

FLORIDA PUBLIC SERVICE COMMISSION  
Capital Circle Office Center, 2540 Shumard Oak Boulevard  
Tallahassee, Florida 32399-0850

M E M O R A N D U M

AUGUST 1, 1996

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

FROM: DIVISION OF WATER & WASTEWATER (CASEY, EDWARDS) *RE* *ME* *DB* *CA*  
DIVISION OF LEGAL SERVICES (AGARWAL) *AS*

RE: DOCKET NO. 960814-WS - HEATHER HILLS ESTATES UTILITY -  
INVESTIGATION OF POSSIBLE OVERTURNINGS  
COUNTY: MANATEE

AGENDA: 8/13/96 - REGULAR AGENDA - PROPOSED AGENCY ACTION -  
INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: I:\PSC\WAW\WP\960814WS.RCM

---

DOCUMENT NUMBER-DATE

08076 AUG-1 96

FPSC-RECORDS/REPORTING



TABLE OF CONTENTS

<u>ISSUE</u>	<u>DESCRIPTION</u>	<u>PAGE</u>
-	Case Background	2
	<u>QUALITY OF SERVICE</u>	
1	Quality of Service (EDWARDS)	4
	<u>RATE BASE</u>	
2	Used and Useful Percentages (EDWARDS)	5
3	Test Year Rate Base (CASEY, EDWARDS)	6
4	Acquisition Adjustment (CASEY)	9
	<u>COST OF CAPITAL</u>	
5	Rate of Return on Equity, Overall Rate of Return (CASEY)	10
	<u>NET OPERATING INCOME</u>	
6	Test Year Revenues (CASEY)	11
7	Operating Expenses (CASEY, EDWARDS)	12
	<u>REVENUE REQUIREMENT</u>	
8	Revenue Requirement (CASEY)	18
9	Is the Utility Overearning? (CASEY)	19
	<u>RATES AND CHARGES</u>	
10	Rates and Rate Structure (CASEY)	21
	<u>OTHER ISSUES</u>	
11	Close Docket (AGARWAL, CASEY, EDWARDS)	25



DOCKET NO. 960814-WS  
AUGUST 1, 1996

SCHEDULES DESCRIPTION

		<u>PAGE</u>
1	Water Rate Base	
1-A	Wastewater Rate Base	26
1-B	Adjustments to Rate Base	27
2	Capital Structure	28
3	Water Operating Income	29
3A	Wastewater Operating Income	30
3B	Adjustments to Operating Income	31
3C	Water Operation and Maintenance Expenses	32
3D	Wastewater Operation & Maintenance Expenses	34
		35
Attach. A	Water Used and Useful Calculations	36
Attach. B	Wastewater Used and Useful Calculations	37



DOCKET NO. 960814-WS  
AUGUST 1, 1996

CASE BACKGROUND

On October 10, 1995, the Manatee County Board of County Commissioners adopted Resolution No. R-95-109, pursuant to Section 367.171, Florida Statutes, declaring the privately owned water and wastewater utilities in Manatee County subject to the provisions of Chapter 367, Florida Statutes, effective October 10, 1995. The Florida Public Service Commission (PSC) acknowledged their resolution in Order PSC-95-1393-FOF-WS, issued November 11, 1995.

Heather Hills Estates (Heather Hills or utility) was established in 1967 to serve water and wastewater customers within Heather Hills Estates in Manatee County, Florida. The utility serves 353 single family residential customers as well as a park club house and a golf course clubhouse/restaurant for a total of approximately 355 water customers and 354 wastewater customers. The golf course has a septic tank for wastewater service.

Heather Hills filed its application for a grandfather certificate on December 7, 1995. The utility was granted Water Certificate No. 577-W and Wastewater Certificate No. 498-S in Commission Order PSC-96-0434-FOF-WS, issued March 28, 1996.

In order to familiarize themselves with PSC requirements and resources, the owners of the utility attended the Class C water and wastewater workshop in Orlando on January 18-19, 1996. They followed up the conference with a call to the Commission requesting that a member of staff meet with the owners and the their C.P.A. in the C.P.A.'s Tampa office to assist them in setting up the utility books according to the National Association of Regulatory Utility Commissioners (NARUC) system of accounts. The Division of Auditing and Financial Analysis provided a field auditor to aid the utility in setting up their books and records. Prior to Commission jurisdiction, Heather Hills maintained consolidated books of the utility and park. They have since separated their books to keep separate utility records according to NARUC.

During consideration of the grandfather certificate item by Commissioners at the March 5, 1996 Agenda, two customers of Heather Hills expressed their concern of possible overearnings of the utility and dissatisfaction with the existing minimum gallonage charge for water and wastewater. Staff was reviewing the utility's 1995 annual report at the time of the March 5th agenda. The annual report review revealed possible 1995 overearnings of the utility.

The utility's books were commingled with the parks books during 1995 and the utility attempted to separate the utility costs as best they could to meet the PSC requirement for a 1995 annual report. To follow up on the staff review of the 1995 annual



DOCKET NO. 960814-WS  
AUGUST 1, 1996

report, an audit request was made for an undocketed investigation of possible overearnings by the utility.

In preparation for this report, 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 water distribution and wastewater collection systems along with the service area. A review of the utility's operation expenses, maps, files, and rate application was also done to obtain information about the systems and operating costs.

Staff has selected a historical test year ending December 31, 1995. The utility's 1995 annual report reflected unaudited water operating revenues of \$38,117 resulting in an operating income of \$1,248 for water, and wastewater operating revenues of \$57,175 resulting in an operating income of \$12,737 for wastewater.

Water use in the utility's service area is under the jurisdiction of the Southwest Florida Water Management District. The utility is a consecutive system (purchases water for resale) which is considered non-jurisdictional by the Southwest Florida Water Management District and has not been issued a consumptive use permit.



DOCKET NO. 960814-WS  
AUGUST 1, 1996

DISCUSSION OF ISSUES

QUALITY OF SERVICE

ISSUE 1: Is the quality of service provided by Heather Hills Estates in Manatee County satisfactory?

RECOMMENDATION: Yes. The quality of service provided by Heather Hills Estates should be considered satisfactory. (EDWARDS)

STAFF ANALYSIS: A review of the Manatee County Health Department's records has revealed that the water facilities are in compliance with the appropriate environmental regulations. A review of the Department of Environmental Protection (DEP) records has also revealed that the wastewater facilities are in compliance with the appropriate environmental regulations. The staff engineer also checked with the PSC Division of Consumer Affairs for any registered complaints and found none.

Heather Hills purchases water and wastewater service for resale from Manatee County. There are no water or wastewater treatment plant facilities to evaluate. Therefore, it is recommended that the quality of service provided by Heather Hills be considered satisfactory.



DOCKET NO. 960814-WS  
AUGUST 1, 1996

RATE BASE

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

RECOMMENDATION: The water distribution system and wastewater collection system should be considered 100% used and useful. Since there is no water or wastewater treatment plant, no treatment plant used and useful percentage is applicable. (EDWARDS)

STAFF ANALYSIS: Heather Hills is a reseller of water and wastewater service obtained from Manatee County.

Water Treatment Plant - Heather Hills does not have a water treatment plant and acts as a reseller of water utilities.

Water Distribution System - The water distribution system is completely built out. According to the formula, the water distribution system illustrates a used and useful performance of 100%. (Attachment "A")

Wastewater Treatment Plant - Heather Hills does not have a wastewater treatment plant and acts as a reseller of wastewater utilities.

