dock at the Collier Inn.

The distribution system is composed of approximately 2,750 linear feet of six-inch polyvinyl chloride (PVC) pipe, approximately 8,208 linear feet of four-inch PVC pipe, and approximately 2,250 linear feet of two-inch PVC pipe. There are two fire hydrants located on the distribution network.

The wastewater treatment plant is a typical concrete Davco-Defiance structure, rated at 15,000 gpd operating in the extended aeration mode of treatment. Effluent leaving the plant is transported to a primary holding/percolation pond and any overflow is directed to a secondary percolation pond.

The collection system is made up of approximately 5,600 linear feet of six-inch PVC pipe. Lateral connections into the six-inch mains consist of approximately 5,500 linear feet of four-inch PVC pipe. There are eleven lift stations to move the wastewater

influent to the plant for treatment. The eleven lift stations transfer the influent by force mains through approximately 280 linear feet of six-inch PVC, 7,400 linear feet of four-inch PVC, and 1,050 linear feet of two-inch PVC.

The utility recorded utility plant-in-service balances of $200,251 for water and $228,091 for wastewater at the end of the test year. Staff calculated utility plant by starting with Order No. PSC-93-0930-FOF-WS, which established utility plant of $300,283 for water and $233,591 for wastewater as of September 30, 1992, and added plant additions through the test year.

Staff made an adjustment of $132,310 to water plant to bring the utility balance to staff's recommended test year balance. Staff also made an adjustment of $71,900 to water utility plant to include pro forma plant. The water pro forma plant consists of the new single-stage, spiral-wound RO system mentioned above. Staff made adjustments of ($42,133) to retire the old RO plant, and ($23,054) to retire the old RO membranes. An averaging adjustment of ($8,824) was also done.

Staff made an adjustment of $9,050 to wastewater plant to bring the utility balance to staff's recommended test year balance. Staff also made an adjustment of $11,400 to wastewater utility plant to include pro forma plant which consists of the DEP required fencing around two ponds. An averaging adjustment of ($1,432) for wastewater was also done.

Total recommended utility plant-in-service is $330,450 for water and $247,109 for wastewater.

LAND: The utility books did not include a land cost during the test year. Order No. PSC-93-0930-FOF-WS, established a land cost of $10,463 for the water system and $3,487 for the wastewater system. Staff made adjustments of $10,463 to water and $3,487 to wastewater to reflect the Commission approved land costs.

Non-Used and Useful Plant: The utility books did not show any non-used and useful plant. According to the approved formulas, the staff engineer calculated that the water treatment plant should be considered 91.12% used and useful, the water distribution system should be considered 91.22% used and useful, the wastewater treatment plant should be considered 100% used and useful, and the wastewater collection system should be considered 91.22% used and useful. Average non-used and useful plant has been calculated based on the non-used and useful percentages times average plant and average accumulated depreciation.

Adjustments were made to the water system to reflect non-used and useful plant of ($27,830), reflect average non-used and useful accumulated depreciation associated with non-used and useful plant of $7,932, reflect average non-used and useful CIAC of $10,078, and reflect average accumulated amortization of non-used and useful CIAC of ($2,757). The net adjustment for the non-used and useful water plant account should be ($12,577).

Adjustments were made to the wastewater system to reflect non-used and useful plant of ($15,800), reflect average non-used and useful accumulated depreciation associated with non-used and useful plant of $7,649, reflect average non-used and useful CIAC of $7,767, and reflect average accumulated amortization of non-used and useful CIAC of ($4,217). The total adjustment for the non-used and useful wastewater plant account should be ($4,601).

Contributions in Aid of Construction: The utility recorded CIAC balances of ($58,326) for water and ($60,713) for wastewater at the end of the test year. Order No. PSC-93-0930-FOF-WS established water CIAC of ($266,263) and wastewater CIAC of ($229,433). Staff made adjustments of ($207,937) to water CIAC and ($169,474) to wastewater CIAC to bring the CIAC levels to staff's recommended amounts. Staff also made an adjustment of $42,133 to water CIAC to retire the old R/O donated plant. Because the utility has no plant capacity or system capacity charges, no CIAC for margin reserve was calculated. Staff recommends water CIAC of ($224,130) and wastewater CIAC of ($230,187).

Accumulated Depreciation: The utility books reflected accumulated depreciation balances of ($178,191) for water and ($60,034) for wastewater at the end of the test year. Staff calculated accumulated depreciation starting with balances from Order No. PSC-93-0930-FOF-WS and used the prescribed rates described in Rule 25-30.140, Florida Administrative Code. Staff made adjustments of $9,243 to water and ($74,077) to wastewater to bring the utility's figures to staff's calculated amount. Adjustments of $42,133 to retire the old R/O plant, $23,054 to retire the old R/O membranes, and ($5,964) to include one year of depreciation on pro forma plant were also made. Averaging adjustments of $8,804 for water and $5,104 for wastewater were also done.

Staff recommends accumulated depreciation balances of ($100,921) for water and ($129,007) for wastewater.

Accumulated Amortization: The utility did not record any accumulated amortization balances at the end of the test year. Staff calculated amortization of CIAC by starting with balances from Order No. PSC-93-0930-FOF-WS and then separated identifiable

CIAC and used the appropriate depreciation rates for those accounts. The remaining CIAC was amortized by using a yearly composite rate. Adjustments of $132,636 for water and $135,239 for wastewater were made to bring the utility balances to staff's calculated amount. An adjustment of ($42,133) was made to reflect the retirement of the old donated R/O plant. An averaging adjustment of ($5,784) for water and ($4,993) for wastewater brings the total recommended balances to $84,719 for water and $130,246 for wastewater.

Working Capital Allowance: Following current Commission practice and consistent with Rule 25-30.433, Florida Administrative Code (Form PSC/WAS 18), staff recommends that the one-eighth of operation and maintenance expense formula approach be used for calculating working capital allowance. Applying that formula, staff recommends a working capital allowance of $13,748 for water and $7,536 for wastewater (based on O&M of $109,982 for water and $60,288 for wastewater).

Rate Base Summary: Based on the foregoing, the appropriate balance of Useppa's test year rate base should be $101,752 for water and $24,583 for wastewater. Rate base is shown on Schedules Nos. 1 and 1A and adjustments are shown on Schedule No. 1B.

COST OF CAPITAL

ISSUE 4: What is the appropriate rate of return on equity and the appropriate overall rate of return for this utility?

RECOMMENDATION: The appropriate rate of return on equity should be 10.46% with a range of 9.46% - 11.46% and the appropriate overall rate of return should be 9.75%. (CASEY)

STAFF ANALYSIS: Based on the staff audit, the utility's capital structure consists of $258,306 of long-term debt with an interest rate of 10.00% along with negative common equity of $114,970. Using the current leverage formula approved under Docket No. 970006-WS, Order No. PSC-97-0660-FOF-WS, issued June 10, 1997, the rate of return on common equity should be 10.46% with a range of 9.46% - 11.46% for utilities with equity ratios of less than 40%, which includes Useppa. Since including a negative common equity would penalize the utility's capital structure by understating the overall rate of return, staff has adjusted the negative common equity to zero. In Issue No. 1, staff is recommending the utility's wastewater system should not be considered satisfactory. However, staff is not recommending a reduction to Useppa's rate of return on equity. A pro forma loan in the amount of $65,000 at a cost of 8.75% was taken out by the utility to finance the new single-stage, spiral-wound RO system.

Applying the weighted average method to the total capital structure yields an overall rate of return of 9.75%. The company's test year capital structure balance has been adjusted down to match the total of the water and wastewater rate bases.

The Useppa return on equity and overall rate of return are shown on Schedule No. 2.

NET OPERATING INCOME

ISSUE 5: What are the appropriate test year operating revenue for each system?

