

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for staff-  
assisted rate case in Lee County  
by Environmental Protection  
Systems of Pine Island, Inc.

DOCKET NO. 030106-SU  
ORDER NO. PSC-03-1119-PAA-SU  
ISSUED: October 7, 2003

The following Commissioners participated in the disposition of  
this matter:

LILA A. JABER, Chairman  
J. TERRY DEASON  
BRAULIO L. BAEZ  
RUDOLPH "RUDY" BRADLEY  
CHARLES M. DAVIDSON

ORDER GRANTING TEMPORARY RATES IN THE EVENT OF A PROTEST  
AND  
NOTICE OF PROPOSED AGENCY ACTION  
ORDER APPROVING INCREASE IN RATES AND CHARGES

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein, except with respect to the four-year rate reduction and holding rates subject to refund in the event of a protest, 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

Environmental Protection Systems of Pine Island, Inc. (EPS or utility) is a Class C wastewater utility located in Lee County. During the historical test year, the utility served approximately 441 mobile homes and 65 Recreational Vehicle (RV) sites in Cherry Estates and R.V. Park in St. James City, which is located at the southern end of Pine Island, approximately 30 miles from Fort Myers. Water service is provided by Greater Pine Island Water OAssociation (Association), a not-for-profit cooperative. The

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mobile home customers are individually metered by the Association; the RV park is served by a master meter.

The utility began operations in 1969. Pursuant to Order No. 7398, issued August 16, 1976, in Docket No. 760396-S, Sewer Certificate No. 206-S was issued to Cherry Estates, Inc. The utility's rates were approved by this Commission in 1976 under grandfather provisions. Rate base was first established by Order No. 8507, issued October 4, 1978, in Docket No. 780016-S. Order No. 13018, issued February 21, 1984, in Docket No. 830325-S, also addressed rate base and granted a rate increase. Order No. 24177, issued February 28, 1991, in Docket No. 910023-SU, approved the utility's request to change its name to Environmental Protection Systems of Pine Island, Inc. By Order No. 25083, issued September 20, 1991, in Docket No. 910728-SU, EPS's certificate was amended to include additional territory in Lee County. According to the utility's 2002 annual report, total gross revenue was \$67,148, total operating expenses were \$91,748 for a net operating loss of (\$24,600).

On January 30, 2003, EPS filed an application for a staff assisted rate case (SARC) and paid the appropriate filing fee on March 18, 2003. We have the authority to consider this rate case pursuant to Section 367.0814, Florida Statutes.

Per the application, the utility reached an agreement with Lee County Utilities whereby EPS's treatment facility will be taken off line and EPS will interconnect with Pine Island Regional Treatment System (PIRTS). The utility expects to interconnect with PIRTS four to six months after we approve the rate increase. Construction has not begun on the facilities needed to interconnect, therefore we base our decision herein on projected plant, retirements, cost of removal and expenses.

Our staff audited the utility's records for compliance with our rules and Orders, and determined the components necessary for rate setting. The staff engineer also conducted a field investigation of the utility's plant and service area. A review of the utility's operation expenses, maps, files, and rate application was also performed to obtain information about the physical plant operating cost. We selected a projected year end test year ending December 31, 2003, for this rate case.

We conducted a customer meeting on July 24, 2003, in the St. James City Civic Association. Thirty-three customers attended the meeting; eleven commented about the utility and its service. A majority of the customers complained about the timing of the customer meeting. They stated that in July many of the customers are not present in Florida. The customers believed that the customer meeting should have been held in January or February, when most of the customers would be in residence. Our staff explained that the timing of rate case events is dictated by statute. We do not have the ability to decide when a utility can file a rate case. The time frame for the rate case is dependent on when the utility files its application and the timing dictated by the statute. Our staff further explained that customers who are unable to attend the meeting have the option of mailing written comments, which will be filed in the correspondence file of the docket. Another complaint was that all customers did not receive notice of the customer meeting from the utility. Five customers at the meeting stated that they did not receive notices and learned about the meeting from neighbors. Mr. Kevin Cherry, President of EPS, stated that the utility mailed notices to all customers. Other customer concerns included the large increase in rates, the County hook-up fees, and possible subsidization of new customers.

The following is a list of acronyms and commonly used technical terms which are used throughout the Order.

COMPANY AND PARTY NAMES

FDEP Florida Department of Environmental Protection  
FPSC Florida Public Service Commission  
NARUC National Association of Regulatory Utility Commissioners  
OPC Office of Public Counsel

GLOSSARY OF TECHNICAL TERMS

- BFC Base Facility Charge - A charge designed to recover the portion of the total expenses required to provide water and sewer service incurred whether or not the customer actually uses the services and regardless of how much is consumed.
- CIAC Contributions In Aid Of Construction - Any amount or item of money, services, or property received by a utility, from any person or governmental agency, any portion of which is provided at no cost to the utility, and which is utilized to offset the acquisition, improvement, or construction costs of the utility's property, facilities, or equipment used to provide utility services to the public. The term includes, but is not limited to, system capacity charges, main extension charges, and customer connection charges.
- ERCs Equivalent Residential Connections - A statistic used to quantify the total number of water or wastewater connections that can be served by a plant of some specific capacity. The consumption of each connection is considered to be that of a single family residential connection, which is usually considered to be a unit comprised of 3.5 persons.
- gpd Gallons Per Day - The amount of liquid that can be delivered or actually measured during a 24-hour period.
- gpm Gallons Per Minute - The amount of liquid that can be delivered or actually measured during a one-minute time period.
- O&M Operation and Maintenance Expense
- RAF Regulatory Assessment Fees
- SARC Staff Assisted Rate Case
- UPIS Utility Plant in Service - The land, facilities, and equipment used to generate, transmit, and/ or distribute utility service to customers.

Used    The amount of plant capacity that is used by current  
and       customers including an allowance for the margin  
Useful   reserve.

USOA    Uniform System of Accounts - A list of accounts for the  
purpose of classifying all plant and expenses  
associated with a utility's operations.

#### QUALITY OF SERVICE

Rule 25-30.433(1), Florida Administrative Code, states that:

The Commission in every rate case shall make a determination of the quality of service provided by the utility. This shall be derived from an evaluation of three separate components of water and wastewater utility operations: quality of utility's product (water and wastewater); operational conditions of utility's plant and facilities; and the utility's attempt to address customer satisfaction. Sanitary surveys, outstanding citations, violations and consent orders on file with the Department of Environmental Protection (DEP) and county health departments (HRS) or lack thereof over the proceeding 3-year period shall also be considered. DEP and HRS officials' testimony concerning quality of service as well as the comments and testimony of the utility's customers shall be considered.

Our analysis below addresses each of these three components based on the information available.

EPS is a Class C wastewater utility located in St. James City in Lee County. During the historical test year, the utility served approximately 441 mobile homes, 65 RV sites, 2 bath houses and one laundry room in Cherry Estates and R.V. Park (commonly known as "Cherry Estates") in St. James City. Water service is provided by Greater Pine Island Water Association (Association), a not-for-profit cooperative.

Quality of Utility's Product

Wastewater

Jurisdiction over EPS's wastewater facilities is regulated by the FDEP's South District. According to the FDEP, the utility is currently up-to-date with all chemical analysis and all test results are satisfactory. The quality of wastewater service appears to meet or exceed regulatory standards and is considered satisfactory.

Operational Conditions at the Plant

Wastewater

The wastewater plant-in-service is also reflective of the product provided by the utility. The overall capacity of the wastewater plant is sufficient to process the average daily flows of the on-line customers. The utility's operating permit was issued on December 11, 2001, and will expire on December 10, 2006. During the engineering field inspection, our staff noticed that the wastewater plant was very old and in poor condition. The concrete on the plant tanks was cracked, and the pipes in the plant were very old and were in poor condition. There was no local emergency phone number at the lift stations so that someone can respond to an emergency in a timely manner. Although the plant is very old and needs to be upgraded, the utility is working to be in compliance with FDEP regulations. Also, after interconnection to the Lee County wastewater plant, the utility would not have any further responsibility for maintaining its wastewater plant. We find it appropriate to require the utility to post a local emergency phone number, which can be easily seen, at each lift station. The emergency phone number shall be posted at all locations no later than 90 days from the date of the Consummating Order for this rate case. The quality of the wastewater plant in service appears to be satisfactory.

Utility's Attempt to Address Customer Satisfaction

An informal customer meeting was held on July 24, 2003, in the St. James City Civic Association. There were 36 persons that attended this meeting, which included the utility's owner,

secretary and engineer. Eleven customers went on record with comments and concerns about the utility. There were no comments or concerns about the quality of service. Most customers complained about the timing of the customer meeting, not receiving a notice about the customer meeting from the utility, and the large increase in rates.

We find that the owner of the utility is putting forth a sufficient good faith effort to resolve customer complaints, and the utility's attempt to address customer satisfaction is considered satisfactory.

#### APPROVAL OF PROJECTED TEST YEAR

For audit purposes, our staff selected a historical test year ending December 31, 2002. As discussed below, DEP has notified EPS that future operating permit renewals could be in jeopardy due to the plant's environmentally sensitive location. In addition, as stated previously, the plant is very old and in need of upgrades and improvements. Therefore, the utility plans to begin construction to interconnect with PIRTS following the resolution of its SARC in November 2003. A large percentage of the utility's rate base, as approved herein, concerns the prudence of the interconnection with PIRTS and the retirement of plant, which are addressed subsequently in this Order. The utility has submitted estimates on the projected plant of \$834,704 or 99.95% of the year end rate base.

Further, the historical test year represents EPS's cost associated with operating a wastewater treatment plant. It is appropriate to adjust these costs to reflect the operation of a wastewater reseller, to use projections for purchased wastewater and purchased power, and to eliminate expenses that will no longer exist, such as chemicals, operator, and testing. It is also appropriate to reduce expenses that will still exist but to a lesser degree than before, such as management fees, sludge removal, RAFs, and insurance. Also, revenues shall be annualized to reflect customers who are projected to be added in 2003.

We apply a year end rate base only in extraordinary circumstances. Citizens of Florida v. Hawkins, 356 So. 2d 254, 257 (Fla. 1978). We find that extraordinary circumstances exist in this docket because the utility's most cost effective option is to interconnect with PIRTS. The construction and interconnection will occur after November 2003. Costs to accomplish the interconnection include \$86,625 to construct a new master lift station; \$38,225 to rehabilitate lift station No. 2; and \$843,796 for County connection fees. These costs represent 99.95% of the utility's year end rate base for the test year. Our decision herein is consistent with Orders Nos. PSC-98-0763-FOF-SU, issued June 3, 1998, in Docket No. 971182-SU (finding 36.07% of total plant to be considered an extraordinary circumstance); PSC-00-1774-PAA-WU, issued September 27, 2000, in Docket No. 991627-WU (finding improvements representing over 52% of the utility's rate base to be considered an extraordinary circumstance); and PSC-01-1988-PAA-SU, issued October 8, 2001, in Docket No. 001682-WU (finding improvements representing 47% of the utility's rate base to be considered an extraordinary circumstance).

Because of the above factors, we find that the historical test year is not representative of the change in plant-in-service and expenses which will be caused by EPS's interconnection with PIRTS. Instead, a year-end test year will allow this utility an opportunity to earn a fair return on its investment made during the test year and will insure compensatory rates on a prospective basis. Therefore, we approve a projected year end test year ending December 31, 2003.

#### USED AND USEFUL

##### Wastewater Treatment Plant

The existing capacity of the wastewater treatment plant is permitted by FDEP as a 95,000 gpd annual average daily flow (AADF) plant. During the peak month of the most current test year (March), the maximum daily flow for historical test year (January 2002-December 2002) was 67,000 gpd. The maximum daily flow for projected test year (January 2003-December 2003) was 67,955 gpd. The AADF for the historical test year for the plant was measured and calculated to be 36,500 gpd. The AADF for the projected test year is 37,020 gpd. Growth in the used and useful calculation is

limited to 6 ERCs per year, which is determined by the statutory 5% per year cap for the growth calculation, pursuant to Section 367.081(2), Florida Statutes. It is estimated that the increased demand for the five year statutory growth period will be 2,619 gpd. There does not appear to be an excessive infiltration problem occurring within the collection system. Therefore, the formula used on the calculation sheet (Attachment "A", Sheet 1 of 3) indicates a used and useful of 41.7%.

#### Wastewater Collection System

The utility's potential customer base is 462 ERCs. The number of customers in ERCs for the test year was 427. Using the statutory cap of 5% per year for the five year growth period (6 ERCs per year), future growth for the next five years is calculated to be 30 ERCs. In accordance with the formula method used on the calculation sheet (See Attachment "A", sheet 2 of 3), the used and useful is calculated to be 98.9%. By the formula method, it is determined that the wastewater collection system is 98.9% used and useful.