Wastewater Collection Systems - The collection system is completely built out. Therefore, the staff engineer has concluded that the wastewater collection system illustrates a used and useful performance of 100%. (Attachment "B")



DOCKET NO. 960814-WS  
AUGUST 1, 1996

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

**RECOMMENDATION:** The appropriate average amount of test year rate base for Heather Hills Estates should be \$6,522 for water and \$26,168 for wastewater. (CASEY, EDWARDS)

**STAFF ANALYSIS:** The appropriate components of Heather Hills' rate base include depreciable plant in service, land & land rights, contributions in aid of construction (CIAC), accumulated depreciation, accumulated amortization of CIAC, and working capital allowance.

An original cost study was completed by a staff engineer to determine the cost of plant when first dedicated to public use in 1967. The staff auditor was able to pick up additions of utility plant since the current owners purchase in May of 1976. Further adjustments are necessary to reflect test year changes and used and useful determinations of the staff engineer. A discussion of each component follows.

**Depreciable Plant in Service:** Heather Hills Estates is a consecutive water and wastewater system which purchases water and wastewater service for resale from Manatee County. Heather Hills has no water or wastewater treatment plant facilities.

The water distribution system is composed of 2 inch PVC pipe that appears properly sized and engineered to meet pressure and supply demands. The wastewater collection system is composed of 10 inch PVC pipe which appears adequately designed and constructed to serve the customers of Heather Hills Estates.

The utility recorded utility plant in service balances of \$49,523 for water and \$49,524 for wastewater on their 1995 annual report. These totals reflect the 1976 purchase price (not original cost) of \$93,300 along with a \$5,747 paving cost incurred after the purchase. Staff determined utility plant by using the original cost figures supplied by the staff engineer and adding utility plant additions confirmed by the staff auditor. Staff made an adjustment of (\$4,147) to water plant and \$22,988 to wastewater plant to adjust the utility figures to staff's calculated utility plant. Averaging adjustments of (\$250) for water and (\$250) for wastewater were also made.

Total recommended utility plant in service is \$45,126 for water and \$72,262 for wastewater.

**LAND AND LAND RIGHTS:** The utility owns no land but does own land rights for the easements for the water distribution and wastewater



DOCKET NO. 960814-WS  
AUGUST 1, 1996

collection lines. The 1995 utility annual report did not record any land or land rights. According to the NARUC system of accounts, land rights should be capitalized and included in account No. 303 for water and account No. 353 for wastewater. Staff used the Manatee County valuation of the easements to calculate a land rights cost. The Manatee County valuation for the easements totals \$660. Since Manatee County values property at 85% of actual value, staff grossed up the County valuation to \$778 to attain actual value and split the cost evenly between water and wastewater. Staff recommends water land rights value of \$389 and wastewater land rights value of \$389.

**Non-Used and Useful Plant:** According to the approved formulas, the staff engineer calculated the water distribution system and wastewater collection system to be 100% used and useful. Therefore, staff recommends that all water distribution system and wastewater collection system accounts be considered 100% used and useful.

**Contributions in Aid of Construction (CIAC):** The utility did not record any CIAC balance at the end of the test year. The utility tariff showed a \$75 meter installation fee for new residents. A review of the utility's cash receipts journal by the staff auditor showed the utility collected \$900 for twelve meter installation charges since the 1976 purchase. Staff imputed \$25,725 for the 343 hook-ups which were made prior to the 1976 purchase. A total adjustment of (\$26,625) was made to bring CIAC to staff's recommended amount.

Staff recommends a CIAC balance of (\$26,625) for water.

**Accumulated Depreciation:** The utility books reflected accumulated depreciation balances of (\$34,667) for water and (\$34,667) for wastewater on their 1995 annual report. The utility based their depreciation expense on the owner's purchase price, not the original cost of the systems. Staff used a 2 1/2% depreciation rate starting with the original cost study in 1967 through March of 1984 when the NARUC system of accounts was initiated. From that date forward, staff calculated accumulated depreciation using the prescribed rates described in Rule 25-30.140, Florida Administrative Code. Staff made adjustments of (\$4,848) to water and (\$19,617) to wastewater to bring the utility's figures to staff's calculated amount. Averaging adjustments of \$965 for water and \$1,150 for wastewater were also done.

Staff recommends accumulated depreciation balances of (\$38,550) for water and (\$53,134) for wastewater.



DOCKET NO. 960814-WS  
AUGUST 1, 1996

**Accumulated Amortization:** The utility did not record any accumulated amortization balances on their 1995 annual report. Staff calculated amortization of CIAC by calculating a yearly composite rate. An adjustment of \$21,675 was made to water accumulated amortization to bring the utility balance to staff's calculated amount. Staff recommends water accumulated amortization of \$21,675.

**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 \$4,507 for water and \$6,651 for wastewater (based on O&M of \$36,054 for water and \$53,206 for wastewater).

**Rate Base Summary:** Based on the foregoing, the appropriate balance of Heather Hills test year rate base is \$6,522 for water and \$26,168 for wastewater. Rate base is shown on Schedules Nos. 1 and 1A and adjustments are shown on Schedule No. 1B.



DOCKET NO. 960814-WS  
AUGUST 1, 1996

ISSUE 4: Should a positive acquisition adjustment be approved?

RECOMMENDATION: No, a positive acquisition adjustment should not be included in the calculation of rate base for this utility. (CASEY)

STAFF ANALYSIS: An acquisition adjustment results when the purchase price differs from the original cost calculation. The acquisition adjustment resulting from the 1976 purchase of Heather Hills Estates would be calculated as follows:

Purchase Price (5/14/76):	\$ 93,300
Staff Calculated Rate Base: (as of 5/14/76)	<u>\$ 66,734</u>
Positive Acquisition Adjustment:	<u>\$ 26,566</u>

In the absence of extraordinary circumstances, it has been Commission policy that a purchase of a utility system at a premium or discount shall not affect the rate base calculation. The circumstances in this case do not appear to be extraordinary. Therefore, staff recommends that a positive acquisition adjustment should not be included in the calculation of rate base.



DOCKET NO. 960814-WS  
AUGUST 1, 1996

COST OF CAPITAL

ISSUE 5: 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% - 11.18% and the appropriate overall rate of return should also be 10.18% with a range of 9.18% - 11.18%. (CASEY)

STAFF ANALYSIS: The utility's 1995 annual report showed an equity balance of \$29,712. Based on the staff audit and original cost study, the utility's capital structure consists of \$47,067 of equity with no long-term debt or customer deposits. Staff made an adjustment of \$17,355 to bring the common equity to staff's recommended amount. Using the current leverage formula approved under Docket No. 960006-WS, Order No. PSC-96-0729-FOF-WS, issued May 31, 1996, the utility's rate of return on equity is 10.18% with a range of 9.18% - 11.18%.

Applying the weighted average method to the total capital structure yields an overall rate of return of 10.18% with a range of 9.18% to 11.18%. The company's test year average equity balance has been adjusted down to match the total rate bases.

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



DOCKET NO. 960814-WS  
AUGUST 1, 1996

NET OPERATING INCOME

ISSUE 6: What are the appropriate test year operating revenues for each system?

