FLORIDA PUBLIC SERVICE COMMISSION
GUNTER BUILDING
CAPITAL CIRCLE OFFICE CENTER
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TALLAHASSEE, FLORIDA 32399-0850

M E M O R A N D U M

April 2, 1997

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

FROM: DIVISION OF WATER AND WASTEWATER (DAVIS, DEWBERRY)
DIVISION OF LEGAL SERVICES (CYRUS-WILLIAMS)

RE: DOCKET NO.: 960799-WS - APPLICATION FOR STAFF ASSISTED RATE CASE BY LAKE SUZY UTILITIES, INC.
COUNTY: DESOTO

AGENDA: APRIL 14, 1997 - REGULAR AGENDA - PROPOSED AGENCY ACTION EXCEPT ISSUES 15 AND 16- INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE - 15-MONTH STATUTORY TIME FRAME WAIVED

SPECIAL INSTRUCTIONS: THIS IS AN INITIAL DECISION WHICH SHOULD BE HEARD BY THE FULL COMMISSION

LOCATION OF FILE: S:\PSC\WAW\WP\960799WS.RCM

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CASE BACKGROUND

Lake Suzy Utilities, Inc. (utility) is a Class C water and wastewater utility located in Desoto County. The Commission granted the utility's Certificate Nos. 480-W and 416-S in Docket No. 850790-WS, by Order No. 16935, issued December 9, 1986.

The utility's initial rates, rate structure and service availability charges for water were approved by Desoto County. These rates and charges with some modification were approved by the Commission when the utility was granted operating certificates for water and wastewater. Since that time, the utility's wastewater rates have been increased through price index and pass through applications from 1987 through 1991. Its water rates have been increased through price index and pass through applications from 1987 through 1995. The utility has not had a formal prior rate case processed by the Commission.

On July 3, 1996, the utility applied for this staff assisted rate case. In its application, the utility requested interim (emergency) rates and service availability charges for wastewater. By Order No. PSC-96-1284-FOF-WS, issued October 15, 1996, the Commission denied the utility's request for emergency wastewater rates and approved emergency service availability charges for wastewater. The service availability charges became effective November 6, 1996.

An audit of the utility's books and an engineering investigation has been completed to determine components necessary for setting rates. A historical test year ended June 30, 1996, has been selected. The utility's adjusted test year revenues are $142,675 for water and $39,280 for wastewater. The corresponding expenses are $137,200 for water and $68,584 for wastewater, resulting in an operating income of $5,475 for water and an operating loss of $29,304 for wastewater.

Lake Suzy is a consecutive water system that purchases water for resale from another consecutive water system. Water is supplied by the Peace River Water Supply Authority (PRWSA), DeSoto County purchases water from the PRWSA and resells drinking water to Lake Suzy via a twelve inch transmission main.

During the test year, the utility provided wastewater service to some of its customers and Kingsway Country Club provided service to the remaining customers.

During the test year, the utility was expanding its wastewater treatment plant to satisfy a Department of Environmental Protection (DEP) requirement for correcting discharge violations. This expansion included an increase in capacity for wastewater treatment and reconstruction of the utility's two percolation ponds. All improvements have been completed and the costs are included in rate base.

The utility's customer base includes single family homes, condominiums, and businesses. During the test year the utility provided water service to approximately 119 residential customers, 153 multi-residential customers and 17 general service customers for a total of 289 customers. It provided wastewater service to 20 residential customers, 21 multi-residential customers and 13 general service customers.

On December 19, 1996, a customer meeting was held in the utility's service area. Approximately 120 customers attended this meeting and approximately 15 customers addressed concerns. The major concerns addressed were bad taste and odor of the water, line flushing, excessive infiltration, and the cost of land purchased from a related party for the wastewater system. In addition customers stated a dissatisfaction with the percentage increase in wastewater rates. The taste and odor of water and line flushing is addressed in Issue 1, infiltration is addressed in Issue 2, and land valuation is addressed in Issue 3.

DISCUSSION OF ISSUES

QUALITY OF SERVICE

ISSUE 1: Is the quality of service provided by Lake Suzy Utilities, Inc. in Desoto County satisfactory?

RECOMMENDATION: Yes. The quality of service provided by Lake Suzy Utilities, Inc. should be considered satisfactory. (DAVIS)

STAFF ANALYSIS: The overall quality of service provided by the utility is derived from the evaluation of three separate components of the Water or Wastewater Utility Operations: (1) Quality of Utility's Product (water and wastewater compliance with regulatory standards), (2) Operational Conditions of Utility's Plant or Facilities, and (3) Customer Satisfaction of the drinking water and domestic wastewater.

A customer meeting was held on the evening of December 19, 1996. The utility provides water service to 440 ERCs, and wastewater service to 292 ERCs. Approximately 120 of those customers were in attendance at this meeting. Of the customers that went on record to voice opinions, their primary concerns were with the rates. However, one customer commented that the water tasted bad, another customer stated that there was sediment in the water, and another customer asked if anyone had ever seen the utility flushing the water lines. Mr. Frank Glenmyer stated that he had no complaints on the water service and no complaints on the water quality. Mr. William Wilkes commented that he believed the water was as good as any in the state. Mr. Wallace Hertel stated that he had witnessed the utility flushing the lines last summer.

Lake Suzy Utilities, Inc. is a consecutive water system which purchases water service from the DeSoto County Board of County Commissioners. DeSoto County is a member of the Peace River Water Supply Authority (PRWSA), the primary supplier of potable water. The PRWSA is an authority which must comply to standards set by the Environmental Protection Agency (EPA) under the jurisdiction of the Department of Environmental Protection (DEP). DEP has no citations or corrective orders pending against the PRWMA. Water served to Lake Suzy customers meets or exceeds all quality standards for safe drinking water.