RECOMMENDATION: The appropriate test year operating revenue should be $71,453 for water and $34,590 for wastewater. (CASEY)

STAFF ANALYSIS: The utility recorded water revenues of $72,638 and wastewater revenues of $33,525 during the test period. A billing analysis shows the test year water revenue should be $71,453. The utility started charging 1 1/2% interest on all unpaid balances as of January 1, 1996 without Commission approval. Staff made an adjustment of ($1,185) to remove these unapproved finance charges (which are discussed further in Issues Nos. 11 and 12) from est year water revenue.

A billing analysis of the wastewater revenue shows the test year revenue should be $34,590. Staff auditors discovered errors in billing amounting to $1,065. Staff made an adjustment of $1,065 to increase wastewater revenue.

Staff recommends test year water revenue of $71,453 and test year wastewater revenue of $34,590.

Operating revenues are shown on Schedules Nos. 3 and 3A.

ISSUE 6: What are the appropriate amounts for operating expense for each system?

RECOMMENDATION: The appropriate amounts for operating expense should be $128,069 for water and $67,364 for wastewater. (CASEY, DAVIS)

STAFF ANALYSIS: The utility recorded operating expenses of $100,615 for water and $57,055 for wastewater. The components of these expenses include operation and maintenance expenses, depreciation expense (net of related amortization of CIAC), and taxes other than income taxes.

The utility's test year operating expenses have been traced to invoices. Adjustments have been made to reflect unrecorded test year expenses and to reflect recommended allowances for plant operations.

Operation and Maintenance Expenses(O & M): The utility charged $87,236 to water O & M and $45,288 to wastewater O & M during the test year. A summary of adjustments that were made to the utility's recorded expenses follows:

1) Salaries and Wages - Employees - The utility recorded employee salaries and wages of $17,373 for water and $18,010 for wastewater. Utility employees include a utility manager (who is the certified operator), maintenance man, accounting supervisor, secretary, along with a maintenance pool of workers used for utility work when necessary. The utility provided a schedule of employee salaries with the percentage of time each spends on utility business. Staff made an adjustment of $24,955 to water and $3,013 to wastewater employee salaries and wages to increase salaries and wages to staff's recommended amounts. Staff recommends employee salaries and wages of $42,328 for water and $21,023 for wastewater.

2) Salaries and Wages - Officers - The utility recorded officer salaries and wages of $2,800 for water and $2,941 for wastewater. Officer salaries include the general manager of the utility. Staff made an adjustment of $3,700 to water and $3,559 to wastewater officer salaries and wages to allow a general managers salary of $13,000 per year. Staff recommends officer salaries and wages of $6,500 for water and $6,500 for wastewater.

3) Sludge Removal Expense - The utility recorded $866 for sludge removal expense during the test year. During the

engineering field audit, it was apparent that the plant was in need of sludge removal. A recent DEP field inspection (October 14, 1996) cited the utility for an accumulation of sludge in the chlorine contact chamber. Listed as an additional citation the DEP noted that the holding pond had a build up of sludge which may interfere with its ability to function properly. The utility had excess sludge removed from the plant once during the test year. Sludge hauling should be performed once per month during the four month peak season with one additional off-season cleanout. At five cleanouts per year costing $865.75 per cleanout, the total cost for sludge hauling service is estimated to be $4,329 per year.

Staff made an adjustment of $3,463 to increase sludge removal expense to staff's recommended amount of $4,329.

4) Purchased Power - The utility recorded purchased power expense of $15,536 for water and $10,477 for wastewater during the test year. The staff auditor recalculated the electric expense based on actual bills for the twelve months ending July 31, 1996. Staff made an adjustment of $2,263 to water purchased power and ($506) to wastewater purchased power to reflect the actual purchased power expenses.

Staff recommends purchased power expense of $17,799 for water purchased power and $9,971 for wastewater purchased power.

5) Chemicals - The utility recorded chemical expense of $7,762 for water and $1,692 for wastewater during the test year. The water system chemicals include a polymer sequestering chemical to prevent precipitates from forming on the membrane filters, sulfuric acid to lower the pH level for optimum filtering, caustic soda to adjust the pH level to safe drinking water standards, and liquid chlorine to disinfect the treated water. The wastewater system chemicals consist of liquid chlorine for disinfection of the effluent being discharged and lime for disinfection and stabilization around the plant and lift stations.

Staff made an adjustment of $1,722 to water chemical expense and ($174) to wastewater chemical expense to cover the purchase and barge delivery of chemicals. Staff recommends water chemical expense of $9,484 and wastewater chemical expense of $1,518 for the test year.

6) Materials and Supplies - The utility recorded no material and supplies expense during the test year. Staff

estimated an annual office supplies expense of $275 for water and $275 for wastewater. Staff recommends materials and supplies expense of $275 for water and $275 for wastewater.

7) Contractual Services - The utility recorded contractual services expenses of $43,338 for water and $10,965 for wastewater during the test year. Staff made adjustments to the water contractual services account of ($7,307) to amortize an engineering study over 5 years, ($2,341) to amortize legal costs for permit renewal over 5 years, ($3,840) to amortize a reverse discharge study over 5 years, ($8,532) to adjust repairs and maintenance expense to the staff engineer recommended amount, $6,168 to include all DEP required testing expenses, and ($1,148) to reclassify a new blower to wastewater plant-in-service.

Staff made adjustments to the wastewater contractual services account of ($2,139) to amortize an engineering study over 5 years, ($831) to amortize legal costs for permit renewal over 5 years, $5,360 to include an engineer recommended lift station pump replacement program, ($1,362) to adjust repairs and maintenance expense to the staff engineer recommended amount, $902 to include all DEP required testing expenses, and ($517) to reclassify an aluminum fence expense to wastewater plant-in-service.

The utility was recently confronted with the process of renewing its permit to discharge reject water from the RO water treatment plant. The procedure involved in the disposal of this reject water is permitted by DEP and issued every five years. Before the utility could renew its permit, numerous studies, environmental impact sampling, and engineering analysis were required to prove they qualify for certain discharge exceptions. The cost to submit the permit application, consultant's fees, legal fees, environmental impact studies, and engineering consultation was amortized over the five year permit life.

Most all water system and wastewater system repairs are made by in-house by the on-staff operator with the assistance of other maintenance personnel when needed. Limited contract services are called upon for normal repairs and maintenance. The staff engineer reviewed all repairs and maintenance expenses for reasonableness and separated non-recurring expenses which were amortized over 5 years.

State and local authorities require that several analyses for water testing be submitted in accordance with Rule 17-22,

F.A.C. The utility's monthly monitoring is a routine program that includes sampling and testing for Bacteria, Chlorides, Sodium and Hydrogen Sulfides. Other, less frequent tests required by DEP are:

Testing and Laboratory Expenses

Rule		Description	Frequency	Cost
62-550.518	F.A.C.	Microbiological	monthly	$360/yr
62-550.310(1)	F.A.C.	Primary Inorganics	36 mos.	93/yr
62-550.320(1)	F.A.C.	Secondary "	36 mos.	65/yr
62-550.511	F.A.C.	Asbestos	1/9yrs.	25/yr
62-550.512(1)	F.A.C.	Nitrate & Nitrite	12 mos.	35/yr
62-550.515	F.A.C.	Volatile Organics	qtr'ly/1st yr	350/yr
			36 mos. Subsequent/Annual	
62-550.516	F.A.C.	Pesticides & PCB	36 mos.	570/yr
62-550.519(1)	F.A.C.	Radionuclides		
		Group I	36 mos.	117/yr
		Group II	"	250/yr
62-550.521	F.A.C.	Unregulated Organics		
		Group I	qtr'ly/1st yr/9 yr.	$275/yr
		Group II	36 mos.	$50/yr
		Group III	36 mos.	$83/yr
62-551	F.A.C.	Lead & Copper	biannual	475/yr
		Total		$2,748/yr

In addition to potable water testing, the utility also must perform certain test on the backwash (reject water) from the RO filters at the water treatment plant. These tests are required by specific conditions listed in the body of the five year industrial waste permit, and are:

Description	Frequency	Cost
Flow	once/day	$ N/A
Floride	once/quarter	60/yr
Gross Alpha Part. Activity	once/quarter	180/yr
Combined Radium 226 and 228	once/quarter	864/yr
Hydrogen Sulfide	once/month	216/yr
Dissolved Oxygen	once/day	1,825/yr
pH	once/day	1,825/yr
Whole Effluent Toxicity	yearly	$ 304/yr
Total		$5,274/yr

DEP currently requires this utility to perform wastewater testing including an annual sludge analysis ($250 per year), along with monthly sampling results for Coliform Bacteria and Total Dissolved Solids ($1,440 per year).

