

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Application for staff- ) DOCKET NO. 960523-WS  
assisted rate case in Citrus ) ORDER NO. PSC-96-1474-FOF-WS  
County by J & J Water and Sewer ) ISSUED: DECEMBER 4, 1996  
Corporation )  
\_\_\_\_\_)

The following Commissioners participated in the disposition of this matter:

SUSAN F. CLARK, Chairman  
J. TERRY DEASON  
JOE GARCIA  
JULIA L. JOHNSON  
DIANE K. KIESLING

ORDER GRANTING TEMPORARY RATES IN THE EVENT OF A PROTEST

AND

NOTICE OF PROPOSED AGENCY ACTION  
ORDER APPROVING INCREASED RATES AND CHARGES

BY THE COMMISSION:

NOTICE IS HEREBY GIVEN by the Florida Public Service Commission that the action discussed herein except for the granting of temporary rates in the event of a protest and our decision not to require J & J Water and Sewer Corporation to show cause for violation of Sections 367.081(1) and 367.093(3), Florida Statutes, and Rules 25-30.335(4) and 25-30.320(2)(g), Florida Administrative Code, 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

J & J Water and Sewer Corporation (J & J or utility) is a Class "C" water and wastewater utility providing service to approximately 51 residential customers and one church in the Meadows subdivision of Citrus County. By Order No. 11057, issued August 5, 1982, in Docket No. 810482-WS, we granted the utility Certificates Nos. 361-W and 316-S. The utility owner died on August 14, 1994 and the utility passed to the beneficiaries of the John Wilson Trust (Trust). On June 20, 1995, the Trust filed a Notice of Abandonment on behalf of J & J. On November 15, 1995,

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FPSC-RECORDS/REPORTING

the estate of the utility owner sold approximately 91 lots in the Meadows subdivision to Meadows Incorporated for \$17,500. Proceeds from this sale were used to satisfy the outstanding debt of the utility, including Gator Water and Wastewater (the contract operator), accounting, legal and electrical bills. Also on November 15, 1995, the utility was sold to Meadows Utility Company, Incorporated, for \$1. On December 27, 1995, the abandonment was stayed and on January 24, 1996, an application to transfer J & J to Meadows Utility Company, Inc., was filed.

The transfer application is being processed in Docket No. 951026-WS. Although the present owner of the utility did not purchase the utility until November 15, 1995, a statement submitted with the transfer application indicates that he is accepting the responsibility of any outstanding regulatory assessment fees, fines, or refunds owed by the utility. By correspondence dated April 17, 1996, the utility owner requested a payment plan for the amounts owed for delinquent 1994 and 1995 regulatory assessment fees. By Order No. PSC-96-0834-FOF-WS, issued July 1, 1996, in Docket No. 960540-WS, we approved a payment plan for past due regulatory assessment fees and the utility is current with the payments as outlined in the order.

The utility has not filed for an increase in its tariffed rates in the 14 years since its original certification. J & J filed this staff assisted rate case application on April 19, 1996 and has paid the appropriate filing fee. We have established June 13, 1996 as the official filing date.

We audited the utility's records and conducted a field investigation of the utility's water plant, water distribution, wastewater plant, and wastewater collection system along with the service area. We approved an historical test year ended April 30, 1996.

Water use in the utility's service area is under the jurisdiction of the Southwest Florida Water Management District (SWFWMD). Because of the utility's size, the SWFWMD has not issued a consumptive use permit. The utility is not located within a critical water use caution area.

#### QUALITY OF SERVICE

The Department of Environmental Protection's (DEP) records reveal that the water and wastewater facilities are in compliance with the appropriate environmental regulations. Our review of the utility's MORs revealed that the data on the reports was questionable. Mr. McLaurin, an engineer representing the

engineering firm of Berryman & Henigar, tested the wastewater treatment plant's meter (the meter that measures effluent). The meter was inaccurate and required calibration which was performed by the engineer. Because the meters for both water and wastewater facilities were not reading correctly, and the plant flow data was erroneous, we did not utilize the test year data from the MORs. Therefore, we utilized utility data from June of 1996 to the present.

The utility indicated that it took the following measures to eliminate any question of the accuracy of the MOR data: 1) A new four-inch master meter was installed at the water treatment plant; 2) each customer meter was tested for accuracy and any necessary corrective action was taken to ensure the quality of service; and 3) the Florida Rural Water Association was contracted to track the water flows, to locate leak(s) and to assist in solving the problem of unaccounted for water.

The utility's MORs indicate that the effluent treated daily at the wastewater treatment plant exceeds the DEP's allowable capacity. We are concerned about this situation. However, DEP, although aware of the situation, has not filed any enforcement action against the utility. We are also concerned about the limited available data used to construct the utility's used and useful report. Because the used and useful calculations may be used in the future for index and pass-through applications, the utility shall submit additional MORs for a period of nine months in order that a more accurate calculation can be determined. The utility shall also install a meter box at the church's service connection and install a water meter at the wastewater plant to monitor the water usage there.

No consent order or enforcement action has been filed against the utility by any government agency; however, we have received a number of complaints regarding customer service. On September 25, 1996, a customer meeting was held in the utility's service area. Complaints received at the customer meeting included the following: 1) The utility was not charging tariffed rates; 2) the utility did not allow customers 20 days for payment of bills and did not give the proper 5 working day written notice to customers before turning off their water as required by Commission rules and as required in the utility's existing tariff; 3) the utility charged a reconnection fee to three residents whose water was shutoff for non-payment when there was no reconnection fee allowed in the utility's tariff; 4) the utility owner tried to exchange past due water and wastewater bills from June 1, 1995 through November 15, 1995 for ownership of the subdivision clubhouse and pool. The utility owner subsequently sold the clubhouse and pool as a

residence without approval of all residents; 5) the utility owner asked residents to comment on a civil action which one resident was pursuing regarding the clubhouse; 6) the utility threatened to shut off water to the customer initiating the civil suit. Based upon the foregoing, we find that the utility's quality of service is unsatisfactory, and the utility shall improve general customer relations.

REFUND OF UNAUTHORIZED RATES AND CHARGES

As discussed earlier, the utility was not charging tariffed rates. When the new owner purchased the utility on November 15, 1995, he started charging a flat rate of \$34 per month which was not approved in Order No. 11057. Staff counsel notified the utility by letter that the utility could only charge rates and charges approved by the Commission. The utility started charging tariffed rates in its September 25, 1996 billing, which covered the August 26, 1996 to September 25, 1996 billing period.

We have estimated that utility customers were charged \$7,346 in excess of the utility's tariff from the time of the utility purchase through August 25, 1996. Section 367.091(3), Florida Statutes, requires a utility to charge only rates and charges approved by the Commission. Therefore, we find it appropriate that the utility refund \$7,346 in excess rates to its customers. For the rate overcharges, customer accounts shall be credited on a monthly basis over a period of 12 months and include interest in accordance with Rule 25-30.360, Florida Administrative Code.

The utility also charged a reconnection fee to three residents whose water was shutoff for non-payment. The utility's tariff did not authorize a reconnection fee. The utility charged two customers \$35 each and one customer \$34 for reconnection. For the reconnection fees, customer accounts shall be credited within 30 days of this Order and include interest in accordance with Rule 25-30.360, Florida Administrative Code. The utility shall provide proof of the customer credits on a monthly basis beginning with the first billing period after the date of this Order.

SHOW CAUSE

Sections 367.081(1) and 367.091(3), Florida Statutes, provide that a utility may only collect rates and charges approved by the Commission. Rule 25-30.335(4), Florida Administrative Code, provides that a utility may not consider a customer delinquent in paying his or her bill until the 21st day after the utility has mailed or presented the bill for payment. Rule 25-30.320(2)(g),

Florida Administrative Code, provides that a utility must give at least 5 working days notice prior to discontinuing service for non-payment. It appears that the utility violated the foregoing statutes and rules.

