

FLORIDA PUBLIC SERVICE COMMISSION  
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Tallahassee, Florida 32399-0850

M E M O R A N D U M

JULY 18, 1996

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

FROM: DIVISION OF WATER & WASTEWATER (CASEY, EDWARDS)<sup>RTC</sup>  
DIVISION OF LEGAL SERVICES (AGARWAL) RA JLS BL

RE: DOCKET NO. 951591-SU - COLONY PARK UTILITIES, INC. -  
APPLICATION FOR A STAFF ASSISTED RATE CASE  
COUNTY: BREVARD

AGENDA: 7/30/96 - REGULAR AGENDA - PROPOSED AGENCY ACTION EXCEPT  
ISSUE NO. 12 - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: 5/24/97 - 15 MONTH STATUTORY DEADLINE

SPECIAL INSTRUCTIONS: I:\PSC\WAW\WP\951591SU.RCM

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DOCUMENT NUMBER-DATE

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FPSC-RECORDS/REPORTING

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CASE BACKGROUND

Colony Park Utilities, Inc. (Colony Park) is a Class C wastewater only utility in Brevard County which provides service to approximately 301 customers in Colony Park Mobile Home Park Community which is comprised of homes, mobile homes and trailer style residential units. Colony Park Mobile Home Village is a rental community within Colony Park Mobile Home Park which is owned by the same owner as the utility. The rental park has two master meters with individual tenants not metered. The wastewater service is included in each tenant's monthly rental charge.

Colony Park was issued Certificate 137-S in Commission Order No. 7296, issued June 28, 1976. Since then, the Commission has processed two rate cases for this utility, one in 1978 (Order 8295, issued May 3, 1978) and one in 1985 (Order 14238, issued March 26, 1985). The utility has not had an increase in rates since the 1985 staff assisted rate case. The utility was also show caused for failure to timely file their 1986 and 1987 annual reports.

The City of Cocoa provides water service to the customers of this wastewater utility. In addition, the City of Cocoa provides billing services for Colony Park.

Colony Park is currently under a Department of Environmental Protection (DEP) consent Order #92-0675, to eliminate surface water discharge. Excess effluent indicates that the capacity of the percolation ponds is not sufficient to process the higher flows during peak seasonal use. To remedy this problem, the utility has purchased two acres of land (an orange grove) to use as a drainage field. Colony Park has obtained a dredge and fill permit from DEP and has submitted an application for effluent disposal to them.

On December 26, 1995, Colony Park applied for this staff assisted rate case and has paid the appropriate filing fee. The official filing date of this SARC is February 24, 1996.

Staff has audited the utility's records for compliance with Commission rules and orders and determined all components necessary for rate setting. The staff engineer has also conducted a field investigation of the utility's wastewater 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 and operating costs.

Staff has selected a historical test year ending December 31, 1995. A staff analysis shows test year revenues of \$35,628 and operating expenses of \$45,773. These amounts result in a test period operating loss of \$10,145 for the wastewater system.

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A customer meeting was held June 4, 1996 to receive quality of service testimony. Two customers chose to give quality of service testimony which is discussed in Issue No. 1.

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### DISCUSSION OF ISSUES

#### QUALITY OF SERVICE

ISSUE 1: What is the quality of service provided by this utility?

RECOMMENDATION: The quality of service provided by the utility should be considered satisfactory. The staff engineer recommends that the utility be required to investigate the infiltration problem and develop and submit a plan within 180 days of the effective date of the Commission order to minimize the infiltration. (EDWARDS)

STAFF ANALYSIS: Two customers gave testimony during the customer meeting. Both customers were concerned over the amount of the increase and why the utility didn't apply to the Commission for smaller increases since 1985. One of the customers also testified that sometimes it is hard to contact the utility. Staff will be sure the utility phone number, hours of availability and emergency phone number are in the customer notice which the utility sends out to utility customers after the Commission's decision.

A review of DEP's records has revealed that the wastewater treatment facilities are not completely in compliance with the appropriate environmental regulations. Colony Park is currently under a Department of Environmental Protection (DEP) consent Order #92-0675, to eliminate surface water discharge. Excess effluent indicates that the capacity of the percolation ponds is not sufficient to process the higher flows during peak seasonal use. To remedy this problem, the utility has purchased two acres of land (an orange grove) to use as a drainage field. Colony Park has obtained a dredge and fill permit from DEP and has submitted an application for effluent disposal to them.

A review of the wastewater treatment plant's monthly operating reports has revealed that a significant amount of water, not purchased from the City of Cocoa, is being treated as influent. The collection lines are approximately twenty-six years old and with the excessive amount of infiltration it is apparent that the lines may be failing. Staff recommends that the utility be required to investigate the infiltration problem and develop and submit a plan within 180 days from the effective date of the Commission order to minimize the infiltration.

Once the utility submits a plan of action to control the infiltration problem and the utility sends the customer notice with the phone number, hours of availability and emergency phone number, the utility's quality of service should be considered satisfactory.

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RATE BASE

ISSUE 2: What percent of the utility's wastewater treatment plant and wastewater collection system is used and useful?