#### Pro forma Lift Stations and Pumping Equipment

As discussed subsequently in this Order, the utility proposes to upgrade an existing lift station, as well as install a new lift station. These lift stations are designed to serve the existing customers, as well as future proposed growth in the community. Therefore, pursuant to Section 367.081, Florida Statutes, only the used and useful portion shall be included in the rates.

The utility's potential customer base is 627 ERCs (462 ERCs plus the undeveloped lots that will be developed in the near future). The number of customers in ERCs for the test year is 427. Using the statutory cap of 5% per year for the five year growth period (6 ERCs per year), future growth for the next five years is calculated to be 30 ERCs. In accordance with the formula method used on the calculation sheet (See Attachment "A", sheet 3 of 3), the used and useful for the lift station is calculated to be 72.9%. By the formula method, the lift stations and pumping equipments shall be considered 72.9% used and useful.

INTERCONNECTION WITH PIRTS

Although EPS has recently renewed its operating permit, FDEP has advised the utility that future renewals could be in jeopardy due to the plant's environmentally sensitive location. At the next operating permit renewal period (2005), it is anticipated that EPS will be required to address the major system noncompliance issues such as plant structure setbacks to property lines and water bodies as well as disposal pond elevation to groundwater, and setback to the water body and wetlands. Further, the advanced age of the facility will require costly repairs and replacements will have to be made to insure that service continues to meet regulatory requirements. We considered two options in determining the most prudent and cost effective method of meeting future requirements. The utility could interconnect with PIRTS, or it could construct a new wastewater treatment and disposal facility off-site. In order to evaluate the two options, we calculated the revenue requirement associated with each project. The capital costs as well as the expenses were adjusted to reflect each project's particular requirements.

EPS has reached an agreement with Lee County Utilities whereby its treatment facility will be taken off line and it will interconnect to PIRTS. The agreement requires EPS to construct and maintain a master lift station to connect to a county line, and to permanently decommission its wastewater treatment plant. The utility hired Source, Inc., an engineering firm, to provide estimates for these projects.

Source, Inc. estimated approximately \$86,625 to construct the master lift station. We included this amount in plant-in-service. When the new lift station is placed in service, the existing wastewater treatment facilities and evaporation/percolation pond will be decommissioned. The cost of removal for the wastewater treatment plant and the pond is estimated to be \$19,608 and \$10,629, respectively. These costs were included in the calculation of the early retirement loss. In addition, the utility is required by Lee County Utilities to inspect and test its collection system prior to connection to PIRTS, to assure that no "substandard private systems generating excessive inflow/infiltration as determined by Lee County Utilities, be allowed to connect into the County's system." Source, Inc.

estimates that it will cost \$23,771 to videotape the lines, inspect all manholes and prepare an engineering report to define areas of needed repairs. We capitalized this cost with the connection fees discussed later in this Order. Finally, Source, Inc. has estimated \$38,225 to update lift station No. 2 to meet current FDEP standards as well as replace old, outdated, and worn out pumping units and controls. We included this cost in plant-in-service. The revenue requirement associated with this option is \$226,898.

Source, Inc. also submitted an estimate for the construction of a new wastewater treatment plant and disposal system in case the interconnection to Lee County does not occur. The cost to construct a master lift station, a pond, treatment facilities, road, electrical power supply, fencing, and landscaping is estimated to be \$1,684,043. The cost to update lift station No. 2 is \$25,000. Ten acres of land for the new facility is estimated to cost \$200,000. Costs for this option total \$1,909,043. It is noted that this cost does not include preparation of a zoning application and submittal fees, preparation of a Lee County Development Order application and submittal fees, and FDEP Permit application fees. Source, Inc. estimates land acquisition, zoning, design, permitting and facility construction for this option could take two to two and a half years. The revenue requirement associated with this option is approximately \$271,153.

Based on the above evaluation, we find that interconnection to the county facility is the most prudent and cost effective option for this utility. The following schedule compares the revenue requirements of the two options:

|                             | <u>Interconnection</u> | <u>New Plant</u> |
|-----------------------------|------------------------|------------------|
| Adjusted Rate Base          | \$820,734              | \$1,041,510      |
| Rate of Return              | x .0625                | x .0815          |
| Return on Rate of Return    | \$51,296               | \$84,883         |
| Adjusted O & M Expense      | \$124,617              | \$109,210        |
| Depreciation Expense (Net)  | \$39,351               | \$63,434         |
| Amortization of Net Gain    | \$664                  | \$664            |
| Taxes Other Than Income     | \$10,970               | \$12,962         |
| Income Taxes                | \$0                    | \$0              |
| Revenue Requirement         | <u>\$226,898</u>       | <u>\$271,153</u> |
| Adjusted Test Year Revenues | <u>\$70,829</u>        | <u>\$70,829</u>  |
| Percent Increase/(Decrease) | <u>220.34%</u>         | <u>282.83%</u>   |

Based on these circumstances, we find that the interconnection with PIRTS is prudent.

GAIN ON SALE AND EARLY RETIREMENT OF UTILITY PROPERTY

In 2001, land that was included in rate base since 1978 was sold to an affiliate company. In 2003, the utility will retire its treatment plant at a loss before it is fully depreciated. We find it appropriate in this instance that the gain on sale of land will not be recognized as an offset nor shared with the utility's customers.

As stated above, the utility will retire its treatment plant when it interconnects with PIRTS. We have identified the components for an early retirement loss calculation which include the original cost of the assets retired, cost associated with removal, accumulated depreciation on the assets retired, CIAC associated with the assets retired, amortization of CIAC associated with the assets retired, and salvage value. This calculation is as follows:

Early Retirement Loss

|  |                 |
|--|-----------------|
| Treatment Plant Retired  | \$121,496       |
| Associated Accumulated Depreciation                                      | (\$79,447)      |
| Associated Net Non-Used and Useful<br>Plant and Accumulated Depreciation | (\$24,515)      |
| Associated CIAC  | (\$12,200)      |
| Associated Amortization of CIAC  | \$6,173         |
| Cost of Removal  | \$32,412        |
| Salvage Value  | <u>\$0</u>      |
| Net Loss   | <u>\$43,919</u> |

The purpose of allowing a recovery of an early retirement loss is to allow the utility to recover the cost of prudent investments of plant that would have otherwise been recovered through rate base. If the utility had not interconnected with PIRTS, then EPS would have recovered through rates only the used and useful portion of the retired plant. We identified the CIAC, and the amortization of CIAC, specifically associated with the assets retired and the capacity charges collected from customers. We also included the projected removal cost associated with the retirement. The loss calculated above does not include retirement of the land associated with the treatment plant.

Rule 25-30.433(9), Florida Administrative Code, specifies that:

The amortization period for a forced abandonment or the prudent retirement, in accordance with the NARUC Uniform System of Accounts, of plant assets prior to the end of their depreciable life shall be calculated by taking the ratio of the net loss (original cost less accumulated depreciation and contributions in aid of construction (CIAC) plus accumulated amortization of CIAC plus any cost incurred to remove the asset less any salvage value) to the sum of the annual depreciation expense, net of amortization of CIAC, plus an amount equal to the rate of

return that would have been allowed on the net invested plant that would have been included in rate base before the abandonment or retirement. This formula shall be used unless the specific circumstances surrounding the abandonment or retirement demonstrate a more appropriate amortization period.

Application of the formula described in Rule 25-30.433(9), Florida Administrative Code, results in an amortization period of 10 years for the early retirement loss. For the foregoing reasons, the appropriate amount of the early retirement loss associated with the utility's interconnection with PIRTS is \$43,919. According to the above rule, this loss shall be recovered over a 10-year period.

#### TEST YEAR RATE BASE

The utility's rate base was last established by Order No. 13018. We have selected a projected test year ended December 31, 2003, for this rate case. Rate base components, established in Order No. 13018, have been updated through December 31, 2003, using information obtained from our staff's audit and engineering reports. A discussion of each rate base component follows:

Utility Plant in Service (UPIS): The utility recorded UPIS of \$307,442 for the test year ended December 31, 2002.

Per Audit Exception No. 2, in 1985, Cherry Estates laid lines in Island V. These costs were included as part of the total cost of the development and expensed. They were never transferred to the utility. Since the lines were expensed by Cherry Estates, they are considered contributed. Therefore, we have increased UPIS and CIAC by \$8,837.

Per Audit Exception No. 3, the utility paid for a new control panel in 2002. The cost was recorded in Account 736, Contractual Services - Other, an expense account. The \$5,746 was for a major renovation of the lift station and the parts purchased will be used in the new master lift station that will be constructed. These costs shall be capitalized; therefore, we have increased UPIS by \$5,746 and decreased Account 736 by the same amount to reclassify this item.

Per Audit Exception No. 4, the utility classified its plant incorrectly and recorded prior Commission adjustments of \$81,371 in Account 398, Other Intangible Plant, instead of to the appropriate plant accounts. It also capitalized several items related to a new plant the utility had considered building but abandoned when the land upon which it was going to be built was sold to Lee County. Per Audit Exception No. 4, the company retired the additions except for \$5,992. However, this item could not be identified or documented. Therefore, we reduced plant by \$5,992 for the undocumented addition and reclassified plant into the appropriate plant accounts. The reclassification has a zero effect on rate base. The schedule below shows the reclassification.

| <u>ACCOUNT</u>                     | <u>DEBIT</u>     | <u>CREDIT</u>    |
|------------------------------------|------------------|------------------|
| Structures & Improvements (354)    | \$58,514         |                  |
| Collection Sewers Gravity (361)    | 85,115           |                  |
| Services to Customers (363)        | 7,920            |                  |
| Receiving Wells (370)              | 4,101            |                  |
| Treatment Disposal (380)           | 27,425           |                  |
| Undocumented Plant                 | 5,992            |                  |
| Total Plant Reclassified           | <u>\$189,067</u> |                  |
| <br>                               |                  |                  |
| Power Generation Equipment (355)   |                  | \$28,486         |
| Treatment & Distribution Eq. (380) |                  | 59,699           |
| Plant Sewers (381)                 |                  | 19,511           |
| Other Tangible Plant (398)         |                  | 81,371           |
| Total Plant Reclassified           |                  | <u>\$189,067</u> |

The utility entered into an agreement with Lee County Utilities whereby EPS's treatment facility will be taken off line and the utility will interconnect with PIRTS. The agreement requires the utility to pay connection fees to the county for the customers connected to the EPS system at the time of interconnection to PIRTS (\$1,388 each home site and \$694 each RV site). The utility is also required to pay one half of the connection fees for future connections (\$694 each home site and \$347 each RV site) with the balance due at the time of connection to the EPS system. The county agreed to loan the amount of the connection fees for the sites connected to the EPS system (\$657,218) to the utility at 4.5% per annum over 20 years. Further, the utility accrued \$28,865 in legal and engineering fees for work done over the past three years in preparing the agreement with the county. Additionally, the utility is required by Lee County Utilities to inspect and test its collection system prior to connection to PIRTS to assure compliance with Lee County standards. In no case shall substandard private systems generating excessive inflow/infiltration be allowed to connect into the County's system. EPS obtained an estimate of \$23,771 to videotape the lines, inspect all manholes and prepare an engineering report to define areas of needed repairs. We find that the accrued legal and engineering fees and the videotaping and inspection costs shall be capitalized with the connection fees since these costs were incurred to secure the interconnection with the county. The connection costs are shown below:

COUNTY CONNECTION FEES

|   | <u>Lots</u> | <u>Fee</u>       |
|---|-------------|------------------|
| Occupied home sites                             | 441         | \$612,108        |
| Developed RV sites                              | 65          | 45,110           |
| Capitalize legal & engineering fees             |             | 28,865           |
| Capitalize videotaping & inspection             |             | <u>23,771</u>    |
| Subtotal  |             | \$709,854        |
|   |             |                  |
| Vacant developed homesites owned by individuals | 47          | 32,618           |
| Vacant developed lots owned by Cherry Estates   | 7           | 4,858            |
| Undeveloped lots on Island VIII                 | 45          | 31,230           |
| Undeveloped lots on Island IX                   | 61          | 42,334           |
| Undeveloped RV lots                             | 66          | <u>22,902</u>    |
| Subtotal  |             | \$133,942        |
| TOTAL   |             | <u>\$843,796</u> |

The costs for developed lots that are connected to the EPS system shall be recovered in rates from the current ratepayers because the utility must pay the connection fees for these customers. The costs for the developed sites that are not connected to the EPS system and the undeveloped lots and RV sites shall not be included in rates and recovered from current customers. As addressed subsequently in this Order, the utility shall be authorized to collect from future customers an Allowance for Funds Prudently Invested (AFPI) in order to earn a return on the carrying cost of the non used and useful county connection fees. We are also requiring that service availability charges be set equal to the county connection fee. Therefore, these connection fees can be recovered from future customers when their homes are connected to the EPS system.