Section 367.161, Florida Statutes, authorizes us 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. The utility's action is "willful" in the sense intended by Section 367.161, Florida Statutes. In Order No. 24306, issued April 1, 1991, in Docket No. 890216-TL, 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., this 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 the utility collected unauthorized rates and charges, and did not follow proper billing and shutoff procedures, we do not find that a show cause proceeding should be initiated for four reasons. First, a refund is the more appropriate method to remedy these violations. It assures that the customers receive the money to which they are entitled. Second, the utility is being adequately penalized through refunds. The utility was losing money even when charging the unauthorized rates. Requiring a refund increases that loss. Third, given that the utility was almost abandoned, a refund ensures that J & J's financial integrity is not further jeopardized by a fine imposed in this instance. Finally, we have verified that the utility is now charging its appropriate rates and charges, has reconnected those customers whose service was disconnected and is following proper billing and shutoff procedures.

Therefore, J & J shall not be required to show cause for violation of Sections 367.081(1) and 367.091(3), Florida Statutes, and Rules 25-30.320(2)(g) and 25-30.335(4), Florida Administrative Code. However, the utility is hereby placed on notice that, pursuant to Sections 367.081(1) and 367.091(3), Florida Statutes, it may in the future only collect rates and charges approved by us and must follow proper billing and shutoff procedures as provided in Rules 25-30.320(2)(g) and 25-30.335(4), Florida Administrative Code.

### RATE BASE

Our calculation of the appropriate rate bases for water and wastewater are depicted on Schedules Nos. 1 and 1-A, respectively, and our adjustments are itemized on Schedule No. 1-B. Those adjustments which are self-explanatory or which are essentially mechanical in nature are reflected on those schedules without further discussion in the body of this Order. The major adjustments are discussed below.

#### Used and Useful

##### Water Treatment Plant

The water treatment plant has a source supply design and permit capacity of 90,000 gallons per day (gpd). The utility's water treatment plant consists of two four-inch (4") cased wells, a one (1) horse power pump, a five (5) horse power pump, a 3,000 gallon hydroneumatic galvanized steel tank, a liquid chlorine injection pump, and a two-inch (2") master meter. At the time of the engineering investigation, the water treatment plant appeared to be operating properly. We find that the water treatment plant is 14% used and useful.

##### Water Distribution System

The water distribution system consists of 5,000 feet of six-inch PVC pipe, 8,000 feet of four-inch PVC pipe and 9,000 feet of two-inch PVC pipe. At the time of the engineering investigation, the distribution system appeared to be operating properly. We find that the water distribution system is 36% used and useful.

##### Wastewater Treatment Plant

The plant has a design flow capacity of 10,000 gallons per day. The design components consist of an inflow chamber, a sludge collection chamber, a digester, an effluent chlorination chamber, a liquid chlorine injection pump, and two percolation ponds (system of 2,320 square feet total bottom area). At the time of the engineering investigation, the wastewater treatment facility appeared to be operating properly. However, the plant's MORs indicate that the level of inflow exceeds the maximum daily capacity (10,000 gpd) which was permitted by DEP. Although DEP is aware of the problem, no enforcement action has been taken. We find that the wastewater treatment plant is 100% used and useful.

### Wastewater Collection System

The wastewater collection system consists of 8,000 feet of six-inch PVC pipe, two manholes, and two lift stations. At the time of the engineering investigation, the collection system appeared to be operating properly. We find that the wastewater collection system is 36% used and useful.

### Test Year Rate Base

The appropriate components of J & J'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 determined as of April 30, 1982 in the utility's application for water and wastewater certificates in Order No. 11057. We utilized the amounts set forth in that Order as a base for our determination of rate base components updated in this proceeding. Further adjustments are necessary to reflect test year changes and used and useful determinations of the staff engineer. A discussion of each component follows:

#### Plant in Service

By Order No. 11057, we established utility plant of \$66,642 for water and \$148,237 for wastewater as of May 2, 1982. We made plant pro forma adjustments to: include \$750 for 50% of the transfer certificate filing fee; include \$1,664 for the installation of a four-inch master meter; include \$5,000 for a fence installed around the water plant property; include \$516 for installation of 7 customer water meters; include \$1,363 for 50% of the legal fees associated with the transfer application; include \$2,250 for 50% of the cost of a tractor with mower; retire the two-inch master meter (\$1,097); and retire 7 customer water meters (\$196).

We made wastewater utility plant pro forma adjustments to: include \$750 for 50% of the transfer certificate filing fee; include \$1,363 for 50% of the legal fees associated with the transfer application; and include \$2,250 for 50% of the cost of a tractor with mower.

The utility purchased a 1995 Chevrolet pick-up truck for \$10,774 and submitted a letter stating it would be used 100% for utility business. We find this to be an imprudent purchase since the utility has a contract operator who provides all required maintenance and 24 hour emergency service, and the economic impact

of the truck would be approximately \$4.72 per month for each of the utility's customers. We have not included the truck in rate base but have provided a transportation expense in operation and maintenance expenses for employee travel in the utility area.

An attorney for the utility has estimated legal fees will total approximately \$8,000 for the transfer docket. We have included \$2,726 in rate base for legal fees associated with the transfer application. We find it inappropriate to include legal fees incurred after the original filing date of the transfer, because they are for corrections to information submitted in the application and for legal actions taken by residents.

Our adjustments total \$12,012 for water and \$95,382 for wastewater. We find that water and wastewater plant in service totals \$82,512 and \$165,883, respectively.

#### Land

The utility books did not include a land cost during the test year. By Order No. 11057, we established a land cost of \$2,739 for the water system and \$3,539 for the wastewater system. We made adjustments of \$2,739 to water and \$3,539 to wastewater to reflect these costs.

#### Non-Used and Useful Plant

We made adjustments to the water system to reflect non-used and useful plant of (\$53,683), reflect average non-used and useful accumulated depreciation associated with non-used and useful plant of \$27,580, reflect average non-used and useful CIAC of \$20,999, and reflect average accumulated amortization of non-used and useful CIAC of (\$7,860). Adjustments for the non-used and useful water plant account total (\$12,964).

We made adjustments to the wastewater system to reflect non-used and useful plant of (\$29,420), reflect average non-used and useful accumulated depreciation associated with non-used and useful plant of \$15,735, reflect average non-used and useful CIAC of \$29,420, and reflect average accumulated amortization of non-used and useful CIAC of (\$15,735). The net adjustment for the non-used and useful wastewater plant is zero.

#### Contributions in Aid of Construction

The utility recorded no CIAC balances at the end of the test year. By Order No. 11057 we established water CIAC of (\$39,656) and wastewater CIAC of (\$101,980). No additions have been made



since that order, therefore, we find that water and wastewater CIAC total (\$39,656) and (\$101,980), respectively.

#### Accumulated Depreciation

The utility books reflected accumulated depreciation balances of (\$49,663) for water and (\$49,665) for wastewater at the end of the test year. We utilized a 2 1/2% depreciation rate starting with balances from Order No. 11057 through March of 1984 when the National Association of Regulatory Utility Commissioners (NARUC) system of accounts was initiated. From that date forward, we calculated accumulated depreciation using the prescribed rates described in Rule 25-30.140, Florida Administrative Code. We made adjustments of \$12,173 to water and (\$67,503) to wastewater to bring the utility's figures to our calculated amount. We also made averaging adjustments of \$1,461 for water and \$4,689 for wastewater. We made an adjustment of \$1,097 to retire a two-inch master meter and made an adjustment of \$196 to retire 7 customer meters. We find that the appropriate accumulated depreciation balance is (\$34,736) for water and (\$112,479) for wastewater.