RECOMMENDATION: Both the wastewater treatment plant and wastewater collection system should be considered 100% used and useful. (EDWARDS)

STAFF ANALYSIS: Wastewater Treatment Plant - The designed capacity of the wastewater treatment plant is 70,000 gallons per day. The peak daily flow of a normal peak month is 168,600 gallons. The plant's monthly operating reports (MOR's) indicate that the month of October 1995 was the peak month. However, because of the abnormally high rainfall and excessive amount of water infiltrating the collection system, the month of October 1995 could not be used. Instead, the month of July 1995 was used as the peak (normal) month. The service area is built out and does not have any allowance for expansion. Presently, the utility's records indicate that the plant is operating above its permitted capacity, and because of the excessive amount of infiltration, it is difficult to determine the amount of storm water and ground water contained in the influent. A margin of reserve of 0 gpd is used. It is recommended that the wastewater treatment plant be considered 100% used and useful (Attachment "A").

Wastewater Collection System - The collection lines are made of Vitrified Clay Pipes (VOC) and PVC. Because the utility is operating above its permitted capacity, staff recommends that the wastewater collection system also be considered 100% used and useful (Attachment "B").

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**ISSUE 3:** What is the utility's appropriate average amount of rate base?

**RECOMMENDATION:** The appropriate average amount of test year rate base should be \$120,777. (CASEY, EDWARDS)

**STAFF ANALYSIS:** The appropriate components of the utility's rate base include depreciable plant in service, land, contributions in aid of construction (CIAC), accumulated depreciation, accumulated amortization of CIAC and working capital allowance. A discussion of each component follows.

**Depreciable Plant in Service:** The utility's wastewater treatment plant has a designed capacity 70,000 gpd Morolf concrete extended aeration plant with two side tanks that provide approximately one thousand (1,000) gallons of aerobic sludge digestion and a three hundred and fifty (350) gallon capacity chlorine contact chamber. Chlorination is provided by gas chlorine injected into the weir chamber of the final settling tank.

The wastewater influent is transported to two lift stations by gravity where the raw waste is then pumped to the plant site by a force main from each lift station. The chlorinated effluent is measured by a Stevens flow meter (with totalizer) on a 90 "V" notch DAVCO weir and deposited into two percolation ponds ( $\pm$  9,000 sq. ft each). One pond is parallel to the wastewater treatment plant and the other is adjacent to it. The wastewater collection system is composed of Vitrified Clay Pipe and PVC, with two lift stations located in the service area.

The utility's books reflected a utility plant in service (UPIS) balance of \$87,084 at the end of the test year. Staff calculated UPIS by starting with Commission Order No. 15274, issued October 21, 1985 and adding plant installed through the 1995 test year. Staff made an adjustment of \$56,398 to bring the utility's books to staff's calculated utility plant in service. In addition, an adjustment of \$22,410 was made to include the pro forma plant necessary to complete the drainage field to comply with the DEP consent Order.

An averaging adjustment of (\$4,522) was also made. Therefore, the appropriate average amount of test year plant in service should be \$161,370.

**Land:** The utility's books reflected a land balance of \$30,479 at the end of the test year. Commission Order No. 14238, issued March 26, 1985, established land value of \$3,000. The utility purchased two acres of land (an orange grove) to use as a drainage field to comply with the DEP consent Order. The utility provided staff with

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proof of the purchase in the amount of \$27,479. Therefore, staff recommends utility land value of \$30,479.

**Non-Used and Useful Plant:** As discussed in Issue No. 2, the wastewater treatment plant and wastewater collection system should be considered 100% used and useful. Therefore staff recommends no adjustments for non-used and useful plant.

**Contributions-in-Aid-of-Construction (CIAC):** The utility did not record any CIAC on their books at the end of the test year. Commission Order No. 14238, issued March 26, 1985, established CIAC of \$23,000. An additional \$500 of CIAC was collected in 1990. Therefore, staff recommends imputing CIAC of (\$23,500).

**Accumulated Depreciation:** The utility recorded accumulated depreciation of (\$64,398) on its books for the test year. Staff calculated accumulated depreciation starting with Commission Order No. 14238, issued March 26, 1985. Staff used a composite depreciation rate for utility plant of \$60,006 from that Order through the test year since their was no breakdown of utility plant by account. All additions since that time were broken down by account and the appropriate depreciation rates set forth in Rule 25-30.140, Florida Administrative Code were used.

Staff made an adjustment of (\$5,184) to bring the utility's accumulated depreciation to staff's recommended amount. An averaging adjustment of \$3,086 was also made. Therefore, staff recommends accumulated depreciation of (\$66,496).

**Accumulated Amortization of CIAC:** The utility recorded no accumulated amortization of CIAC at the end of the test year. Commission Order No. 14238, issued March 26, 1985, established accumulated amortization of CIAC of \$2,030. Staff calculated amortization starting with Order No. 14238 and used a yearly composite rate. Staff made an adjustment of \$14,584 to bring the utility's accumulated CIAC amortization to staff's recommended amount. An averaging adjustment of (\$506) was also made. Therefore, staff recommends accumulated CIAC amortization of \$14,078.

**Working Capital Allowance:** Following current Commission practice and consistent with Rule 25-30.443, Florida Administrative Code (Form PSC/WAS 18), Staff recommends that the one-eighth of operation and maintenance expense formula approach be used for calculating working capital allowance. Applying that formula, staff recommends a working capital allowance of \$4,846.

**Rate Base Summary:** Based on the foregoing, the appropriate rate base balance for rate setting purposes is \$120,777 for the



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wastewater system.

Rate base is shown on Schedule No. 1; the related adjustments are shown on Schedule No. 1-A.

