

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application of OCALA OAKS)	DOCKET NO. 881098-WU
UTILITIES, INC. for a rate increase)	ORDER NO. 21349
in Marion County.)	ISSUED: 6-7-89
)	

The following Commissioners participated in the disposition of this matter:

MICHAEL MCK. WILSON, CHAIRMAN
 THOMAS M. BEARD
 BETTY EASLEY
 GERALD L. GUNTER
 JOHN T. HERNDON

NOTICE OF PROPOSED AGENCY ACTION

ORDER SETTING FINAL RATES
AND MODIFYING SERVICE AVAILABILITY POLICY

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding pursuant to Rule 25-22.029, Florida Administrative Code.

BACKGROUND

On December 19, 1988, Ocala Oaks Utilities, Inc., (Ocala Oaks or the utility) filed an application for increased water rates in Marion County. The information satisfied the minimum filing requirements (MFRs) for a general rate increase and the official date of filing was established as December 19, 1988. The test year for this proceeding is the twelve-months ended December 31, 1987.

Ocala Oaks was granted a certificate to operate a water utility in Marion County by this Commission within Docket No. 810293-W. By Order No. 12134, issued on June 13, 1983, we authorized an increase of 0.22% during the utility's last rate case in Docket No. 820046-WU, which was a staff-assisted rate case. Two recent utility rate adjustments have been authorized by this Commission under Dockets Nos. 860561-WU and 870652-WU (1986 and 1987 price index/pass-through adjustments).

The utility has requested final rates designed to generate annual revenues of \$197,310 for water service. These requested revenues represent an annual increase of \$45,832 (30.26%) for water service. By Order No. 20810, issued on February 27, 1989, we suspended the utility's requested rates. The utility did not request interim rates.

QUALITY OF SERVICE

Our determination of the overall quality of service

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provided by Ocala Oaks is derived from our evaluation of three separate components of its water utility operation: (1) the quality of the utility's product (water), (2) the operational conditions of the utility's facilities, and (3) the level of customer satisfaction.

Satisfactory water quality is primarily determined by whether it meets Department of Environmental Regulation (DER) primary and secondary drinking water standards, as well as several unregulated standards set by the Environmental Protection Agency (EPA). The primary drinking water standards include maximum contaminant levels (MCLs) for harmful contaminants. These MCLs must not be exceeded, unless specified otherwise by a DER variance or exemption. Examples of primary contaminants are arsenic, lead, trihalomethanes, coliform bacteria and radium. Secondary drinking water standards generally contain MCLs which regulate the aesthetic qualities of the water such as color, corrosivity, odor and hardness. In addition, each utility must periodically test for several unregulated contaminants which the EPA considers potentially harmful; these contaminants are still under investigation.

We also evaluated the operational conditions of the utility's treatment and distribution systems. Our evaluation of these systems included a review of the utility's compliance with DER standards, as well as an analyses of proper treatment plant and distribution design. We reviewed Ocala Oaks' compliance with permit standards and minimum operator requirements, as well as the location of its wells in regard to potential sources of pollution.

The final component of the utility's overall quality of service we assessed was the level of customer satisfaction. In order to determine the level of customer satisfaction, our Staff held a customer meeting in the City of Ocala at which customers were encouraged to give testimony regarding the quality of service provided by the utility. Eight customers testified at that meeting held on February 22, 1989. Other cusotmers offered their concerns at the end of the formal testimony portion of the meeting. In addition, we reviewed the action taken by the utility regarding customer complaints. We reviewed the utility's policies to insure that customers were properly notified of scheduled service interruptions.

The nine Ocala Oaks' water systems are located in and around the City of Ocala in Marion County. The utility provided water service to approximately 940 connections during the test year. Raw water obtained from wells within the nine systems is disinfected by means of granular chlorine before distribution to utility customers. At this time, the utility has no outstanding citations or violations on file with the Department of Environmental Regulation's Central or Southwest Districts.

The utility received 3 customer complaints during the test year, one request for rereading a meter and two complaints regarding water leaks. The majority of the 13 complaints received at the customer meeting addressed the proposed rate increase. However, water outages and poor water pressure were

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also cited during the meeting. All complaints received during the test year appear to have been resolved by utility personnel in a reasonable period of time. Based on the foregoing, we find that the quality of service provided by Ocala Oaks in treating and distributing water is satisfactory.

RATE BASE

It is our practice to use an average test year unless extraordinary growth occurs. Ocala Oaks is not experiencing these conditions. Therefore, we find it appropriate to use a 13-month average test year rate base. The utility, in its application, used year-end balances to determine rate base. We have made the following adjustments to reflect a 13-month average test year:

	<u>Test Year</u>	<u>Commission Adjustments</u>	<u>Commission Adjusted Balance</u>
Utility Plant in Service	\$711,419	\$ (1,850)	\$709,569
Land	46,646	0	46,646
Non-Used and Useful	(42,787)	0	(42,787)
CIAC	(457,579)	2,323	(455,256)
Acc. Depreciation	(114,097)	9,837	(104,260)
Amort. of CIAC	67,362	(5,497)	61,865
Working Capital Allowance	55,830	12,010	67,840
	<u>\$266,794</u>	<u>\$16,823</u>	<u>\$ 283,617</u>

We, therefore, find it appropriate to make a net adjustment of \$16,823 to rate base to reflect our use of a 13-month average test year.