#### Accumulated Amortization

The utility did not record any accumulated amortization balances at the end of the test year. We calculated amortization of CIAC by separating identifiable CIAC and using the appropriate depreciation rates for those accounts. We amortized the remaining CIAC by using a yearly composite rate. We made adjustments of \$16,574 for water and \$69,856 for wastewater to bring the utility balances to our approved amount. We made an averaging adjustment of (\$386) for water and (\$3,686) for wastewater. We find that the appropriate accumulated amortization balance is \$16,188 for water and \$66,170 for wastewater.

#### Working Capital Allowance

Consistent with Rule 25-30.443, Florida Administrative Code, we calculated the working capital allowance using the one-eighth of operation and maintenance expense formula. Applying that formula, we find that the appropriate working capital allowance is \$1,375 for water and \$2,077 for wastewater (based on O&M of \$11,002 for water and \$16,619 for wastewater).

Applying the foregoing adjustments, we find that the appropriate balance of J & J's test year rate base is \$15,458 for water and \$23,210 for wastewater.

### Acquisition Adjustment

An acquisition adjustment results when the purchase price differs from the original cost calculation. In the absence of extraordinary circumstances, it has been Commission policy that a purchase of a utility system at a premium or discount shall not affect the rate base calculation. The purpose of this policy is to provide an incentive to prospective purchasers.

We calculated rate base based on the original cost of the property when first dedicated to public service. Our calculation of the approved rate base for this utility totals \$32,375. The utility owner paid \$1 for the utility, which results in a negative acquisition adjustment of \$32,374. The former owners of the utility also sold the current owner 91 lots in the Meadows Subdivision for \$17,500.

Given the purchase price of the utility and the lots, the circumstances in this case do appear to be extraordinary. However, we find that in the case of this utility, a negative acquisition adjustment should not be included in calculating rate base. This utility filed for abandonment on June 20, 1995. The new owner purchased the utility on November 15, 1995 and the abandonment was stayed on December 27, 1995.

If we include a negative acquisition adjustment in calculating J & J's rate base, inadequate funds for operating expense will remain. This could result in the abandonment of the utility. Therefore, we find that a negative acquisition shall not be included in the calculation of rate base.

### COST OF CAPITAL

Our calculation of the appropriate cost of capital and our adjustments are contained in Schedule No. 2. The utility's capital structure consists of long-term debt, at an interest rate of 10.00% and equity. Using the current leverage formula approved in Docket No. 960006-WS, Order No. PSC-96-0729-FOF-WS, issued May 31, 1996, we find that the rate of return on equity is 11.88% with a range of 10.88% to 12.88%. Applying the weighted average method to the total capital structure yields an overall rate of return of 10.65% with a range of 10.31% to 11.00%. We have adjusted the company's test year capital structure balance to match the total of the water and wastewater rate bases.

### NET OPERATING INCOME

Our calculation of net operating income for water is depicted on Schedules Nos. 3 and 3-C. Our calculation of net operating income for the wastewater system is depicted on Schedules Nos. 3-A and 3-D. Our adjustments are shown on Schedule No. 3-B.

#### Test Year Operating Revenue

The utility recorded water revenues, when annualized, of \$10,384 and wastewater revenues of \$10,016 during the test period. By annualizing the available meter readings and using the existing tariff, we find that the appropriate test year operating revenue is \$5,079 for water and \$4,695 for wastewater. We made adjustments of (\$5,305) to water and (\$5,321) to wastewater to adjust test year revenue to our approved amounts.

#### Test Year Operating Expense

The utility recorded operating expenses of \$11,050 for water and \$16,639 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 our approved allowances for plant operations.

#### Operation and Maintenance Expenses (O & M)

The utility charged \$10,222 to water O & M and \$15,827 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 \$733 for water and \$733 for five months. We made an adjustment of \$844 to water and \$532 to wastewater employee salaries and wages to: allow \$2,080 for a bookkeeper (four hours per week at \$10.00 per hour split 50% water and 50% wastewater); allow \$312 per year for water meter reading (100% water); and allow \$450 for mowing of the utility grounds (split 50% water and 50% wastewater). We find that the appropriate employee salaries and wages expense is \$1,577 for water and \$1,265 for wastewater.

2) Salaries and Wages - Officers - The utility recorded officer salaries and wages of \$1,500 for water and \$1,500 for wastewater for five months. When annualized, officers salaries would be \$7,200. We made an adjustment of (\$460) to water and (\$460) to wastewater officer salaries and wages to allow two hours per week at \$20.00 per hour for an officers salary. We find that the appropriate officer salaries and wages expense is \$1,040 for water and \$1,040 for wastewater.

3) Sludge Removal Expense - The utility recorded \$4,894 for sludge removal expense during the test year. Invoices reflect a total of \$4,344 was paid for sludge removal during the test year. We made an adjustment of (\$550) to decrease sludge removal expense to our approved amount of \$4,344.

4) Purchased Power - The utility recorded purchased power expense of \$450 for water and \$680 for wastewater during the test year. These amounts only covered a five month period of the test year. We made an adjustment of \$630 to water and \$953 to wastewater to annualize the expenses. We also reduced water purchased power expense by \$358 due to excessive amounts of water being pumped but not used by customers. We used the ratio of customer water consumption to total water pumped to determine the reduction. We find that the appropriate purchased power expense is \$722 for water and \$1,633 for wastewater.

5) Chemicals - The utility recorded chemical expense of \$630 for water and \$630 for wastewater during the test year. Invoices show a total of \$1,324 was spent for chemicals during the test year. We adjusted the chemical expense allocation to 60% for water and 40% for wastewater. We also made an adjustment to reduce water chemical expense by \$263 due to excessive amounts of water being chlorinated but not used by customers. We used the ratio of customer water consumption to total water pumped to determine the reduction. We find that the appropriate water and wastewater chemical expenses are \$531 and \$530, respectively.

6) Contractual Services - The utility recorded contractual services expenses of \$4,864 for water and \$5,415 for wastewater during the test year. We made adjustments to the water contractual services account to: a) annualize and allocate the operator contract 40% to water, (\$654); b) include costs for all DEP required testing, \$230; c) remove the lawn maintenance contract since utility purchased a tractor mower, (\$675); and d) include costs for a meter change-out program \$480.

We made adjustments to the wastewater contractual services account to: a) annualize and allocate the operator contract 60% to wastewater, \$690; b) include costs for all DEP required wastewater testing, (\$300); and c) remove the lawn maintenance contract since utility purchased a tractor mower, (\$675).

Gator Water and Wastewater Management Company is the operator of this utility. Invoices reflect that a total of \$6,684 was paid during the test year for these services. The cost of the contract was increased from \$542/month to \$560/month during the test year. We annualized the contract and allocated the costs 40% (\$2,688) to water and 60% (\$4,032) to wastewater.

The utility recorded DEP testing of \$510 for water and \$595 for wastewater during the test year. We made an adjustment of \$230 to water contractual services and (\$300) to wastewater contractual services to bring the utility balances to our approved amounts of \$740 for water testing and \$295 for wastewater testing.

Because the original water meters are approximately 13 years old, we find that a meter change-out program is appropriate. The manufacturer's recommended life of a 5/8" x 3/4" meter is 17 years which is above normal for meters exposed to Florida waters. The utility shall begin a program of meter replacement for its metered customers. This program shall have an amortization schedule of approximately 10 years which allows the utility to replace five (5) old meters with new meters, each year. The estimated cost to replace an old meter is \$96 per meter for this utility. The total expense for this program is \$480 per year which we find reasonable for a meter change-out program.