Based on the above, \$843,796 shall be included in Account No. 389, Other Plant and Miscellaneous Equipment, and amortized over 20 years, the term of the loan from the county. This treatment is consistent with Order No. 19284, issued May 5, 1988, in Docket No. 870093-WS. In that case, Bayside Partnership was authorized to capitalize \$196,560 pertaining to the connection fee required to connect to Panama City Beach's collection system. The \$133,942 associated with lots that are not connected to the system shall be considered non used and useful because these are costs that will be recovered from future customers and shall not be included in the rates of current customers.

The agreement between EPS and Lee County Utilities requires that EPS construct and maintain a master pump station. Per Audit Disclosure No. 1, EPS obtained an estimate of \$86,625 for the new master lift station. We have included \$86,625 in UPIS for this project.

We have also included \$38,225 to rehabilitate lift station No. 2. The improvement of the lift station will update the facility to meet current FDEP standards as well as replace old, outdated and worn out pumping units and controls.

In addition, since we are requiring that the utility switch from biannual to monthly billing, EPS requested \$4,774 to set up a separate space specifically for the utility in its other business office. A desk, chair, file cabinet, copy machine, computer, printer and a software program to generate bills will be purchased. We have included \$4,774 for the office equipment.

As discussed above, EPS has elected to abandon its treatment plant and interconnect its wastewater system to PIRTS. As a result, the utility's wastewater plant will be retired. Accordingly, we have reduced Account No. 354, Structures and Improvements, by \$80,727 and by \$13,344, respectively, and Account No. 380, Treatment Disposal, by \$27,425 for a total reduction to plant of \$121,496.

Our net adjustment to UPIS is an increase of \$860,515. We approve UPIS of \$1,167,957.

Land and Land Rights: The utility recorded \$2,000 in land. Per Audit Exception No. 1, this account has been reduced by \$2,000 because EPS is retiring this land. We approve a zero balance for this account.

Non-used and Useful Plant: We have determined the used and useful percentages for the utility's plant accounts. The wastewater treatment plant shall be considered 41.7% used and useful, the wastewater collection system shall be considered 98.9% used and useful, and the pro forma lift station shall be considered 72.9% used and useful. Applying the non-used and useful percentages to the wastewater system results in non-used and useful plant of \$36,970. The non-used and useful accumulated depreciation is \$1,880. In addition, as discussed above, a non-used and useful adjustment of \$133,942 was made to connection fees to remove fees for future connections. This results in net non-used and useful UPIS of \$169,032.

Contribution in Aid of Construction (CIAC): The utility recorded CIAC of \$116,669 for the test year ended December 31, 2002.

As discussed above, we increased CIAC by \$8,837 to include lines laid in 1985 by Cherry Estates and expensed. Since the lines were expensed, they are considered contributed.

EPS's wastewater tariff provides a plant capacity charge of \$110 per customer connection. Per Audit Exception No. 5, since the capacity charges were first approved in 1983, the utility has recorded its connection fees as revenue instead of CIAC. We multiplied the \$110 fee by the new connections each year since 1983 for a total of \$10,560. Therefore, we increased this account by \$10,560 to reflect the unrecorded connection fees.

In addition, we increased CIAC to reflect six additional customers for the projected test year. This adjustment results in a \$660 increase to this account. We calculated projected CIAC based on projected customers to be added over the projection period and the service availability charges anticipated to be in effect during that period.

The utility collected CIAC related to the wastewater treatment facilities now being retired. Therefore, we have decreased CIAC by

\$12,200 to retire the pro rata share of CIAC associated with those facilities.

Our net adjustments to this account results in CIAC of \$124,526.

Accumulated Depreciation: The utility recorded a balance for accumulated depreciation of \$181,327 on December 31, 2002. We have calculated accumulated depreciation using the prescribed rates in Rule 25-30.140, Florida Administrative Code. Our calculated accumulated depreciation on December 31, 2002, is \$185,698. Therefore, we have increased this account by \$4,371 to reflect depreciation calculated per this Commission. In addition, we have decreased this account by \$79,447 to remove accumulated depreciation on the retirement of treatment plant discussed in Issue No. 5. Further, we have increased this account by \$25,998 to reflect one year of depreciation for the projected test year.

The utility has been using 2.5% to depreciate its plant since 1983 because those were the rates in effect at the time of its last rate case. In 1984, new Commission-approved depreciation rates became effective. Therefore, on a prospective basis, the utility shall use the depreciation rates prescribed in Rule 25-30.140, Florida Administrative Code.

These adjustments result in accumulated depreciation of \$132,249.

Amortization of CIAC: Based on the utility's records at December 31, 2002, the utility recorded amortization of CIAC of \$63,324. Amortization of CIAC has been recalculated using composite depreciation rates. This account has been increased by \$5,856 to reflect year end amortization of \$69,180 as calculated by this Commission.

We removed CIAC related to the wastewater treatment facilities now being retired. Therefore, we also reduced amortization of CIAC by \$6,173 to retire the pro rata share of CIAC amortization associated with those facilities.

Our net adjustments to this account results in amortization of CIAC of \$63,007.

Working Capital Allowance: Working Capital is defined as the investor-supplied funds necessary to meet operating expenses or going-concern requirements of the utility. Consistent with Rule 25-30.433(2), Florida Administrative Code, we find that the one-eighth of the O&M expense formula approach shall be used for calculating working capital allowance. Applying that formula results in a working capital allowance of \$15,577 (based on O&M of \$124,617). The utility did not record a working capital allowance. Working capital has been increased by \$15,577 to reflect one-eighth of approved O&M expenses.

Rate Base Summary: Based on the foregoing, we find that the appropriate test year rate base is \$820,734.

Rate base is shown on Schedule No. 1-A and 1-B; related adjustments are shown on Schedule No. 1-C.

#### COST OF CAPITAL

According to our staff's audit, the utility recorded the following items in capital structure: common stock of \$500, negative retained earnings of \$75,917, other paid in capital of \$161,864, and long term debt of \$102,691, for a total capital of \$189,138.

As discussed previously, we have included in capital structure a line of credit for \$280,750 to finance the costs associated with the new master lift station (\$86,625), the removal of the treatment plant (\$19,608), the removal of the ponds (\$40,575), and the connection fees for future connections (\$133,942). In addition, we included the county loan of \$657,218 for the connection fees related to the developed lots that are currently connected to the EPS system. Further, we decreased retained earnings by \$3,437 for out of period adjustments related to CIAC and the associated amortization recorded as revenue, for depreciation related to misclassified plant and for the removal of land from rate base.

Using the leverage formula approved by Order No. PSC-03-0707-PAA-WS, issued June 13, 2003, in Docket No. 030006-WS, the appropriate rate of return on equity for a capital structure with an equity ratio of less than 40% is a maximum of 11.96%. Because

the Capital Structure is 7.39% equity, the rate of return on equity is 11.96%.

The utility's capital structure has been reconciled with the approved rate base. The approved return on equity is 11.96% with a range of 10.96% - 12.96% and an overall rate of return of 6.25%.

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

#### NET OPERATING INCOME

##### Projected Test Year Revenue

The utility recorded revenues for the 12-month period ended December 31, 2002, of \$67,181 for wastewater. The utility's current residential tariff authorizes a \$12.79 per month flat rate. The general service tariff authorizes a base facility charge of \$46.76 and a gallonage charge of \$3.26 per thousand gallons.

We have annualized revenues for the historical test period ended December 31, 2002, using the current rates times the number of bills and consumption provided in the billing analysis. Per Audit Exception No. 6, the utility did not bill KRS Resort Development, Inc. for wastewater. KRS has a two-inch meter which serves 65 RVs, a laundry room and a bathhouse. We have imputed revenues for KRS. Therefore, we have increased historic test year revenues by \$2,727, most of which relates to KRS, to reflect annualized revenues.

Because we are using a projected test year, revenues are adjusted to reflect the increase in revenues associated with an increase in customer base. Therefore, we have increased historic test year revenues by \$921 to reflect revenues based on the projected test year. Projected year end test year revenues are based on six additional customers and the average use for those customers. We approve projected test year revenues of \$70,829.

Test year revenue is shown on Schedule No. 3-A; the related adjustments are shown on Schedule No. 3-B.

##### Operating Expense

The utility recorded operating expenses of \$93,200 during the test year ending December 31, 2002. These expenses were incurred before EPS's interconnection with PIRTS. We have made adjustments to operating expenses to reflect operating expenses for a wastewater resale company on a going forward basis.

The utility provided the auditor with access to all books and records, invoices, canceled checks, and other utility records to verify its O&M and taxes other than income expense for the historic test year ending December 31, 2002. We have determined the appropriate operating expenses for the projected test year ending December 31, 2003, and a breakdown of expenses by account class using the documents provided by the utility. Adjustments have been made to reflect the appropriate annual operating expenses that are required for utility operations on a going forward basis.

OPERATION AND MAINTENANCE EXPENSES (O&M)

Salaries and Wages - Officers - (703) - The utility recorded salaries and wages of \$24,322 for the test year ending December 31, 2002.

The utility has two officers who receive salaries, the president and the secretary. Mr. Kevin Cherry, the President, is currently paid \$46.08 per hour, and estimates he will spend 15 hours per week on utility business after the interconnection. His duties include customer complaints; locating lines for contractors; reviewing financial statements; consultations with the CPA; loan negotiation; financial planning; oversight of rate filings; responding to county, state and federal agencies; monitoring insurance costs and coverage; and oversight of maintenance, repairs and construction. Mr. Cherry is currently performing additional duties that relate to changing from a treatment and distribution operation to a distribution operation only. These additional duties will disappear or diminish drastically when the utility interconnects.

While we understand the variety of responsibilities and skills required for this position, we find that \$46.08 per hour is unreasonable. After reviewing prior rate cases and a history of salary amounts approved for utility managers, we approve a rate of \$22.43 per hour for Mr. Cherry for a total annual amount of \$17,495

(\$22.43 per hour x 15 hours x 52 weeks). We determined this amount by evaluating the American Water Works Association 1998 Water Utility Compensation Survey, taking the average salary of the management function with the most responsibilities, and adjusting for inflation.

In a July 2, 2003 letter, the utility's attorney stated that he believes that \$35.00 per hour is a more reasonable rate for the President of EPS. He points out that our staff recommended an average rate which reflects salaries both higher and lower. In support of his request, the utility's attorney cited Order No PSC-99-2116-PAA-SU, issued October 25, 1999, in Docket No. 980778-SU, in which we determined a \$30.00 per hour fee to be reasonable for a president who works approximately the same amount of time that EPS's president does. The utility's attorney adjusted the \$30.00 for inflation, which resulted in a little over \$35.00 per hour. The utility's attorney notes that a superintendent for the Lee County Utility Department, with less responsibilities than Mr. Cherry, can make up to \$32.26 per hour.

We find that \$22.43 per hour is a reasonable rate for the president of a reseller of wastewater treatment services. The president in the above-cited case managed a Class C wastewater utility with a collection and a treatment system. Mr. Cherry will have responsibility for only a collection system. This will reduce the amount of oversight and decision making needed for EPS. By Order No. PSC-02-0487-PAA-SU, issued April 8, 2002, in Docket No. 010919-SU, we approved a \$25 per hour rate for a wastewater reseller's contracted management company that provided maintenance, billing, meter reading, general accounting, annual PSC reporting, CPA services and tax return and postage and supplies. However, the management company provided many more services than Mr. Cherry. Therefore, we approve \$22.43 per hour for this utility president's salary.

Ms. Sue Hopper, the Secretary, is currently paid \$21.17 per hour and estimates she will spend 30 hours per week on utility business. Her duties include preparing rate filings, the PSC annual report, regulatory assessment fees, and payroll reports; arranging disconnects; billing; accounts receivable and payable; investigating delinquent accounts; obtaining water meter readings; responding to customer inquiries; collection of receipts; bank

deposits; monthly meetings with the CPA; and general correspondence. Ms. Hopper is currently performing additional duties in preparation for the interconnection and changing to a monthly billing system. These additional duties will disappear after the interconnection and change to the new system.

While Ms. Hopper's job also requires a variety of skills, we find that \$21.17 per hour is unreasonable. We are approving a rate of \$19.26 per hour for Ms. Hopper for an annual amount of \$30,046 (\$19.26 per hour x 30 hours x 52 weeks). We determined this amount by evaluating the American Water Works Association 1998 Water Utility Compensation Survey, taking the average salary of the office/management function, and adjusting for inflation.