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COST OF CAPITAL

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

RECOMMENDATION: The appropriate rate of return on equity should be 10.18% with a range of 9.18% to 11.18% and the appropriate overall rate of return should also be 10.18% with a range of 9.18% to 10.18%. (CASEY)

STAFF ANALYSIS: Based on the staff audit, the utility's capital structure consists of \$9,000 of common stock and \$41,766 of retained earnings. The utility has loan accounts with its sole shareholder and related company that totaled \$72,134 as of December 31, 1995. There are no formal loan agreements, and no interest is being accrued on these loans. Therefore, staff is including this loan amount as additional paid in capital, which makes the utility's capital structure 100% common equity.

The return on equity, when based on the leverage graph formula from Order No. PSC-96-0729-FOF-WS, issued May 31, 1996, is 10.18% with a range of 9.18% to 11.18% and the overall rate of return is also 10.18% with a range of 9.18% to 11.18%. Staff made pro rata adjustments to reconcile the capital structure downward to match the recommended rate base.

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

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NET OPERATING INCOME

ISSUE 5: What is the appropriate test year revenue for this utility?

RECOMMENDATION: The appropriate test year revenue for this utility should be \$35,628. (CASEY)

STAFF ANALYSIS: The utility recorded wastewater system revenues of \$39,583 during the test period. The utility imputed revenue of \$24,000 for the test year at the rental park, and used actual consumption numbers for customers other than the rental park. Revenue was recalculated by staff using actual usage reports provided by the City of Cocoa for the rental park and other residents. The revenue check revealed that test year revenues should be \$35,628. Staff has made an adjustment of (\$3,955) to bring test year revenue to the proper amount.

Test year revenue is shown on Schedule No. 3.

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**ISSUE 6:** What is the appropriate amount of operating expenses for rate setting purposes?

**RECOMMENDATION:** The appropriate amount of operating expenses for rate making purposes should be \$46,835. (CASEY, EDWARDS)

**STAFF ANALYSIS:** The components of the utility's operating expenses include operation and maintenance expenses, depreciation expense (net of CIAC amortization), and taxes other than income taxes.

**Test Period Operating Expenses**

The utility recorded test year wastewater system operating expenses of \$61,777. These expenses include operation and maintenance expenses of \$52,392, depreciation expense of \$4,962, and taxes other than income of \$4,423. Staff made several adjustments to the utility's operating expenses. A summary of adjustments to operating expenses are as follows:

**B. OPERATION AND MAINTENANCE EXPENSE**

- 1) (711) Sludge Removal Expense - The utility recorded sludge removal expense of \$650 for the test year. The utility's monthly operating reports indicated that the plant's influent wastewater is greater than the plant's maximum rated capacity. Because of this situation, the sludge should be removed more frequently. Staff is recommending changing from the 2 sludge removals per year (\$325 each) to six sludge removals per year. Staff made an adjustment of \$1,300 to allow for bi-monthly sludge removal.

Staff recommends sludge removal expense of \$1,950.

- 2) (715) - Purchased Power - The utility recorded \$7,725 in this account during the test year. Staff made adjustments to: a) remove a \$40 late payment fee paid to Florida Power & Light, b) remove a \$1,406 posting error of check #877, and c) add back \$17 of interest on a security deposit credited by Florida Power and Light.

Total purchased power adjustments amount to (\$1,429). Staff recommends test year purchased power of \$6,296.

- 3) (720) - Materials and Supplies - The utility

recorded \$1,488 in the materials and supplies account during the test year. Staff made adjustments to: a) remove \$150 of non-verifiable expenses, b) reclassify \$618 of expensed utility plant to utility plant in service, c) reclassify a \$140 materials and supplies expense from account #730, and d) reclassify a \$200 contractual services expense to account # 730.

Total adjustments for this account are (\$828). Staff recommends test year materials and supplies of \$660.

- 4) (730) - Contractual Services - The utility recorded \$40,788 in this account during the test period. Staff made adjustments to: a) adjust for errors in posting checks (\$2,875), b) include \$50 for check #812 made to Bobby & Son Contractors, c) include a \$1,143 City of Cocoa billing fee, d) reclassify a \$140 materials and supplies expense to account # 720, e) reclassify \$1,295 of rent expense to account # 740, f) remove a \$330 posting error, g) reclassify \$12,525 of expensed utility plant to utility plant in service, h) reclassify a \$200 contractual services expense from account # 720, and i) reclassify \$275 of rate case expense to account # 765.

Total adjustments of (\$16,047) were made to this account. Staff recommends test year contractual services of \$24,741 which includes \$10,800 for the management contract, \$5,100 for the licensed operator contract, \$1,088 for DEP required wastewater testing, \$1,568 for accounting and legal services, \$1,325 for lawn maintenance, and \$4,860 for repairs and maintenance.

- 5) (740) - Rents - The utility recorded \$1,295 of rent expense in the contractual services account. Staff reclassified this expense to the rent expense account. Staff believes this amount of rent expense is fair and reasonable based on the size of this utility.
- 6) (755) - Insurance Expense - The utility did not record any insurance expense in this account during the test year. An adjustment was made to include an allocation for insurance expense of \$1,500.

Staff recommends test year insurance expense of \$1,500.

- 7) (765) - Regulatory Commission Expenses - The utility did not record any regulatory commission expense in this account during the test year. Staff made adjustments to a) include \$250 for the rate case filing fee amortized over 4 years (\$1,000/4), and b) include \$150 (\$600/4) for rate case expense amortized over 4 years (\$275 reclassified from account No. 730 plus \$325 attorney fees).