The utility's application provides its original cost estimate of \$6,500 for a pro forma adjustment to reflect the addition of a 40KW power generator for its Belleview water treatment facility. The utility subsequently revised this cost estimate after obtaining further information from contractors that will be involved in the generator's installation. The revised estimate of \$18,430, was checked against our engineering cost files and was found to be much more accurate than the utility's original estimate of \$6,500. We, therefore, find it appropriate to make an adjustment of \$18,430 to utility plant in service to reflect the cost of a pro forma generator for the utility's Belleview water treatment facility. Using a thirteen-month average and our adjustments, we find that plant in service should be established at \$727,999 as of December 31, 1987.

Used and Useful Plant

Based on size and design criteria, the utility's nine water treatment facilities should be considered 100% used and useful. Although several of the facilities were not treating water to their full capacity during the test year, these facilities should be considered 100% used and useful based on economies of scale and design criteria. The Ocala Oaks facilities are equipped with only the minimal equipment necessary to meet DER standards and to provide safe and

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efficient service. Therefore, we find it appropriate to consider all of Ocala Oaks' water treatment facilities to be 100% used and useful.

In its application, the utility has determined used and useful percentages for its water distribution systems employing highly conservative methodology. The utility's used and useful determinations are conservative in that each of the sixteen subdivisions on line during the test year were assigned a used and useful percentage. The determinations should have been made for each system, not each subdivision, because a more accurate analysis of the existing versus potential growth for each system is provided by this methodology. Furthermore, a margin of reserve has not been included within the utility's determinations. Our used and useful calculations result in slightly higher used and useful percentages on a system by system basis and significantly higher used and useful percentages after inclusion of margin reserve for each system. While noting that the determinations are somewhat conservative, we find it appropriate to accept the utility's used and useful determinations as reasonable.

It is our opinion that no adjustment should be made to the utility's used and useful determinations for its water treatment facilities and distribution systems. Therefore, we find that the utility's proposed adjustment of \$(46,294) to plant in service to reflect non-used and useful transmission and distribution mains and an adjustment of \$3,507 to accumulated depreciation to reflect the depreciation on these non-used and useful mains should be allowed.

The utility has included the construction costs of two revenue producing projects as Construction Work in Progress (CWIP) incurred during the test year. These projects, the Oak Hill North distribution system and the Bellaire tank addition, should be excluded from rate base since their associated construction costs will be recovered from revenue generated in the future. The inclusion of these projects would be inaccurate in that these additions will increase the capacity of the related treatment and distribution systems, thus affecting used and useful determinations for these systems. These projects were not put on line until 1988. Therefore, neither used and useful determinations nor CWIP year-end balances for the test year should include the additional cost and capacity related to these projects, which have been installed for use by future customers. We, therefore, find it appropriate to exclude from rate base CWIP of \$27,715, related to these projects.

Depreciation

In the utility's most recent rate case, we established an accumulated depreciation balance of \$25,215, including depreciation associated with non-used and useful plant. The utility, in its application, used a beginning accumulated depreciation balance of \$28,197. We find it appropriate to make an adjustment to reflect the correct balance. Therefore, we hereby decrease the reserve balance of accumulated depreciation by \$2,982, with a corresponding adjustment to increase retained earnings.

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It is our practice to make a corresponding adjustment to accumulated depreciation in the amount of one-half the annual depreciation expense whenever a pro forma adjustment to Utility Plant in Service is made. The utility, in its application, included \$382 in pro forma depreciation for the 40KW Onan DL6T diesel generator. Our calculation indicates one-half year of depreciation based on a 17-year life is \$542. Therefore, we find it appropriate to make an adjustment of \$160 to accumulated depreciation.

For the test year ended December 31, 1987, the utility changed its depreciation rates from 2.5% to the rates prescribed by Rule 25-30.140, Florida Administrative Code. However, the utility continued to use 2.5% for its amortization of contributions-in-aid-of-construction (CIAC), which resulted in Accumulated Amortization of CIAC for 1987 of \$10,977. To assure the utility's compliance with the above-cited rule, a composite amortization rate of 2.8% must be used. Using this appropriate percentage, we calculate a balance of \$12,294. This results in an increase to accumulated amortization of CIAC of \$1,317.

Acquisition Adjustment Disallowed

On August 7, 1985, Ocala Oaks made application to this Commission for additional territory which included the Woodberry Forest subdivision. We approved the application in our Order No. 15294, issued October 24, 1985. We did not establish the rate base in that Order. The utility subsequently booked acquisition of the water system from a developer as Utility Plant In Service of \$29,263, with a corresponding negative acquisition adjustment of \$14,299. The utility has been amortizing the acquisition adjustment based on a forty-year life.

It is our policy that acquisition adjustments, whether positive or negative, will not be allowed unless the acquiring utility shows through extraordinary circumstances that the adjustment is necessary and in the best interests of the customers. No extraordinary circumstances have been demonstrated in this case. Therefore, we find it appropriate to exclude the acquisition adjustment of \$14,299, and its corresponding accumulated amortization of acquisition adjustment of \$710, from rate base.