We approve total salaries of \$47,541. Therefore, we have increased this account by \$23,219 to reflect the annual salary allowance (\$47,541 - \$24,322).

Employee Pensions and Benefits - (704) - The utility recorded employee pensions and benefits of \$503 for the test year ended December 31, 2002.

The utility requested \$38,689 in pensions and benefits. This amount includes \$11,000 plus taxes in pensions for Mr. Cherry and also for Ms. Hopper plus \$7,831 in health insurance for Mr. Cherry. These officers also receive salaries from related companies. We have allocated the pensions and benefits based on the ratio of utility salaries to total salaries (18.25% and 68.24%). We approve \$14,295 for total allocated pensions and benefits. Therefore, we have increased this account by \$13,792 to reflect the allocated amount (\$14,295 - 503).

Purchased Wastewater Treatment - (710) - The utility did not record a dollar amount in this account during the test year.

EPS elected to interconnect with PIRTS's wastewater collection system and pay a bulk wastewater charge. We estimated the cost of purchased wastewater treatment by multiplying the gallons projected for 2003 times the \$3.36 wholesale rate. Projected test year gallons are based on six additional customers and the average use for those customers. We project annual purchased wastewater treatment expense to be \$38,809. Therefore, we have increased this

account by \$38,809 to reflect annual purchased wastewater treatment expense.

Sludge Removal Expense - (711) - The utility recorded \$3,585 in this account during the test year. The utility will no longer have a wastewater treatment plant; therefore, sludge removal will not be required. Accordingly, we have decreased this account by \$3,585 to remove sludge removal expense.

Purchased Power - (715) - The utility recorded \$6,864 in this account during the test year. As discussed above, the utility will no longer operate a treatment plant; however, the utility will still maintain two lift stations. The annual power cost for the new master lift station is estimated to be \$1,200. The annual power cost for the existing lift station is \$207. We approve annual purchased power of \$1,407. Therefore, we have decreased this account by \$5,457 (\$6,864-\$1,407) to reflect purchased power expense associated with the lift stations.

Chemicals - (718) - The utility recorded \$5,206 in this account during the test year. As stated above, the utility will no longer operate a treatment plant; however, the utility will still need chemicals to clean and degrease the two lift stations. We find that \$100 annually is reasonable for the purchase of chemicals. Therefore, we have decreased this account by \$5,106 (\$5,206 - \$100) to reflect chemical expense.

Contractual Services - Professional - (731) - The utility recorded \$5,308 in this account during the test year: \$350 associated with engineering for a permit; \$158 for legal fees; and \$4,800 for accounting.

We have decreased this account by \$350 to remove the engineering costs related to the permit. These costs were included in the \$28,865 deferred engineering and legal costs and capitalized with the connection fees as discussed previously in this Order.

The utility's accountant prepares the federal "S" corporation income tax return and the Florida intangible tax return, assists in the preparation of the PSC Annual Report, and meets monthly with the utility staff to assist with the monthly financial statements. The fee for these services is \$4,800 annually. We find that this

amount is reasonable. Accordingly, we approve a Contractual Services - Professional expense of \$4,958.

Contractual Services - Testing - (735) - The utility recorded \$1,227 in this account during the test year. Per Audit Disclosure No. 9, after the interconnection, all testing and analysis will be the responsibility of PIRTS. Therefore, we have decreased this account by \$1,227 to remove testing expenses.

Contractual Services - Other - (736) - The utility recorded \$24,237 in this account during the test year: \$6,240 for an operator; \$17,013 for repairs and maintenance; and \$984 for operator repairs.

We have reclassified \$5,746 from this account to Account No. 370, Receiving Wells, for a control panel for the lift station. This was a major renovation to the lift station and should have been capitalized. Therefore, we have decreased this account by \$5,746.

Although the utility will no longer operate a treatment plant, it has requested operator services to maintain and inspect the lift stations regularly. It noted that FDEP does not have O&M time requirements for the collection systems and lift stations. EPS received a bid for \$3,120 (1.5 hours per week at \$40 per hour). We find that this amount is excessive because the new operator's responsibilities would be approximately one-third of the previous operator's responsibilities. We find that \$2,080 ( $\$6,240/3$ ) annually shall be allowed for operator services. Therefore, we have decreased this account by \$4,160 ( $\$6,240 - \$2,080$ ).

Per Audit Disclosure No. 8, only \$811 of the \$17,018 recorded for repairs and maintenance was related to lift station, line or office repairs. Repairs on the retired plant amounted to \$10,456. Therefore, we have reduced this account by \$10,456 ( $\$17,013 - \$5,746$  reclassified - \$811 allowed) to remove repairs and maintenance related to the retired plant.

Per Audit Disclosure No. 9, the utility recorded \$984 in operator repairs to the retired plant. We have reduced this account by \$984 to remove these costs. We approve Contractual Services - Other expense of \$2,891.

Rents - (740) - The utility recorded \$10,000 in this account during the test year. As stated above, the treatment plant will be retired and the land it occupied will no longer be needed by the utility. As a result, rent expense will no longer be incurred. Therefore, per Audit Disclosure No. 9, we have reduced this account by \$10,000 to remove rent expense.

Insurance Expense - (755) - The utility recorded \$2,594 in this account during the test year: \$2,027 for commercial; office physical, flood and wind; \$469 for workers compensation insurance; and \$98 for an umbrella policy.

Insurance expense on the common facilities totaled \$3,340 and \$1,135 (33.99%) was allocated to the utility based on the ratio of utility salaries to total company salaries. We reduced this amount by \$469 for workers compensation insurance that is included in the taxes on pensions and benefits discussed above and \$98 for an umbrella policy that was already recorded on the utility's books. Therefore, we have increased this account by \$568 (\$1,135 - \$469 - \$98) for allocated insurance on common facilities.

Per Audit Disclosure No. 7, the utility provided an estimate of \$150 for insurance on the lift stations only. EPS recorded \$2,027 for insurance on the plant during the test year. Therefore, we have decreased this account by \$1,877 (\$2,027 - \$150) to remove insurance associated with retired plant. We therefore approve insurance expense of \$1,285.

Regulatory Commission Expense - (765) - The utility did not record an amount in this account during the test year. Pursuant to Rule 25-30.020, Florida Administrative Code, the utility paid a rate case filing fee of \$1,000. We amortized this amount over four years which resulted in a \$250 increase to this account. In addition, the utility is required by Rule 25-30.475(1)(a), Florida Administrative Code, to mail notices of any rate increase to its customers. We find that \$428 is a reasonable amount to be recovered, based on the number of customers, for additional mailing and copying expenses associated with this rate case. We amortized this amount over four years which resulted in a \$107 increase to this account.

In a July 2, 2003 letter, the utility's attorney requested rate case expense of \$6,407 for legal consultation. He later revised this amount to \$4,790. This total includes expenses billed to date as well as an estimate for rate case expense through the agenda and rate implementation. The main purpose of the staff assisted rate case (SARC) is to help minimize rate case expense and its effect on ratepayers by assisting small utilities that do not have the technical ability in house to complete the minimum filing requirements of a file and suspend rate case. However, Rule 25-30.455(1), Florida Administrative Code, allows reasonable and prudent expense associated with reviewing and compiling information from staff.

In order to be consistent with the intent of the SARC process, we find that Rule 25-30.455(1), Florida Administrative Code, should be followed conservatively and should be applied in light of the assistance staff provides in a SARC. Rate case expense should be strictly viewed and items should not be allowed for which either our staff or the utility can readily produce without the use of consultants. It is the utility's burden to justify its requested costs to this Commission. Florida Power Corp. v. Cresse, 413 So. 2d 1187, 1191 (Fla. 1982).

The utility has provided our staff with documentation to justify its requested rate case expense. However, it would constitute an abuse of discretion to automatically award rate case expense without reference to the prudence of the costs incurred in the rate case proceedings. Meadowbrook Util. Sys., Inc. v. FPSC, 518 So. 2d 326, 327 (Fla. 1st DCA 1987), rehearing denied, 529 So. 2d 694 (Fla. 1988). Despite this fact, we have a broad discretion with respect to allowance of rate case expense. Florida Crown Util. Servs., Inc. v. Utility Regulatory Bd. Of Jacksonville, 274 So. 2d 597, 598 (Fla. 1st DCA 1973). Therefore, we make the following adjustments to rate case expense.

We have decreased the requested rate case expense by \$225 to remove legal expenses associated with reviewing the PAA order after the agenda and miscellaneous post-PAA matters. Because the utility cannot protest a PAA Order in a SARC where an increase is granted (see Section 367.0814(6), Florida Statutes), we find that it would not be appropriate to allow built-in costs for review of such an order. Further, if the customers protest this case, the utility

could recover additional rate case expense in the final disposition of the SARC. Post-PAA matters such as preparing the customer notice and tariffs are services that are performed by our staff in a SARC. The cost of copying and distributing the customer notice is included above.

Pursuant to Rule 25-30.455(1), Florida Administrative Code:

If a utility that chooses to utilize the staff assistance option employs outside experts to assist in developing information for staff or to assist in evaluating staff's schedules and conclusions, the reasonable and prudent expense will be recovered through the rates developed by staff.

We identified \$152 of the requested amount associated with discussions with preparing the filing as well as the filing itself. We find that these costs shall not be included pursuant to Rule 25-30.455(1), Florida Administrative Code. Discussions by the utility with its experts prior to filing neither fall under "developing information for staff," nor "assisting in evaluating staff's schedules and conclusions." Regarding the actual preparation of the filing, the SARC application was designed such that any regulated utility could complete the application without expert assistance. The application is eight pages long and requests information which is readily available on the utility's annual report. For these reasons, we find that \$152 of the requested rate case expense shall be disallowed. Therefore, rate case expense shall be increased by \$1,103 to amortize \$4,413 in consultant fees over four years ( $\$4,790 - \$225 - \$152/4$ ).

Based on the above adjustments, we have increased regulatory commission expense by \$1,460 to amortize rate case expense over four years pursuant to Section 367.0816, Florida Statutes. We approve regulatory commission expense of \$1,460.

Bad Debt Expense - (770) - The utility did not record an amount in this account during the test year. On December 31, 2002, the utility had \$3,496 in receivables that were more than 90 days past due. According to the utility, delinquency and collection losses are a continuing problem; several customers have not paid in three years. We find that a bad debt expense may be warranted for this

utility. However, we are approving tariff remedies such as late fees, miscellaneous service charges, and customer deposits that may reduce the need for the utility to incur bad debt expense. Therefore, we have increased this account by one-third of \$3,496 or \$1,165.

Miscellaneous Expense - (775) - The utility recorded \$1,353 in this account for the test year: \$75 related to bank charges; \$115 to check charges; \$877 to office costs; \$283 to telephone; and \$3 for water.

The utility has been billing flat rates twice a year. We are requiring subsequently in this Order that the utility bill usage rates monthly. Per Audit Disclosure No. 4, EPS has estimated it will incur \$4,664 annually to bill monthly. These costs include billing cards, envelopes, postage, and the charge from the Association for meter readings. Therefore, we have increased this account by \$4,664 for the cost of billing monthly.

Per Audit Disclosure No. 4, a related company paid common bills such as electric, telephone, water and mowing and often did not allocate to the utility. These costs are common to all affiliate companies owned by the Cherrys and relate mainly to the office on York Road. Total costs to be allocated are \$9,374, and \$3,186 (33.99%) was allocated to EPS based on the ratio of utility salaries to total company salaries. We reduced this amount by \$283 for telephone costs and by \$3 for water service that were already recorded on the utility's books. Therefore, we have increased this account by \$2,900 (\$3,186 - \$283 - \$3) for allocated costs on common facilities.

The utility requested \$2,220 for direct office supplies, postage, telephone, post office box, tangible tax and maintenance contracts, per Audit Disclosure No. 4. In a July 18, 2003 letter the utility's attorney requested an additional \$840 for a telephone answering service to handle the emergency and after hour calls. This request was discussed with the utility at the customer meeting. Based on these discussions, emergency phone calls shall be handled by the maintenance person who is on call after hours. His telephone number will be posted at the lift stations, therefore no additional expense will be necessary. We reduced the original \$2,220 amount by \$115 for check charges and by \$877 for office

costs already recorded on the utility's books. Therefore, we have increased this account by \$1,228 (\$2,220 - \$115 - \$877) for direct office costs.