Staff recommends test year regulatory commission expense of \$400.

- 8) (770) - Bad Debt Expense - The utility included no Bad Debt Expense for the test year. Staff made an adjustment of \$181 to include the bad debt expense amount provided by the City of Cocoa, the utility's billing contractor.

Staff recommends \$181 of Bad Debt Expense for the test year.

C. & D. Depreciation Expense: The utility recorded depreciation expense of \$4,962 for the test year. Staff has applied the prescribed depreciation rates and used and useful percentages to the appropriate test year plant-in-service account balances which result in a depreciation expense of \$4,981 for the test year. An adjustment of \$19 was made to bring depreciation expense to staff's recommended amount \$4,981.

The utility recorded no amortization expense for the test year. Staff determined test year CIAC amortization expense to be (\$932). An adjustment of (\$932) was made to bring amortization expense to the proper test year amount. Therefore, depreciation expense net of amortization of CIAC would be \$4,049 (\$4,981-\$932).

E. Taxes Other than Income: The utility recorded \$4,423 in this account during the test year. Staff made adjustments to: 1) remove \$3,063 in regulatory assessment fees paid in 1995 which were for prior years, and 2) include 1995 regulatory assessment fees of \$1,604 based on staff's recommended test year revenue.

Total adjustments for this account are (\$1,459). Staff recommends test year taxes other than income of \$2,964.

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Increases in Operating Expenses for Ratesetting Purposes

F. Operating Revenues: Revenue has been adjusted by \$23,502 to reflect the increase in revenue required to cover expenses and allow the utility the opportunity to earn staff's recommended return on investment.

G. Taxes Other Than Income Taxes: This expense has been increased by an additional \$1,058 to reflect the regulatory assessment fee of 4.5% on staff's primary recommended increase in revenue.

Operating Expenses Summary: The application of Staff's recommended adjustments to the utility's test year operating expenses results in staff's recommended operating expenses for ratesetting purposes of \$46,835.

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

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ISSUE 7: What is the appropriate test year operating loss for this utility?

RECOMMENDATION: The appropriate test year operating loss for this wastewater system is (\$10,149). (CASEY)

STAFF ANALYSIS: The test year operating revenues for this utility are \$35,628, while the corresponding test year operating expenses are \$45,777. This results in a test year operating loss of (\$10,149).

The test year operating loss for the recommendation is shown on Schedule No. 3 and 3A.



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REVENUE REQUIREMENT

ISSUE 8: What is the appropriate revenue requirement for this utility?

RECOMMENDATION: The appropriate revenue requirement should be \$59,130 for this utility. (CASEY)

STAFF ANALYSIS: The utility should be allowed an annual increase in revenue of \$23,502 (65.96%). This will allow the utility the opportunity to recover its expenses and earn a 10.18% return on its investment. The calculations are as follows:

	<u>Water</u>
Adjusted Rate Base	\$120,777
Rate of Return	x <u>.1018</u>
Return on Investment	\$ 12,295
Adjusted O & M Expenses	38,764
Depreciation Expense (Net)	4,049
Taxes Other Than Income Taxes	<u>4,022</u>
Revenue Requirement	<u>\$ 59,130</u>
Annual Revenue Increase	\$ 23,502
Percentage Increase/(Decrease)	<u>65.96%</u>

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

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**RATES AND CHARGES**

**ISSUE 9:** What is the appropriate rate structure and what are staff's recommended rates?

**RECOMMENDATION:** The base facility and gallonage charge rate structure should be the appropriate rate structure. Staff's recommended rates allow the utility the opportunity to recover its operating expenses and earn an 10.18% return on its investment. The recommended rates are set forth below in staff's analysis. The rates should be effective for service rendered as of the stamped approval date on the tariff sheets provided the customers have received notice. The tariff sheets should be approved upon staff's verification that the tariffs are consistent with the Commission's decision, that the customer notice is adequate, and that any required security has been provided. The utility should provide proof of the date notice was given within 10 days after the date of the notice. (CASEY, EDWARDS)

**STAFF ANALYSIS:** The utility's current residential tariff provides for a base facility and gallonage charge rate structure which is the preferred rate structure, because it is designed to provide for the equitable sharing by the rate payers of both the fixed and variable costs of providing service. The base facility charge is based upon the concept of readiness to serve all customers connected to the system. This ensures that rate payers pay their share of the variable costs of providing service (through the consumption or gallonage charge) and also pay their share of the fixed costs of providing service (through the base facility charge).

Based on the test year billing analysis, the utility provided wastewater service to approximately 150 rental units and 151 other residential customers. Rates have been calculated based on test year customers and the consumption levels provided by the billing analysis. Commission Order No. 15274, issued October 21, 1985, established a special tariff for the Colony Park Rental Village consisting of a base facility charge of \$440.50 and a gallonage charge of \$1.22/1,000 gallons with no maximum. Staff recommends maintaining the special tariff for the rental park using the test year number of rental customers to determine the base facility charge and using the same gallonage charge as non-rental park customers but with 1,500,000 gallons/month (150 residents x 10,000 gallons) maximum gallonage. Schedules of the utility's existing rates and rate structure and staff's recommended rates and rate structure are as follows:

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MONTHLY WASTEWATER RATES  
Residential Service