Working Capital

The utility included an interest-bearing cash account in its calculation of working capital. As we established in Order No. 11498, temporary cash investments should not be included in working capital. We, therefore, find it appropriate to exclude the average balance of the interest-bearing account in the amount of \$45,506 from working capital.

It is our practice to include the average balance of deferred rate case expense in the working capital allowance. Deferred rate case expense represents the investment of the utility which will not be recovered for several years due to amortization. By including this deferred debit in the working capital allowance, the utility's average investment is

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reflected and included in rate base to earn a return. We find that \$4,900 in deferred rate case expense is appropriately included in working capital.

The utility has used the balance sheet approach to calculate its working capital. The balance sheet approach generally defines working capital as current assets and deferred debits that are utility related and do not already earn a return, less current liabilities, deferred credits, and operating reserves that are utility related and upon which the company does not already pay a return. We adjusted the utility's calculation to a 13-month average and removed deferred interest which related to an incorrect bookkeeping entry. We also included the average balance of rate case expense. Therefore, we find that a working capital allowance of \$26,696 is appropriate.

Using a thirteen-month average and our adjustments, we find that Ocala Oaks' average rate base is \$258,056. Our schedule of water rate base is attached as Schedule No. 1-A. The schedule of our adjustments to rate base is attached as Schedule No. 1-B.

COST OF CAPITAL

As we noted above, it is our practice to use an average test year. The utility, in its application, used year-end balances to determine its capital structure. We have made the following adjustments to reflect a 13-month average test year:

	<u>Test Year</u>	<u>Commission Adjustments</u>	<u>Commission Adjusted Balance</u>
Long-Term Debt	\$ 5,497	\$ 1,571	\$ 7,068
Customer Deposits	15,260	1,875	17,135
Common Equity	265,789	(6,598)	259,191
ITC	5,663	78	5,741
Deferred Income Taxes	31,498	(3,036)	28,462
	<u>\$323,707</u>	<u>(6,110)</u>	<u>\$317,597</u>

The cost rate assigned to Customer Deposits is incorrectly stated in the MFRs. The proper cost rate to be paid on customer deposits is 8.00%, as required by our Rule 25-30.311, Florida Administrative Code. The 7.00% rate stated in the utility's MFRs is an effective rate. Ocala Oaks is presently paying its customers an 8.00% rate of interest. We, therefore, find it appropriate that the 8.00% cost rate be used.

The utility recorded deferred income tax entries that are reversed from those required by NARUC. The utility credited, rather than debited, Account 283 with the tax effect of the difference between tax and book income, when tax income is higher than book income. The utility debited, rather than credited, Account 283 with the tax effect of the difference between tax and book income, when tax income is lower than book income. The utility also applied an incorrect tax rate to

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compute deferred taxes in 1982. The effect of correcting these errors is to decrease accumulated deferred income taxes by \$17,134 with a corresponding increase to retained earnings.

The utility has had tax losses in previous years which total \$26,550 for federal tax purposes and \$37,976 for state tax purposes. These losses are attributable to the use of accelerated depreciation for tax purposes and to the difference in handling of CIAC for book and tax purposes. Therefore, they are timing differences that will reverse in the future.

It would, therefore, be inappropriate to reduce tax expense associated with the utility's revenue requirement. The net operating losses will reduce approximately one year of future tax expense. The proper approach is to increase deferred taxes by one-half of the appropriate tax expense. This serves to amortize the effects of the net operating loss over future periods. Therefore, we find it appropriate that deferred income taxes be increased by \$3,124 to reflect the effects of the tax net operating loss carryforward.

The utility filing requests a return on equity of 12.16%. Using the leverage formula from Order No. 19718, in Docket No. 880006-WS, we calculate the appropriate cost of equity for this utility to be 12.17%. The utility's calculation differs due to our use of a 13-month average test year. We find a return on equity of 12.17% with a range of 11.17% to 13.17% to be appropriate. The utility's capital structure is set out on Schedule No. 2-A. Our adjustments to the utility's capital structure are shown on Schedule 2-B.

NET OPERATING INCOME

Salary and Payroll Expenses

In order to remain in compliance with DER's staffing requirements set out in Rule 17-16.630, Florida Administrative Code, the utility has found it necessary to hire an additional service man for maintenance of its nine treatment and distribution systems. The utility included a salary, based on 40 hours per week, of \$13,520 for the service man. In addition, \$1,078 was included as a pro forma adjustment to recognize the related payroll taxes on the service man's salary. This amount includes FICA at 7.51% and appropriate State and Federal unemployment compensation taxes. We have reviewed salary surveys conducted by the Water Pollution Control Federation and find \$13,520 to be a reasonable starting salary for an operations and maintenance worker. Therefore, we find it appropriate to allow pro forma adjustments of \$13,520 to salary expense and \$1,078 to payroll tax expense to reflect the addition of a full time service man.

Rate Case Expense

The utility initially requested \$5,110 in rate case expense. Additional costs of \$4,690 were requested as a pro forma adjustment, bringing the total rate case expense to \$9,800. We find this amount to be reasonable and hereby allow it.