The installation of a second pump in each of the fifteen lift stations should be part of the utility's on-going maintenance program. Each lift station is required to have two functioning pumps so that backup pumping is available to evacuate raw influent from the receiving well should one pump fail. Each pump replacement costs about $1,250 on the island. Chapter 25-30.140, F.A.C., indicates an estimated life of 15 years for pumping equipment in Account No. 370. The harsh, salt water conditions on the island lowers the life expectancy of items like lift station pumps. A more practical life of these pumps would be seven (7) years. Therefore, it would be prudent for the utility to budget $5,360 ($1,250 x 30 pumps/7 yrs) per year for the replacement of lift station pumps.

Staff reclassified two costs in the contractual services account. Costs for a new blower for the wastewater plant were included in water contractual services. Staff reclassified this expense to wastewater utility plant-in-service. A new fence at the wastewater plant was expensed to wastewater contractual services. Staff reclassified this expense to wastewater plant-in-service.

Total adjustments are ($17,000) for water contractual services and $1,413 for wastewater contractual services. Staff recommends water contractual services of $26,338 which include $8,667 for repairs and maintenance, $8,022 for required DEP testing, $1,100 for accounting fees, $5,979 for the five year amortized permit renewal, $270 for contract labor, and $2,300 for DEP's National Pollutant Discharge Elimination System (NPDES) fees.

Staff recommends wastewater contractual services of $12,378 which include $8,317 for repairs and maintenance, $1,790 for required DEP testing and permit, $1,100 for accounting fees, and $1,171 for contract labor.

8) Rent Expense - The utility recorded no rent expense during the test year. Order No. PSC-93-0930-FOF-WS allowed a $1,200 rent expense for water and $1,200 rent expense for wastewater. Staff indexed these amounts forward using the Commission approved index figures and made adjustments of $1,324 to water rent expense and $1,324 to wastewater rent expense.

9) Transportation Expenses - The utility recorded no transportation expense during the test year. The only way for the employees to get to Useppa Island is by boat and the cost of this service is paid for by Useppa Island and Dock Company,

an affiliate company. The audit staff estimated the annual cost of transportation for the Useppa Inn and Dock Company and determined the amount to allocate to the utility based on the total payroll to utility payroll. Staff made an adjustment of $5,238 to water transportation expense and $2,534 to wastewater transportation expense to include employee transportation to and from the island. The utility also purchased a golf cart for transportation on the island which staff included in rate base. The annual maintenance cost for this golf cart is estimated to be $400. Staff made an adjustment of $160 to water transportation expense and $240 to wastewater transportation expense to include the golf cart maintenance.

Staff recommends water transportation expense of $5,398 and wastewater transportation expense of $2,774.

10) Insurance Expense - The utility recorded $266 of water insurance expense and $266 of wastewater insurance expense. Staff auditors determined the total cost of the policy was $250 and it covered the water system. Staff made adjustments of ($16) to water insurance expense and ($266) to wastewater insurance expense to include the actual cost of the policy.

11) Regulatory Commission Expense - The utility recorded no regulatory commission expense for the test year. The filing fee for this SARC amounted to $500 for water and $500 for wastewater. Staff made an adjustment of $125 ($500/4years) to water regulatory commission expense and $125 ($500/4years) to wastewater regulatory commission expense to amortize the filing fee for this SARC.

Staff recommends regulatory commission expense of $125 for water and $125 for wastewater.

Operation and Maintenance Expenses(O & M) Summary: Total operation and maintenance adjustments are $22,746 for water and $15,000 for wastewater. Staff recommends Operation and Maintenance Expenses of $109,982 for water and $60,288 for wastewater. Operation and Maintenance Expenses are shown in Schedule Nos. 3C and 3D.

Depreciation Expense (Net of Amortization of CIAC): The utility recorded $7,620 of water depreciation expense and $7,620 of wastewater depreciation expense on their books for the test year. Consistent with Commission practice, staff calculated test year

depreciation expense using the prescribed rates described in Rule 25-30.140, Florida Administrative Code.

Staff made water depreciation adjustments of: $9,988 to bring the utility balance to staff's recommended amount; $3,504 to include depreciation expense on the new RO plant; $2,460 to include depreciation expense on the new RO membranes; ($1,373) to adjust for non-used and useful test year depreciation; ($2,477) to remove depreciation on retired RO plant; ($4,611) to remove depreciation on retired RO membranes; ($9,091) to include staff calculated CIAC amortization expense; and $337 to adjust for non-used and useful test year CIAC amortization.

Staff made wastewater depreciation adjustments of: $2,588 to bring the utility balance to staff's recommended amount; $422 to include depreciation expense on the pro forma DEP required fencing; ($600) to adjust for non-used and useful test year depreciation; ($9,986) to include staff calculated CIAC amortization expense; and $298 to adjust for non-used and useful test year CIAC amortization.

Applying the prescribed depreciation rates to the appropriate used and useful plant-in-service account balances, and then offsetting that by applying the composite depreciation rates to the appropriate CIAC account balances yields the appropriate depreciation expenses net of CIAC amortization of $6,357 ($15,111-$8,754) for water and $342 ($10,030-$9,688) for wastewater during the test year.

Taxes Other Than Income Taxes: The utility recorded taxes other than income of $5,759 for water and $4,147 for wastewater. Staff made adjustments to water taxes other than income to: 1) increase regulatory assessment fees by $5 to reflect regulatory assessment fees on staff's recommended test year revenue; and 2) adjust payroll tax by $2,972 to reflect payroll taxes on staff's recommended salaries and wages.

Staff made adjustments to wastewater taxes other than income to: 1) increase regulatory assessment fees by $6 to reflect regulatory assessment fees on staff's recommended test year revenue; and 2) adjust payroll tax by $998 to reflect payroll taxes on staff's recommended salaries and wages. Staff recommends taxes other than income of $8,736 for water and $5,151 for wastewater.

Operating Revenues: Revenues have been adjusted by $66,536 for water and $35,170 for wastewater to reflect the increase in revenue required to cover expenses and allow the recommended rate of return on investment.

Taxes Other Than Income Taxes: This expense has been increased by $2,994 for water and $1,583 for wastewater to reflect the regulatory assessment fee of 4.5% on the increase in revenue.

Operating Expenses Summary: The application of staff's recommended adjustments to the utility's test year operating expenses results in staff's recommended operating expenses of $128,069 for water and $67,364 for wastewater.

Operating expenses are shown on Schedules Nos. 3 and 3A. Adjustments are shown on Schedule No. 3B.

REVENUE REQUIREMENT

ISSUE 7: What is the appropriate revenue requirement for each system?

RECOMMENDATION: The appropriate revenue requirement should be $137,989 for water and $69,760 for wastewater. (CASEY)

STAFF ANALYSIS: The utility should be allowed an annual increase in revenue of $66,536 (93.12%) for water and an annual increase of $35,170 (101.68%) for wastewater. This will allow the utility the opportunity to recover its expenses and earn a 9.75% return on its investment. The calculations are as follows:

	Water	Wastewater
Adjusted Rate Base	$101,752	$ 24,583
Rate of Return	x .0975	x .0975
Return on Investment	$ 9,920	$ 2,396
Adjusted Operation Expenses	109,982	60,288
Depreciation Expense (Net)	6,357	342
Taxes Other Than Income Taxes	11,730	6,734
Revenue Requirement	$137,989	$ 69,760
Annual Revenue Increase	$ 66,536	$ 35,170
Percentage Increase/(Decrease)	93.12%	101.68%

The revenue requirements and resulting annual increases are shown on Schedules Nos. 3 and 3A.