RECOMMENDATION: The appropriate test year operating revenue should be \$43,228 for water and \$61,280 for wastewater. The utility should install a meter for the recreation building which is presently unmetered. (CASEY)

STAFF ANALYSIS: The utility recorded water revenues of \$38,117 and wastewater revenues of \$57,175 during the test period. The utility kept their books on a cash basis. Staff made an adjustment of \$3,656 to water revenue and \$1,266 to wastewater revenue to switch the books from a cash basis to an accrual basis. Staff also imputed revenue in the amount of \$1,455 for water and \$2,839 for wastewater to include water and wastewater service provided to the recreation center. The center is not metered and the utility does not bill the center for water and wastewater service. The utility should install a water meter for the recreational hall so unaccounted for water can be monitored. Staff made total adjustments of \$5,111 to water and \$4,105 to wastewater to increase test year revenue to staff's recommended amounts of \$43,228 for water and \$61,280 for wastewater.

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



DOCKET NO. 960814-WS  
AUGUST 1, 1996

ISSUE 7: What are the appropriate amounts for operating expense for each system?

RECOMMENDATION: The appropriate amounts for operating expense should be \$40,652 for water and \$58,932 for wastewater. (CASEY, EDWARDS)

STAFF ANALYSIS: The utility recorded operating expenses of \$36,869 for water and \$44,438 for wastewater. The components of these expenses include operation and maintenance expenses, depreciation expense, CIAC amortization expense, taxes other than income taxes and income taxes.

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

Operation and Maintenance Expenses (O & M): The utility charged \$32,721 to water O & M and \$38,836 to wastewater O & M during the test year. A summary of adjustments that were made to the utility's recorded expenses follows:

1) Salaries and Wages - Officers - The utility recorded \$11,750 of officers salaries and wages in the water O & M account on the 1995 annual report. The owner handles the repairs and maintenance of the systems and was allocated a \$2,600 yearly salary for these duties. No officer salary was recorded for the owner for handling administrative duties of the utility. Staff believes 3 hours a week is a reasonable amount of time to allocate for the administrative duties necessary to operate a utility of this size. Staff recommends an officer salary of \$4,056.

The owner's wife handles all office duties, billing and accounting and was allocated an annual salary of \$9,150 on the annual report. The utility came under commission jurisdiction on October 10, 1995. Additional recordkeeping and reporting is now necessary to meet regulatory requirements. Staff recommends a salary of \$10,350 for the office duties, billing and accounting needed to operate the utility. Staff allocated the officer salaries and wages expense between water O & M and wastewater O & M based on the amount of estimated time the owner and his wife spent on each system, 75% for water and 25% for wastewater.

Staff recommends water officers salaries and wages of \$12,755 and wastewater officer salaries and wages of \$4,252 which we believe is fair and reasonable for this size utility.



DOCKET NO. 960814-WS  
 AUGUST 1, 1996

2) Purchased Water and Purchased Wastewater - The utility purchases water and wastewater service from Manatee County under an agreement made January 9, 1967 between the utility and the county. The utility recorded \$17,774 for purchased water and \$38,236 for purchased wastewater for the test year ending December 31, 1995. Manatee County increased its water and wastewater rates October 1, 1995. Staff annualized the purchased water and purchased wastewater costs using the actual gallonage purchased for 1995 and the number of utility connections. An adjustment of \$1,359 was made to purchased water and an adjustment of \$6,770 was made to purchased wastewater. Staff recommends purchased water expense of \$19,133 and purchased wastewater expense of \$45,006.

3) Materials and Supplies - The utility recorded no materials and supplies expense in this account for either water or wastewater during the test year. An office supply expense of \$570 was reclassified from water miscellaneous expenses and allocated 50% to water materials and supplies and 50% to wastewater materials and supplies. Staff recommends water materials and supplies expense of \$285 and wastewater materials and supplies expense of \$285.

4) Contractual Services - The utility recorded no water or wastewater contractual services expense in this account during the test year. Staff made adjustments to water contractual services to: a) reclassify a \$551 repairs and maintenance expense from account No. 675, b) reclassify a \$145 meter reading expense from account No. 675, c) reclassify \$248 (50%) of legal expenses from account No. 675, d) reclassify \$239 (50%) of accounting expense from account 675, e) include \$565 of DEP required water testing expense, and f) increase accounting expense by \$261 for additional regulatory requirements.

The Department of Environmental Protection (DEP) is the primary enforcer of rulings passed down from the Environmental Protection Agency (EPA). The DEP considers this utility to be a consecutive system, and as such, must meet the requirements of Section 62-550.540, Florida Administrative Code (FAC). Those tests and the frequency at which those tests must be reported are:

<u>Rule</u>	<u>Description</u>	<u>Frequency</u>	<u>Cost</u>
62-550.518 F.A.C.	Microbiological	monthly	\$300/yr
62-551 F.A.C.	Lead & Copper	biannual/subseq	240/yr
62-550.511 F.A.C.	Asbestos	annual	
		1/9 yrs.	25/yr
		TOTAL	<u>\$565/yr</u>

Staff, therefore, recommends an annual DEP required test expense of \$565 for water.



DOCKET NO. 960814-WS  
AUGUST 1, 1996

Staff made adjustments to the wastewater contractual services account to; a) include the staff engineer recommended repairs and maintenance expense of \$1,000, c) reclassify \$247 (50%) of legal expenses from account No. 675, d) reclassify \$240 (50%) of accounting expense from account 675, and e) increase annual accounting expense by \$260 for additional regulatory requirements.

Total adjustments are \$2,009 for water contractual services and \$1,747 for wastewater contractual services. Staff recommends \$2,009 for water contractual services which includes \$551 for repairs and maintenance, \$145 for meter reading, \$248 for legal fees, \$500 for accounting expenses, and \$565 for DEP water testing.

Staff recommends \$1,747 for wastewater contractual services which includes \$1,000 for repairs and maintenance, \$247 for legal fees, and \$500 for accounting expenses.

5) Rents - The utility recorded no rent expense in the water or wastewater rent account during the test year. Staff calculated rent expense by contacting the Manatee County Economic Development Council to determine office space costs in the utility area. The office area consists of 650 square feet (sq/ft) with the utility allocation being 32.8% or 213.2 sq/ft. The average cost per sq/ft for office space in the utility area is \$12.50 sq/ft. Staff recommends office rental expense of \$2,665 per year allocated 50% to water rent expense and 50% to wastewater rent expense.

6) Transportation Expenses - The utility recorded no transportation expense in the water or wastewater account. Staff included a pro forma transportation expense of \$261 for water and \$261 for wastewater based on staff's estimate of 150 miles travel per month x \$.29/mile which staff believes is reasonable and prudent for this utility.

Staff recommends \$261 of water and \$261 of wastewater transportation expense.

7) Insurance Expense - No insurance expense was included in the water or wastewater insurance account for the test year. Staff reclassified \$370 of insurance expense from account No. 675 to account No. 655. The total annual insurance premium for the recreation building is \$1,129. The office share of that expense would be \$79 (6.99% of \$1,129). The utility allocation would be \$26 (32.8% of \$79). Staff made an adjustment of (\$344) to account No. 655 to disallow the non-utility portion of the recorded insurance expense and also made an adjustment of (\$13) to reclassify 50% of the insurance expense to wastewater insurance expense. Staff recommends \$13 of water and \$13 of wastewater insurance expense.



DOCKET NO. 960814-WS  
AUGUST 1, 1996

8) Regulatory Commission Expense - The utility recorded \$400 of water and \$600 of wastewater regulatory commission expense in this account during the test year. These costs were for the Public Service Commission filing fee for the grandfather certificate application and should be capitalized in accordance with the NARUC uniform system of accounts. Staff made adjustments to reclassify \$400 from account No. 665 to account No. 302 (Water Franchises) and reclassify \$100 from account No. 765 to account No. 302 (Water Franchises) and \$500 from account No. 765 to account No. 352 (Wastewater Franchises).