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It is our policy to amortize rate case expense over four years. Considering the availability of the price index and pass through provisions, we find that four years is representative of the period between rate cases for water and sewer companies. However, in its application, Ocala Oaks requested authority to amortize its rate case expense over five years because it believes that this time period accurately represents the time period between its rate cases. We find a five-year amortization to be appropriate.

On August 21, 1987, the utility implemented a price index. In order to avoid negating the effects of that index, we adjusted test year Operating and Maintenance expenses by the Change in GNP Implicit Price Deflator Index which results in an increase in test year expenses of \$3,145. Based on all of our previous adjustments, we find that the test year operating and maintenance expenses for this utility are \$133,539.

It is our policy that a pro forma adjustment to Utility Plant In Service requires a corresponding adjustment to depreciation expense. The utility, in its application, included a pro forma adjustment of \$382 for depreciation expense. Our calculation indicates that the appropriate depreciation amount is \$1,084 based on a 17-year life. Therefore, we find it appropriate to include an additional \$702 in depreciation expense.

For the test year ended December 31, 1987, the utility changed its depreciation rates from 2.5% to the rates prescribed by Rule 25-30.140, Florida Administrative Code. However, the utility continued to use 2.5% for its amortization of CIAC which resulted in Accumulated Amortization of CIAC of \$10,977. The amount should have been \$12,294. We earlier made the appropriate adjustment to the reserve balance of accumulated amortization of CIAC. Therefore, we find it appropriate to make a corresponding adjustment of \$1,317 to test-year depreciation expense.

The utility has requested to change its depreciation from 2.5% as established in its last rate case to guideline depreciation rates pursuant to Rule 25-30.140, Florida Administrative Code. The intent of this Rule regarding depreciation is to provide for recovery of invested capital and to match that recovery as nearly as possible to the useful life of the depreciable investment. It is our practice to have a utility change its depreciation rates to those currently prescribed by this Commission when the utility comes in for a rate case. Therefore, we find it appropriate that the utility make this change.

The utility included a negative acquisition adjustment of \$14,299 with corresponding accumulated amortization of acquisition adjustment of \$710 in its rate base. We earlier removed those amounts from rate base. Therefore, we find a corresponding adjustment of \$355, representing one year of amortization of acquisition expense, to test-year amortization expense to be appropriate.

Based on our previous adjustments, we find that Ocala Oaks' test year net operating income is \$28,619. The operating

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statement is attached as Schedule No. 3-A and our adjustments are shown on Schedule No. 3-B.

REVENUE REQUIREMENT

Based on our previous adjustments, we find it appropriate to give the utility an opportunity to increase its water revenues by \$43,535, for annual total water revenues of \$197,274. This adjustment represents an increase in water revenues of 28.32%. These revenues will allow the utility the opportunity to recover its operating expenses and earn an overall return on its water rate base of 11.09% with a range of 10.24% to 11.94%.

RATES AND CHARGES

We find that the billing analysis presented in the utility's MFRs must be adjusted due to the method used in the counting of the bills. The utility bills customers for all gallons used, but for the purpose of presenting bills in the billing analysis, consumption was rounded down to the nearest 1,000 gallons consumed. For example, if consumption was 8,300 gallons, this was billed as 8,300 gallons and counted in the billing analysis as 8,000 gallons. On the other hand, a bill of 8,756 was billed as 8,756 gallons and also counted as 8,000 gallons. The consistent use of this method of rounding down is assured because the person doing the counting had used an index card to cover all but the one-thousand column of gallons of consumption.

The method used by the utility causes the billing analysis consumption to be off, when compared to actual billing, by an average of 500 gallons per bill. During the test year there were 10,202 bills. Therefore, we find it appropriate to impute 5,101,000 gallons (10,202 bills x 500 gallons), which results in an increase to test year revenues of \$2,261.

The permanent rates requested by the utility are designed to produce revenues of \$197,288 for water. The utility did not include test year miscellaneous revenues of \$3,450 in its calculation of revenue at proposed rates. The requested revenues as presented in the MFRs represent an increase of \$43,549 (28%) for water. Requested rates, when applied to the corrected billing analysis, would generate \$202,168 in revenues, representing an increase of \$48,429 (32%).

We find the water rates set out on Schedule No. 4-A to be fair and reasonable. These rates are designed to allow the utility the opportunity to earn annual water revenues of \$197,274. We find the base facility charge rate structure appropriate because of its ability to track costs and to give the customers some control over their water bills. Each customer pays his pro rata share of the related costs necessary to provide service through the base facility charge and only the actual usage is paid for through the gallonage charge.

Our approved final rates for water service are uniform for residential and general service customers. The approved rates

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will be effective for meter readings on or after thirty days from the stamped approval date on the revised tariff sheets. The revised tariff sheets will be approved upon our verification that the tariffs are consistent with our decision, that the protest period has expired, and that the proposed customer notice is adequate.