<u>Base Facility Charge</u>	<u>Utility's Monthly Existing Rates</u>	<u>Staff's Monthly Preliminary Rates</u>
<u>Meter Sizes:</u>		
5/8" x 3/4"	\$ 3.64	\$ 6.18
1"	3.64	15.46
1 1/2"	3.64	30.92
2"	3.64	49.47
3"	3.64	98.93
4"	3.64	154.58
6"	3.64	309.16
<u>Gallonge Charge</u>		
Per 1,000 Gallons (10,000 gallon maximum)	\$ 1.10	\$ 1.81

MONTHLY WASTEWATER RATES  
General Service

<u>Base Facility Charge</u>	<u>Utility's Monthly Existing Rates</u>	<u>Staff's Monthly Preliminary Rates</u>
<u>Meter Sizes:</u>		
5/8" x 3/4"	\$ 3.64	\$ 6.18
1"	8.15	15.46
1 1/2"	15.66	30.92
2"	24.68	49.47
3"	N/A	98.93
4"	N/A	154.58
6"	N/A	309.16
<u>Gallonge Charge</u>		
Per 1,000 Gallons (No maximum)	\$ 1.47	\$ 2.17

MONTHLY WASTEWATER RATES  
SPECIAL TARIFF APPLICABLE ONLY TO COLONY PARK MOBILE HOME PARK

<u>Base Facility Charge</u>	<u>Utility's Monthly Existing Rates</u>	<u>Staff's Monthly Preliminary Rates</u>
<u>Base Facility Charge</u>	\$ 440.50	\$ 927.00
<u>Gallonge Charge</u>		
Per 1,000 Gallons (1,500,000 gallon maximum)	\$ 1.22	\$ 1.81

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Using the average 151 test year residential wastewater customers other than the rental park, with an average wastewater usage of 4,690 gallons/month per customer, an average residential monthly wastewater bill comparison would be as follows:

	<u>Existing Monthly Bill</u>	<u>Recommended Monthly Bill</u>	<u>Percent Increase</u>
Base Facility Charge	\$ 3.64	\$ 6.18	
Gallorage Charge	<u>\$ 5.16</u>	<u>\$ 8.49</u>	
Total	\$ 8.80	\$ 14.67	66.70%

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

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

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

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ISSUE 10: What is the appropriate service availability policy for this utility?

RECOMMENDATION: The appropriate service availability policy should be the utility's existing policy as outlined in the staff analysis. (CASEY)

STAFF ANALYSIS: The utility's existing tariff includes the following service availability policy.

"No specific charge is authorized. Future additions to the plant and collection system should be paid for by the developer requiring the additional capacity and connections."

The utility's territory is fully built-out. Therefore, staff is recommending maintaining the existing service availability policy at this time.

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OTHER ISSUES

ISSUE 11: What is the appropriate amount by which rates should be reduced four years after the established effective date to reflect the removal of the amortized rate case expense as required by Section 367.0816, Florida Statutes?

RECOMMENDATION: Revenues should be reduced by a total of \$419 annually to reflect the removal of rate case expense grossed-up for regulatory assessment fees which is being amortized over a four year period. The effect of the revenue reduction results in rate decreases as shown on Schedule No. 4. The decrease in rates should become effective immediately following the expiration of the four year rate case expense recovery period, pursuant to Section 367.0816, Florida Statutes. The utility should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction.  
(CASEY)

STAFF ANALYSIS: Section 367.0816, Florida Statutes requires that the rates be reduced immediately following the expiration of the four year period by the amount of the rate case expense previously included in the rates. The reduction will reflect the removal of revenues associated with the amortization of rate case expense and the gross-up for regulatory assessment fees which is \$419 annually. The reduction in revenues will result in the rates recommended by staff on Schedule No. 4.

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

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

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**ISSUE 12:** Should the recommended rates 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?

**RECOMMENDATION:** Yes, the recommended rates should 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. If the recommended rates are approved on a temporary basis, the rates collected by the utility should be subject to the refund provisions discussed below in the Staff Analysis. (CASEY)

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

The utility should be authorized to collect the temporary rates upon the Staff's approval of security for both the potential refund and a copy of the proposed customer notice. The security should be in the form of a bond or letter of credit in the amount of \$16,240 This amount is based on the rate calculation which includes ad valorem taxes. Alternatively, the utility could establish an escrow agreement with an independent financial institution.

If the utility chooses a bond as security, the bond should contain wording to the 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 should contain the following conditions:

- 1) The letter of credit is irrevocable for the period it is in effect.
- 2) The letter of credit will be in effect until a final Commission order is rendered, either approving or denying the rate increase.

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

- 1) No refunds in the escrow account may be withdrawn by the utility without the express approval of the Commission.
- 2) The escrow account shall be an interest bearing account.
- 3) If a refund to the customers is required, all interest earned by the escrow account shall be distributed to the customers.
- 4) If a refund to the customers is not required, the interest earned by the escrow account shall revert to the utility.
- 5) All information on the escrow account shall be available from the holder of the escrow account to a Commission representative at all times.
- 6) The amount of revenue subject to refund shall be deposited in the escrow account within seven days of receipt.
- 7) This escrow account is established by the direction of the Florida Public Service Commission for the purpose(s) set forth in its order requiring such account. Pursuant to Cosentino v. Elson, 263 So.2d 253 (Fla. 3d DCA 1972), escrow accounts are not subject to garnishments.
- 8) The Director of Records and Reporting must be a signatory to the escrow agreement.