Total adjustments are (\$619) for water contractual services and (\$285) for wastewater contractual services. We find that the appropriate amount for water contractual services is \$4,245 which includes \$2,688 for contractor services, \$337 for repairs and maintenance, \$740 for required DEP testing, and \$480 for the meter change-out program. We find that the appropriate amount for wastewater contractual services is \$5,130 which include \$4,032 for contractor services, \$803 for repairs and maintenance, and \$295 for DEP required testing.

7) Rent Expense - The utility recorded rent expense of \$229 for water and \$229 for wastewater which covered only a partial year. We made adjustments of \$321 to water rent expense and \$321 to wastewater rent expense to annualize those costs. Rent expense includes utilities, heating and air conditioning and local phone expense. We find that the appropriate rent expense is \$550 for water and \$550 for wastewater.

8) Transportation Expenses - The utility recorded transportation expense of \$1,365 for water and \$1,365 for wastewater. These amounts are for a partial year only. We annualized these amounts, and the yearly transportation expense calculated to \$1,911 for water and \$1,911 for wastewater or \$3,822 combined for the year. We made adjustments of (\$1,087) to water transportation expense and (\$1,087) to wastewater transportation expense to reduce the utility balances to our approved transportation expense of \$278 for water and \$278 for wastewater or \$556 combined for the year. We based these figures on 160 miles of travel per month multiplied by \$.29 per mile and allocated 50% to water and 50% to wastewater, which we find to be reasonable for this size utility.

9) Insurance Expense - The utility did not record any cost for insurance during the test year. The utility purchased insurance coverage effective August 1, 1996 at an annual cost of \$1,944. We made adjustments of \$972 to water insurance expense and \$972 to wastewater insurance expense to allocate the expense 50% to water and 50% to wastewater.

10) Regulatory Commission Expense - The utility recorded \$156 of water and \$156 of wastewater regulatory Commission expense in this account which was for consultant fees for the filing of this SARC. Subsequent invoices show the total consultant fees to be \$620. The filing fee for this SARC amounted to \$500 for water and \$500 for wastewater. We made adjustments to: a) amortize the consultant fee over 4 years by making an adjustment of (\$78) for water and (\$78) for wastewater; and b) include \$125 for water and \$125 for wastewater for the SARC filing fee amortized over 4 years. We find that the appropriate Regulatory Commission Expense is \$203 for water and \$203 for wastewater.

11) Miscellaneous Expense - The utility recorded \$295 of water and \$225 of wastewater miscellaneous expenses for a partial year. We made adjustments of \$589 to water and \$449 to wastewater to annualize the miscellaneous expenses. We find that the appropriate miscellaneous expense is \$884 for water and \$674 for wastewater.

Operation and Maintenance Expenses (O & M) Summary

Total O & M adjustments are \$780 for water and \$792 for wastewater. We find that O & M expense totals \$11,002 for water and \$16,619 for wastewater.

Depreciation Expense (Net of Amortization of CIAC)

The utility recorded no depreciation expense on their books for the test year. We calculated test year depreciation expense using the prescribed rates described in Rule 25-30.140, Florida Administrative Code. We made a \$688 adjustment to water depreciation expense and \$8,130 adjustment to wastewater depreciation expense to bring the utility balances to our approved amounts. We also made adjustments of \$625 to water and \$278 to wastewater to include depreciation expense on pro forma plant. We find that the appropriate depreciation expenses net of CIAC are \$515 for water and \$2,286 for wastewater during the test year.

Taxes Other Than Income Taxes

The utility recorded taxes other than income of \$828 for water and \$812 for wastewater. We made adjustments to water taxes other than income to: 1) increase real estate tax by \$222; 2) include tangible tax of \$888; 3) adjust regulatory assessment fees by (\$238) to reflect regulatory assessment fees in our approved test year revenue; and 4) adjust payroll tax by \$48 to reflect payroll taxes on our approved salaries and wages.

We made adjustments to wastewater taxes other than income to: 1) increase real estate tax by \$258; 2) include tangible tax of \$1,020; 3) adjust regulatory assessment fees by (\$240) to reflect regulatory assessment fees in our approved test year revenue; and 4) adjust payroll tax by \$6 to reflect payroll taxes in our approved salaries and wages. We find that the total taxes other than income are \$1,748 for water and \$1,856 for wastewater.

Operating Revenue

We have adjusted revenues by \$10,296 for water and \$19,412 for wastewater to reflect the increase in revenue required to cover expenses and allow the approved rate of return on investment.

Taxes Other Than Income Taxes

We increased this expense by \$463 for water and \$874 for wastewater to reflect the regulatory assessment fee of 4.5% on the approved increase in revenue.

Operating Expenses Summary

The application of our adjustments to the utility's test year operating expenses results in approved operating expenses of \$13,728 for water and \$21,635 for wastewater.

### REVENUE REQUIREMENT

We find that the appropriate annual increase in revenue is \$10,296 (202.72%) for water and \$19,412 (413.46%) for wastewater. These increases will allow the utility the opportunity to recover its expenses and earn a 10.65% return on its investment. The revenue requirements and resulting annual increases are shown on Schedules Nos. 3 and 3A.

### RATES AND CHARGES

During the test year, J & J provided water and wastewater service to approximately 51 residential customers and one church. The utility's tariff provides for a base facility/gallage charge rate structure for all customers. We have 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 the Southwest Florida Water Management District (SWFWMD). Because of the utility's size, the SWFWMD has not issued a consumptive use permit to the utility. The utility is not located within a critical water use caution area. The customers average consumption is approximately 5,689 gallons per month, which is not considered excessive, therefore, we do not find it necessary to change the utility's rate structure.

We have calculated a base facility / gallage charge for water and wastewater customers based on test year data. We find that the base facility / gallage 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 ratepayers pay their share of the costs of providing service through the consumption or gallage charge and also pay their share of the fixed costs of providing service through the base facility charge.

Approximately 61% (or \$9,404) of the water revenue requirement and 47% (or \$11,414) 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 ERCs. The remaining 39% (or \$5,970) of the water revenue requirement and 53% (or \$12,693) 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 our approved rates follow:

RESIDENTIAL AND GENERAL SERVICE WATER RATES

<u>Base Facility Charge Meter Size</u>	<u>Tariffed Rate</u>	<u>Commission Approved Monthly Rate</u>
5/8" x 3/4"	\$ 5.27	\$ 14.79
1"	13.18	36.97
1-1/2"	26.35	73.93
2"	42.16	118.29
3"	84.32	236.59
4"	N/A	369.67
6"	N/A	739.33
Gallonage Charge Per 1,000 gallons	\$ .46	\$ 1.65

RESIDENTIAL WASTEWATER RATES

<u>Base Facility Charge Meter Size</u>	<u>Tariffed Rate</u>	<u>Commission Approved Monthly Rate</u>
5/8" x 3/4"	\$ 2.50	\$ 17.95
1"	13.18	44.87
1-1/2"	26.35	89.73
2"	42.16	143.57
3"	84.32	287.15
4"	N/A	448.67
6"	N/A	897.34
Gallonage Charge Per 1,000 gallons (10,000 gallon max. per month)	\$ 1.00	\$ 4.13

GENERAL SERVICE WASTEWATER RATES

<u>Base Facility Charge Meter Size</u>	<u>Tariffed Rate</u>	<u>Base Facility Charge</u>
		<u>Commission Approved Monthly Rate</u>
5/8" x 3/4"	\$ 2.50	\$ 17.95
1"	13.18	44.87
1-1/2"	26.35	89.73
2"	42.16	143.57
3"	84.32	287.15
4"	N/A	448.67
6"	N/A	897.34
 Gallage Charge Per 1,000 gallons (No Maximum)	 \$ 1.00	 \$ 4.95

Using the 53 test year water customers with an estimated average use of 5,689 gallons/month per customer, an average residential monthly water bill comparison would be as follows:

	<u>Average Monthly Bill Using Tariffed Rates</u>	<u>Average Monthly Bill Using Approved Rates</u>	<u>Percent Increase</u>
Base Facility Charge	\$ 5.27	\$ 14.79	
Gallage Charge	<u>2.62</u>	<u>\$ 9.39</u>	
Total	\$ 7.89	\$ 24.18	206.46%

Using the 53 test year wastewater customers with an estimated average use of 4,835 gallons/month (based on 85% of water usage) per customer, an average residential monthly wastewater bill comparison would be as follows:

	<u>Average Monthly Bill Using Existing Rates</u>	<u>Average Monthly Bill Using Approved Rates</u>	<u>Percent Increase</u>
Base Facility Charge	\$ 2.50	\$ 17.95	
Gallage Charge	<u>4.84</u>	<u>\$ 19.97</u>	
Total	\$ 7.34	\$ 37.92	416.62%

EFFECTIVE DATE

The rates shall be effective for service rendered as of the stamped approval date on the tariff sheets provided the customers have received notice. The tariff sheets shall be approved upon staff's verification that the tariffs are consistent with the our decision herein, that the customer notice is adequate, and that any required security has been provided. The utility shall 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 shall be prorated based on the number of days in the billing cycle before the effective date of the new rates. The new charge shall 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 shall the rates be effective for service rendered prior to the stamped approval date.

STATUTORY RATE REDUCTION AND RECOVERY PERIOD

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 \$213 annually for each water and wastewater system. The reduction in revenues will result in the rates shown on Schedules Nos. 4 and 4A.

The utility shall file revised tariff sheets no later than one month prior to the actual date of the required rate reduction. The utility also shall also 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 shall 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.

SERVICE AVAILABILITY CHARGES

We approved the existing service availability policy in Order No. 11057 during J & J Water and Sewer Company's original certification. The utility's current tariff contains provisions

for a \$120 water meter installation charge for a 5/8" meter or 3/4" meters. There shall be no change to the existing service availability charges.

MISCELLANEOUS SERVICE CHARGES

The utility's current tariff does not include miscellaneous service charges. We find it appropriate to initiate miscellaneous service charges in accordance with Staff Advisory Bulletin (SAB) 13, Second Revised, as follows:

	<u>Water</u>	<u>Wastewater</u>
Initial Connection	\$15.00	\$15.00
Normal Reconnection	\$15.00	\$15.00
Violation Reconnection	\$15.00	Actual Cost
Premises Visit (in lieu of disconnection)	\$10.00	\$10.00

Staff Advisory Bulletin No. 13 (Second Revision) entitled "Tariff Provisions for Miscellaneous Service Charges," defines the four categories of charges, contains an example of an approved level of charges (listed above), and provides guidance as to the timing and procedures for including or revising the tariff provisions for these items.

The four types of miscellaneous service charges are:

- 1) Initial Connection: This charge is to be levied for service initiation at a location where service did not exist previously.
- 2) Normal Reconnection: This charge is to be levied for transfer of service to a new customer account at a previously served location, or reconnection of service subsequent to a customer requested disconnection.
- 3) Violation Reconnection: This charge is to be levied prior to reconnection of an existing customer after disconnection of service for cause according to Rule 25-30.320(2), Florida Administrative Code, including a delinquency in bill payment.
- 4) Premises Visit (in lieu of disconnection): This charge is to be levied when a service representative visits a premises for the purpose of discontinuing service for nonpayment of a due and collectible bill, but does not

discontinue service because the customer pays the service representative or otherwise makes satisfactory arrangements to pay the bill.

These charges are designed to more accurately reflect the costs associated with each service and to place the burden of payment on the person who causes the cost to be incurred (the "cost causer"), rather than on the entire ratepaying body as a whole. Therefore, we find it appropriate to revise the utility's tariff to incorporate these charges.

TEMPORARY RATES IN THE EVENT OF A PROTEST

This order contains 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, we hereby authorize the utility to collect the rates approved herein on a temporary basis, subject to refund, provided that the utility first furnishes and has approved by staff, adequate security for a potential refund, a copy of the proposed customer notice and revised tariff sheets. The security shall be in the form of a bond or letter of credit in the amount of \$20,521. Alternatively, the utility may establish an escrow agreement with an independent financial institution.

If the utility chooses a bond as security, the bond shall contain wording to the effect 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 shall 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 final Commission order is rendered, either approving or denying the rate increase.

If security is provided through an escrow agreement, the following conditions shall 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 shall the maintenance and administrative costs associated with the refund be borne by the customers. These costs are the responsibility of, and shall 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 shall 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 shall be paid with interest calculated pursuant to Rule 25-30.360(4), Florida Administrative Code.

The utility shall 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 shall 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.

CONFORMITY WITH NARUC UNIFORM SYSTEM OF ACCOUNTS

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.

We find that 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, the utility shall maintain its books and records in conformity with the 1984 NARUC Uniform System of Accounts. If no timely protest is received from a substantially affected person, upon expiration of the protest period, this docket shall remain open for an additional ninety days from the date of the Order to allow staff to verify that pro forma plant has been completed and refunds of overcharges are taking place. If the utility fails to timely complete the pro forma and/or initiate refunds, show cause proceedings may be initiated.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that J & J Water and Sewer Corporation's application for increased water and wastewater rates is hereby approved as set forth in the body of this Order. It is further

ORDERED that each of the findings made in the body of this Order is hereby approved in every respect. It is further

ORDERED that J & J Water and Sewer Corporation shall provide monthly operating reports for a period of nine months. It is further

ORDERED that J & J Water and Sewer Corporation shall install a meter box at the Trumpets of Truth Church and install a water meter at the wastewater plant in order to monitor the wastewater plants' water usage. It is further

ORDERED that J & J Water and Sewer Corporation shall refund \$7,346 in excess rates to its customers. Customer accounts shall be credited on a monthly basis for a period of twelve months from the date of this Order and include interest in accordance with Rule 25-30.360, Florida Administrative Code. It is further

ORDERED that J & J Water and Sewer Corporation shall credit two customers \$35 and one customer \$34 for unauthorized reconnection charges within thirty days of the date of this Order and include interest in accordance with Rule 25-30.360, Florida Administrative Code. It is further

ORDERED that J & J Water and Sewer Corporation shall provide proof of the customers credits on a monthly basis beginning with the first billing period after the date of this Order. It is further

ORDERED that J & J Water and Sewer Corporation shall not be required to show cause in writing for violation of Sections 367.081(1) and 367.091(3), Florida Statutes, and Rules 25-30.320(2)(g) and 25-30.335(4), Florida Administrative Code. It is further

ORDERED that J & J Water and Sewer Corporation shall begin a meter replacement program as set forth in the body of this Order. It is further

ORDERED that J & J Water and Sewer Corporation is hereby authorized to charge the new rates and charges as set forth in the body of this Order. It is further

ORDERED that J & J Water and Sewer Corporation's rates and charges shall 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 that the customers have received proper notice. It is further

ORDERED that, prior to its implementation of the rates and charges approved herein, J & J Water and Sewer Corporation shall submit and have approved revised tariff pages. The revised tariff pages will be approved upon staff's verification that the pages are consistent with our decision herein, that the protest period has expired, that the customer notice is adequate and that the required security has been provided. It is further

ORDERED that J & J Water and Sewer Corporation shall provide proof that the customers have received notice within ten days of the date of the notice. It is further



ORDERED that the rates shall be reduced at the end of the four-year rate case expense amortization period, consistent with our decision herein. The utility shall file revised tariff sheets no later than one month prior to the actual date of the reduction and shall file a customer notice. It is further

ORDERED that J & J Water and Sewer Corporation's existing service availability charges shall be maintained. It is further

ORDERED that J & J Water and Sewer Corporation's tariff shall be revised to include miscellaneous service charges as set forth in the body of this Order. It is further