Since all costs were removed from this account, staff recommends no water or wastewater regulatory commission expense.

9) Bad Debt Expense - No water or wastewater bad debt expense was recorded by the utility for the test year. The staff audit revealed \$323 in accounts over 120 days old which the utility viewed as uncollectible. Staff recommends water bad debt expense of \$139 and wastewater bad debt expense of \$184.

10) Miscellaneous Expense - The utility recorded \$2,797 of water miscellaneous expenses and no wastewater miscellaneous expenses. Staff made adjustments to water miscellaneous expenses to: reclassify \$551 of repairs and maintenance expense to account No. 630, reclassify a \$145 meter reading expense to account No. 630, reclassify \$248 of legal fees to account No. 630 and \$247 of legal fees to account No. 730, reclassify \$239 of accounting expense to account No. 630 and \$240 of accounting expense to account No. 730, reclassify \$370 of insurance expense to account No. 655, reclassify \$285 of office supplies expense to account No. 620 and \$285 of office supplies expense to account No. 720, reclassify \$93 (50%) of telephone expense from account No. 675 to account No. 775, and include staff calculated office electric expense of \$33.

Staff made adjustments to wastewater miscellaneous expenses to: reclassify \$93 (50%) of telephone expense from account No. 675, and include \$33 (50%) of staff calculated office electric expense. Staff recommends water miscellaneous expenses of \$127 and wastewater miscellaneous expenses of \$126.

Operation and Maintenance Expenses (O & M) Summary: Total operation and maintenance adjustments are \$3,333 for water and \$14,370 for wastewater. Staff recommends Operation and Maintenance Expenses of \$36,054 for water and \$53,206 for wastewater. Operation and Maintenance Expenses are shown in Schedule Nos. 3C and 3D.

Depreciation Expense (Net of Amortization of CIAC): The utility recorded \$1,238 of water and \$1,238 of wastewater depreciation



DOCKET NO. 960814-WS  
AUGUST 1, 1996

expense during the test year. The utility based their depreciation expense on the purchase price of the utility rather than on the original cost and additions of utility plant. Consistent with Commission practice, staff calculated test year depreciation expense using the prescribed rates described in Rule 25-30.140, Florida Administrative Code. Staff made a \$690 adjustment to water depreciation expense and \$1,062 adjustment to wastewater depreciation expense to bring the utility balances to staff's recommended balances. Applying the prescribed depreciation rates to the appropriate used and useful plant in service account balances, and then offsetting that by applying the composite depreciation rates to the appropriate CIAC account balances yields the appropriate depreciation expenses net of CIAC of \$796 for water and \$2,300 for wastewater during the test year.

**Taxes Other Than Income Taxes:** The utility recorded \$734 of water and \$1,101 of wastewater taxes other than income in this account. These amounts were for real estate taxes recorded by the utility. The staff audit shows the utility portion of the real estate taxes total \$18 which is for the easements owned by the utility. Staff made adjustments to water taxes other than income to: remove \$725 of non-utility real estate taxes, include \$1,945 in regulatory assessment fees on staff's recommended test year revenue, and include \$1,934 of payroll taxes on staff's recommended salaries.

Staff made adjustments to wastewater taxes other than income to: remove \$1,092 of non-utility real estate taxes, include \$2,758 in regulatory assessment fees on staff's recommended test year revenue, and include \$645 of payroll taxes on staff's recommended salaries.

Staff recommends \$3,888 of water taxes other than income and \$3,412 of wastewater taxes other than income for the test year.

**Income Taxes:** The utility recorded \$2,176 of water income tax expense and \$3,263 of wastewater income tax in their 1995 annual report. This utility is operated as an individual proprietorship and would not be subject to company income taxes. Staff made adjustments to remove \$2,176 of water income tax and \$3,263 of wastewater income tax. Staff recommends no allowance for income tax for the water or wastewater systems.

**Operating Revenues:** Revenues have been decreased by \$1,912 for water and increased by \$316 for wastewater to reflect the decrease in water revenue and increase in wastewater revenue required to cover expenses and allow the recommended rate of return on investment.

**Taxes Other Than Income Taxes:** This expense has been decreased by



DOCKET NO. 960814-WS  
AUGUST 1, 1996

\$86 for water and increased by \$14 for wastewater to reflect the regulatory assessment fee of 4.5% on the decrease in water revenue and increase in wastewater revenue.

Operating Expenses Summary: The application of staff's recommended adjustments to the utility's test year operating expenses results in staff's recommended operating expenses of \$40,652 for water and \$58,932 for wastewater.

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



DOCKET NO. 960814-WS  
AUGUST 1, 1996

REVENUE REQUIREMENT

ISSUE 8: What is the appropriate revenue requirement for each system?

RECOMMENDATION: The appropriate revenue requirement would be \$41,316 for water and \$61,596 for wastewater. (CASEY)

STAFF ANALYSIS: The appropriate revenue requirement would result in a decrease in annual water revenue of \$1,912 (4.42%) and an increase in annual wastewater revenue of \$316 (.52%). This would 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>	<u>Wastewater</u>
Adjusted Rate Base	\$ 6,522	\$ 26,168
Rate of Return	X .1018	X .1018
Return on Investment	\$ 664	\$ 2,664
Adjusted Operation Expenses	36,054	53,206
Depreciation Expense (Net)	796	2,300
Taxes Other Than Income Taxes	<u>3,802</u>	<u>3,426</u>
Revenue Requirement	<u>\$ 41,316</u>	<u>\$ 61,596</u>
Annual Revenue Change	\$ (1,912)	\$ 316
Percentage Increase/(Decrease)	<u>(4.42%)</u>	<u>.52%</u>

The revenue requirements and resulting annual increases or decreases are shown in Schedules Nos. 3 and 3A.



DOCKET NO. 960814-WS  
AUGUST 1, 1996

ISSUE 9: Is Heather Hills Estates Utility overearning?

RECOMMENDATION: Heather Hills is not overearning on the wastewater system, but is overearning on the water system by approximately \$1,826. However, in lieu of ordering a reduction in water rates, staff is recommending the Commission order the utility to initiate a meter replacement program which would negate any overearnings on the part of the water system. In addition, staff recommends a **revenue neutral rate structure change** in the existing rate structure of the utility to eliminate the minimum gallonage charge for water and wastewater. (CASEY)

STAFF ANALYSIS: A staff review of the utility's 1995 annual report showed an overall rate of return of 36.18%. The utility came under Commission jurisdiction October 10, 1995 when Manatee County turned over jurisdiction to the PSC. The utility's 1995 books and records were commingled with the books and records of the development. The utility's accountant attempted to separate the books and records to fulfill the PSC requirement of submitting a 1995 utility annual report. Staff determined a staff audit and engineering analysis was appropriate to determine if the utility was actually overearning. The final analysis shows that the utility is overearning by approximately \$1,826 on the water system but not overearning on the wastewater system. The water system overearnings result in an economic impact per customer of 43 cents per month.

In lieu of ordering a reduction in water rates, staff is recommending the Commission order the utility to initiate a meter replacement program which would negate any overearnings on the part of the water system. The manufacturer's recommended life of a 5/8" x 3/4" meter is 17 years which is above normal for meters exposed to Florida waters. About ninety-eight percent (98%) of the meters in this utility's service area exceed this estimated life. This program should allow the utility to replace approximately twenty-four (24) old meters with new meters each year. The estimated cost to replace an old meter is \$75 per meter. The total expense for this program is approximately \$1,800 per year, which is considered reasonable for a meter change-out program. Staff has looked at the utility on a going forward basis and believe this expense is necessary to monitor the water flows of the customers and the utility. If this were a staff assisted rate case, staff would have included a meter replacement program. We believe it is proper to include this expense in this overearnings investigation as the Commission has done in the past (Docket No. 950170-WS, Investigation of possible overearnings of Marion Utilities, Order No. PSC-95-1193-FOF-WS, issued September 22, 1995). Staff believes such a program would produce a long term benefit to both the utility and the customers.