RATES AND CHARGES

ISSUE 8: Should the utility be allowed to continue charging the base facility charge to owners of undeveloped lots?

RECOMMENDATION: Yes, the utility should be allowed to continue charging owners of undeveloped lots a base facility charge. (CASEY)

STAFF ANALYSIS: A customer at the March 19, 1997 Useppa customer meeting questioned why the utility is collecting a base facility charge on undeveloped lots. Staff investigated and discovered the utility, on advice from their utility consultant, has been billing owners of 16 undeveloped lots a base facility charge for water and wastewater since the utility came under Commission jurisdiction in 1982.

The utility was properly sized at inception to handle a fixed number of lots on the island due to deed restrictions on the island property which required dwellings on all lots by December 15, 1982. Meters were installed at the lots and the utility started charging the base facility rates approved by the Commission. Because the utility serves an isolated island community and the customer base was fixed, the utility's consultant advised the utility to charge a base facility charge to each lot in order to recover the cost of the plant, which was designed to service those fixed amount of lots. Staff believes the 16 undeveloped lots, whether held for speculative purposes or other reason, should be included in the revenue requirement distribution. Although staff was unaware that these 16 lots were undeveloped, staff would have recommended they be included in the original revenue requirement distribution because of the unique circumstances and location of this utility.

The utility never tried to hide the base facility charges received from the undeveloped lots, always including them in their annual report under general revenue, and paying regulatory assessment fees on them. The utility never overearned during the years of these charges. Two staff assisted rate cases were conducted in 1985 and 1992, neither of which discovered the utility was charging base facility charges on the undeveloped lots. The reason for that is the make-up of the customer base. Reviewing the billing analysis will not show anything abnormal because utility customers often pay only the base facility charges with no consumption charges on their monthly bill, because this is an exclusive resort island and most residents are not year round residents. In both SARC's, staff included the 16 customers of undeveloped lots who were paying base facility charges as normal customers, and included them in the distribution of the revenue requirement. The funds that were collected from the 16 undeveloped

lots were used to support utility operations. In the 15 years the utility has been charging the base facility charge on undeveloped lots, this is the first time a customer has brought it to the Commission's attention.

Staff recommends that the 16 undeveloped lots continue to be included in the revenue requirement distribution, and that they be charged the Commission approved base facility charge.

ISSUE 9: What is the appropriate rate structure and what are the recommended rates for this utility?

RECOMMENDATION: The recommended rates should be designed to produce revenues of $137,989 for water and $69,760 for wastewater. The approved rates will be effective for service rendered on or after the stamped approval date on the tariff sheet pursuant to Rule 25-30.475(1), Florida Administrative Code, provided the customers have received notice. The rates may not be implemented until proper notice has been received by the customers. The utility should provide proof of the date notice was given within 10 days after the date of the notice. (CASEY)

STAFF ANALYSIS: During the test year, Useppa provided water service to approximately 139 residential and 5 general service customers. The utility provided wastewater service to approximately 134 residential customers and 3 general service customers.

The utility's tariff provides for a base facility/gallonage charge rate structure for all customers. The Commission has a memorandum of understanding with the Florida Water Management Districts. This memorandum recognizes that a joint cooperative effort is necessary to implement an effective, state wide water conservation policy. Water use in the utility's service area is under the jurisdiction of SWFWMD. SWFWMD does not have a consumptive use permit on file for the utility and they are contacting the utility to investigate further. The utility is located within a critical water use caution area. The 5/8" x 3/4" meter residential customers average consumption is approximately 3,873 gallons per month, which is not considered excessive, therefore, staff is not recommending a change in rate structure.

Staff has calculated a recommended base facility / gallonage charge for water and wastewater customers based on test year data. The base facility / gallonage charge rate structure is the preferred rate structure because it is designed to provide for the equitable sharing by the rate payers of both the fixed and variable costs of providing service. The base facility charge is based upon the concept of readiness to serve all customers connected to the system. This ensures that rate payers pay their share of the costs of providing service (through the consumption or gallonage charge) and also pay their share of the fixed costs of providing service (through the base facility charge).

Approximately 60% (or $82,124) of the water revenue requirement and 61% (or $42,508) of the wastewater revenue requirement are associated with the fixed costs of providing

service. Fixed costs are recovered through the base facility charge based on annualized number of factored Equivalent Residential Connections (ERC's). The remaining 40% (or $55,865) of the water revenue requirement and 39% (or $27,253) of the wastewater revenue requirement represent the consumption charge based on the estimated number of gallons consumed during the test period. Schedules of the utility's existing rates and staff's recommended rates follow.

RESIDENTIAL AND GENERAL SERVICE WATER RATES

Base Facility Charge Meter Size	Existing Rate	Recommended Monthly Rate
5/8" x 3/4"	$ 14.18	$ 36.41
3/4"	21.27	54.62
1"	35.45	91.03
1-1/2"	70.90	182.05
2"	113.44	291.28
3"	226.88	582.57
4"	354.50	910.26
6"	709.00	1,820.52
Gallonage Charge Per 1,000 gallons	$ 4.64	$ 6.54

RESIDENTIAL WASTEWATER RATES

Base Facility Charge Meter Size	Existing Rate	Recommended Monthly Rate
All meter sizes	$ 11.12	$ 23.29
Gallonage Charge Per 1,000 gallons (6,000 gallon max. per month)	$ 3.25	$ 6.42

DOCKET NO. 960975-WS
DATE: 07/15/97

GENERAL SERVICE **WASTEWATER** RATES

Base Facility Charge Meter Size	Existing Rate	Recommended Monthly Rate
5/8" x 3/4"	$ 11.12	$ 21.41
3/4"	16.68	32.11
1"	27.80	53.52
1-1/2"	55.60	107.05
2"	88.96	171.27
3"	177.92	342.55
4"	278.00	535.23
6"	556.00	1,070.47
Gallonage Charge Per 1,000 gallons (No Maximum)	$ 3.90	$ 7.70

Using the test year 5/8" x 3/4" residential water customers, who have an average use of 3,873 gallons/month per customer, an average residential **MONTHLY** water bill comparison would be as follows:

	Average **MONTHLY** Bill Using Existing Rates	Average **MONTHLY** Bill Using Recommended Rates	Percent Increase
Base Facility Charge	$14.18	$ 36.41	
Gallonage Charge	17.97	$ 25.33	
Total	$32.15	$ 61.74	92.04%

Using the test year residential wastewater customers, who have an average use of 2,282 gallons/month per customer, an average residential **MONTHLY** wastewater bill comparison would be as follows:

	Average **MONTHLY** Bill Using Existing Rates	Average **MONTHLY** Bill Using Recommended Rates	Percent Increase
Base Facility Charge	$11.12	$ 23.29	
Gallonage Charge	7.43	$ 14.65	
Total	$18.55	$ 37.94	104.53%

The rates should be effective for service rendered as of the stamped approval date on the tariff sheets provided the customers have received notice. The tariff sheets will be approved upon staff's verification that the tariffs are consistent with the Commission's decision, that the customer notice is adequate, and that any required security has been provided. The utility should provide proof of the date notice was given within 10 days after the date of the notice.

If the effective date of the new rates falls within a regular billing cycle, the initial bills at the new rate may be prorated. The old charge should be prorated based on the number of days in the billing cycle before the effective date of the new rates. The new charge should be prorated based on the number of days in the billing cycle on or after the effective date of the new rates.

In no event should the rates be effective for service rendered prior to the stamped approval date.

ISSUE 10: What is the appropriate amount by which rates should be reduced four years after the established effective date to reflect the removal of the amortized rate case expense as required by Section 367.0816, Florida Statutes?