MODIFICATION OF SERVICE AVAILABILITY POLICY

During the test year ended December 31, 1987, the utility provided water service to an entirely residential customer base. The utility's current service availability policy was approved in its latest rate case in Docket No. 820046-W, by Order No. 12134, issued June 13, 1983. The tariff provisions setting out that service availability policy, however, were administratively approved in 1986. The tariff indicates that the transmission and distribution lines are installed by the utility and that the utility collects 75% of the installation costs from the developer. The tariff also reflects meter installation fees of \$100 for 5/8"x3/4" and actual cost for meter sizes over 5/8"x3/4".

Since its current tariff provisions were administratively approved in 1986, the utility has agreed to serve the Oak Hill North development by way of its Bellaire treatment facility. The Oak Hill North development was on line as of February, 1988. The utility collected 75% of the entire cost of the project from the developer. The utility did not collect the amount of CIAC set out in its tariff. However, the utility has stated that it believed it did collect the appropriate amount of CIAC. The utility has no ongoing projects at this time, but it is actively seeking new connections.

The utility's level of CIAC at test year end, December 31, 1987, was 58%. The percentage of the plant represented by the water transmission and distribution systems, which is the minimum required CIAC level, was at 55%. Therefore, the utility is in compliance with the minimum requirements outlined by Rule 25-30.580, Florida Administrative Code. The utility has indicated that it desires to collect more than the minimum CIAC. Therefore, we find it appropriate to authorize the utility to require that 100% of the transmission and distribution systems be contributed by the developer.

Our Rule states that the maximum amount of CIAC, net of amortization, may not exceed 75% of the total original cost, net of accumulated depreciation, of the utility's facilities and plant when the facilities and plant are at their designed capacity. We have analyzed the utility's level of CIAC in terms of its designed capacity. The utility was capable of serving 1124 residential connections at year end 1987, although it served only 939 residential connections. When the Oak Hill North development came on line in early 1988 it increased the utility's capacity so that it could serve 36 more residential customers. So by year end 1988 the utility was able to serve a total of 1160 residential customers. The demand placed on the utility by year end 1988 had increased by 44 residential customers. The growth rate projected for year 1989 forward

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would be the utility's average growth of the past five years of 48 connections per year. At this rate of growth, the utility will reach its design capacity of serving 1,160 residential connections by 1992.

We have used account balances of test year end, December 31, 1987. We have also used the composite depreciation rate of 2.8%. We have also adjusted the utility plant account for 1987 upward by \$18,430 to include a pro forma treatment generator to be installed at the Bellaire treatment facility.

To serve the Oak Hill North development, the utility installed a 20,000 gallon hydropneumatic tank at the Bellaire treatment facility and constructed the Oak Hill North distribution system. We have also considered the additional capacity of 36 lots created by these plant additions. Additionally, the \$25,000 contribution by the developer of Oak Hill North has been added to CIAC in year 1988.

Of Ocala Oaks' nine treatment facilities, only the Belleview treatment facility may require an upgrade to be able to serve its designed capacity which is projected to be reached in 1992. It appears likely that a hydropneumatic tank, on the same order as that installed for the Bellaire facility, will be needed by approximately 1991. For this reason, we have included that plant addition in 1990 at the same cost as the tank for Bellaire.

Therefore, we find it appropriate to authorize the utility to charge a plant capacity fee of \$200 per residential connection. This should increase the utility's contribution level to 64% in 1992. The implementation of this plant capacity fee will not place the utility at a 75% contribution level at design capacity based on our projections. Due to the uncertainty of these projections, particularly the need for the tank at Belleview in 1991, we believe a target level more conservative than that of 75% is in order. Based on our preference for a more conservative target level of CIAC, we will not consider growth of new developments. At such time as the utility desires a higher level of CIAC, it may apply for a modification of its service availability policy pursuant to Rule 25-30.565, Florida Administrative Code.

MISCELLANEOUS SERVICE CHARGES

Rule 25-30.345(3), Florida Administrative Code, provides for the establishment of customer service charges. Staff Advisory Bulletin (SAB) No. 13, Second Revised, encourages utilities to establish charges to recover their costs for initial connections, normal reconnections, violation reconnections, and premises visits in lieu of disconnection. The utility's tariff currently contains the miscellaneous service charges set out in SAB No.13. However, it does not collect the premises visit charge. The utility states that it does not have its visiting service people collect any money, therefore, it does not collect the premises visit charge.

Following the guidelines shown by SAB No. 13, the only time the premises visit charge should not be collected is when the customer does not follow through with the payment

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arrangement established at the time of the premises visit. In such case, a violation reconnection would occur next. The utility proposes to increase its violation reconnection charge to \$20.00 because of increased fuel and labor costs connected with these charges. The primary factor justifying such an increased charge, according to the utility, is its wide geographic territory requiring greater time for such visits.

We do not believe the utility has justified a departure from the \$15.00 violation reconnection charge established by SAB No. 13. While it is true that a two hour trip to disconnect a non-paying customer is a possibility in consideration of its broad service area, the utility has not provided a schedule indicating that these single trips have actually occurred in the test year. We believe that most occurrences of violation reconnections should be handled in groups of at least two at a time, cutting the utility-proposed travel time in half. Additionally, we believe there could be some coordination of effort between the handling of violation reconnections and in the operator visiting of the various systems as required by DER. Therefore, we find that the violation reconnection charge shall remain at \$15.00 because the utility has not offered sufficient justification to depart from the level of miscellaneous service charges suggested by SAB No.13.