ORDERED that in the event of a protest by any substantially affected person other than the utility, J & J Water and Sewer Corporation, is authorized to collect the rates approved on a temporary basis, subject to refund in accordance with Rule 25-30.360, Florida Administrative Code, provided that J & J Water and Sewer Corporation has furnished satisfactory security for any potential refund and provided that it has submitted and staff has approved revised tariff pages and a proposed customer notice. It is further

ORDERED that prior to its implementation of the rates and charges approved herein, J & J Water and Sewer Corporation shall submit and have approved a bond or letter of credit in the amount of \$20,521. Alternatively, J & J Water and Sewer Corporation may establish an escrow agreement as a guarantee of any potential refund of revenues collected on a temporary basis. It is further

ORDERED that J & J Water and Sewer Corporation shall submit monthly reports no later than 20 days after each monthly billing which shall indicate the amount of revenue collected on a temporary basis subject to refund. It is further

ORDERED that the provisions of this Order except for the granting of temporary rates in the event of a protest and our decision not to require J & J Water and Sewer Corporation to show cause for violation of Sections 367.081(1) and 367.093(3), Florida Statutes, and Rules 25-30.335(4) and 25-30.320(2)(g), Florida Administrative Code, are issued as proposed agency action and shall become final unless an appropriate petition in the form provided by Rule 25-22.029, Florida Administrative Code, is received by the Director, Division of Records and Reporting, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the Notice of Further Proceedings or Judicial Review attached hereto. It is further

ORDER NO. PSC-96-1474-FOF-WS  
DOCKET NO. 960523-WS  
PAGE 26

ORDERED that J & J Water and Sewer Corporation shall maintain its books and records in conformity with the NARUC Uniform System of Accounts. It is further

ORDERED that if no timely protest is received from a substantially affected person, this docket shall remain open for ninety days from the date of this Order to allow staff to verify that the proforma plant has been completed and refunds of overcharges are taking place. This docket shall be closed upon staff's verification of proforma plant and refunds, upon the utility's filing and staff's approval of revised tariff sheets and the customer notice, and upon staff's verification of the utility's construction of pro forma plant and customer satisfaction of the utility's quality of service.

By ORDER of the Florida Public Service Commission, this 4th day of December, 1996.



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BLANCA S. BAYÓ, Director  
Division of Records and Reporting

( S E A L )

TV

**Dissent of Commissioner J. Terry Deason:**

I respectfully dissent from the majority decision to allow the owner a return on and a return of a non-existent investment. I will not repeat my consistent objections to the current practice of ignoring negative acquisition adjustments (NAA). Although I still adhere to the belief that the Commission practice misplaces the burden of proof, I believe that the application of the Commission's method of evaluating acquisition adjustments calls for the recognition of the NAA in this case where one dollar was paid for a system with a net book value of \$32,734.

Succinctly put, the Commission's practice on this issue is grounded in the theory of providing an incentive to prospective purchasers of utility systems. Essentially anyone challenging the non-recognition of an NAA, has the burden of showing that "extraordinary circumstances" exist that would overcome the presumption of a need for an incentive. Unfortunately, the rote application of the decision in In Re Investigation of Acquisition Adjustment Policy, Order No 25729 (panel of Easley and Beard), issued February 17, 1992, has glossed over the stated purpose of the practice. Specifically the order states in relevant part that:

[t]he purpose of this policy ... has been to create an incentive for larger utilities to acquire small troubled utilities. (emphasis added)

In the case before us, none of the stated goals of Order 25729 are met. There is no incentive at work in the acquisition nor is the new owner a utility or demonstrably "larger". The obvious facts of this case are that the utility acquisition was a byproduct of the comprehensive transaction which yielded 91 developable lots for about \$200 each to the current owner who apparently has no prior utility experience. These factors, coupled with the fact that the annual revenue requirement associated with the NAA is more than \$100 per customer, call for recognition of the NAA.

My standing objection notwithstanding, the incentive nature of the Commission's practice needs to be reserved for circumstances where the acquiring utility is aware of it and acts upon it, especially where the impact on the customers is substantial. The circumstances of the instant case do not meet the criteria of Order No. 25729. For that reason, I would find that the NAA should be recognized.

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 except for the granting of temporary rates in the event of a protest and our decision not to require J & J Water and Sewer Corporation to show cause for violation of Sections 367.081(1) and 367.093(3), Florida Statutes, and Rules 25-30.335(4) and 25-30.320(2)(g), Florida Administrative Code, 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, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on December 26, 1996.

In the absence of such a petition, this order shall become effective on the day subsequent to the above date as provided by Rule 25-22.029(6), Florida Administrative Code.

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 the date described above, any party substantially 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 wastewater 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.

J & J WATER AND SEWER COMPANY, INC.  
 TEST YEAR ENDING APRIL 30, 1996  
 SCHEDULE OF WATER RATE BASE

SCHEDULE NO. 1  
 DOCKET NO. 960523-WS

	<u>BALANCE PER UTILITY</u>	<u>COMM. ADJUST. TO UTIL. BAL.</u>	<u>BALANCE PER COMM</u>
UTILITY PLANT IN SERVICE	\$ 70,500	\$ 12,012 A	\$ 82,512
LAND/NON-DEPRECIABLE ASSETS	0	2,739 B	2,739
NON-USED AND USEFUL PLANT	0	(12,964) C	(12,964)
CIAC	0	(39,656) D	(39,656)
ACCUMULATED DEPRECIATION	(49,663)	14,927 E	(34,736)
AMORTIZATION OF CIAC	0	16,188 F	16,188
WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>1,375 G</u>	<u>1,375</u>
WATER RATE BASE	\$ 20,837	\$ (5,379)	\$ <span style="border: 1px solid black; padding: 2px;">15,458</span>

J & J WATER AND SEWER COMPANY, INC.  
 TEST YEAR ENDING APRIL 30, 1996  
 SCHEDULE OF WASTEWATER RATE BASE

SCHEDULE NO. 1A  
 DOCKET NO. 960523-WS

	<u>BALANCE PER UTILITY</u>	<u>COMM. ADJUST. TO UTIL. BAL.</u>	<u>BALANCE PER COMM.</u>
UTILITY PLANT IN SERVICE	\$ 70,501	\$ 95,382 A	\$ 165,883
LAND/NON-DEPRECIABLE ASSETS	0	3,539 B	3,539
NON-USED AND USEFUL PLANT	0	0 C	0
CIAC	0	(101,980) D	(101,980)
ACCUMULATED DEPRECIATION	(49,665)	(62,814) E	(112,479)
AMORTIZATION OF CIAC	0	66,170 F	66,170
WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>2,077 G</u>	<u>2,077</u>
WASTEWATER RATE BASE	\$ 20,836	\$ 2,374	\$ <span style="border: 1px solid black; padding: 2px;">23,210</span>