The utility requested bank charges of \$288 per month based on the bank fee of \$1.10 per every \$1,000 over \$10,000 in deposits. Since the utility only collected revenue twice a year, the deposits in those two months were higher than what was normally collected in a month. Per Audit Disclosure No. 5, our staff estimated that the bank fees will be \$30 a month or \$360 annually when the utility switches to monthly billing. In a July 2, 2003 letter, the utility's attorney submitted on behalf of the utility a letter from the utility's bank, which estimated a bank fee of \$636 annually. The utility's bank account offers 250 items deposited and cashed at no charge. Each item thereafter is \$0.25 each. Based on 462 items being deposited and 10 checks being written per month, the maintenance fee estimated by the bank is \$53 per month or \$636 annually. As stated above, the utility recorded \$75 for bank charges. Therefore, we have increased this account by \$561 (\$636 - \$75). The total annual expense for this account is \$10,706.

Operation and Maintenance Expense (O&M Summary) - The total O&M adjustment is an increase of \$39,418. The approved O&M expense is \$124,617. O&M expenses are shown on Schedules 3-C.

Depreciation Expense - The utility recorded depreciation expense net of CIAC amortization of \$4,769 (\$8,123 Depreciation Expense and \$3,354 Amortization of CIAC) during the test year. Depreciation expense has been calculated using the prescribed rates in Rule 25-30.140, Florida Administrative Code, and the unretired UPIS. We increased depreciation expense by \$38,278 to reflect calculated depreciation of \$46,401. We decreased this account by \$1,462 to reflect non-used and useful depreciation. We calculated amortization of CIAC based on composite rates. We increased amortization of CIAC by \$2,234 to reflect calculated amortization of \$5,588. Non-used and useful depreciation, and amortization of CIAC have a negative impact on depreciation expense. Net depreciation expense is \$39,351.

Amortization of Early Retirement Loss - As discussed previously in this Order, we determined the amount of the early retirement loss to be \$43,919. Application of the formula described in Rule 25-

30.433(9), Florida Administrative Code, results in an amortization period of 10 years. The loss has a positive impact on operating expenses. Therefore, staff has increased this account by \$4,392 (\$43,919/10 years) to reflect the annual amortization of the early retirement loss.

Taxes Other Than Income - The utility recorded \$3,232 in this account for the test year: \$3,023 related to RAFs, \$59 to intangible tax, and \$150 to corporate tax. We have increased this account by \$164 to reflect RAFs on projected test year revenues (\$3,187 - \$3,023). We have also increased this account by \$551 per Audit Disclosure No. 4, to include tangible property tax. The total adjustment to this account is an increase of \$715.

Income Taxes - EPS is a Subchapter S Corporation; therefore, pursuant to Rule 25-30.433(7), Florida Administrative Code, the utility has no income tax liability.

Operating Revenues - Revenues have been increased by \$159,973 to reflect the change in revenue required to cover expenses and allow the approved return on investment.

Taxes Other Than Income - This expense has been increased by \$7,199 to reflect regulatory assessment fees of 4.5% on the change in revenues.

Operating Expenses Summary - The application of our approved adjustments to the audited test year operating expenses results in calculated operating expenses of \$179,506.

Operating expenses are shown on Schedule No. 3-A; the related adjustments are shown on Schedule No. 3-B.

#### REVENUE REQUIREMENT

The utility shall be allowed an annual increase of \$159,973 (225.86%) for wastewater. This will allow the utility the opportunity to recover its expenses and earn a 6.25% return on its investment. The calculations are as follows:

|                             | <u>Wastewater</u> |
|-----------------------------|-------------------|
| Adjusted Rate Base          | \$820,734         |
| Rate of Return              | x .0625           |
| Return on Rate of Return    | <u>\$51,296</u>   |
| Adjusted O & M expense      | \$124,617         |
| Depreciation expense (Net)  | \$39,351          |
| Amortization of Net Gain    | \$4,392           |
| Taxes Other Than Income     | \$11,146          |
| Income Taxes                | <u>\$0</u>        |
| Revenue Requirement         | <u>\$230,802</u>  |
| Adjusted Test Year Revenues | <u>\$70,829</u>   |
| Percent Increase/(Decrease) | <u>225.86%</u>    |

Revenue requirements are shown on Schedule No. 3-A.

RATE STRUCTURE, BILLING CYCLE, AND RATES

EPS provides wastewater service to approximately 441 residential customers, and one general service customer. Currently, residential customers are charged flat monthly rates of \$12.79 and are billed biannually. The general service customer is charged a base facility charge and a gallonage charge. The utility's current rate structure was originally approved by the Commission in 1976 under grandfather provisions. All customers are metered by the Association, which provides their water service.

Metered Rates Versus Flat Rates

It has been our practice that, whenever possible, to convert a flat rate structure to a base facility and gallonage charge rate structure in order to promote state conservation goals and to eliminate subsidization of those who use excessive amounts of water by those who do not. This usage sensitive rate structure allows

customers to reduce their total bill by reducing their water consumption.

We find that usage rates shall be instituted for this utility. There will be additional costs related to billing usage rates; however, the utility is willing to undertake this task. As stated above, all customers are metered by the water company. The Association charges \$1,852 for annual meter reading and consumption data ( $\$0.35 \times 441 \text{ bills} \times 12 \text{ months}$ ). The utility currently handles its customer billing. Billing usage rates will require additional time to calculate individual customer bills as opposed to billing one flat rate to all customers. In order to recover these costs, we have included \$4,664 in expenses for billing usage rates monthly as discussed in this Order. Therefore, the utility's rate structure shall be changed to the traditional base facility charge/gallage charge rate structure.

#### Monthly Rates Versus Semi-Annual Rates

The utility is currently billing its customers biannually in accordance with its tariff. Under this system, many of the customers are slow to pay and several have not paid for three years. Billing monthly could serve as a reminder to these customers to keep their accounts current. In addition, when the utility interconnects with PIRTS, EPS will be billed monthly for its purchased wastewater treatment. A monthly billing cycle for the utility's customers will provide the necessary cash flow to enable EPS to pay the County monthly. Therefore, we find that a monthly billing cycle shall be approved for EPS.

During the test year, the utility provided service to approximately 441 residential customers and one general service customer. As discussed in this Order, the appropriate revenue requirement is \$230,802. We have calculated rates using projected test year number of bills and consumption. Rates for wastewater have been calculated based on 80% of the water used by residential customers and actual usage for the general service customers. Schedules of the utility's current rates and our approved rates is as follows:

Monthly Rates - Wastewater

RESIDENTIAL

|                             | <u>Existing Rates</u> | <u>Commission<br/>Approved Rates</u> |
|-----------------------------|-----------------------|--------------------------------------|
| <u>Base Facility Charge</u> |                       |                                      |
| <u>Meter Size:</u>          |                       |                                      |
| All meter sizes             | \$12.79               | \$24.64                              |
| <br><u>Gallonage Charge</u> |                       |                                      |
| Per 1,000 Gallons           | N/A                   | \$8.26                               |

Monthly Rates - Wastewater

GENERAL SERVICE

|                             | <u>Existing Rates</u> | <u>Commission<br/>Approved Rates</u> |
|-----------------------------|-----------------------|--------------------------------------|
| <u>Base Facility Charge</u> |                       |                                      |
| <u>Meter Sizes</u>          |                       |                                      |
| 5/8" x 3/4                  | N/A                   | \$24.64                              |
| 3/4"                        | N/A                   | \$36.97                              |
| 1"                          | N/A                   | \$61.61                              |
| 1 1/2"                      | N/A                   | \$123.22                             |
| 2"                          | \$46.76               | \$197.16                             |
| 3"                          | N/A                   | \$394.31                             |
| 4"                          | N/A                   | \$616.12                             |
| 6"                          | N/A                   | \$1,232.23                           |
| <br><u>Gallonage Charge</u> |                       |                                      |
| Per 1,000 Gallons           | \$3.26                | \$9.91                               |

We considered a gallonage cap for this utility. However, the average usage per customer is not excessive (2,058 gallons per month). In addition, the County will be charging EPS a bulk rate for every gallon used with no cap. A gallonage cap could cause the utility to collect less from customers than it pays to the County for purchased wastewater treatment. Therefore, we are not approving a gallonage cap for EPS. The approved increase in revenue requirements is \$159,973 or approximately 225.86%. The rates approved for the utility are designed to produce revenues of \$230,802.

Approximately 58% (\$134,560) of the revenue requirement is recovered through the approved base facility charge. The fixed costs are recovered through the BFC based on the number of factored ERCs. The remaining 42% (\$96,242) represents revenues collected through the consumption charge based on the number of gallons.

These rates shall be effective for service rendered as of the stamped approval date on the tariff sheets provided customers have received notice. The tariff sheets shall be approved upon our staff's verification that the tariffs are consistent with our decision and that the customer notice is adequate.

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 and 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.

#### FOUR-YEAR RATE REDUCTION

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 \$1,529 annually. Using the utility's current revenues, expenses, capital structure, and customer base, the reduction in revenues will result in the rate decreases as shown on Schedule No. 4.

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 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

The utility's existing tariff authorizes a plant capacity charge of \$110 per residential ERC and \$0.64 per gallon for all others. We find that this charge shall be discontinued and a customer connection charge be instituted in its place. In addition, a hook-up charge is approved.

Per the utility's agreement with Lee County Utilities, EPS must pay a capacity charge to the County of \$1,388 for each home site and \$694 for each RV site that is connected to the EPS system. For the home and RV sites that will be developed and connected in the future, EPS must pay \$694 for each home site and \$347 for each RV site. The capacity charges for the home and RV sites that are connected to the EPS system are included in rates. However, the capacity charges for the future connections are not. In order to recover the costs for the future connections, it is appropriate that we approve a customer connection charge to match the capacity charge by the County. As the sites are developed and connected to the EPS system, the utility will collect the County capacity charges from the customers. We therefore approve a customer connection charge of \$1,388 for home sites and \$694 for RV sites. When these charges are collected from customers, CIAC shall be credited for one half of the amount collected because the utility paid one half of the fee for these sites at the time of interconnection.

The utility's current contribution level is 5.94%. The utility's wastewater facilities can accommodate additional connections.

In order to evaluate the utility's service availability charges, we relied on Rule 25-30.580, Florida Administrative Code, which states in part that:

(1) The maximum amount of contributions-in-aid-of-construction, net of amortization, should 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; and

(2) The minimum amount of contributions-in-aid-of-construction should not be less than the percentage of such facilities and plant that is represented by the water transmission and distribution and sewage collection systems.

We have designed service availability charges such that the utility's contribution level will approach the maximum level prescribed in Rule 25-30.580, Florida Administrative Code, at build-out. The purpose of the connection charge is to comply with the rule as well as to match the connection fee from the County.

Previously in this Order, we found that the upgraded lift station and the new lift station shall be considered 72.9% used and useful, and made an adjustment to remove the non used and useful portion from rates. Pursuant to Rule 25-30.580, (2), Florida Administrative Code, a hook up charge shall be approved to allow the utility the opportunity to recover the non used and useful portion of these lift stations. A schedule of the utility's existing charges and our approved charges are as follows:

| <u>Wastewater</u>                 |                        |                        |
|-----------------------------------|------------------------|------------------------|
| <u>Customer Connection Charge</u> | <u>Existing Charge</u> | <u>Approved Charge</u> |
| Home Sites                        |                        |                        |
| All Meter Sizes                   | \$110                  | \$1,388                |
| RV Sites                          | N/A                    | \$694                  |
| <u>Hook up Charge</u>             | N/A                    | \$199                  |

The utility shall file revised tariff sheets which are consistent with our vote within one month of the final vote. The revised tariff sheets shall be approved upon our staff's verification that the tariffs are consistent with our decision, provided customers have received notice pursuant to Rule 25-

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30.475(2), Florida Administrative Code. If revised tariff sheets are filed and approved, the service availability charges shall become effective for connections made on or after the stamped approval date of the revised tariff sheets, if no protest is filed.

#### LATE PAYMENT FEES

EPS is not currently authorized to collect late payment charges. The utility requested to implement a late payment charge. The purpose of a late payment charge is not only to provide an incentive for customers to make timely payment, thereby reducing the number of delinquent accounts, but also to place the cost burden of processing such delinquencies solely upon those who are the cost causers.

In the past, late payment fee requests have been handled on a case-by-case basis. We have approved late fees in the amount of \$5 in the following Orders: Order No. PSC-98-1585-FOF-WU, issued November 25, 1998, in Docket No. 980445-WU; Order No. PSC-01-2093-TRF-WS, issued October 22, 2001, in Docket No. 011034-WS; Order No. PSC-01-2468-TRF-WU, issued December 18, 2001, in Docket No. 011482-WU; and Order No. PSC-02-1168-PAA-WS, issued August 26, 2002, in Docket No. 010869-WS.