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

The utility should maintain a record of the amount of the bond, and the amount of revenues that are subject to refund. In addition, after the increased rates are in effect, the utility



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should file reports with the Division of Water and Wastewater no later than 20 days after each monthly billing. These reports should indicate the amount of revenue collected under the increased rates.

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**ISSUE 13:** Should the utility be required to maintain its books and records in conformity with the 1984 NARUC Uniform System of Accounts (USOA)?

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

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

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

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

Staff believes the utility has the expertise necessary to convert and maintain the utility's records in conformity with Rule 25-30.115, Florida Administrative Code. Therefore, staff recommends that the utility be required to maintain its books and records in conformity with the 1984 NARUC Uniform System of Accounts.

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ISSUE 14: What is the appropriate effective date of the revised rates and charges?

RECOMMENDATION: The metered rates should be effective for service rendered as of the stamped approval date on the revised tariff sheets provided customers have received notice. Tariff sheets should be approved upon staff's verification that the tariff sheets are consistent with the Commission's decision, that the proposed customer notice is adequate, and that any required security has been provided. In no event should the rates be effective for services rendered prior to the stamped approval date. (CASEY)

STAFF ANALYSIS: The metered rates should be effective for service rendered as of the stamped approval date on the revised tariff sheets provided customers have received notice. Tariff sheets should be approved upon staff's verification that the tariff sheets are consistent with the Commission's decision, that the proposed customer notice is adequate, and that any required security has been provided. In no event should the rates be effective for services rendered prior to the stamped approval date.

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ISSUE 15: Should this docket be closed?

RECOMMENDATION: No, if no timely protest is received upon expiration of the protest period, this docket should remain open for an additional six months from the effective date of the Order to allow staff to verify that pro forma necessary to complete the drainage field to comply with the DEP consent Order has been completed. However, if the utility fails to timely complete the pro forma, staff will prepare a follow-up recommendation and show cause proceedings may be initiated. (AGARWAL, CASEY, EDWARDS)

STAFF ANALYSIS: Staff has included pro forma items necessary to complete the drainage field to comply with the DEP consent Order. If no timely protest is received, upon expiration of the protest period, this docket should remain open for an additional six months from the effective date of the Order so that staff may verify that the pro forma has been completed. However, if the utility fails to timely complete these items, staff will prepare a follow-up recommendation and show cause proceedings may be initiated.

COLONY PARK UTILITIES, INC.  
 SCHEDULE OF WASTEWATER RATE BASE  
 TEST YEAR ENDING DECEMBER 31, 1995

SCHEDULE NO. 1  
 DOCKET NO. 951591-SU

	<u>TEST YEAR PER UTILITY</u>	<u>STAFF ADJUST. TO UTIL. BAL.</u>	<u>BALANCE PER STAFF</u>
UTILITY PLANT IN SERVICE	\$ 87,084	\$ 74,286 A	\$ 161,370
LAND/NON-DEPRECIABLE ASSETS	30,479	0	30,479
CIAC	0	(23,500) B	(23,500)
ACCUMULATED DEPRECIATION	(64,396)	(2,098) C	(66,496)
AMORTIZATION OF CIAC	0	14,078 D	14,078
WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>4,846 E</u>	<u>4,846</u>
WASTEWATER RATE BASE	\$ 53,165	\$ 67,612	\$ <span style="border: 1px solid black; padding: 2px;">120,777</span>

COLONY PARK UTILITIES, INC.  
ADJUSTMENTS TO RATE BASE  
TEST YEAR ENDING DECEMBER 31, 1995

SCHEDULE NO. 1A  
DOCKET NO. 951591-SU

	<u>WASTEWATER</u>
<b>A. <u>UTILITY PLANT IN SERVICE</u></b>	
1. To bring utility balance to staff's recommended plant.	\$ 56,398
2. To reflect pro forma plant.	22,410
3. To reflect averaging adjustment.	(4,522)
	<u>\$ 74,286</u>
<b>B. <u>CONTRIBUTIONS IN AID OF CONSTRUCTION</u></b>	
1. To include CIAC not recorded by utility.	\$ <u>(23,500)</u>
<b>C. <u>ACCUMULATED DEPRECIATION</u></b>	
1. To bring utility balance to staff's recommended amount.	\$ (5,184)
2. To reflect averaging adjustment.	3,086
	<u>\$ (2,098)</u>
<b>D. <u>AMORTIZATION OF CIAC</u></b>	
1. To include acc/amort. not recorded by utility.	\$ 14,584
2. To reflect averaging adjustment.	(506)
	<u>\$ 14,078</u>
<b>E. <u>WORKING CAPITAL ALLOWANCE</u></b>	
1. 1/8 of operation and maintenance expenses	<u>\$ 4,846</u>

COLONY PARK UTILITIES, INC.  
 SCHEDULE OF CAPITAL STRUCTURE  
 TEST YEAR ENDING DECEMBER 31, 1995

SCHEDULE NO. 2  
 DOCKET NO. 951591-SU

	<u>PER UTILITY</u>	<u>STAFF ADJUST. TO UTIL. BAL.</u>	<u>BALANCE PER STAFF</u>	<u>PERCENT OF TOTAL</u>	<u>COST</u>	<u>WEIGHTED COST</u>
COMMON STOCK	\$ 9,000	\$ 0	\$ 8,663	7.17%	10.18%	0.73%
RETAINED EARNINGS	41,766	0	40,200	33.28%	10.18%	3.39%
PAID IN CAPITAL	0	74,714	71,913	59.54%	10.18%	6.06%
TOTAL	\$ 50,766	\$ 74,714	\$ 120,777	100.00%		10.18%