DOCKET NO. 960814-WS  
AUGUST 1, 1996

As mentioned in the case background, two customers of the utility attended the March 5, 1996 Agenda when Commissioners considered and approved a grandfather certificate for the utility. The customers expressed their concern over possible overearnings of the utility and their dissatisfaction with the existing rate structure which has a minimum gallonage charge for water and wastewater. If the Commission approves the meter replacement program, the utility will not be overearning on either the water or wastewater system. However, staff is recommending a revenue neutral rate structure change employing the standard base facility and gallonage charge to eliminate the minimum gallonage charge for water and wastewater (as outlined in Issue No. 10).



DOCKET NO. 960814-WS  
AUGUST 1, 1996

RATES AND CHARGES

ISSUE 10: What is the appropriate rate structure and what are the recommended rates for this utility?

RECOMMENDATION: If the Commission approves the meter replacement program outlined in Issue No. 9, the recommended rates should be designed to produce revenues of \$43,228 for water and \$61,280 for wastewater. Staff is recommending a **revenue neutral rate structure change**, therefore, test year revenues are being used to calculate the new rate structure. The approved rates should 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. The rates should not be implemented until proper notice has been received by the customers. The utility should provide proof of the date notice was given within 10 days after the date of the notice. (CASEY)

STAFF ANALYSIS: During the test year, Heather Hills provided water and wastewater service to approximately 353 residential customers and 2 general service customers. The utility's present water rate structure consists of a base facility charge, a usage charge (9,000 gallons minimum per quarter), an administrative/maintenance charge and a gallonage charge for water in excess of 9,000 gallons per quarter. The utility's present wastewater rate structure consists of a base facility charge, a usage charge based upon 85% of 9,000 gallons per quarter, an administrative/maintenance charge and a gallonage charge for wastewater in excess of 9,000 gallons per quarter.

The Commission has a memorandum of understanding with the Florida Water Management Districts. This memorandum recognizes that a joint cooperative effort is necessary to implement an effective, state wide water conservation policy. Water use in the utility's service area is under the jurisdiction of the Southwest Florida Water Management District (SWFWMD). Since this utility is a consecutive system (purchases water for resale) which is considered non-jurisdictional by the SWFWMD, no particular restrictions that promote conservation are necessary at this time. Residential consumption averages approximately 1,906 gallons per month, which is not considered excessive.

Staff is recommending a change from the utility's present rate structure to strictly a base facility/gallonage charge rate structure with elimination of the minimum usage charge and administrative/maintenance charge. The minimum usage charge would be eliminated and replaced with a straight gallon charge with no minimum. All prudent administrative/maintenance costs of the utility would be included in the base facility charge or gallonage



DOCKET NO. 960814-WS  
 AUGUST 1, 1996

charge instead of having a separate charge. Staff calculated wastewater usage based on 85% of the water usage, which is the same method Manatee County uses to charge Heather Hills.

Staff calculated a base facility/gallonage charge for water and wastewater customers based on test year data. Staff is recommending a **revenue neutral rate structure change**, therefore, test year revenues are being used to calculate the new rate structure. If the Commission approves the recommended revenue **neutral rate structure change**, some customers will experience a decrease in their quarterly bills and while other customers will experience an increase in their quarterly bills, but the utility's total annual revenue will remain unchanged. The base facility/gallonage charge rate structure is the preferred rate structure because it is designed to provide for the equitable sharing by the rate payers of both the fixed and variable costs of providing service. The base facility charge is based upon the concept of readiness to serve all customers connected to the system. This ensures that rate payers pay their share of the costs of providing service (through the consumption or gallonage charge) and also pay their share of the fixed costs of providing service (through the base facility charge). Schedules of the utility's existing rates and staff's recommended rates follow.

WATER RATES  
RESIDENTIAL AND GENERAL SERVICE

<u>Meter Size</u>	<u>Base Facility Charge</u>	
	<u>Existing Quarterly Rate</u>	<u>Recommended Quarterly Rate</u>
5/8" x 3/4"	\$ 7.54	\$ 21.39
3/4"	N/A	32.10
1"	7.54	53.52
1-1/2"	N/A	107.01
2"	N/A	171.24
3"	N/A	342.45
4"	N/A	535.08
6"	N/A	1,070.16
<u>Usage Charge</u> First 9,000 gallons	\$ 9.05	N/A
<u>Administrative Charge</u>	\$ 13.76	N/A
<u>Gallonage Charge</u>	\$ .16 *	\$ 1.37 **

\* per 100 gallons in excess of 9,000 gallons per quarter.  
 \*\* per 1,000 gallons of water used, NO MINIMUM



DOCKET NO. 960814-WS  
 AUGUST 1, 1996

WASTEWATER RATES  
RESIDENTIAL AND GENERAL SERVICE

<u>Meter Size</u>	<u>Base Facility Charge</u>	
	<u>Existing Quarterly Rate</u>	<u>Recommended Quarterly Rate</u>
5/8" x 3/4"	\$ 18.47	\$ 27.06
3/4"	N/A	40.59
1"	18.47	67.65
1-1/2"	N/A	135.33
2"	N/A	216.51
3"	N/A	433.02
4"	N/A	676.59
6"	N/A	1,353.18
 <u>Usage Charge</u>		
First 9,000 gallons	\$ 20.26	N/A
 <u>Administrative Charge</u>		
	\$ 6.88	N/A
 <u>Gallonage Charge</u>		
	\$ .31 *	\$ 2.88 **

\* per 100 gallons in excess of 9,000 gallons per quarter.  
 \*\* per 1,000 gallons of wastewater used, based on 85% of water usage.

With the elimination of the 9,000 minimum gallon charge per quarter, some residential customers (approximately 60%) will experience a decrease in their quarterly water bills. Using the 353 test year residential water customers with an average use of 5,718.98 gallons/quarter per customer, an average residential QUARTERLY water bill comparison would be as follows:

	<u>Average QUARTERLY Bill Using Existing Rates</u>	<u>Average QUARTERLY Bill Using Recommended Rates</u>	<u>Percent Decrease</u>
Base Facility Charge	\$ 7.54	\$ 21.39	
Usage Charge (9,000 gallon minimum)	\$ 9.05	N/A	
Administrative Charge	\$13.76	N/A	
Gallonage Charge	<u>\$ 0.00</u>	<u>\$ 7.84</u>	
Total	\$30.35	\$ 29.23	(3.69%)

With the elimination of the wastewater minimum gallon charge, approximately 60% of wastewater residential customers will also



DOCKET NO. 960814-WS  
 AUGUST 1, 1996

experience a decrease in their quarterly bills. Using the 353 test year customers with an average water usage of 5,718.98 gallons/quarter per customer, an average residential QUARTERLY wastewater bill comparison based on 85% of water usage would be as follows:

	Average <u>QUARTERLY</u> Bill Using Existing Rates	Average <u>QUARTERLY</u> Bill Using Recommended Rates	Percent <u>Decrease</u>
Base Facility Charge	\$18.47	\$ 27.06	
Usage Charge (Based on 85% of 9,000 gallons)	\$20.26	N/A	
Administrative Charge	\$ 6.88	N/A	
Gallonage Charge	<u>\$ 0.00</u>	<u>\$ 14.00</u>	
Total	\$45.61	\$ 41.06	(9.98%)

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 shall 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.