If a protest is not received within 21 days of issuance, this proposed agency action Order will become final. The docket may be closed upon the utility's filing of revised tariff sheets and our approval of them.

It is, therefore,

ORDERED by the Florida Public Service Commission that the application for a rate increase in Marion County by Ocala Oaks Utilities, Inc., is hereby approved to the extent set forth in the body of this Order.

ORDERED that each of the specific findings herein is approved in every respect. It is further

ORDERED that all matters contained herein and/or attached hereto, whether in the form of discourse or schedules, are by this reference, specifically made integral parts of this Order. It is further

ORDERED that the provisions of this Order, issued as proposed agency action, shall become final unless an appropriate petition in the form provided by Rule 25-22.036, Florida Administrative Code, is received by the Director, Division of Records and Reporting, at his office at 101 East Gaines Street, Tallahassee, Florida 32399-0870, by the close of business on June 27, 1989. It is further

ORDERED that the utility shall implement new rates which are designed to increase water revenues by \$43,549 for total annual water revenues of \$197,274. It is further

ORDERED that the rates approved herein shall be effective for service rendered on or after the stamped approval date on the revised tariff sheets. It is further

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ORDERED that the service availability charges approved herein shall be effective for connections made on or after the stamped approval date on the revised tariff sheets. It is further

ORDERED that in the event this Order becomes final, the utility shall notify each customer of the rates and charges authorized herein and explain the reasons for these rate changes. The form of such notice and explanation shall be submitted to the Commission for its prior approval. It is further

ORDERED that, if this Order becomes final, the rates and charges approved herein shall not become effective until revised tariff sheets have been filed with and approved by this Commission. It is further

ORDERED that after June 27, 1989, this Commission shall issue either a notice of further proceedings or an order acknowledging that the provisions of this Order have become final if all conditions have been satisfied. It is further

ORDERED that, in the event no protest is timely received, and upon the utility's filing of revised tariff sheets and our approval of them, this docket shall be closed.

By ORDER of the Florida Public Service Commission
this 7th day of JUNE, 1989.

STEVE TRIBBLE, Director
Division of Records and Reporting

(S E A L)
SFS

by: Kay Flynn
Chief, Bureau of Records

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.59(4), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

The action proposed herein is preliminary in nature and will not become effective or final, except as provided by Rule 25-22.029, Florida Administrative Code. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, as provided by Rule 25-22.029(4), Florida Administrative Code, in the form provided by Rule 25-22.036(7)(a) and (f), Florida Administrative Code. This petition must be received by the Director, Division of Records and Reporting at his office at 101 East Gaines Street, Tallahassee, Florida 32399-0870, by the

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close of business on June 27, 1989. In the absence of such a petition, this order shall become effective June 28, 1989 as provided by Rule 25-22.029(6), Florida Administrative Code, and as reflected in a subsequent order.

Any objection or protest filed in this docket before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

If this order becomes final and effective on June 28, 1989, any party adversely affected may request judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or by the First District Court of Appeal in the case of a water or sewer utility by filing a notice of appeal with the Director, Division of Records and Reporting and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days of the effective date of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.

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OCALA OAKS UTILITIES, INC.
 SCHEDULE OF WATER RATE BASE
 TEST YEAR ENDED DECEMBER 31, 1987

SCHEDULE NO. 1-A
 DOCKET NO. 881098-WU

COMPONENT	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	ADJUSTED TEST YEAR PER UTILITY	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR
1 UTILITY PLANT IN SERVICE	\$ 711,419	\$ 6,500	\$ 717,919	\$ 10,080	\$ 727,999
2					
3 LAND	46,646	0	46,646	0	46,646
4					
5 NON-USED & USEFUL COMPONENTS	0	(42,787)	(42,787)	0	(42,787)
6					
7 C.W.I.P.	27,715	0	27,715	(27,715)	0
8					
9 C.I.A.C.	(457,579)	0	(457,579)	2,323	(455,256)
10					
11 ACCUMULATED DEPRECIATION	(114,097)	(6,986)	(121,083)	12,659	(108,424)
12					
13 AMORTIZATION OF C.I.A.C.	67,362	0	67,362	(4,180)	63,182
14					
15 ACQUISITION ADJUSTMENTS	(14,299)	0	(14,299)	14,299	0
16					
17 ACCUM. AMORT. OF ACQ. ADJUST.	710	0	710	(710)	0
18					
19 WORKING CAPITAL ALLOWANCE	55,830	0	55,830	(29,134)	26,696
20					
21 RATE BASE	\$ 323,707	\$ (43,273)	\$ 280,434	\$ (22,378)	\$ 258,056
22					

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OCALA DAKS UTILITIES, INC.
ADJUSTMENTS TO RATE BASE
TEST YEAR ENDED DECEMBER 31, 1987