Presently, our rules provide that late payers may be required by the utility to provide an additional deposit. However, we found in Order No. PSC-96-1409-FOF-WU, issued November 20, 1996, in Docket No. 960716-WU, that there is no further incentive for either delinquent or late paying customers to pay their bills on time after the additional deposit. In that same Order, we also found that the cost causer should pay the additional cost incurred to the utility by late payments, rather than the general body of the utility's rate payers.

The goal of allowing late fees to be charged by a utility is two-fold: first, to encourage current and future customers to pay their bills on time; and second, if payment is not made on time, to insure that the cost associated with the late payments is not passed on to the customers who do pay on time.

We find that there is a need for this incentive in the instant docket. As discussed elsewhere in this Order, we are approving an allowance for bad debt expense and miscellaneous services charges, respectively. Apparently, 71 customers pay late each payment period and several have not paid for three years. It is these

customers who shall pay the costs associated with their late payments. The majority of utilities who have Commission-approved late fees charge \$5.00. The utilities who have higher charges have provided adequate documentation in support of those higher fees. We find that \$5.00 is a reasonable fee for EPS. If the utility can document a higher fee, it should file the appropriate request with this Commission.

Therefore, consistent with the orders cited above, a \$5.00 late payment is approved. The utility shall file revised tariff sheets which are consistent with our vote within one month of the final vote. The revised tariff sheets shall be approved upon our staff's verification that the tariffs are consistent with our decision. If revised tariff sheets are filed and approved, the late payment charge shall become effective on the stamped approval date of the tariff sheets, if no protest is filed and provided customers have been noticed.

MISCELLANEOUS SERVICE CHARGES

The utility's existing tariff does not provide Commission-approved miscellaneous service charges. We find that the utility shall be authorized to collect charges consistent with Rule 25-30.460, Florida Administrative Code. The approved charges are designed to defray the costs associated with each service and place the responsibility of the cost on the person creating it rather than on the ratepaying body as a whole. No expenses incurred for miscellaneous service charges were included in the calculation of test year operating expenses. A schedule of approved charges follows:

Wastewater

| <u>Description</u>                           | <u>Commission<br/>Approved Charges</u> |
|--|--|
| Initial Connection                           | \$15.00                                |
| Normal Reconnection                          | \$15.00                                |
| Violation Reconnection                       | Actual Cost                            |
| Premises Visit (in lieu<br>of disconnection) | \$10.00                                |

Definition of each charge is provided for clarification:

Initial Connection - This charge would be levied for service initiation at a location where service did not exist previously.

Normal Reconnection - This charge would be levied for transfer of service to a new customer account, a previously served location or reconnection of service subsequent to a customer requested disconnection.

Violation Reconnection - This charge would 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.

Premises Visit Charge (in lieu of disconnection) - This charge would be levied when a service representative visits a premises for the purpose of discontinuing service for non-payment of a due and collectible bill and does not discontinue service, because the customer pays the service representative or otherwise makes satisfactory arrangements to pay the bill.

The utility shall file revised tariff sheets which are consistent with our vote within one month of the final vote. The revised tariff sheets shall be approved upon our staff's verification that the tariffs are consistent with our decision. If revised tariff sheets are filed and approved, the miscellaneous service charges shall become effective for connections made on or after the stamped approval date of the revised tariff sheets, if no protest is filed.

#### CUSTOMER DEPOSITS

The purpose of customer deposits is to establish credit with the utility. Deposits are to be paid by new utility customers. However, pursuant to Rule 25-30.311(7), Florida Administrative Code, an additional deposit may be required for late paying customers. Rule 25-30.311, Florida Administrative Code, provides guidelines for collecting, administering and refunding customer deposits. It also authorizes customer deposits to be calculated using an average monthly bill for a 2-month period. We calculated customer deposits using approved rates and an average monthly bill for a 2-month period. A schedule of the utility's existing and approved deposits follows:

|                   | <u>Wastewater</u>                 |  |
|-------------------|-----------------------------------|--|
|                   | <u>Residential</u>                |  |
| <u>Meter Size</u> | <u>Existing</u><br><u>Deposit</u> | <u>Commission</u><br><u>Approved Deposit</u> |
| All meter sizes   | N/A                               | \$82.00                                      |

|                   | <u>Wastewater</u>                 |  |
|-------------------|-----------------------------------|--|
|                   | <u>General Service</u>            |  |
| <u>Meter Size</u> | <u>Existing</u><br><u>Deposit</u> | <u>Commission</u><br><u>Approved Deposit</u> |
| All meter sizes   | N/A                               | 2 X Average Bill                             |

The utility shall file revised tariff sheets which are consistent with our vote within one month of the final vote. The revised tariff sheets shall be approved upon our staff's verification that the tariffs are consistent with our decision. If revised tariff sheets are filed and approved, the customer deposits shall become effective for connections made on or after the stamped approval date of the revised tariff sheets, if no protest is filed.

#### WASTEWATER AFPI CHARGES

An Allowance for Funds Prudently Invested (AFPI) charge is a mechanism designed to allow a utility the opportunity to earn a fair rate of return on prudently constructed plant held for future use from the future customers that will be served by that plant, in the form of a charge paid by those customers. This charge allows the recovery of carrying cost on the non-used and useful plant. By providing this type of charge, the existing customers do not pay for plant expansion used to serve future customers. Future customers bear their equitable share of the carrying costs related to the plant facilities being constructed to provide service to them.

This one-time charge is based on the number of Equivalent Residential Connections (ERCs) and is generally applicable to all future customers who have not already prepaid the connection fees, CIAC charge, or customer advances. The charge shall be assessed based on the date the future customers make some form of

"prepayment" (connection charge, CIAC, or advance) or on the date the customer connects to the system, whichever comes first. The AFPI charge has been calculated using the standard program furnished by this Commission's Division of Economic Regulation.

In a July 2, 2003 letter, the utility's attorney requested on behalf of EPS that an AFPI charge be authorized for the non used and useful portion of the County connection fees. As stated previously in this Order, we find that \$133,942 of the \$843,796 total County connection fees shall be considered non used and useful because these are costs that will be recovered from future customers and shall not be included in the rates of current customers. The \$133,942 must be paid to the County at the time of the interconnection, but will not be paid by future customers until they connect to the EPS system. The utility is investigating a line of credit with Sun Trust to cover this expense. Therefore, we find that an AFPI charge is appropriate for this utility.

The AFPI charge shall be based upon the number of ERCs required by a particular customer. The AFPI charge is intended to recover the carrying costs associated with all future plant. Therefore, the charge will vary based upon the date a future customer makes a prepayment on such connection, or on the date the customer actually connects to the system. Rule 25-30.434(5), Florida Administrative Code, states "unless the utility demonstrates that the 5-year period is inappropriate, it is prudent for a utility to have an investment in future use plant for a period of no longer than 5 years beyond the test year." It is our practice in establishing AFPI charges to calculate the charge for a five year period, unless the utility states extraordinary or unusual circumstances to justify an AFPI charge for a longer period. However, in this docket, the utility has not stated any extraordinary or unusual circumstances.

We prepared the following schedule which represents the approved wastewater AFPI charges based upon the time of the initial connection or prepayment. These charges represent one (1) ERC, and if a future customer requires more than 1 ERC, the connection fee shall be multiplied by the number of connections (ERCs) which are required to provide service to the customer. Using the final cost figures, we approve the following wastewater AFPI charges:

Allowance for Funds Prudently Invested  
Calculation of Carrying Cost Per ERC Per Month:

|           | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>2008</u> |
|-----------|-------------|-------------|-------------|-------------|-------------|
| January   | \$8         | \$104       | \$203       | \$306       | \$412       |
| February  | \$16        | \$112       | \$212       | \$315       | \$422       |
| March     | \$24        | \$120       | \$220       | \$324       | \$431       |
| April     | \$32        | \$129       | \$229       | \$332       | \$440       |
| May       | \$40        | \$137       | \$237       | \$341       | \$449       |
| June      | \$48        | \$145       | \$246       | \$350       | \$458       |
| July      | \$56        | \$153       | \$254       | \$359       | \$468       |
| August    | \$64        | \$162       | \$263       | \$368       | \$477       |
| September | \$72        | \$170       | \$271       | \$377       | \$486       |
| October   | \$80        | \$178       | \$280       | \$386       | \$495       |
| November  | \$88        | \$186       | \$289       | \$394       | \$504       |
| December  | \$96        | \$195       | \$297       | \$403       | \$513       |

The test year used in this case for establishing the amount of non-used and useful plant is the year ending December 31, 2003. Pursuant to Rule 25-30.434(4), Florida Administrative Code, the beginning date for accruing the AFPI charge must agree with the month following the end of the test year that was used to establish the amount of non-used and useful plant. Therefore, the beginning date for accruing the AFPI in this case was January 2004. No charge may be collected for any connections made between the beginning dates and the effective date of the AFPI charge.

The utility shall collect wastewater AFPI charges as shown in the analysis. However, we find that the utility shall be allowed recovery beyond the five year period, as allowed pursuant to Rule 25-30.434(6), Florida Administrative Code. This will enable the utility to collect for all 165 wastewater ERCs, although the AFPI charge shall cease accruing charges and remain constant after the five year accrual period has expired. The utility shall be allowed to collect the constant charge until all projected 165 wastewater ERCs in the calculation have been added, at which time the charge shall be discontinued.

The appropriate AFPI charges shall be those approved herein. The utility shall file revised tariff sheets which are consistent with our vote within one month of the Consummating Order. The revised tariff sheets shall be approved upon our staff's verification that the tariffs are consistent with our decision,

provided future customers have been noticed pursuant to Rule 25-30.475(2), Florida Administrative Code. The beginning date of the AFPI charges shall be January 1, 2004. In no event shall the rates be effective for services rendered prior to the stamped approval date.

TEMPORARY RATES IN THE EVENT OF A PROTEST

This Order proposes an increase in 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, pursuant to Section 367.0814(7), Florida Statutes, in the event of a protest filed by a party other than the utility, the rates approved herein shall be approved as temporary rates. The approved rates collected by the utility shall be subject to the refund provisions discussed below.

The utility shall be authorized to collect the temporary rates upon our staff's approval of an appropriate security for both the potential refund and a copy of the proposed customer notice. The security shall be in the form of a bond or letter of credit in the amount of \$104,757. Alternatively, the utility could 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 a 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 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 Commission Clerk and Administrative Services must be a signatory to the escrow agreement.

This account must specify by whom and on whose behalf such monies were paid.

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. 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, pursuant to Rule 25-30.360(7), Florida Administrative Code, the utility shall file reports with the Division of Commission Clerk and Administrative Services no later than 20 days after each monthly billing. These reports shall indicate the amount of revenue collected under the increased rates subject to refund.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the provisions of this Order, issued as proposed agency action, shall become final and effective upon the issuance of a Consummating Order unless an appropriate petition, in the form provided by Rule 28-106.201, Florida Administrative Code, is received by the Director, Division of the Commission Clerk and Administrative Services, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings" attached hereto. It is further

ORDERED that Environmental Protection Systems of Pine Island, Inc.'s application for increased wastewater rates and charges 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 all matters contained in the schedules attached hereto are incorporated herein by reference. It is further

ORDERED that Environmental Protection Systems of Pine Island, Inc. is hereby authorized to charge the new rates and charges as set forth in the body of this Order. It is further

ORDERED that a local emergency phone number, which can be easily seen, shall be posted at each lift station. The emergency phone number should be posted at all locations no later than 90 days from the date of the Consummating Order for this rate case. It is further

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ORDERED that the rates and charges approved herein 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 Environmental Protection Systems of Pine Island, Inc. shall provide proof that the customers have received notice within ten days of the date of the notice. It is further

ORDERED that, prior to its implementation of the rates and charges approved herein, Environmental Protection Systems of Pine Island, Inc. shall file revised tariff sheets which are consistent with the Commission's vote within one month of the Commission's final vote. The revised tariff sheets shall be approved upon staff's verification that the tariffs are consistent with the Commission's decision. If revised tariff sheets are filed and approved, the late payment fee should become effective for connections made on or after the stamped approval date of the revised tariff sheets, if no protest is filed and provided customers have been noticed as set forth in this Order.