RECOMMENDATION: Revenues should be reduced by a total of $131 annually for each water and wastewater system to reflect the removal of rate case expense grossed-up for regulatory assessment fees which is being amortized over a four year period. The effect of the revenue reduction results in rate decreases as shown on Schedules Nos. 4 and 4A. The decrease in rates should become effective immediately following the expiration of the four year rate case expense recovery period, pursuant to Section 367.0816, Florida Statutes. The utility should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. (CASEY)

STAFF ANALYSIS: Section 367.0816, Florida Statutes, requires that the rates be reduced immediately following the expiration of the four year period by the amount of the rate case expense previously included in the rates. The reduction will reflect the removal of revenues associated with the amortization of rate case expense and the gross-up for regulatory assessment fees which is $131 annually for each water and wastewater system. The reduction in revenues will result in the rates recommended by staff on Schedules Nos. 4 and 4A.

The utility should be required to file revised tariff sheets no later than one month prior to the actual date of the required rate reduction. The utility also should be required to file a proposed customer notice setting forth the lower rates and the reason for the reduction.

If the utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense.

ISSUE 11: Should the Commission order Useppa to show cause, in writing within twenty days, why it should not be fined an amount up to $5,000 for violation of Sections 367.081(1), and 367.091(3), Florida Statutes, and should the utility be required to make refunds to customers for charging unauthorized finance charges?

RECOMMENDATION: No, show cause proceedings should not be initiated. However, the utility should be ordered to refund $1,185 collected during the test year along with any additional finance charges collected since the end of the test year. These refunds should be made with interest as required by Rule 25-30.360 (4), Florida Administrative Code, within 30 days of the effective date of the order. The utility should treat any unclaimed refunds as CIAC pursuant to Rule 25-30.360(8), Florida Administrative Code. The utility should also provide the Commission with proof of the customer refunds within 10 days after completion of the refund. In addition, the utility should be admonished that, pursuant to Sections 367.081(1) and 367.091(3), Florida Statutes, it may in the future only charge rates and charges approved by the Commission. (CASEY, VACCARO)

STAFF ANALYSIS: The utility started charging 1 1/2% interest on all unpaid balances as of January 1, 1996 without Commission approval. This decision was part of an overall corporate management decision by Useppa Inn and Dock Company, the utility's parent company, to have all related companies start charging interest on unpaid balances. The utility itself was not having a problem with collections. Sections 367.081(1) and 367.091(3), Florida Statutes, provide that a utility may only collect rates and charges approved by the Commission. It appears that Useppa violated these statutes.

The utility's action is "willful" in the sense intended by Section 367.161, Florida Statutes. Section 367.161, Florida Statutes, authorizes the Commission to assess a penalty of not more than $5,000 for each offense, if a utility is found to have knowingly refused to comply with, or to have willfully violated any provision of Chapter 367, Florida Statutes, or any lawful rule or order of the Commission. In Order No. 24306, issued April 1, 1991, in Docket No. 890216-TALLAHASSEE, titled In Re: Investigation Into the Proper Application of Rule 25-14.003, F.A.C., Relating to Tax Savings Refund for 1988 and 1989 For GTE Florida, Inc., the Commission, having found that the company had not intended to violate the rule, nevertheless found it appropriate to order it to show cause why it should not be fined, stating that "[i]n our view, 'willful' implies an intent to do an act, and this is distinct from an intent to violate a statute or rule." Id. at 6.

Although staff recognizes that the utility collected unauthorized finance charges, staff does not believe that the utility's violation rises to the level of warranting a show cause proceeding. As stated earlier, Useppa Inn and Dock Company made a decision to implement the 1 1/2% finance charge to all companies under its control. As such, this finance charge was not solely applied to utility operations. The application of the finance charge to utility operations was merely a minor part of a much larger plan. Staff notes that the actual amount collected was relatively small. Therefore, staff believes that a refund with interest is the most appropriate remedy, since it sends the appropriate signal to the utility, and it will ensure the return of the ratepayers' money while at the same time penalizing the utility by way of the refund.

Therefore, staff recommends that the Commission not order Useppa to show cause for violation of Section 367.081(1), and 367.091(2)and(3), Florida Statutes. However, the utility should be ordered to refund $1,185 collected during the test year along with any additional finance charges collected since the end of the test year. These refunds should be made within 30 days of the issuance of the order and include interest as required by Rule 25-30.360 (4), Florida Administrative Code. The utility should treat any unclaimed refunds as CIAC pursuant to Rule 25-30.360(8), Florida Administrative Code. The utility should also provide the Commission with proof of the customer refunds within 10 days of the refund. In addition, the utility should be admonished that, pursuant to Sections 367.081(1) and 367.091(3), Florida Statutes, it may in the future only charge rates and charges approved by the Commission.

ISSUE 12: What are the appropriate service availability charges for this utility?

RECOMMENDATION: The appropriate service availability charge is the existing water meter installation charge of $115 and customer tap-in charge of $105 for a 5/8" x 3/4" meter. (CASEY)

STAFF ANALYSIS: The Commission approved the existing service availability policy in Order No. PSC-93-0930-FOF-WS during Useppa's last staff assisted rate case. The utility's current tariff contains provisions for a $115 water meter installation charge and a $105 customer tap-in charge for a 5/8" x 3/4" meter.

Commission Order No. 16104, issued May 13, 1986, discontinued a system capacity charge for water and a system capacity charge for wastewater because the utility was over contributed. The existing contribution levels are 58.08% for water and 82.20% for wastewater. Staff is recommending the utility maintain the existing water meter installation charge of $115 and customer tap-in charge of $105 for a 5/8" x 3/4" meter.

OTHER ISSUES

ISSUE 13: Should the recommended rates be approved for the utility on a temporary basis in the event of a protest filed by a party other than the utility?

RECOMMENDATION: Yes, the recommended rates should be approved for the utility on a temporary basis in the event of a protest filed by a party other than the utility. The utility should be authorized to collect the temporary rates after staff's approval of the security for potential refund, a copy of the proposed customer notice, and revised tariff sheets. (CASEY)

STAFF ANALYSIS: This recommendation proposes an increase in water and wastewater rates. A timely protest might delay what may be a justified rate increase resulting in an unrecoverable loss of revenue to the utility. Therefore, in the event of a protest filed by a party other than the utility, staff recommends that the recommended rates be approved as temporary rates. The recommended rates collected by the utility shall be subject to the refu[illegible] provisions discussed below.

The utility should be authorized to collect the temporary rates upon the staff's approval of security for both the potential refund and a copy of the proposed customer notice. The security should be in the form of a bond or letter of credit in the amount of $70,340. Alternatively, the utility could establish an escrow agreement with an independent financial institution.

If the utility chooses a bond as security, the bond should contain wording to the affect that it will be terminated only under the following conditions:

1) the Commission approves the rate increase; or

2) if the Commission denies the increase, the utility shall refund the amount collected that is attributable to the increase.

If the utility chooses a letter of credit as a security, it should contain the following conditions:

1) the letter of credit is irrevocable for the period it is in effect;

2) the letter of credit will be in effect until the final Commission order is rendered, either approving or denying the rate increase.

If security is provided through an escrow agreement, the following conditions should be part of the agreement:

1) no refunds in the escrow account may be withdrawn by the utility without the express approval of the Commission;

2) the escrow account shall be an interest bearing account;

3) if a refund to the customers is required, all interest earned by the escrow account shall be distributed to the customers;

4) if a refund to the customers is not required, the interest earned by the escrow account shall revert to the utility;

5) all information on the escrow account shall be available from the holder of the escrow account to a Commission representative at all times;

6) the amount of revenue subject to refund shall be deposited in the escrow account within seven days of receipt;

7) this escrow account is established by the direction of the Florida Public Service Commission for the purpose(s) set forth in its order requiring such account. Pursuant to Cosentino v. Elson, 263 So.2d 253 (Fla. 3d DCA 1972), escrow accounts are not subject to garnishments;

8) the Director of Records and Reporting must be a signatory to the escrow agreement.

In no instance should the maintenance and administrative costs associated with the refund be borne by the customers. These costs are the responsibility of, and should be borne by, the utility. Irrespective of the form of security chosen by the utility, an account of all monies received as result of the rate increase should be maintained by the utility. This account must specify by whom and on whose behalf such monies were paid. If a refund is ultimately required, it should be paid with interest calculated pursuant to Rule 25-30.360(4), Florida Administrative Code.