<u>RANGE OF REASONABLENESS</u>	<u>LOW</u>	<u>HIGH</u>
RETURN ON EQUITY	9.18%	11.18%
OVERALL RATE OF RETURN	9.18%	11.18%

COLONY PARK UTILITIES, INC.  
 SCHEDULE OF WASTEWATER OPERATING INCOME  
 TEST YEAR ENDING DECEMBER 31, 1995

SCHEDULE NO. 3  
 DOCKET NO. 951591-SU

	<u>TEST YEAR PER UTILITY</u>	<u>STAFF ADJ. TO UTILITY</u>	<u>STAFF ADJUSTED TEST YEAR</u>	<u>ADJUST. FOR INCREASE</u>	<u>TOTAL PER STAFF</u>
OPERATING REVENUES	\$ 39,583	\$ (3,955) A	\$ 35,628	\$ 23,502 F	\$ 59,130
OPERATING EXPENSES:					
OPERATION AND MAINTENANCE	\$ 52,392	\$ (13,628) B	\$ 38,764	\$ 0	\$ 38,764
DEPRECIATION	4,962	19 C	4,981	0	4,981
AMORTIZATION	0	(932) D	(932)	0	(932)
TAXES OTHER THAN INCOME	4,423	(1,459) E	2,964	1,058 G	4,022
INCOME TAXES	0	0	0	0	0
TOTAL OPERATING EXPENSES	\$ 61,777	\$ (16,000)	\$ 45,777	\$ 1,058	\$ 46,835
OPERATING INCOME/(LOSS)	\$ (22,194)		\$ (10,149)		\$ 12,295
WASTEWATER RATE BASE	\$ 53,165		\$ 120,777		\$ 120,777
RATE OF RETURN	<u>-41.75%</u>		<u>-6.40%</u>		<u>10.18%</u>



COLONY PARK UTILITIES, INC.  
 ADJUSTMENTS TO OPERATING INCOME  
 TEST YEAR ENDING DECEMBER 31, 1995

SCHEDULE NO. 3A  
 DOCKET NO. 951591-SU  
 PAGE 1 OF 2

A. OPERATING REVENUES	<u>WASTEWATER</u>
1. To adjust utility figure to staff's billing analysis.	\$ <u>(3,955)</u>
B. OPERATION AND MAINTENANCE EXPENSES	
1. (711) Sludge Removal Expense	
a. To increase sludge removal expense per engineer's recommendation.	\$ <u>1,300</u>
2. (715) Purchased Power	
a. To remove late payment fee paid to Florida Power & Light.	\$ (40)
b. To correct error in posting check # 877.	(1,406)
c. To include interest applied by Florida Power & Light.	17
	\$ <u>(1,429)</u>
3. (720) Materials and Supplies	
a. To remove \$150 of non-verifiable expenses.	\$ (150)
b. To reclassify to utility plant in service.	(618)
c. To reclassify expense from account # 730.	140
d. To reclassify contractual services expense to account # 730.	(200)
	\$ <u>(828)</u>
4. (730) Contractual Services	
a. To adjust for errors in posting checks.	\$ (2,875)
b. To include check # 812 to Bobby & Son.	50
c. To include City of Cocoa billing fee.	1,143
d. To reclassify materials & supplies expense to account # 720.	(140)
e. To reclassify rent expense to account # 740.	(1,295)
f. To remove posting error.	(330)
g. To reclassify to utility plant in service.	(12,525)
h. To reclassify contractual services expense from account # 720.	200
i. To reclassify rate case expense to account # 765.	(275)
	\$ <u>(16,047)</u>
5. (740) Rents	
a. To reclassify rent expense from account # 730.	\$ <u>1,295</u>
6. (755) Insurance Expense	
a. To include annual liability insurance expense.	\$ <u>1,500</u>
7. (765) Regulatory Commission Expense	
a. To include rate case filing fee amortized over 4 years.	\$ 250
b. To include rate case expense amortized over 4 years.	150
	\$ <u>400</u>
8. (770) Bad Debt Expense	
a. To include bad debt expense shown by City of Cocoa.	\$ <u>181</u>
O & M TOTAL	\$ <u>(13,628)</u>

COLONY PARK UTILITIES, INC.  
ADJUSTMENTS TO OPERATING INCOME  
TEST YEAR ENDING DECEMBER 31, 1995

SCHEDULE NO. 3A  
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PAGE 2 OF 2

C. <u>DEPRECIATION</u>	
1. To adjust to staff's recommended balance.	\$ <u>19</u>
D. <u>AMORTIZATION</u>	
1. To include staff's recommended amortization expense.	\$ <u>(932)</u>
E. <u>TAXES OTHER THAN INCOME</u>	
1. To remove regulatory assessment fees paid in 1995 but from prior years.	\$ (3,063)
2. To include 1995 regulatory assessment fees.	<u>1,604</u>
	\$ <u>(1,459)</u>
F. <u>OPERATING REVENUES</u>	
1. To reflect staff's recommended revenue increase.	\$ <u>23,502</u>
G. <u>TAXES OTHER THAN INCOME</u>	
1. To reflect the additional regulatory assessment fee associated with staff's recommended revenue requirement.	\$ <u>1,058</u>