DOCKET NO. 960814-WS  
AUGUST 1, 1996

ISSUE 11: Should this docket be closed?

RECOMMENDATION: Yes, upon expiration of the protest period, if a timely protest is not received, this docket should be closed.  
(AGARWAL, CASEY, EDWARDS)

STAFF ANALYSIS: If no timely protest is received within twenty-one days from the date of the Commission Order, no further action will be required and this docket should be closed.



HEATHER HILLS ESTATES, INC.  
 TEST YEAR ENDING DECEMBER 31, 1995  
 SCHEDULE OF WATER RATE BASE

SCHEDULE NO. 1  
 DOCKET NO. 960814-WS  
 INVESTIGATION OF POSSIBLE  
 OVEREARNINGS

	<u>BALANCE PER UTILITY</u>	<u>STAFF ADJUST. TO UTIL. BAL.</u>	<u>BALANCE PER STAFF</u>
UTILITY PLANT IN SERVICE	\$ 49,523	\$ (4,397) A	\$ 45,126
LAND AND LAND RIGHTS	0	389 B	389
NON-USED AND USEFUL PLANT	0	0	0
CIAC	0	(26,625) C	(26,625)
ACCUMULATED DEPRECIATION	(34,667)	(3,883) D	(38,550)
AMORTIZATION OF CIAC	0	21,675 E	21,675
WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>4,507 F</u>	<u>4,507</u>
WATER RATE BASE	\$ 14,856	\$ (8,334)	\$ <span style="border: 1px solid black; padding: 2px;">6,522</span>



HEATHER HILLS ESTATES, INC.  
 TEST YEAR ENDING DECEMBER 31, 1995  
 SCHEDULE OF WASTEWATER RATE BASE

SCHEDULE NO. 1A  
 DOCKET NO. 960814-WS  
 INVESTIGATION OF POSSIBLE  
 OVEREARNINGS

	<u>BALANCE PER UTILITY</u>	<u>STAFF ADJUST. TO UTIL. BAL.</u>	<u>BALANCE PER STAFF</u>
UTILITY PLANT IN SERVICE	\$ 49,524	\$ 22,738 A	\$ 72,262
LAND AND LAND RIGHTS	0	389 B	389
NON-USED AND USEFUL PLANT	0	0	0
CIAC	0	0 C	0
ACCUMULATED DEPRECIATION	(34,667)	(18,467) D	(53,134)
AMORTIZATION OF CIAC	0	0 E	0
WORKING CAPITAL ALLOWANCE	0	6,651 F	6,651
WASTEWATER RATE BASE	<u>\$ 14,857</u>	<u>\$ 11,311</u>	<u>\$ 26,168</u>



HEATHER HILLS ESTATES, INC.  
 TEST YEAR ENDING DECEMBER 31, 1995  
 ADJUSTMENTS TO RATE BASE

SCHEDULE NO. 1B  
 DOCKET NO. 960814-WS  
 INVESTIGATION OF POSSIBLE  
 OVEREARNINGS

	<u>WATER</u>	<u>WASTEWATER</u>
<b>A. <u>UTILITY PLANT IN SERVICE</u></b>		
1. To adjust utility balance to staff's calculated balance.	\$ (4,147)	\$ 22,988
2. To reflect averaging adjustment.	(250)	(250)
	<u>\$ (4,397)</u>	<u>\$ 22,738</u>
<b>B. <u>LAND &amp; LAND RIGHTS</u></b>		
1. To include land rights for distribution and collection systems.	<u>\$ 389</u>	<u>\$ 389</u>
<b>C. <u>CIAC</u></b>		
1. To impute CIAC on 355 hookups @ \$75/each.	\$ (26,625)	\$ 0
2. To reflect averaging adjustment.	0	0
	<u>\$ (26,625)</u>	<u>\$ 0</u>
<b>D. <u>ACCUMULATED DEPRECIATION</u></b>		
1. To adjust utility balance to staff's calculated balance.	\$ (4,848)	\$ (19,617)
2. To reflect averaging adjustment.	965	1,150
	<u>\$ (3,883)</u>	<u>\$ (18,467)</u>
<b>E. <u>AMORTIZATION OF CIAC</u></b>		
1. To include staff's calculated CIAC amortization.	\$ 21,675	\$ 0
2. To reflect averaging adjustment.	0	0
	<u>\$ 21,675</u>	<u>\$ 0</u>
<b>F. <u>WORKING CAPITAL ALLOWANCE</u></b>		
1. To reflect 1/8 of test year O & M expenses.	<u>\$ 4,507</u>	<u>\$ 6,651</u>



HEATHER HILLS ESTATES, INC.  
 TEST YEAR ENDING DECEMBER 31, 1995  
 SCHEDULE OF CAPITAL STRUCTURE

SCHEDULE NO. 2  
 DOCKET NO. 960814-WS  
 INVESTIGATION OF POSSIBLE  
 OVEREARNINGS

	<u>PER UTILITY</u>	<u>STAFF ADJUST. TO UTIL. BAL.</u>	<u>BALANCE PER STAFF</u>	<u>ADJUSTMENT TO RECONCILE TO RATE BASE</u>	<u>ADJUSTED BALANCE PER STAFF</u>	<u>PERCENT OF TOTAL</u>	<u>COST</u>	<u>WEIGHTED COST</u>
COMMON EQUITY	\$ 29,712	\$ 17,355	\$ 47,067	\$ (14,378)	\$ 32,690	100.00%	10.18%	10.18%
LONG-TERM DEBT	0	0	0	0	0	0.00%	0.00%	0.00%
CUSTOMER DEPOSITS	0	0	0	0	0	0.00%	6.00%	0.00%
TOTAL	\$ 29,712	\$ 17,355	\$ 47,067	\$ (14,378)	\$ 32,690	0.00%		10.18%

RANGE OF REASONABLENESS

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



HEATHER HILLS ESTATES, INC.  
 TEST YEAR ENDING DECEMBER 31, 1995  
 SCHEDULE OF WATER OPERATING INCOME

SCHEDULE NO. 3  
 DOCKET NO. 960814-WS  
 INVESTIGATION OF POSSIBLE  
 OVEREARNINGS

	<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	\$ <u>38,117</u>	\$ <u>5,111</u> A	\$ <u>43,228</u>	\$ <u>(1,912)</u> F	\$ <u>41,316</u>
OPERATING EXPENSES:					
OPERATION AND MAINTENANCE	32,721	3,333 B	36,054	0	36,054
DEPRECIATION (NET)	1,238	(442) C	796	0	796
AMORTIZATION	0	0	0	0	0
TAXES OTHER THAN INCOME	734	3,154 D	3,888	(86) G	3,802
INCOME TAXES	<u>2,176</u>	<u>(2,176)</u> E	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL OPERATING EXPENSES	\$ <u>36,869</u>	\$ <u>3,869</u>	\$ <u>40,738</u>	\$ <u>(86)</u>	\$ <u>40,652</u>
OPERATING INCOME/(LOSS)	\$ <u>1,248</u>		\$ <u>2,490</u>		\$ <u>664</u>
WATER RATE BASE	\$ <u>14,856</u>		\$ <u>6,522</u>		\$ <u>6,522</u>
RATE OF RETURN	<u>8.40%</u>		<u>38.18%</u>		<u>10.18%</u>