ORDERED that the decrease in rates due to the removal of rate case expense shall become effective immediately following the expiration of the four year rate case expense recovery period, pursuant to Section 367.0816, Florida Statutes. The utility shall file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. 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. It is further

ORDERED that the AFPI charges approved herein shall be effective on January 1, 2004, provided future customers have been noticed pursuant to Rule 25-30.475(2), Florida Administrative Code. In no event shall the rates be effective for services rendered prior to the stamped approval date. It is further

ORDERED that, pursuant to Section 367.0814(7), Florida Statutes, the rates approved herein shall be approved for the utility on a temporary basis, subject to refund, in the event of a protest filed by a party other than the utility. Prior to

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implementation of any temporary rates, the utility shall provide appropriate security. If the rates are approved on a temporary basis, the rates collected by the utility shall be subject to the refund provisions as set forth herein. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(7), Florida Administrative Code, the utility shall file reports with the Division of Commission Clerk and Administrative Services no later than 20 days after each monthly billing. These reports shall indicate the amount of revenue collected under the increased rates subject to refund. It is further

ORDERED that if no timely protest is received upon expiration of the protest period, this Order will become final upon the issuance of a Consummating Order. However, this docket shall remain open for an additional ten months from the Consummating Order to allow Commission staff to verify completion of pro forma items as described in this Order. Once staff has verified that this work has been completed, the docket shall be closed administratively.

By ORDER of the Florida Public Service Commission this 7th Day of October, 2003.

  
\_\_\_\_\_  
BLANCA S. BAYÓ, Director  
Division of the Commission Clerk  
and Administrative Services

( S E A L )

JSB

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), 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.

As identified in the body of this order, our action herein, except with respect to the four-year rate reduction and holding rates subject to refund in the event of a protest, is preliminary in nature. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Director, Division of the Commission Clerk and Administrative Services, at 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on October 28, 2003. If such a petition is filed, mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing. In the absence of such a petition, this order shall become effective and final upon the issuance of a Consummating 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.

Any party adversely affected by the Commission's final action in this matter may request: (1) reconsideration of the decision by filing a motion for reconsideration with the Director, Division of the Commission Clerk and Administrative Services within fifteen (15) days of the issuance of this order in the form prescribed by Rule 25-22.060, Florida Administrative Code; or (2) judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or the First District Court of Appeal in the case of a water or wastewater utility by filing a notice of appeal with

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the Director, Division of the Commission Clerk and Administrative Services 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 after the issuance 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.

WASTEWATER TREATMENT PLANT - USED AND USEFUL DATA  
 ENVIRONMENTAL PROTECTION SYSTEMS OF PINE ISLAND

Docket No. 030106-SU

|   |           |                 |                            |
|---|-----------|-----------------|----------------------------|
| 1) Permitted Capacity of Plant                  | 95,000    | gallons per day |                            |
| (AADF)  |           |                 |                            |
| 2) Maximum Daily Flow                           | 67,955    | gallons per day |                            |
| 3) Average Daily Flow (AADF)                    | 37,020    | gallons per day |                            |
| 4) Growth                                       | 2,619     | gallons per day |                            |
| a) Test year Customers in ERCs:                 | Beginning |                 | 421                        |
| (Jan 03 - Dec. 03)                              | Ending    |                 | 427                        |
|   | Average   |                 | 424                        |
| b) Customer Growth in ERCs using Regression     |           | 6               | ERCs                       |
| Analysis for most recent 5 years including Test |           |                 |                            |
| Year  |           |                 |                            |
| c) Statutory Growth Period                      |           | 5               | Years                      |
| (b x c) x [3/(a)] = 2,619                       |           |                 | gallons per day for growth |
| 5) Excessive Infiltration or Inflow (I&I)       | 0         | gallons per day |                            |
| a) Total I&I:                                   | 11,509    | gallons per day |                            |
| Percent of Average Daily Flow                   | N/A       |                 |                            |
| b) Reasonable Amount                            | 13,182    | gallons per day |                            |
| (500 gpd per inch dia pipe per mile)            |           |                 |                            |
| c) Excessive Amount                             | 0         | gallons per day |                            |

USED AND USEFUL FORMULA

$$[(3)+(4)-(5)]/(1) = 41.7\% \text{ Used and Useful}$$

WASTEWATER COLLECTION SYSTEM - USED AND USEFUL DATA  
ENVIRONMENTAL PROTECTION SYSTEMS OF PINE ISLAND  
Docket No. 030106-SU

|  |                         |       |
|--|-------------------------|-------|
| 1) Capacity of System (Number of potential ERCs)   | 462                     | ERCs  |
| 2) Test year connections   |                         |       |
| a) Beginning of Test Year  | 421                     | ERCs  |
| b) End of Test Year  | 427                     | ERCs  |
| 3) Growth  | 30                      | ERCs  |
| a) customer growth in connections for last 5 years including Test Year using Regression Analysis | 6                       | ERC   |
| b) Statutory Growth Period   | 5                       | Years |
| (a)x(b) = (6)x(5) = 30   | ERCs allowed for growth |       |

USED AND USEFUL FORMULA

$$[(2)+(3)]/(1) = 98.9\% \quad \% \text{ Used and Useful}$$

LIFT STATIONS & PUMPING - USED AND USEFUL DATA  
ENVIRONMENTAL PROTECTION SYSTEMS OF PINE ISLAND  
Docket No. 030106-SU

|  |                         |       |
|--|-------------------------|-------|
| 1) Capacity of System (Number of potential ERCs)   | 627                     | ERCs  |
| 2) Test year connections   |                         |       |
| a) Beginning of Test Year  | 421                     | ERCs  |
| b) End of Test Year  | 427                     | ERCs  |
| 3) Growth  | 30                      | ERCs  |
| a) customer growth in connections for last 5 years including Test Year using Regression Analysis | 6                       | ERC   |
| b) Statutory Growth Period   | 5                       | Years |
| (a)x(b) = (6)x(5) = 30   | ERCs allowed for growth |       |

USED AND USEFUL FORMULA

$$[(2)+(3)]/(1) = 72.9\% \quad \% \text{ Used and Useful}$$

| Environmental Protection Systems of Pine Island, Inc.<br>TEST YEAR ENDING DECEMBER 31, 2003<br>SCHEDULE OF WASTEWATER RATE BASE |                           | SCHEDULE NO. 1-A<br>DOCKET NO. 030106-SU |                         |
|---|---------------------------|--|-------------------------|
| DESCRIPTION   | BALANCE<br>PER<br>UTILITY | COMMN.<br>ADJUST.<br>TO UTIL. BAL.       | BALANCE<br>PER<br>COMM. |
| 1. UTILITY PLANT IN SERVICE   | \$307,442                 | \$860,515                                | \$1,167,957             |
| 2. LAND & LAND RIGHTS   | 2,000                     | (2,000)                                  | \$0                     |
| 3. NON-USED AND USEFUL<br>COMPONENTS  | 0                         | (169,032)                                | (\$169,032)             |
| 4. CIAC   | (116,669)                 | (7,857)                                  | (\$124,526)             |
| 5. ACCUMULATED DEPRECIATION   | (181,327)                 | 49,078                                   | (\$132,249)             |
| 6. AMORTIZATION OF CIAC   | 63,324                    | (317)                                    | \$63,007                |
| 7. WORKING CAPITAL ALLOWANCE  | <u>0</u>                  | <u>15,577</u>                            | <u>15,577</u>           |
| 8. WASTEWATER RATE BASE   | \$74,770                  | \$745,964                                | \$820,734               |

| Environmental Protection Systems of Pine Island, Inc.<br>TEST YEAR ENDING DECEMBER 31, 2003<br>ADJUSTMENTS TO RATE BASE | SCHEDULE NO. 1-B<br>DOCKET NO. 030106-SU |
|---|--|
|   | <u>WASTEWATER</u>                        |
| <u>UTILITY PLANT IN SERVICE</u>   |  |
| 1. Include lines laid in 1985 and never transferred to EPS (361)  | \$8,837                                  |
| 2. Reclassify control panel from 736 to 370   | 5,746                                    |
| 3. Remove undocumented plant  | (5,992)                                  |
| 4. Include projected connection fees paid to the County (389)   | 843,796                                  |
| 5. Include projected new master lift station (370)  | 86,625                                   |
| 6. Include projected rehabilitation of lift station no. 2 (370)   | 38,225                                   |
| 7. Include projected office furniture & equipment (390)   | 4,774                                    |
| 8. Retire treatment plant (354, 380)  | <u>(121,496)</u>                         |
| 9. Total  | <u>\$860,515</u>                         |
| <u>LAND AND LAND RIGHTS</u>   |  |
| 1. Remove retired land  | <u>(\$2,000)</u>                         |
| <u>NON-USED AND USEFUL PLANT</u>  |  |
| 1. To reflect non-used and useful plant.  | (\$36,970)                               |
| 2. To reflect non-used and useful accumulated depreciation.   | 1,880                                    |
| 3. To reflect non-used and useful connection fees   | (133,942)                                |
| Total   | <u>(\$169,032)</u>                       |
| <u>CIAC</u>   |  |
| 1. To include lines contributed in 1985   | (\$8,837)                                |
| 2. To include imputed CIAC  | (10,560)                                 |
| 3. To include projected CIAC for 6 customers  | (660)                                    |
| 4. To remove retired CIAC   | 12,200                                   |
| 5. Total  | <u>(\$7,857)</u>                         |
| <u>ACCUMULATED DEPRECIATION</u>   |  |
| 1. Accumulated depreciation per Rule 25-30.140, FAC, 2002   | (\$4,371)                                |
| 2. Remove accumulated depreciation on retirements   | 79,447                                   |
| 3. Projected test year depreciation   | (25,998)                                 |
| 4. Total  | <u>\$49,078</u>                          |
| <u>AMORTIZATION OF CIAC</u>   |  |
| 1. To adjust Amortization of CIAC based on composite rates  | \$5,856                                  |
| 2. Retired Amortization of CIAC   | (6,173)                                  |
| Total   | <u>(\$317)</u>                           |
| <u>WORKING CAPITAL ALLOWANCE</u>  |  |
| 1. To reflect 1/8 of test year O & M expenses.  | <u>\$15,577</u>                          |

| Environmental Protection Systems of Pine Island, Inc.<br>TEST YEAR ENDING DECEMBER 31, 2003<br>SCHEDULE OF CAPITAL STRUCTURE |                         |                         |                                     |                           |                         | SCHEDULE NO. 2<br>DOCKET NO. 030106-SU |                      |                     |
|--|-------------------------|-------------------------|-------------------------------------|---------------------------|-------------------------|--|----------------------|---------------------|
| CAPITAL COMPONENT  | PER UTILITY             | SPECIFIC ADJUSTMENTS    | BALANCE BEFORE PRO RATA ADJUSTMENTS | PRO RATA ADJUSTMENTS      | BALANCE PER COMMN.      | PERCENT OF TOTAL                       | COST                 | WEIGHTED COST       |
| 1. COMMON STOCK  | \$500                   | \$0                     | \$500                               |                           |                         |  |                      |                     |
| 2. RETAINED EARNINGS   | (75,917)                | (3,437)                 | (79,354)                            |                           |                         |  |                      |                     |
| 3. PAID IN CAPITAL   | 161,864                 | 0                       | 161,864                             |                           |                         |  |                      |                     |
| 4. OTHER COMMON EQUITY   | <u>0</u>                | <u>0</u>                | <u>0</u>                            |                           |                         |  |                      |                     |
| <b>TOTAL COMMON EQUITY</b>   | <b>\$86,447</b>         | <b>(\$3,437)</b>        | <b>83,010</b>                       | <b>(22,379)</b>           | <b>60,631</b>           | <b>7.39%</b>                           | <b>11.96%</b>        | <b>0.88%</b>        |
| <b>LONG TERM DEBT</b>  |                         |                         |                                     |                           |                         |  |                      |                     |
| 5. Notes Payable Cherry Estates  | 15,316                  | 0                       | 15,316                              | (4,129)                   | 11,187                  | 1.36%                                  | 8.00%                | 0.11%               |
| 6. Notes Payable KRS Land Dev.   | 55,436                  | 0                       | 55,436                              | (14,945)                  | 40,491                  | 4.93%                                  | 8.00%                | 0.39%               |
| 7. Notes Payable KRS Resort  | 7,500                   | 0                       | 7,500                               | (2,022)                   | 5,478                   | 0.67%                                  | 8.00%                | 0.05%               |
| 8. Notes Payable Cherry Bldrs.   | 24,439                  | 0                       | 24,439                              | (6,589)                   | 17,850                  | 2.17%                                  | 8.00%                | 0.17%               |
| 9. Line of Credit SunTrust   |                         | 280,750                 | 280,750                             | (75,689)                  | 205,061                 | 24.99%                                 | 8.00%                | 2.00%               |
| 10. County Loan  |                         | 657,218                 | 657,218                             | (177,182)                 | 480,036                 | 58.49%                                 | 4.50%                | 2.63%               |
| <b>TOTAL LONG TERM DEBT</b>  | <b>102,691</b>          | <b>937,968</b>          | <b>1,040,659</b>                    | <b>(280,556)</b>          | <b>760,103</b>          | <b>92.61%</b>                          |                      |                     |
| 8. CUSTOMER DEPOSITS   | <u>0</u>                | <u>0</u>                | <u>0</u>                            | <u>0</u>                  | <u>0</u>                | <u>0.00%</u>                           | <u>6.00%</u>         | <u>0.00%</u>        |
| <b>9. TOTAL</b>  | <b><u>\$189,138</u></b> | <b><u>\$934,531</u></b> | <b><u>\$1,123,669</u></b>           | <b><u>(\$302,935)</u></b> | <b><u>\$820,734</u></b> | <b><u>100.00%</u></b>                  |                      | <b><u>6.25%</u></b> |
| <b>RANGE OF REASONABLENESS</b>   |                         |                         |                                     |                           |                         | <b>LOW</b>                             | <b>HIGH</b>          |                     |
| <b>RETURN ON EQUITY</b>  |                         |                         |                                     |                           |                         | <b><u>10.96%</u></b>                   | <b><u>12.96%</u></b> |                     |
| <b>OVERALL RATE OF RETURN</b>  |                         |                         |                                     |                           |                         | <b><u>6.17%</u></b>                    | <b><u>6.32%</u></b>  |                     |