COLONY PARK UTILITIES, INC.  
 ANALYSIS OF WASTEWATER OPERATION AND  
 MAINTENANCE EXPENSE  
 TEST YEAR ENDING DECEMBER 31, 1995

SCHEDULE NO. 3B  
 DOCKET NO. 951591-SU

	<u>TOTAL PER UTIL.</u>	<u>STAFF ADJUST.</u>	<u>TOTAL PER STAFF</u>
(701) SALARIES AND WAGES - EMPLOYEES	\$ 0	\$ 0	\$ 0
(703) SALARIES AND WAGES - OFFICERS	0	0	0
(704) EMPLOYEE PENSIONS AND BENEFITS	0	0	0
(710) PURCHASED SEWAGE TREATMENT	0	0	0
(711) SLUDGE REMOVAL EXPENSE	650	1,300 [1]	1,950
(715) PURCHASED POWER	7,725	(1,429)[2]	6,296
(716) FUEL FOR POWER PRODUCTION	0	0	0
(718) CHEMICALS	1,427	0	1,427
(720) MATERIALS AND SUPPLIES	1,488	(828)[3]	660
(730) CONTRACTUAL SERVICES	40,788	(16,047)[4]	24,741
(740) RENTS	0	1,295 [5]	1,295
(750) TRANSPORTATION EXPENSE	0	0	0
(755) INSURANCE EXPENSE	0	1,500 [6]	1,500
(765) REGULATORY COMMISSION EXPENSE	0	400 [7]	400
(770) BAD DEBT EXPENSE	0	181 [8]	181
(775) MISCELLANEOUS EXPENSES	314	0	314
	<u>\$ 52,392</u>	<u>\$ (13,628)</u>	<u>\$ 38,764</u>

RECOMMENDATION RATE REDUCTION SCHEDULE

COLONY PARK UTILITIES, INC.  
TEST YEAR ENDING DECEMBER 31, 1995

SCHEDULE NO. 4  
DOCKET NO. 951591-SU

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

MONTHLY WASTEWATER RATES

<u>RESIDENTIAL AND GENERAL SERVICE</u>	<u>RECOMMENDED RATES</u>	<u>RATE REDUCTION</u>
BASE FACILITY CHARGE: by meter size:		
5/8"X3/4"	\$ 6.18	\$ 0.04
1"	15.46	0.10
1-1/2"	30.92	0.21
2"	49.47	0.33
3"	98.93	0.67
4"	154.58	1.05
6"	309.16	2.09
RENTAL PARK BASE FACILITY CHARGE	\$ 927.49	\$ 6.27
RESIDENTIAL GALLONAGE CHARGE PER 1,000 GALLONS (10,000 GALLON CAP)	\$ 1.81	\$ 0.01
COMMERCIAL GALLONAGE CHARGE PER 1,000 GALLONS (NO GALLONAGE CAP)	\$ 2.17	\$ 0.01

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JULY 18, 1996

Attachment A

WASTEWATER TREATMENT PLANT

USED AND USEFUL DATA

Docket No. 951591-SU Utility COLONY PARK UTILITIES, INC. Date MAR. 96

- 1) Capacity of Plant 70,000 gallons per day
- 2) Maximum Daily Flow 100,600 gallons per day
- 3) Average Daily Flow 77,440 gallons per day
- 4) Fire Flow Requirements NOT APPLICABLE gallons per day
- 5) Margin Reserve 0 gallons per day  
\*Not to exceed 20% of present customers

a) Test Year Customers in ERC's - Begin 259 End 259 Av. 259

b) Customer Growth Using Regression Analysis in ERC's  
for Most Recent 5 Years Including Test Year 0 ERC's

c) Construction Time for Additional Capacity 1.5 Years

$$(b) \times (c) \times \left[ \frac{\quad}{(a)} \right] = \quad \text{gallons per day}$$

6) Excessive Infiltration gallons per day

a) Total Amount 26,358 gallons per day 34.04 % of Av. Daily Flow

b) Reasonable Amount 7,744 gallons per day 10 % of Av. Daily Flow

c) Excessive Amount 18,614 gallons per day 24.04 % of Av. Daily Flow

PERCENT USED

AND USEFUL FORMULA

$$\frac{[(3) + (5)] - 6}{1} = \underline{100} \% \text{ Used and Useful}$$

Gerald D. Edwards Engineer \* The service area is built out.

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Attachment B

WASTEWATER COLLECTION SYSTEM

USED AND USEFUL DATA

Docket No. 951591-SU Utility COLONY PARK UTILITIES, INC Date MAR. 96

- 1) Capacity 250 ERC's (Number of potential customers without expansion)
  - 2) Number of TEST YEAR Connections 259 ERC's day
    - a) Begin Test Year 259 ERC's
    - b) End Test Year 259 ERC's
    - c) Average Test Year 259 ERC's
  - 3) Margin Reserve 0 ERC's
    - a) Customer Growth Using Regression Analysis in ERC's for Most Recent 5 Years Including Test Year 0 ERC's
    - c) Construction Time for Additional Capacity 1.5 Years
- (a) x (b) = 0 ERC's Margin Reserve

PERCENT USED AND USEFUL FORMULA

$$\frac{(2 + 3)}{1} = \underline{100} \% \text{ Used and Useful}$$

Gerald D. Edwards Engineer