SCHEDULE NO. 1-B
DOCKET NO. 881098-WU

EXPLANATION	ADJUSTMENT
1 UTILITY PLANT IN SERVICE	
2 A. To adjust to 13-month average.	\$ (1,850)
3	
4 B. To include pro forma 40KW Onan DL6T	11,930
5 diesel generator in UPIS.	
6	-----
7 NET ADJUSTMENT	\$ 10,080
8	-----
9 CONSTRUCTION WORK-IN-PROGRESS	
10 A. To remove CWIP from rate base.	\$ (27,715)
11	-----
12 CONTRIBUTIONS IN AID OF CONSTRUCTION	
13 A. To adjust to 13-month average.	\$ 2,323
14	-----
15 ACCUMULATED DEPRECIATION	
16 A. To adjust to 13-month average.	\$ 9,837
17	
18 B. To adjust to prior Order No. 12134 dated 6/13/83.	2,982
19	
20 C. To adjust depreciation reserve for one-half	(160)
21 year of depreciation on 40KW Onan DL6T diesel generator.	
22	-----
23 NET ADJUSTMENT	\$ 12,659
24	-----
25 AMORTIZATION OF C.I.A.C.	
26 A. To adjust to 13-month average.	\$ (5,497)
27	
28 B. To correct amortization to amount calculated	
29 by staff using 2.8% composite rate.	1,317
30	-----
31 NET ADJUSTMENT	\$ (4,180)
32	-----
33 ACQUISITION ADJUSTMENTS	
34 A. To remove acquisition adjustment from rate base.	\$ 14,299
35	-----
36 ACCUMULATED AMORTIZATION OF ACQUISITION ADJUSTMENT	
37 A. To remove accumulated amortization of acquisition	
38 adjustment from rate base.	\$ (710)
39	-----
40 WORKING CAPITAL ALLOWANCE	
41 A. To adjust to 13-month average.	\$ 12,010
42	
43 B. To remove interest-bearing cash account from working capital.	(45,506)
44	
45 C. To include deferred rate case expense in working capital.	4,900
46	
47 D. To adjust to staff calculation.	(538)
48	-----
49 NET ADJUSTMENT	\$ (29,134)
50	-----

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OCALA OAKS UTILITIES, INC.
 CAPITAL STRUCTURE
 TEST YEAR ENDED DECEMBER 31, 1987

SCHEDULE NO. 2-A
 DOCKET NO. 881098-WU

DESCRIPTION	ADJUSTED TEST YEAR PER UTILITY	WEIGHT	COST	WEIGHTED COST	COMMISSION ADJUSTMENTS TO UTILITY EXHIBIT	BALANCE PER COMMISSION	WEIGHT	COST	WEIGHTED COST
LONG TERM DEBT	\$ 5,497	1.70%	2.59%	0.04%	\$ 57	\$ 5,554	2.15%	9.97%	0.21%
SHORT TERM DEBT	0	0.00%	0.00%	0.00%	0	0	0.00%	0.00%	0.00%
CUSTOMER DEPOSITS	15,260	4.71%	7.00%	0.33%	1,675	17,135	6.64%	8.00%	0.53%
PREFERRED STOCK	0	0.00%	0.00%	0.00%	0	0	0.00%	0.00%	0.00%
COMMON EQUITY	265,789	82.11%	12.16%	9.98%	(46,291)	219,498	85.06%	12.17%	10.35%
INVESTMENT TAX CREDITS	5,663	1.75%	0.00%	0.00%	(1,151)	4,512	1.75%	0.00%	0.00%
DEFERRED INCOME TAXES	31,498	9.73%	0.00%	0.00%	(20,141)	11,357	4.40%	0.00%	0.00%
OTHER CAPITAL	0	0.00%	0.00%	0.00%	0	0	0.00%	0.00%	0.00%
TOTAL CAPITAL	\$ 323,707	100.00%		10.36%	\$ (65,651)	\$ 258,056	100.00%		11.09%

RANGE OF REASONABLENESS	LOW	HIGH
EQUITY	11.17%	13.17%
OVERALL RATE OF RETURN	10.24%	11.94%

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OCALA OAKS UTILITIES, INC.
ADJUSTMENTS TO CAPITAL STRUCTURE
TEST YEAR ENDED DECEMBER 31, 1987

SCHEDULE NO. 2-B
DOCKET NO. 881098-WU

DESCRIPTION	ADJUST TO 13-MONTH AVERAGE	ADJUST FOR ERROR	PRO RATA ADJUSTMENTS	NET ADJUSTMENT
1 LONG TERM DEBT	\$ 1,571	\$ 0	\$ (1,514)	\$ 57
2				
3 SHORT TERM DEBT	0		0	0
4				
5 CUSTOMER DEPOSITS	1,875		0	1,875
6				
7 PREFERRED STOCK	0		0	0
8				
9 COMMON EQUITY	(6,598)	20,116	(59,809)	(46,291)
10				
11 INVESTMENT TAX CREDITS	78		(1,229)	(1,151)
12				
13 DEFERRED INCOME TAXES	(3,036)	(14,010)	(3,095)	(20,141)
14				
15 OTHER CAPITAL	0	0	0	0
16				
17 TOTAL CAPITAL	\$ (6,110)	\$ 6,106	\$ (65,647)	\$ (65,651)
18				

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SCHEDULE NO. 3-A
 DOCKET NO. 881098-WU