The utility should maintain a record of the amount of the bond, and the amount of revenues that are subject to refund. In addition, after the increased rates are in effect, the utility should file reports with the Division of Water and Wastewater no later than 20 days after each monthly billing. These reports shall indicate the amount of revenue collected under the increased rates.

ISSUE 14: Should the utility be required to maintain its books and records in conformity with the 1984 NARUC Uniform System of Accounts (USOA)?

RECOMMENDATION: Yes, the utility should be required to maintain its books and records in conformity with the 1984 NARUC Uniform System of Accounts. (CASEY)

STAFF ANALYSIS: During the test year, the utility's books were not maintained in conformity with the USOA.

Paragraph (1) of Rule 25-30.115, Florida Administrative Code, entitled "Uniform System of Accounts for Water and Sewer Utilities", states:

> 1) Water and Sewer Utilities shall, effective January 1, 1986, maintain its [sic] accounts and records in conformity with the 1984 NARUC Uniform System of Accounts adopted by the National Association of Regulatory Utility Commissioners.

This is the first time the utility's books were not found to be in conformity with the NARUC system of accounts. Staff believes the utility has the expertise necessary to convert and maintain the utility's records in conformity with Rule 25-30.115, Florida Administrative Code. Therefore, staff recommends that the utility be required to maintain its books and records in conformity with the 1984 NARUC Uniform System of Accounts.

ISSUE 15: Should this docket be closed?

RECOMMENDATION: No, if no timely protest is received upon expiration of the protest period, this docket should remain open for an additional ninety days from the effective date of the Order to allow staff to verify that refunds of finance charges, as outlined in Issue No. 11, have taken place, and allow the staff engineer to verify pro forma plant has been completed. If the utility fails to timely complete the refunds or pro forma plant, staff may prepare a follow-up recommendation and show cause proceedings may be initiated. Once staff has verified pro forma plant is complete and refunds have been made, the docket should be closed administratively. (VACCARO, CASEY, DAVIS)

STAFF ANALYSIS: Staff has recommended refunds for unauthorized finance charges as outlined in Issue No. 11, and included pro forma plant in Issue No. 3. If no timely protest is received upon expiration of the protest period, this docket should remain open for an additional ninety days from the effective date of the order to allow staff to verify that the refunds have taken place, and pro forma plant has been completed. If the utility fails to timely complete the refunds or pro forma plant, staff may prepare a follow-up recommendation and show cause proceedings may be initiated. Once staff has verified pro forma plant is complete and refunds have been made, the docket should be closed administratively.

SCHEDULE NO. 1
DOCKET NO. 960975-WS

USEPPA ISLAND UTILITY, INC.
TEST YEAR ENDING JULY 31, 1996
SCHEDULE OF WATER RATE BASE

	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.		BALANCE PER STAFF
UTILITY PLANT IN SERVICE	$ 200,251	$ 130,199	A	$ 330,450
LAND/NON-DEPRECIABLE ASSETS	0	10,463	B	10,463
NON-USED AND USEFUL PLANT	0	(12,577)	C	(12,577)
CIAC	(58,326)	(165,804)	D	(224,130)
ACCUMULATED DEPRECIATION	(178,191)	77,270	E	(100,921)
AMORTIZATION OF CIAC	0	84,719	F	84,719
WORKING CAPITAL ALLOWANCE	0	13,748	G	13,748
WATER RATE BASE	$ (36,266)	$ 138,018		$ 101,752

USEPPA ISLAND UTILITY, INC.
TEST YEAR ENDING JULY 31, 1996
SCHEDULE OF WASTEWATER RATE BASE

SCHEDULE NO. 1A
DOCKET NO. 960975-WS

	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.		BALANCE PER STAFF
UTILITY PLANT IN SERVICE	$ 228,091	$ 19,018	A	$ 247,109
LAND/NON-DEPRECIABLE ASSETS	0	3,487	B	3,487
NON-USED AND USEFUL PLANT	0	(4,601)	C	(4,601)
CIAC	(60,713)	(169,474)	D	(230,187)
ACCUMULATED DEPRECIATION	(60,034)	(68,973)	E	(129,007)
AMORTIZATION OF CIAC	0	130,246	F	130,246
WORKING CAPITAL ALLOWANCE	0	7,536	G	7,536
WASTEWATER RATE BASE	$ 107,344	$ (82,761)		$ 24,583

USEPPA ISLAND UTILITY, INC.
TEST YEAR ENDING JULY 31, 1996
ADJUSTMENTS TO RATE BASE

SCHEDULE NO. 1B
DOCKET NO. 960975-WS

		WATER	WASTEWATER
A.	UTILITY PLANT IN SERVICE		
1.	To bring utility balance to staff's recommended amount.	$ 132,310	$ 9,050
2.	To include new R/O pro forma average plant.	71,900	11,400
3.	Retire old R/O/ plant.	(42,133)	0
4.	Retire old R/O/ membranes.	(23,054)	0
5.	To reflect averaging adjustment.	(8,824)	(1,432)
		$ 130,199	$ 19,018
B.	LAND		
1.	To include land cost allowed in Order No. PSC-93-0930-FOF-WS.	$ 10,463	$ 3,487
C.	NON-USED AND USEFUL PLANT		
1.	To reflect non-used and useful plant.	$ (27,830)	$ (15,800)
2.	To reflect average non-used and useful accumulated depreciation.	7,932	7,649
3.	To reflect average non-used and useful CIAC.	10,078	7,767
4.	To reflect average non-used and useful accumulated amortization.	(2,757)	(4,217)
		$ (12,577)	$ (4,601)
D.	CIAC		
1.	To bring utility balance to staff's recommended amount.	(207,937)	(169,474)
2.	To retire old R/O plant.	42,133	0
		$ (165,804)	$ (169,474)
E.	ACCUMULATED DEPRECIATION		
1.	To bring utility balance to staff's recommended amount.	$ 9,243	$ (74,077)
2.	To reflect retirement of R/O plant.	42,133	0
3.	To reflect retirement of old R/O membranes.	23,054	0
4.	To include 1 year depreciation on pro forma plant.	(5,964)	0
5.	To reflect averaging adjustment.	8,804	5,104
		$ 77,270	$ (68,973)
F.	AMORTIZATION OF CIAC		
1.	To bring utility balance to staff's recommended amount.	$ 132,636	$ 135,239
2.	To reflect retirement of R/O plant.	(42,133)	0
3.	To reflect averaging adjustment.	(5,784)	(4,993)
		$ 84,719	$ 130,246
G.	WORKING CAPITAL ALLOWANCE		
1.	To reflect 1/8 of test year O & M expenses.	$ 13,748	$ 7,536

USEPPA ISLAND UTILITY, INC.
TEST YEAR ENDING JULY 31, 1996
SCHEDULE OF CAPITAL STRUCTURE

SCHEDULE NO. 2
DOCKET NO. 960975-WS

	PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST
COMMON EQUITY	$ (114,970)	$ 114,970	$ 0	0.00%	10.46%	0.00%
NOTES PAYABLE	0	258,306	100,935	79.90%	10.00%	7.99%
NOTES PAYABLE	0	65,000	25,399	20.10%	8.75%	1.76%
CUSTOMER DEPOSITS	0	0	0	0.00%	6.00%	0.00%
TOTAL	$ 0	$ 438,276	$ 126,335	100.00%		9.75%