| Environmental Protection Systems of Pine Island, Inc.<br>TEST YEAR ENDING DECEMBER 31, 2003<br>SCHEDULE OF WASTEWATER OPERATING INCOME |                          |                       | SCHEDULE NO. 3-A<br>DOCKET NO. 030106-SU |                             |                        |
|--|--------------------------|-----------------------|--|-----------------------------|------------------------|
|  | TEST YEAR<br>PER UTILITY | COMMN.<br>ADJUSTMENTS | COMMN.<br>ADJUSTED<br>TEST YEAR          | ADJUST.<br>FOR<br>INCREASE  | REVENUE<br>REQUIREMENT |
| 1. OPERATING REVENUES  | <u>\$67,181</u>          | <u>\$3,648</u>        | <u>\$70,829</u>                          | <u>\$159,973</u><br>225.86% | <u>\$230,802</u>       |
| OPERATING EXPENSES:  |                          |                       |  |                             |                        |
| 2. OPERATION & MAINTENANCE   | 85,199                   | 39,418                | 124,617                                  | 0                           | 124,617                |
| 3. DEPRECIATION (NET)  | 4,769                    | 34,582                | 39,351                                   | 0                           | 39,351                 |
| 4. AMORTIZATION  | 0                        | 4,392                 | 4,392                                    | 0                           | 4,392                  |
| 5. TAXES OTHER THAN INCOME   | 3,232                    | 715                   | 3,947                                    | 7,199                       | 11,146                 |
| 6. INCOME TAXES  | <u>0</u>                 | <u>0</u>              | <u>0</u>                                 | <u>0</u>                    | <u>0</u>               |
| 7. TOTAL OPERATING EXPENSES  | <u>\$93,200</u>          | <u>\$79,107</u>       | <u>\$172,307</u>                         | <u>\$7,199</u>              | <u>\$179,506</u>       |
| 8. OPERATING INCOME/(LOSS)   | <u>(\$26,019)</u>        |                       | <u>(\$101,478)</u>                       |                             | <u>\$51,296</u>        |
| 9. WASTEWATER RATE BASE  | <u>\$74,770</u>          |                       | <u>\$820,734</u>                         |                             | <u>\$820,734</u>       |
| 10. RATE OF RETURN   | <u>-34.80%</u>           |                       | <u>-12.36%</u>                           |                             | <u>6.25%</u>           |

Environmental Protection Systems of Pine Island, Inc.  
TEST YEAR ENDING DECEMBER 31, 2003  
ADJUSTMENTS TO OPERATING INCOME

Schedule No. 3-B  
DOCKET NO. 030106-SU  
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WASTEWATER

**OPERATING REVENUES**

|  |                |
|--|----------------|
| 1. To adjust utility revenues to audited test year amount. | \$2,727        |
| 2. Projected 2003 revenues                                 | <u>921</u>     |
| Subtotal   | <u>\$3,648</u> |

**OPERATION AND MAINTENANCE EXPENSES**

|   |                   |
|---|-------------------|
| 1. Salaries and Wages - Officers (703)                                | <u>\$23,219</u>   |
| 2. Employee Pensions and Benefits (704)                               |                   |
| a. Include allocated pensions and benefits                            | <u>\$13,792</u>   |
| 3. Purchased Wastewater Treatment (710)                               |                   |
| a. Annualize purchased wastewater treatment                           | <u>\$38,809</u>   |
| 4. Sludge Removal Expense (711)                                       |                   |
| a. Remove sludge removal  | <u>(\$3,585)</u>  |
| 5. Purchased Power (715)  |                   |
| a. Reduce purchased power since interconnection                       | <u>(\$5,457)</u>  |
| 6. Chemicals (718)  |                   |
| a. Reduce chemicals since interconnection                             | <u>(\$5,106)</u>  |
| 7. Contractual Services - Professional (731)                          |                   |
| a. Remove deferred engineering costs capitalized with connection fees | <u>(\$350)</u>    |
| 8. Contractual Services - Testing (735)                               |                   |
| a. Remove testing since interconnection                               | <u>(\$1,227)</u>  |
| 9. Contractual Services - Other (736)                                 |                   |
| a. Reclassify control panel from 736 to 370                           | (5,746)           |
| b. Reduce Operator expense since interconnection                      | (4,160)           |
| c. Remove repairs on retired plant                                    | (10,456)          |
| d. Remove operator repairs on retired plant                           | (984)             |
| Subtotal  | <u>(\$21,346)</u> |
| 10. Rents (740)   |                   |
| a. Remove rent  | <u>(\$10,000)</u> |
| 11. Insurance Expenses (755)  |                   |
| a. Increase insurance for office to allocated amount                  | \$568             |
| b. Decrease insurance for retired plant                               | <u>(1,877)</u>    |
| Subtotal  | <u>(\$1,309)</u>  |
| 12. Regulatory Expense (765)  |                   |
| a. Amortize Rate Case Filing Fee over 4 years (\$1,000/4)             | \$250             |
| b. Include and amortize notice expense over 4 years (\$428/4)         | 107               |
| c. Include and amortize consultant fees over 4 years (\$4,413/4)      | <u>1,103</u>      |
| Subtotal  | <u>\$1,460</u>    |
| 13. Bad Debt Expense (770)  |                   |
| a. Include bad debt expense   | <u>\$1,165</u>    |

(O & M EXPENSES CONTINUED ON NEXT PAGE)

Environmental Protection Systems of Pine Island, Inc.  
TEST YEAR ENDING DECEMBER 31, 2003  
ADJUSTMENTS TO OPERATING INCOME

Schedule No. 3-B  
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WASTEWATER

|   |                        |
|---|------------------------|
| <b>14. Miscellaneous Expense (775)</b>                                |                        |
| a. Include costs for monthly billing                                  | \$4,664                |
| b. Include allocation of common costs                                 | 2,900                  |
| c. Include direct office costs  | 1,228                  |
| d. Include additional bank fees                                       | <u>561</u>             |
| Subtotal  | <u>\$9,353</u>         |
| <br>  |                        |
| <b>TOTAL OPERATION &amp; MAINTENANCE ADJUSTMENTS</b>                  | <u><b>\$39,418</b></u> |
| <br>  |                        |
| <b>DEPRECIATION EXPENSE</b>   |                        |
| 1. To reflect test year depreciation calculated per 25-30.140, F.A.C. | \$38,278               |
| 2. Non-Used and Useful Depreciation                                   | (1,462)                |
| 3. CIAC per Composite rates   | <u>(\$2,234)</u>       |
| Total   | <u>\$34,582</u>        |
| <br>  |                        |
| <b>AMORTIZATION</b>   |                        |
| 1. Amortization of Early Retirement Loss over 10 years                | <u>\$4,392</u>         |
| <br>  |                        |
| <b>TAXES OTHER THAN INCOME</b>  |                        |
| 1. Adjust RAF's to Projected Revenue                                  | \$164                  |
| 2. Include Tangible Property Tax                                      | <u>551</u>             |
| Total   | <u>\$715</u>           |

| Environmental Protection Systems of Pine Island, Inc.<br>TEST YEAR ENDING DECEMBER 31, 2003<br>ANALYSIS OF WASTEWATER OPERATION<br>AND MAINTENANCE EXPENSE |                         | SCHEDULE NO. 3-C<br>DOCKET NO. 030106-SU |                        |
|--|-------------------------|--|------------------------|
|  | TOTAL<br>PER<br>UTILITY | COMMN.<br>ADJUST-<br>MENT                | TOTAL<br>PER<br>COMMN. |
| (701) SALARIES AND WAGES - EMPLOYEES   | \$0                     | \$0                                      | \$0                    |
| (703) SALARIES AND WAGES - OFFICERS  | 24,322                  | 23,219                                   | \$47,541               |
| (704) EMPLOYEE PENSIONS AND BENEFITS   | 503                     | 13,792                                   | \$14,295               |
| (710) PURCHASED SEWAGE TREATMENT   | 0                       | 38,809                                   | \$38,809               |
| (711) SLUDGE REMOVAL EXPENSE   | 3,585                   | (3,585)                                  | \$0                    |
| (715) PURCHASED POWER  | 6,864                   | (5,457)                                  | \$1,407                |
| (716) FUEL FOR POWER PRODUCTION  | 0                       | 0  | \$0                    |
| (718) CHEMICALS  | 5,206                   | (5,106)                                  | \$100                  |
| (720) MATERIALS AND SUPPLIES   | 0                       | 0  | \$0                    |
| (730) CONTRACTUAL SERVICES - BILLING   | 0                       | 0  | \$0                    |
| (731) CONTRACTUAL SERVICES - PROFESSIONAL  | 5,308                   | (350)                                    | \$4,958                |
| (735) CONTRACTUAL SERVICES - TESTING   | 1,227                   | (1,227)                                  | \$0                    |
| (736) CONTRACTUAL SERVICES - OTHER   | 24,237                  | (21,346)                                 | \$2,891                |
| (740) RENTS  | 10,000                  | (10,000)                                 | \$0                    |
| (750) TRANSPORTATION EXPENSE   | 0                       | 0  | \$0                    |
| (755) INSURANCE EXPENSE  | 2,594                   | (1,309)                                  | \$1,285                |
| (765) REGULATORY COMMISSION EXPENSES   | 0                       | 1,460                                    | \$1,460                |
| (770) BAD DEBT EXPENSE   | 0                       | 1,165                                    | \$1,165                |
| (775) MISCELLANEOUS EXPENSES   | <u>1,353</u>            | <u>9,353</u>                             | <u>\$10,706</u>        |
|  | <u>85,199</u>           | <u>39,418</u>                            | <u>124,617</u>         |

**RECOMMENDED RATE REDUCTION SCHEDULE**

**Environmental Protection Systems of Pine Island, Inc.  
 TEST YEAR ENDING DECEMBER 31, 2003**

**SCHEDULE NO. 4  
 DOCKET NO. 030106-SU**

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

**MONTHLY WASTEWATER RATES**

|   | <u>MONTHLY<br/>RECOMMENDED<br/>RATES</u> | <u>MONTHLY<br/>RATE<br/>REDUCTION</u> |
|---|--|---------------------------------------|
| <b><u>RESIDENTIAL SERVICE</u></b>                             |  |                                       |
| <b>BASE FACILITY CHARGE:</b>                                  |  |                                       |
| <b>Meter Size:</b>  |  |                                       |
| <b>All Meter Sizes</b>  | \$ 24.64                                 | 0.16                                  |
| <b><u>GENERAL SERVICE</u></b>                                 |  |                                       |
| <b>BASE FACILITY CHARGE:</b>                                  |  |                                       |
| <b>Meter Size:</b>  |  |                                       |
| <b>5/8"X3/4"</b>  | \$ 24.64                                 | 0.16                                  |
| <b>3/4"</b>   | 36.97                                    | 0.24                                  |
| <b>1"</b>   | 61.61                                    | 0.41                                  |
| <b>1-1/2"</b>   | 123.22                                   | 0.82                                  |
| <b>2"</b>   | 197.16                                   | 1.31                                  |
| <b>3"</b>   | 394.31                                   | 2.61                                  |
| <b>4"</b>   | 616.12                                   | 4.08                                  |
| <b>6"</b>   | 1,232.23                                 | 8.16                                  |
| <b>RESIDENTIAL GALLONAGE CHARGE<br/>PER 1,000 GALLONS</b>     | \$ 8.26                                  | 0.05                                  |
| <b>GENERAL SERVICE GALLONAGE CHARGE<br/>PER 1,000 GALLONS</b> | \$ 9.91                                  | 0.07                                  |