HEATHER HILLS ESTATES, INC.  
 TEST YEAR ENDING DECEMBER 31, 1995  
 SCHEDULE OF WASTEWATER OPERATING INCOME

SCHEDULE NO. 3A  
 DOCKET NO. 960814-WS  
 INVESTIGATION OF POSSIBLE  
 OVEREARNINGS

	<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	\$ <u>57,175</u>	\$ <u>4,105</u> A	\$ <u>61,280</u>	\$ <u>316</u> F	\$ <u>61,596</u>
OPERATING EXPENSES:					
OPERATION AND MAINTENANCE	38,836	14,370 B	53,206	0	53,206
DEPRECIATION (NET)	1,238	1,062 C	2,300	0	2,300
AMORTIZATION	0	0	0	0	0
TAXES OTHER THAN INCOME	1,101	2,311 D	3,412	14 G	3,426
INCOME TAXES	<u>3,263</u>	<u>(3,263)</u> E	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL OPERATING EXPENSES	\$ <u>44,438</u>	\$ <u>14,480</u>	\$ <u>58,918</u>	\$ <u>14</u>	\$ <u>58,932</u>
OPERATING INCOME/(LOSS)	\$ <u>12,737</u>		\$ <u>2,362</u>		\$ <u>2,664</u>
WASTEWATER RATE BASE	\$ <u>14,857</u>		\$ <u>26,168</u>		\$ <u>26,168</u>
RATE OF RETURN	<u>85.73%</u>		<u>9.03%</u>		<u>10.18%</u>



HEATHER HILLS ESTATES, INC.  
 TEST YEAR ENDING DECEMBER 31, 1995  
 ADJUSTMENTS TO OPERATING INCOME

SCHEDULE NO. 3B (Page 1 of 2)  
 DOCKET NO. 960814-WS  
 INVESTIGATION OF POSSIBLE  
 OVERTURNINGS

A. OPERATING REVENUES	<u>WATER</u>	<u>WASTEWATER</u>
1. To switch revenues from a cash basis to an accrual basis.	\$ 3,656	\$ 1,266
2. To impute revenue for the recreation building.	1,455	2,839
	<u>\$ 5,111</u>	<u>\$ 4,105</u>
B. OPERATION AND MAINTENANCE EXPENSES		
1. Salaries & Wages - Officers		
a. To include staff's recommended officer salaries and wages allocated 67% to water and 33% to wastewater.	<u>\$ 1,005</u>	<u>\$ 4,252</u>
2. Purchased Water and Wastewater		
a. To annualize cost of purchased water and wastewater.	<u>\$ 1,359</u>	<u>\$ 6,770</u>
3. Materials and Supplies		
a. To reclassify office supply expense from account No. 675 to account No. 620 and account No. 720.	<u>\$ 285</u>	<u>\$ 285</u>
4. Contractual Services		
a. To reclassify repairs and maintenance expense from account No. 675 and include engineer recommended repair and maintenance expense for wastewater.	\$ 551	\$ 1,000
b. To include meter reading expense.	145	0
c. To reclassify legal expense from account No. 675.	248	247
d. To reclassify accounting expense from account No. 675.	239	240
e. To include DEP required water testing.	565	0
f. To increase accounting expense to staff's recommended amount.	261	260
	<u>\$ 2,009</u>	<u>\$ 1,747</u>
5. Rents		
a. To include staff's calculated office rent expense.	<u>\$ 1,332</u>	<u>\$ 1,332</u>
6. Transportation Expenses		
a. To allow pro forma transportation expense.	<u>\$ 261</u>	<u>\$ 261</u>
7. Insurance Expense		
a. To reclassify insurance expense from account No. 675.	\$ 370	\$ 0
b. To disallow non-utility portion of insurance.	(344)	0
c. To reclassify 50% of insurance cost to account No. 755.	(13)	13
	<u>\$ 13</u>	<u>\$ 13</u>
8. Regulatory Commission Expense		
a. To reclassify and capitalize grandfather certificate filing fee.	<u>\$ (400)</u>	<u>\$ (600)</u>
9. Bad Debt Expense		
a. To include staff audited bad debt expense.	<u>\$ 139</u>	<u>\$ 184</u>
10. Miscellaneous Expenses		
a. To reclassify repair & maintenance expense to account No. 63	\$ (551)	\$ 0
b. To reclassify meter reading to account No. 630.	(145)	0
c. To reclassify legal expense to account No. 630 & account No. 730.	(495)	0
d. To reclassify acctg expense to account No. 630 & account No. 730.	(479)	0
e. To reclassify insurance expense to account No. 655.	(370)	0
f. To reclassify office supplies expense to account No. 620 and account No. 720.	(570)	0
g. To reclassify 50% of telephone expense from account No. 675.	(93)	93
h. To include staff calculated office electric expense.	33	33
	<u>\$ (2,670)</u>	<u>\$ 126</u>
<b>TOTAL O &amp; M ADJUSTMENTS</b>	<u>\$ 3,333</u>	<u>\$ 14,370</u>



HEATHER HILLS ESTATES, INC.  
 TEST YEAR ENDING DECEMBER 31, 1995  
 ADJUSTMENTS TO OPERATING INCOME

SCHEDULE NO. 3B (Page 2 of 2)  
 DOCKET NO. 960814-WS  
 INVESTIGATION OF POSSIBLE  
 OVEREARNINGS

C. <u>DEPRECIATION EXPENSE</u>			
1.	To adjust utility balance to match depreciation rates set forth in Rule 25-30.140.	\$ 690	\$ 1,062
		(1,132)	0
2.	To offset depreciation expense by staff calculated amortization expense.	<u>\$ (\$442)</u>	<u>\$ \$1,062</u>
D. <u>TAXES OTHER THAN INCOME</u>			
1.	To remove non-utility real estate taxes.	\$ (725)	\$ (1,092)
2.	To annualize RAF's to match test year revenue.	1,945	2,758
3.	To include payroll taxes on officer's salaries.	1,934	645
		<u>\$ 3,154</u>	<u>\$ 2,311</u>
E. <u>INCOME TAXES</u>			
1.	To remove income taxes for proprietorship.	<u>\$ (2,176)</u>	<u>\$ (3,263)</u>
F. <u>OPERATING REVENUES</u>			
1.	To reflect staff's recommended increase/(decrease) in revenue.	<u>\$ (1,912)</u>	<u>\$ 316</u>
G. <u>TAXES OTHER THAN INCOME</u>			
1.	To reflect increase or (decrease) in regulatory assessment fees associated with recommended revenue requirement.	<u>\$ (86)</u>	<u>\$ 14</u>



HEATHER HILLS ESTATES, INC.  
 TEST YEAR ENDING DECEMBER 31, 1995  
 ANALYSIS OF WATER OPERATION AND  
 MAINTENANCE EXPENSE