RANGE OF REASONABLENESS	LOW	HIGH
RETURN ON EQUITY	9.46%	11.46%
OVERALL RATE OF RETURN	9.75%	9.75%

USEPPA ISLAND UTILITY, INC.
TEST YEAR ENDING JULY 31, 1996
SCHEDULE OF WATER OPERATING INCOME

SCHEDULE NO. 3
DOCKET NO. 960975-WS

	TEST YEAR PER UTILITY	STAFF ADJ. TO UTILITY		STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE		TOTAL PER STAFF
OPERATING REVENUES	$ 72,638	$ (1,185)	A	$ 71,453	$ 66,536	F	$ 137,989
OPERATING EXPENSES:							
OPERATION AND MAINTENANCE	87,236	22,746	B	109,982	0		109,982
DEPRECIATION (NET)	7,620	(1,263)	C	6,357	0		6,357
AMORTIZATION	0	0	D	0	0		0
TAXES OTHER THAN INCOME	5,759	2,977	E	8,736	2,994	G	11,730
INCOME TAXES	0	0		0	0		0
TOTAL OPERATING EXPENSES	$ 100,615	$ 24,460		$ 125,075	$ 2,994		$ 128,069
OPERATING INCOME/(LOSS)	$ (27,977)			$ (53,622)			$ 9,919
WATER RATE BASE	$ (36,266)			$ 101,752			$ 101,752
RATE OF RETURN	77.14%			-52.70%			9.75%

USEPPA ISLAND UTILITY, INC.
TEST YEAR ENDING JULY 31, 1996
SCHEDULE OF WASTEWATER OPERATING INCOME

SCHEDULE NO. 3A
DOCKET NO. 960975-WS

	TEST YEAR PER UTILITY	STAFF ADJ. TO UTILITY		STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE		TOTAL PER STAFF
OPERATING REVENUES	$ 33,525	$ 1,065	A	$ 34,590	$ 35,170	E	$ 69,760
OPERATING EXPENSES:							
OPERATION AND MAINTENANCE	45,288	15,000	B	60,288	0		60,288
DEPRECIATION (NET)	7,620	(7,278)	C	342	0		342
AMORTIZATION	0	0		0	0		0
TAXES OTHER THAN INCOME	4,147	1,004	D	5,151	1,583	F	6,734
INCOME TAXES	0	0		0	0		0
TOTAL OPERATING EXPENSES	$ 57,055	$ 8,726		$ 65,781	$ 1,583		$ 67,364
OPERATING INCOME/(LOSS)	$ (23,530)			$ (31,191)			$ 2,397
WASTEWATER RATE BASE	$ 107,344			$ 24,583			$ 24,583
RATE OF RETURN	-21.92%			-126.88%			9.75%

USEPPA ISLAND UTILITY, INC.
TEST YEAR ENDING JULY 31, 1996
ADJUSTMENTS TO OPERATING INCOME

SCHEDULE NO. 3B (Page 1 of 2)
DOCKET NO. 960975-WS

		WATER	WASTEWATER
A.	OPERATING REVENUES		
1.	To adjust test year revenue to reflect tariffed rates.	$ (1,185)	$ 1,065
B.	OPERATION AND MAINTENANCE EXPENSES		
1.	Salaries and Wages - Employees		
a.	To bring employee salaries to staff's recommended amount.	$ 24,955	$ 3,013
2.	Salaries and Wages - Officers		
a.	To bring officers salary to staff's recommended amount.	$ 3,700	$ 3,559
3.	Sludge Removal Expense		
a.	To reflect engineer recommended test year sludge expense.	$ 0	$ 3,463
4.	Purchased Power		
a.	To adjust to audited purchased power expense.	$ 2,263	$ (506)
5.	Chemicals		
a.	To allow engineer recommended chemical expense.	$ 1,722	$ (174)
6.	Materials and Supplies		
a.	To include staff recommended materials and supplies exp.	$ 275	$ 275
7.	Contractual Services		
a.	To amortize engineering study for permit over 5 years.	$ (7,307)	$ (2,139)
b.	To amortize legal cost for permit over 5 years.	(2,341)	(831)
c.	To amortize reverse discharge study over 5 years.	(3,840)	0
d.	To include engineer recommended lift pump replacement program.	0	5,360
e.	To adjust repairs and maintenance to engineer recommended amt.	(8,532)	(1,362)
f.	To include engineer recommended testing amount.	6,168	902
g.	To reclassify new blower to wastewater plant in service.	(1,148)	0
h.	To reclassify aluminum fence to wastewater plant in service.	0	(517)
		$ (17,000)	$ 1,413
8.	Rent		
a.	To include rent expense indexed up since last SARC.	$ 1,324	$ 1,324
9.	Transportation Expenses		
a.	To reflect transportation of employees to island.	$ 5,238	$ 2,534
b.	To include golf cart maintenance expense.	160	240
		$ 5,398	$ 2,774
10.	Insurance Expense		
a.	To adjust insurance expense to audited amount.	$ (16)	$ (266)
11.	Regulatory Commission Expense		
a.	To include $1,000 SARC filing fee amortized over 4 years.	$ 125	$ 125
	TOTAL O & M ADJUSTMENTS	$ 22,746	$ 15,000

USEPPA ISLAND UTILITY, INC.
TEST YEAR ENDING JULY 31, 1996
ADJUSTMENTS TO OPERATING INCOME

SCHEDULE NO. 3B (Page 2 of 2)
DOCKET NO. 960975-WS

		WATER	WASTEWATER
C.	DEPRECIATION EXPENSE		
1.	To adjust utility balance to match depreciation rates set forth in Rule 25-30.140.	$ 9,988	$ 2,588
2.	To include depreciation expense on pro forma R/O plant & fence.	3,504	422
3.	To include depreciation expense on pro forma membranes.	2,460	0
4.	To adjust for non-used & useful test year depreciation.	(1,373)	(600)
5.	To remove depreciation on retired R/O/ plant.	(2,477)	0
6.	To remove depreciation on retired R/O membranes.	(4,611)	0
7.	To include staff calculated amortization expense.	(9,091)	(9,986)
8.	To adjust for non-used & useful test year amortization.	337	298
		$ (1,263)	$ (7,278)
D.	TAXES OTHER THAN INCOME		
1.	To reflect regulatory assessment fees on test year revenue.	5	6
2.	To include payroll tax on recommended salaries.	2,972	998
		$ 2,977	$ 1,004
E.	OPERATING REVENUES		
1.	To reflect staff's recommended increase in revenue	$ 66,536	$ 35,170
F.	TAXES OTHER THAN INCOME		
1.	To reflect additional regulatory assessment fee associated with recommended revenue requirement	$ 2,994	$ 1,583

USEPPA ISLAND UTILITY, INC.
TEST YEAR ENDING JULY 31, 1996
ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE

SCHEDULE NO. 3C
DOCKET NO. 960975-WS

	TOTAL PER UTIL.	STAFF ADJUST.	TOTAL PER STAFF
(601) SALARIES AND WAGES - EMPLOYEES	$ 17,373	$ 24,955	$ 42,328
(603) SALARIES AND WAGES - OFFICERS	2,800	3,700	6,500
(604) EMPLOYEE PENSIONS AND BENEFITS	0	0	0
(610) PURCHASED WATER	0	0	0
(615) PURCHASED POWER	15,536	2,263	17,799
(616) FUEL FOR POWER PRODUCTION	0	0	0
(618) CHEMICALS	7,762	1,722	9,484
(620) MATERIALS AND SUPPLIES	0	275	275
(630) CONTRACTUAL SERVICES	43,338	(17,000)	26,338
(640) RENTS	0	1,324	1,324
(650) TRANSPORTATION EXPENSE	0	5,398	5,398
(655) INSURANCE EXPENSE	266	(16)	250
(655) REGULATORY COMMISSION EXPENSE	0	125	125
(670) BAD DEBT EXPENSE	0	0	0
(675) MISCELLANEOUS EXPENSES	161	0	161
	$ 87,236	$ 22,746	$ 109,982