J & J WATER AND SEWER COMPANY, INC.  
TEST YEAR ENDING APRIL 30, 1996  
ADJUSTMENTS TO RATE BASE

SCHEDULE NO. 1B  
DOCKET NO. 960523-WS

A. <u>UTILITY PLANT IN SERVICE</u>	<u>WATER</u>	<u>WASTEWATER</u>
1. To bring utility balance to commission approved amount.	\$ 1,762	\$ 91,019
2. To include pro forma:		
a) Filing fee for transfer certificate.	750	750
b) Installation of 4" master meter.	1,664	0
c) 756' of 8" high chain link fence around water plant.	5,000	0
d) Installation of 7 customer water meters.	516	0
e) Legal fees for transfer docket.	1,363	1,363
e) 1978 Ford 4000 Tractor with Mower.	2,250	2,250
3. To retire 2" master meter.	(1,097)	0
4. To retire 7 customer water meters.	(196)	0
	<u>\$ 12,012</u>	<u>\$ 95,382</u>
B. <u>LAND</u>		
1. To include land cost allowed in Order No. 11057.	<u>\$ 2,739</u>	<u>\$ 3,539</u>
C. <u>NON-USED AND USEFUL PLANT</u>		
1. To reflect non-used and useful plant.	\$ (53,683)	\$ (29,420)
2. To reflect average non-used and useful accumulated depreciation.	27,580	15,735
3. To reflect average non-used and useful CIAC.	20,999	29,420
4. To reflect average non-used and useful accumulated amortization.	(7,860)	(15,735)
	<u>\$ (12,964)</u>	<u>\$ 0</u>
D. <u>CIAC</u>		
1. To bring utility balance to commission approved amount.	<u>\$ (39,656)</u>	<u>\$ (101,980)</u>
E. <u>ACCUMULATED DEPRECIATION</u>		
1. To bring utility balance to commission approved amount.	\$ 12,173	\$ (67,503)
2. To reflect averaging adjustment	1,461	4,689
3. To retire 2" master meter.	1,097	0
4. To retire 7 customer water meters.	196	0
	<u>\$ 14,927</u>	<u>\$ (62,814)</u>
F. <u>AMORTIZATION OF CIAC</u>		
1. To bring utility balance to commission approved amount.	\$ 16,574	\$ 69,856
2. To reflect averaging adjustment	(386)	(3,686)
	<u>\$ 16,188</u>	<u>\$ 66,170</u>
G. <u>WORKING CAPITAL ALLOWANCE</u>		
1. To reflect 1/8 of test year O & M expenses	<u>\$ 1,375</u>	<u>\$ 2,077</u>

ORDER NO. PSC-96-1474-FOF-WS

DOCKET NO. 960523-WS

PAGE 32

J & J WATER AND SEWER COMPANY, INC.

TEST YEAR ENDING APRIL 30, 1996

SCHEDULE OF CAPITAL STRUCTURE

SCHEDULE NO. 2

DOCKET NO. 960523-WS

	<u>PER UTILITY</u>	<u>COMM. ADJUST. TO UTIL. BAL.</u>	<u>BALANCE PER COMM.</u>	<u>PERCENT OF TOTAL</u>	<u>COST</u>	<u>WEIGHTED COST</u>
COMMON EQUITY	\$ 0	\$ 32,734	\$ 13,427	34.72%	11.88%	4.12%
NOTES PAYABLE	0	61,540	25,242	65.28%	10.00%	6.53%
CUSTOMER DEPOSITS	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	6.00%	0.00%
TOTAL	\$ 0	\$ 94,274	\$ 38,669	100.00%		<span style="border: 1px solid black;">10.65%</span>

RANGE OF REASONABLENESS

LOW

HIGH

RETURN ON EQUITY

10.88%

12.88%

OVERALL RATE OF RETURN

10.31%

11.00%



J & J WATER AND SEWER COMPANY, INC.  
 TEST YEAR ENDING APRIL 30, 1996  
 SCHEDULE OF WATER OPERATING INCOME

SCHEDULE NO. 3  
 DOCKET NO. 960523-WS

	<u>TEST YEAR PER UTILITY</u>	<u>COMM. ADJ. TO UTILITY</u>	<u>COMM. ADJUSTED TEST YEAR</u>	<u>ADJUST. FOR INCREASE</u>	<u>TOTAL PER COMM.</u>
OPERATING REVENUES	\$ 10,384	\$ (5,305) A	\$ 5,079	\$ 10,296 F	\$ 15,375
OPERATING EXPENSES:					
OPERATION AND MAINTENANCE	10,222	780 B	11,002	0	11,002
DEPRECIATION	0	1,313 C	1,313	0	1,313
AMORTIZATION	0	(798) D	(798)	0	(798)
TAXES OTHER THAN INCOME	828	920 E	1,748	463 G	2,211
INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL OPERATING EXPENSES	\$ 11,050	\$ 2,215	\$ 13,265	\$ 463	\$ 13,728
OPERATING INCOME/(LOSS)	\$ <u>(666)</u>		\$ <u>(8,186)</u>		\$ <u>1,647</u>
WATER RATE BASE	\$ <u>20,837</u>		\$ <u>15,458</u>		\$ <u>15,458</u>
RATE OF RETURN	<u>-3.20%</u>		<u>-52.96%</u>		<u>10.65%</u>

J & J WATER AND SEWER COMPANY, INC.  
TEST YEAR ENDING APRIL 30, 1996  
SCHEDULE OF WASTEWATER OPERATING INCOME

SCHEDULE NO. 3A  
DOCKET NO. 960523-WS

	<u>TEST YEAR PER UTILITY</u>	<u>COMM. ADJ. TO UTILITY</u>	<u>COMM. ADJUSTED TEST YEAR</u>	<u>ADJUST. FOR INCREASE</u>	<u>TOTAL PER COMM.</u>
OPERATING REVENUES	\$ 10,016	\$ (5,321) A	\$ 4,695	\$ 19,412 F	\$ 24,107
OPERATING EXPENSES:					
OPERATION AND MAINTENANCE	15,827	792 B	16,619	0	16,619
DEPRECIATION	0	8,408 C	8,408	0	8,408
AMORTIZATION	0	(6,122) D	(6,122)	0	(6,122)
TAXES OTHER THAN INCOME	812	1,044 E	1,856	874 G	2,730
INCOME TAXES	0	0	0	0	0
TOTAL OPERATING EXPENSES	\$ 16,639	\$ 4,122	\$ 20,761	\$ 874	\$ 21,635
OPERATING INCOME/(LOSS)	\$ (6,623)		\$ (16,066)		\$ 2,473
WASTEWATER RATE BASE	\$ 20,836		\$ 23,210		\$ 23,210
RATE OF RETURN	<u>-31.79%</u>		<u>-69.22%</u>		<u>10.65%</u>

J & J WATER AND SEWER COMPANY, INC.  
 TEST YEAR ENDING APRIL 30, 1996  
 ADJUSTMENTS TO OPERATING INCOME

SCHEDULE NO. 3B (Page 1 of 2)  
 DOCKET NO. 960523-WS

A. OPERATING REVENUES	WATER	WASTEWATER
1. <u>To adjust test year revenue to reflect tariffed rates.</u>	<u>\$ (5,305)</u>	<u>\$ (5,321)</u>
B. OPERATION AND MAINTENANCE EXPENSES		
1. <u>Salaries and Wages - Employees</u>		
a. <u>To bring employee salaries to commission approved amount.</u>	<u>\$ 844</u>	<u>\$ 532</u>
2. <u>Salaries and Wages - Officers</u>		
a. <u>To bring officers salary to commission approved amount.</u>	<u>\$ (460)</u>	<u>\$ (460)</u>
3. <u>Sludge Removal Expense</u>		
a. <u>To reflect recommended test year sludge expense.</u>	<u>\$ 0</u>	<u>\$ (550)</u>
4. <u>Purchased Power</u>		
a. <u>To annualize purchased power expense.</u>	<u>\$ 272</u>	<u>\$ 953</u>
5. <u>Chemicals</u>		
a. <u>To reflect test year chemicals purchased.</u>	<u>\$ (99)</u>	<u>\$ (100)</u>
6. <u>Contractual Services</u>		
a. <u>To reflect annualized operator contract.</u>	<u>\$ (654)</u>	<u>\$ 690</u>
b. <u>To include cost of all DEP required testing.</u>	<u>230</u>	<u>(300)</u>
c. <u>To remove lawn maintenance contract.</u>	<u>(675)</u>	<u>(675)</u>
d. <u>To include meter changeout program (5 meters per year).</u>	<u>480</u>	<u>0</u>
	<u>\$ (619)</u>	<u>\$ (285)</u>
7. <u>Rent</u>		
a. <u>To annualize rent expense.</u>	<u>\$ 321</u>	<u>\$ 321</u>
8. <u>Transportation Expenses</u>		
a. <u>To reflect recommended transportation expense.</u>	<u>\$ (1,087)</u>	<u>\$ (1,087)</u>
9. <u>Insurance Expense</u>		
a. <u>To include annual insurance expense.</u>	<u>\$ 972</u>	<u>\$ 972</u>
10. <u>Regulatory Commission Expense</u>		
a. <u>To annualize \$620 rate case legal expense over 4 years.</u>	<u>\$ (78)</u>	<u>\$ (78)</u>
b. <u>To include \$1,000 filing fee amortized over 4 years.</u>	<u>125</u>	<u>125</u>
	<u>\$ 47</u>	<u>\$ 47</u>
11. <u>Miscellaneous Expenses</u>		
a. <u>To annualize miscellaneous expenses.</u>	<u>\$ 589</u>	<u>\$ 449</u>
TOTAL O & M ADJUSTMENTS	<u>\$ 780</u>	<u>\$ 792</u>