SCHEDULE NO. 3C  
 DOCKET NO. 960814-WS  
 INVESTIGATION OF POSSIBLE  
 OVEREARNINGS

	<u>TOTAL PER UTIL.</u>	<u>STAFF ADJUST.</u>	<u>TOTAL PER STAFF</u>
(601) SALARIES AND WAGES - EMPLOYEES	\$ 0	\$ 0	\$ 0
(603) SALARIES AND WAGES - OFFICERS	11,750	1,005 [1]	12,755
(604) EMPLOYEE PENSIONS AND BENEFITS	0	0	0
(610) PURCHASED WATER	17,774	1,359 [2]	19,133
(615) PURCHASED POWER	0	0	0
(616) FUEL FOR POWER PRODUCTION	0	0	0
(618) CHEMICALS	0	0	0
(620) MATERIALS AND SUPPLIES	0	285 [3]	285
(630) CONTRACTUAL SERVICES	0	2,009 [4]	2,009
(640) RENTS	0	1,332 [5]	1,332
(650) TRANSPORTATION EXPENSE	0	261 [6]	261
(655) INSURANCE EXPENSE	0	13 [7]	13
(665) REGULATORY COMMISSION EXPENSE	400	(400) [8]	0
(670) BAD DEBT EXPENSE	0	139 [9]	139
(675) MISCELLANEOUS EXPENSES	2,797	(2,670) [10]	127
	<u>\$ 32,721</u>	<u>\$ 3,333</u>	<u>\$ 36,054</u>



HEATHER HILLS ESTATES, INC.  
 TEST YEAR ENDING DECEMBER 31, 1995  
 ANALYSIS OF WASTEWATER OPERATION  
 AND MAINTENANCE EXPENSE

SCHEDULE NO. 3D  
 DOCKET NO. 960814-WS  
 INVESTIGATION OF POSSIBLE  
 OVERTURNINGS

	TOTAL PER UTIL.	STAFF ADJUST.	TOTAL PER STAFF
(701) SALARIES AND WAGES - EMPLOYEES	\$ 0	\$ 0	\$ 0
(703) SALARIES AND WAGES - OFFICERS	0	4,252 [1]	4,252
(704) EMPLOYEE PENSIONS AND BENEFITS	0	0	0
(710) PURCHASED SEWAGE TREATMENT	38,236	6,770 [2]	45,006
(711) SLUDGE REMOVAL EXPENSE	0	0	0
(715) PURCHASED POWER	0	0	0
(716) FUEL FOR POWER PRODUCTION	0	0	0
(718) CHEMICALS	0	0	0
(720) MATERIALS AND SUPPLIES	0	0	0
(730) CONTRACTUAL SERVICES	0	0	0
(740) RENTS	0	285 [3]	285
(750) TRANSPORTATION EXPENSE	0	1,747 [4]	1,747
(755) INSURANCE EXPENSE	0	1,332 [5]	1,332
(765) REGULATORY COMMISSION EXPENSES	0	261 [6]	261
(770) BAD DEBT EXPENSE	600	13 [7]	13
(775) MISCELLANEOUS EXPENSES	0	(600)[8]	0
	0	184 [9]	184
	0	126 [10]	126
	\$ 38,836	\$ 14,370	\$ 53,206



DOCKET NO. 960814-WS  
AUGUST 1, 1996

WATER DISTRIBUTION SYSTEM

Attachment A

USED AND USEFUL DATA

Docket No. 951533-WS Utility HEATHER HILLS ESTATES Date MAY 1996

- 1) Capacity 306 ERC's (Number of potential customers without expansion)
- 2) Number of TEST YEAR Connections 306 ERC's day
- a) Begin Test Year 306 ERC's
- b) End Test Year 306 ERC's
- c) Average Test Year 306 ERC's
- 3) Margin Reserve 0 ERC's  
\*Not to exceed 20% of present customers
- 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



DOCKET NO. 960814-WS  
AUGUST 1, 1996

Attachment B

WASTEWATER COLLECTION SYSTEM

USED AND USEFUL DATA

Docket No. 951533-WS Utility HEATHER HILLS ESTATES Date MAY 1996

- 1) Capacity 306 ERC's (Number of potential customers without expansion)
  - 2) Number of TEST YEAR Connections 306 ERC's day
    - a) Begin Test Year 306 ERC's
    - b) End Test Year 306 ERC's
    - c) Average Test Year 306 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



Susan F. Clark  
Chairman

State of Florida



Gerald L. Gunter Building  
2540 Shumard Oak Boulevard  
Tallahassee, FL 32399-0850  
(904) 413-6040  
FAX (904) 487-1716

Public Service Commission

July 16, 1996

RECEIVED  
JUL 17 1996

Mr. Robert L. Sowers  
319 48th Avenue Drive West  
Bradenton, Florida 34207

FPSC-RECORDS/REPORTING

Dear Mr. Sowers:

Thank you for your letter regarding Heather Hills Estates Utility.

The Commission's staff has completed its investigation into the water and wastewater rates of the utility. After the staff files its recommendation on August 1, 1996, the Commissioners will vote on the issues identified in the proceeding at the August 13, 1996, Agenda Conference.

I am unable to discuss the merits of this case while it is pending before the Commission. However, I will place your letter in the official docket file where it will be available for review.

I have asked the staff to send you a copy of the recommendation once it has been filed so that you will know what the Commission will be considering on August 13th. Any affected party may appear before the Commission at that time to give comments regarding this item. If you plan to attend the Agenda Conference and wish to appear before the Commission, or if you have any questions regarding the case, please contact Mr. Bob Casey of the Commission's staff. You may reach Mr. Casey by phone at (904) 413-6974.

Again, thank you for your letter.

Sincerely,

A handwritten signature in cursive script that reads "Susan F. Clark".

Susan F. Clark  
Chairman

SFC:rc  
c: Division of Records and Reporting  
-- DN960814-WS  
Division of Water and Wastewater



June 21, 96  
Miss Susan Clark  
PSC Commissioner  
2540 Shumard Blvd  
Tallahassee, Fla. 32399-0850

Received 7/10/96  
by WAW

JW  
Gly

Cuz  
J. W.  
REC'D 3:45 PM  
7-10-96  
PK

96-0276 JUN 25

Miss Clark,

I am writting in regards to the water and sewage in Heather Hills Mobile Home Park. And wondering when they are going to finalize our rates. I am sure that you have been ask this question several times. But it does have us in quite concern in what is taking place.

And wondering why would you approve \$50. for 10,800 gal. of water for Sunny Shores of Manatee Co. and investigate Heater Hills Estates for exssive earnings. When Heather Hills charges \$38. for the same amount of water. Sunny Shores work out of their mobile and Heather Hills works out of Club House. And it has been 9-months since you started checking this out.

I am not one for writting letters as you can tell by all the errors. I have lived in this park going on 14 years. And never have I seen it in the term oil tha we are seeing now. It is a beautifull park and a fine group of residents. But we are going through a situation at the present time just because that a couple of fami- lies are or seem to be unhappy. I am referring to John Morelli and John Schanick. And I am sure that this is not the first time that you have heard these names. I am sure that you know that we own our own property and they are deed restricted. We all have copies of the deed restrictions and they have been on files for years. These deed restrictions are one of the things that keep this park the nice park that we have.

John Morelli and John Schanick would be a couple that would like to just egncr these restrictions. And I am sure that in some of their conversations they have accused the Starkey's of harassing the people, and I would be one of many of the people to say that it for from being the truth. Keith and Clara Starkey are persona- freinds of mine and many of the people in the park. You would not believe to the extint that these gentlemen go to , to disrupt things in the park. And if anyone is being harassed it is the Starkey's. Just because they don't agree with the deed restrictions, it looks like that they are just trying to get back at the Starkey's over the water.

I wouldn't expect you to believe the number of unhappy people in the park, since this all came about. Just wonder where it is going to quit off. All of us would appreciate this matter being taking care of.

Sincerely  
Robert L. Sowers  
319 48th Ave. Dr. W.  
Bradenton, Fla. 34207

Robert L. Sowers

RECEIVED

JUN 24 1996

Florida Public Service Comm.  
Commissioner Clark