USEPPA ISLAND UTILITY, INC.
TEST YEAR ENDING JULY 31, 1996
ANALYSIS OF WASTEWATER OPERATION AND MAINTENANCE EXPENSE

SCHEDULE NO. 3D
DOCKET NO. 960975-WS

	TOTAL PER UTIL.	STAFF ADJUST.	TOTAL PER STAFF
(701) SALARIES AND WAGES - EMPLOYEES	$ 18,010	$ 3,013	$ 21,023
(703) SALARIES AND WAGES - OFFICERS	2,941	3,559	6,500
(704) EMPLOYEE PENSIONS AND BENEFITS	0	0	0
(710) PURCHASED SEWAGE TREATMENT	0	0	0
(711) SLUDGE REMOVAL EXPENSE	866	3,463	4,329
(715) PURCHASED POWER	10,477	(506)	9,971
(716) FUEL FOR POWER PRODUCTION	0	0	0
(718) CHEMICALS	1,692	(174)	1,518
(720) MATERIALS AND SUPPLIES	0	275	275
(730) CONTRACTUAL SERVICES	10,965	1,413	12,378
(740) RENTS	0	1,324	1,324
(750) TRANSPORTATION EXPENSE	0	2,774	2,774
(755) INSURANCE EXPENSE	266	(266)	0
(765) REGULATORY COMMISSION EXPENSES	0	125	125
(770) BAD DEBT EXPENSE	0	0	0
(775) MISCELLANEOUS EXPENSES	71	0	71
	$ 45,288	$ 15,000	$ 60,288

RECOMMENDED RATE REDUCTION SCHEDULE

USEPPA ISLAND UTILITY, INC.
TEST YEAR ENDING JULY 31, 1996

SCHEDULE NO. 4
DOCKET NO. 960975-WS

CALCULATION OF RATE REDUCTION AMOUNT
AFTER RECOVERY OF RATE CASE EXPENSE AMORTIZATION PERIOD OF FOUR YEARS

MONTHLY WATER RATES

RESIDENTIAL AND GENERAL SERVICE		MONTHLY RECOMMENDED RATES	MONTHLY RATE REDUCTION
BASE FACILITY CHARGE:			
Meter Size:			
5/8"X3/4"	$	36.41	0.04
3/4"		54.62	0.06
1"		91.03	0.09
1-1/2"		182.05	0.19
2"		291.28	0.30
3"		582.57	0.60
4"		910.26	0.93
6"		1,820.52	1.87
RESIDENTIAL GALLONAGE CHARGE PER 1,000 GALLONS	$	6.54	0.01

RECOMMENDED RATE REDUCTION SCHEDULE

SCHEDULE NO. 4A
DOCKET NO. 960975-WS

USEPPA ISLAND UTILITY, INC.
TEST YEAR ENDING JULY 31, 1996

CALCULATION OF RATE REDUCTION AMOUNT
AFTER RECOVERY OF RATE CASE EXPENSE AMORTIZATION PERIOD OF FOUR YEARS

MONTHLY WASTEWATER RATES		MONTHLY RECOMMENDED RATES	MONTHLY RATE REDUCTION
RESIDENTIAL AND GENERAL SERVICE			
BASE FACILITY CHARGE:			
Meter Size:	$	23.29	0.05
5/8"X3/4"		34.94	0.07
3/4"		58.23	0.12
1"		116.46	0.24
1-1/2"		186.34	0.38
2"		372.67	0.76
3"		582.30	1.18
4"		1,164.61	2.36
6"			
RESIDENTIAL GALLONAGE CHARGE PER 1,000 GALLONS (10,000 GALLON MAX. PER MONTH)	$	6.42	0.01
GENERAL SERVICE GALLONAGE CHARGE PER 1,000 GALLONS	$	7.70	0.02

DOCKET NO. : 960975-WS DATE: 5/26/96 Attachment A

UTILITY NAME: USEPPA ISLAND UTILITY, INC.

WATER TREATMENT PLANT USED AND USEFUL CALCULATION

$$\% \text{ USED AND USEFUL} = \frac{(2 + 4 + 5 - 6)}{1} = 91.12\%$$

(1) Capacity of plant..... 60,000 GPD

(2) Maximum Daily Flow (3.8 gpmpc x 82 customers)..... 54,255 GPD

(3) Average Daily Flow (1.1 gpmpc x 82 customers)..... 35,465 GPD

(4) Fire flow capacity required..... N/A GPM

(5) Margin Reserve (not to exceed 20% of present ERC's):

(a) Average number of connections in ERC's 170

(b) Average yearly customer growth in ERC's for most recent 5 years 1

(c) Construction time for additional capacity (in months) 18

$$\text{Margin Reserve} = 5b \times \frac{5c}{12 \text{ months}} \times \frac{2}{5a} = 479 \text{ GPD}$$

(6) Excessive Unaccounted for water..... N/A GPM

(a) Total amount 0 GPD N/A % of Average GPD Flow

(b) Reasonable amount 0 GPD 10 % of Average GPD Flow

Robert T. Davis ENGINEER ASSIGNED

DOCKET NO. : 960975-WS DATE: 5/26/96 Attachment B

UTILITY NAME: USEPPA ISLAND UTILITY, INC.

WATER DISTRIBUTION PLANT USED AND USEFUL CALCULATION

$$\% \text{ USED AND USEFUL} = \frac{(2+3)}{1} = 91.22\ \%$$

(1) Capacity of present distribution system..... 186 ERC's

(2) Average number of connections to the system for the year..... 170 ERC's

(3) Margin Reserve (not to exceed 20% of present ERC's):

(a) Average yearly customer growth in ERC's for most recent 5 years 1

(b) Construction time for additional capacity (in months) 18

$$\text{Margin Reserve} = 3a \times \frac{3b}{12 \text{ months}} = 2 \text{ ERC's}$$

Robert T. Davis ENGINEER ASSIGNED

DOCKET NO. : 960975-WS DATE: 5/28/96 Attachment D

UTILITY NAME: USEPPA ISLAND UTILITY, INC.

WASTEWATER COLLECTION SYSTEM USED AND USEFUL CALCULATION

$$\% \text{ USED AND USEFUL} = \frac{(2+3)}{1} = 91.22\ \%$$

(1) Capacity of present collection system..... 188 ERC's

(2) Average number of connections to the system for the year..... 170 ERC's

(3) Margin Reserve (not to exceed 20% of present ERC's):

(a) Average yearly customer growth in ERC's for most recent 5 years: 1

(b) Construction time for additional capacity (in months): 18

$$\text{Margin Reserve} = 3a \times \frac{3b}{12 \text{ months}} = 2 \text{ ERC's}$$

Robert T. Davis ENGINEER ASSIGNED

DOCKET NO. : 960975-WS DATE: 5/26/96 Attachment C

UTILITY NAME: USEPPA ISLAND UTILITY, INC.

WASTEWATER TREATMENT PLANT USED AND USEFUL CALCULATION

$$\text{\% USED AND USEFUL} = \frac{(2 + 3 - 4)}{1} = 100.00\%$$

(1) Capacity of plant..... 15,000 GPD

(2) Average Daily Flow ..... 24,500 GPD

(3) Margin Reserve (not to exceed 20% of present ERC's):

(a) Average number of connections in ERC's 170

(b) Average yearly customer growth in ERC's for most recent 5 years 1

(c) Construction time for additional capacity (in months) 18

$$\text{Margin Reserve} = 3b \times \frac{3c}{12 \text{ months}} \times \frac{2}{3a} = 216 \text{ GPD}$$

(4) Excessive Infiltration..... 0 GPD

(a) Total amount 0 GPD 0 % of Average Daily Flow

(b) Reasonable amount 0 GPD 0 % of Average Daily Flow

Robert T. Davis ENGINEER ASSIGNED

DOCKET NO. : 960975-WS DATE: 5/26/95 Attachment D

UTILITY NAME: USEPPA ISLAND UTILITY, INC.

WASTEWATER COLLECTION SYSTEM USED AND USEFUL CALCULATION

$$\% \text{ USED AND USEFUL} = \frac{(2+3)}{1} = 91.22\ \%$$

(1) Capacity of present collection system..... 188 ERC's

(2) Average number of connections to the system for the year..... 170 ERC's

(3) Margin Reserve (not to exceed 20% of present ERC's):

(a) Average yearly customer growth in ERC's for most recent 5 years: 1

(b) Construction time for additional capacity (in months): 18

$$\text{Margin Reserve} = 3a \times \frac{3b}{12 \text{ months}} = 2 \text{ ERC's}$$

Robert T. Davis ENGINEER ASSIGNED