OCALA OAKS UTILITIES, INC.
 STATEMENT OF WATER OPERATIONS
 TEST YEAR ENDED DECEMBER 31, 1987

DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	UTILITY ADJUSTED TEST YEAR	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR	REVENUE INCREASE OR (DECREASE)	REVENUE REQUIREMENT
1 OPERATING REVENUES	\$ 151,478	\$ 45,832	\$ 197,310	\$ (43,571)	\$ 153,739	\$ 43,535	\$ 197,274
2							
3 OPERATING EXPENSES							
4							
5 OPERATION AND MAINTENANCE	\$ 114,914	\$ 13,520	\$ 128,434	\$ 5,105	\$ 133,539	\$	\$ 133,539
6							
7 DEPRECIATION	8,685	6,502	15,187	(615)	14,572		14,572
8							
9 AMORTIZATION	(355)	0	(355)	355	0		0
10							
11 TAXES OTHER THAN INCOME	12,131	2,224	14,355	(1,146)	13,209	1,088	14,297
12							
13 INCOME TAXES	3,131	7,533	10,664	(10,664)	0	6,247	6,247
14							
15							
16 TOTAL OPERATING EXPENSES	\$ 138,506	\$ 29,779	\$ 168,285	\$ (6,965)	\$ 161,320	\$ 7,335	\$ 168,655
17							
18							
19 OPERATING INCOME	\$ 12,972	\$ 16,053	\$ 29,025	\$ (36,606)	\$ (7,581)	\$ 36,200	\$ 28,619
20							
21							
22 RATE BASE	\$ 323,707		\$ 280,434		\$ 258,056		\$ 258,056
23							
24							
25 RATE OF RETURN	4.01%		10.35%		-2.94%		11.09%
26							

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OCALA OAKS UTILITIES, INC.
ADJUSTMENTS TO OPERATING STATEMENT
TEST YEAR ENDED DECEMBER 31, 1987

SCHEDULE NO. 3-B
Page 1 of 2
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EXPLANATION -----	WATER ADJUSTMENTS -----
1 OPERATING REVENUES	
2 A. To remove utility's requested increase.	\$ (45,832)
3	
4 B. To annualize utility revenues to reflect	
5 implementation of a 1987 price index.	2,261
6	-----
7 NET ADJUSTMENT	\$ (43,571)
8	-----
9 OPERATION AND MAINTENANCE EXPENSE	
10 A. To adjust rate case expense to staff calculation.	\$ 1,960
11	
12 B. To reflect additional expense for 1987 due to	
13 implementation of 1987 price index.	3,145
14	-----
15 NET ADJUSTMENT	\$ 5,105
16	-----
17 DEPRECIATION EXPENSE	
18 A. To include one year of pro forma depreciation	\$ 702
19 on 40KW Onan DL6T diesel generator.	
20	
21 B. To adjust depreciation expense to include	
22 pro forma accumulated amortization of C.I.A.C.	(1,317)
23	-----
24 NET ADJUSTMENT	\$ (615)
25	-----
26 AMORTIZATION EXPENSE	
27 A. To remove negative expense associated with	
28 accumulated amortization of acquisition adjustment.	\$ 355
29	-----
30 TAXES OTHER THAN INCOME	
31 A. To remove regulatory assessment fees	
32 related to requested revenues.	\$ (1,146)
33	-----
34 INCOME TAXES	
35 A. To remove test year income taxes related	
36 to requested revenues.	\$ (10,664)
37	-----
38 OPERATING REVENUES	
39 A. To adjust revenues to allow a fair	
40 rate of return.	\$ 43,535
41	-----
42 TAXES OTHER THAN INCOME	
43 A. To reflect regulatory assessment fees	
44 related to staff adjustment to revenues.	\$ 1,088
45	-----
46	

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OCALA OAKS UTILITIES, INC.
ADJUSTMENTS TO OPERATING STATEMENT
TEST YEAR ENDED DECEMBER 31, 1957

SCHEDULE NO. 3-B
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EXPLANATION	WATER ADJUSTMENTS
1 INCOME TAXES	
2 A. To reflect income tax expense	
3 related to staff adjustment to revenues.	\$ 6,247
4	*****
5	
6	
7	
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Schedule No. 4-A

WATER RATE SCHEDULE

	Monthly Rates		
	Current	Utility Requested	Commission Approved
<u>Residential</u>			
Base Facility Charge:			
Meter Size:			
5/8"x3/4"	\$8.15	\$11.25	\$10.73
1"	\$20.38	-----	\$26.78
1-1/2"	\$40.73	-----	\$53.53
2"	\$65.17	-----	\$85.64
3"	\$130.10	-----	\$171.25
4"	\$203.66	-----	\$267.57
Gallage Charge per 1,000 G.	\$0.735	\$0.9567	\$0.92
<u>General Service</u>			
Base Facility Charge:			
Meter Size:			
5/8"x3/4"	\$8.15	\$11.25	\$10.73
1"	\$20.38	-----	\$26.78
1-1/2"	\$40.73	-----	\$53.53
2"	\$65.17	-----	\$85.64
3"	\$130.10	-----	\$171.25
4"	\$203.66	-----	\$267.57
6"	-----	-----	\$535.11
Gallage Charge per 1,000 G.	\$0.735	\$0.9567	\$0.92