J & J WATER AND SEWER COMPANY, INC.  
TEST YEAR ENDING APRIL 30, 1996  
ADJUSTMENTS TO OPERATING INCOME

SCHEDULE NO. 3B (Page 2 of 2)  
DOCKET NO. 960523-WS

C. DEPRECIATION EXPENSE

	<u>WATER</u>	<u>WASTEWATER</u>
1. To adjust utility balance to match depreciation rates set forth in Rule 25-30.140.	\$ 688	\$ 8,130
2. To include depreciation expense on pro forma.	625	278
	<u>\$ 1,313</u>	<u>\$ 8,408</u>

D. AMORTIZATION EXPENSE

1. To adjust utility balance to commission approved balance.	\$ (798)	\$ (6,122)
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E. TAXES OTHER THAN INCOME

1. To reflect Citrus County real estate tax.	\$ 222	\$ 258
2. To reflect Citrus County tangible tax.	888	1,020
3. To reflect regulatory assessment fees on test year revenue.	(238)	(240)
4. To include payroll tax on commission approved salaries.	48	6
	<u>\$ 920</u>	<u>\$ 1,044</u>

F. OPERATING REVENUES

1. To reflect commission approved increase in revenue	\$ 10,296	\$ 19,412
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G. TAXES OTHER THAN INCOME

1. To reflect additional regulatory assessment fee associated with commission approved revenue requirement	\$ 463	\$ 874
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J & J WATER AND SEWER COMPANY, INC.  
 TEST YEAR ENDING APRIL 30, 1996  
 ANALYSIS OF WATER OPERATION AND  
 MAINTENANCE EXPENSE

SCHEDULE NO. 3C  
 DOCKET NO. 960523-WS

	<u>TOTAL PER UTIL.</u>	<u>COMM. ADJUST.</u>	<u>TOTAL PER COMM.</u>
(601) SALARIES AND WAGES - EMPLOYEES	\$ 733	\$ 844 [1]	\$ 1,577
(603) SALARIES AND WAGES - OFFICERS	1,500	(460) [2]	1,040
(604) EMPLOYEE PENSIONS AND BENEFITS	0	0	0
(610) PURCHASED WATER	0	0	0
(615) PURCHASED POWER	450	272 [4]	722
(616) FUEL FOR POWER PRODUCTION	0	0	0
(618) CHEMICALS	630	(99) [5]	531
(620) MATERIALS AND SUPPLIES	0	0	0
(630) CONTRACTUAL SERVICES	4,864	(619) [6]	4,245
(640) RENTS	229	321 [7]	550
(650) TRANSPORTATION EXPENSE	1,365	(1,087) [8]	278
(655) INSURANCE EXPENSE	0	972 [9]	972
(655) REGULATORY COMMISSION EXPENSE	156	47 [10]	203
(670) BAD DEBT EXPENSE	0	0	0
(675) MISCELLANEOUS EXPENSES	295	589 [11]	884
	<u>\$ 10,222</u>	<u>\$ 780</u>	<u>\$ 11,002</u>

J & J WATER AND SEWER COMPANY, INC.  
TEST YEAR ENDING APRIL 30, 1996  
ANALYSIS OF WASTEWATER OPERATION AND  
MAINTENANCE EXPENSE

SCHEDULE NO. 3D  
DOCKET NO. 960523-WS

	TOTAL PER UTIL.	COMM. ADJUST.	TOTAL PER COMM.
(701) SALARIES AND WAGES - EMPLOYEES	\$ 733	\$ 532 [1]	\$ 1,265
(703) SALARIES AND WAGES - OFFICERS	1,500	(460) [2]	1,040
(704) EMPLOYEE PENSIONS AND BENEFITS	0	0	0
(710) PURCHASED SEWAGE TREATMENT	0	0	0
(711) SLUDGE REMOVAL EXPENSE	4,894	(550) [3]	4,344
(715) PURCHASED POWER	680	953 [4]	1,633
(716) FUEL FOR POWER PRODUCTION	0	0	0
(718) CHEMICALS	630	(100) [5]	530
(720) MATERIALS AND SUPPLIES	0	0	0
(730) CONTRACTUAL SERVICES	5,415	(285) [6]	5,130
(740) RENTS	229	321 [7]	550
(750) TRANSPORTATION EXPENSE	1,365	(1,087) [8]	278
(755) INSURANCE EXPENSE	0	972 [9]	972
(765) REGULATORY COMMISSION EXPENSES	156	47 [10]	203
(770) BAD DEBT EXPENSE	0	0	0
(775) MISCELLANEOUS EXPENSES	225	449 [11]	674
	\$ 15,827	\$ 792	\$ 16,619

ORDER NO. PSC-96-1474-FOF-WS  
DOCKET NO. 960523-WS  
PAGE 39

COMMISSION APPROVED RATE REDUCTION SCHEDULE

J & J WATER AND SEWER COMPANY, INC.  
TEST YEAR ENDING APRIL 30, 1996

SCHEDULE NO. 4  
DOCKET NO. 960523-WS

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

MONTHLY WATER RATES

<u>RESIDENTIAL AND GENERAL SERVICE</u>	<u>COMMISSION APPROVED RATES</u>	<u>MONTHLY RATE REDUCTION</u>
BASE FACILITY CHARGE:		
Meter Size:		
5/8"X3/4"	\$ 14.79	0.28
3/4"	22.18	0.42
1"	36.97	0.70
1-1/2"	73.93	1.41
2"	118.29	2.26
3"	236.59	4.51
4"	369.67	7.05
6"	739.33	14.10
RESIDENTIAL GALLONAGE CHARGE PER 1,000 GALLONS	\$ 1.65	0.03

COMMISSION APPROVED RATE REDUCTION SCHEDULE

J & J WATER AND SEWER COMPANY, INC.  
 TEST YEAR ENDING APRIL 30, 1996

SCHEDULE NO. 4A  
 DOCKET NO. 960523-WS

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

MONTHLY WASTEWATER RATES

<u>RESIDENTIAL AND GENERAL SERVICE</u>	<u>COMMISSION APPROVED RATES</u>	<u>MONTHLY RATE REDUCTION</u>
BASE FACILITY CHARGE:		
Meter Size:		
5/8"X3/4"	\$ 17.95	0.22
3/4"	26.92	0.33
1"	44.87	0.55
1-1/2"	89.73	1.09
2"	143.57	1.75
3"	287.15	3.49
4"	448.67	5.46
6"	897.34	10.91
RESIDENTIAL GALLONAGE CHARGE PER 1,000 GALLONS (10,000 GALLON MAX. PER MONTH)	\$ 4.13	0.05
GENERAL SERVICE GALLONAGE CHARGE PER 1,000 GALLONS	\$ 4.95	0.06