Lake Suzy's Wastewater Treatment Plant is a 0.050 Million Gallons per Day (MGD) package plant which is required by the Department of Environmental Protection (DEP) to be permitted. On May 14, 1993, Lake Suzy's permit expired. Since then, the utility has been involved with the DEP in attempts to renew its permit. An

application to renew the operating permit was submitted, reviewed by the DEP, and was found to be incomplete. The DEP then requested additional information concerning unresolved citations against the utility for failure of the percolation/evaporation ponds and unauthorized discharges. As a result, the utility was placed in the position of signing a Consent Order (CO) to upgrade the plant and disposal system.

This utility is within the Southwest Florida Water Management District (SWFWMD) which considers the water system non-jurisdictional because it is a consecutive water system. The SWFWMD also considers the wastewater system non-jurisdictional because it is less than 100,000 gallons per day.

The interconnect facility that links the utility's water system to the County is maintained by DeSoto County. Operating conditions are considered satisfactory. Operating conditions at the wastewater plant appear normal and routine maintenance appears satisfactory. Plant upgrades at the wastewater site were already underway during the engineer's field audit. Conditions at the plant site were in disarray which is normal during construction. The new concrete block, blower room/storage facility was near completion and showed promise as a well engineered structure. By all appearances, operating conditions are satisfactory.

After consideration of the overall reaction by the customers, staff believes that the quality of service appears satisfactory. Necessary treatment is being performed to the water before it is sold to the utility. Since the utility resells purchased water, flushing is done on an as needed basis, and targeted to the specific area to limit purchased water loss. Should customers experience sediment problems, the utility should be contacted so flushing can be contained to a minimum. Taste is subjective, and comments by the customers supported opinions on both sides of the issue. The water delivered to the customers of Lake Suzy meets or exceeds the standards for safe drinking water. Few comments were voiced concerning the wastewater plant other than the cost of the new upgrade. All comments and questions from the customers were investigated and responded to either by direct contact with the customer or in this recommendation. All things considered, this utility's quality of service should be considered satisfactory.

RATE BASE

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

RECOMMENDATION: A used and useful percentage for the water treatment plant is not applicable. The water distribution system is **61.18% used and useful** with the exception of account number 334, which is **100% used and useful**. The wastewater plant accounts are **69.03% used and useful** with the exception of Account Number 363, which is **100% used and useful**. The collection system is 51.36% **used and useful** with the exception of Account Number 363, which is **100% used and useful**. (Davis)

STAFF ANALYSIS: Since the utility purchases its water for resale from DeSoto County, the calculation of a water treatment plant used and useful is not applicable.

Water Distribution System - The approved formula method, used as an indicator of useful plant, was followed in calculating the used and useful percentage for the water distribution system. By formula calculation, the water distribution system is determined to be **61.18% used and useful**. The exception to this percentage of useful plant would be Account Number 334 (Meter & Meter Installations). Meters are installed upon demand and are considered 100% used and useful. It is recommended that the distribution system is **61.18% used and useful** with the exception of account number 334, which is **100% used and useful**. (See Attachment A)

Wastewater Treatment Plant - The capacity of the wastewater treatment plant is currently 50,000 gallons per day. The plant is being upgraded to a capacity of 87,000 gpd which should be complete by the end of this rate proceeding. The highest daily flows, during the test year, occurred in February, 1996, and was 63,000 gpd for an average of 199 ERC's, 54 actual connections. Metered water sold to the same customers, during the same month, averaged 39,034 gpd. After an allowance for normal infiltrated water, a difference of 17,665 gpd (or 28.04%) was applied to the used and useful formula as an adjustment for excessive infiltrated water. The used and useful formula, used as an indicator, yields a percentage of useful plant at **69.03%**. It is recommended that the wastewater treatment plant is **69.03% used and useful** with the exception of Account Number 353 (Land and Land Rights) which is **100% used and useful**. (See Attachment B)

Wastewater Collection System - The approved formula method, used as an indicator of useful plant, was followed in calculating the used and useful percentage for the wastewater collection system. By formula calculation, the wastewater collection system is determined to be **51.36% used and useful**. The exception to this would be Account Number 363 (Services) which is considered **100% used and useful**. It is recommended that the collection system is **51.36% used and useful** with the exception of Account Number 363, which is **100% used and usefu**.. (See Attachment C)

ISSUE 3: Who owns the land on which the utility's facilities are located and what is the appropriate value for each system?

RECOMMENDATION: The utility owns the land on which its facilities are located. The appropriate value is $1,150 for water and $262,581 for wastewater. (Davis, Dewberry)

STAFF ANALYSIS: The utility purchases and resells water to its customers and does not own a water treatment plant. However, the water interconnection meter is located on .09 of an acre of land. The utility recorded a value of $1,150 for this parcel of land. Based on a warranty deed, the utility owns this land and staff recommends a land value of $1,150 for water.

Based on warranty deeds, the utility purchased and owns 25.52 acres of land for its wastewater facility, 5.97 acres was purchased in February 1987 and 19.55 acres was purchased in December 1996. Both parcels of land are adjoined and were purchased from the grandparents of the utility's owner. The utility purchased the 5.97 acres for $150,000, which equates to $25,126 per acre. It purchased the 19.55 acres for $292,800, which equates to $14,977 per acre.

At the meeting held on December 19, 1996, a customer voiced concerns about the price the utility paid a related party for the land. The customer also provided staff with a form that listed the owner of the property, the type zone, the number of acres and the appraisal price per acre determined by Desoto County. Staff called the appraiser's office and asked how the appraisal value of land is determined. Staff was informed that the two parcels of land are zoned agricultural, and the appraisal value is based on a market value between 85-100 percent for an agricultural zone. Desoto County's appraisal value per acre for the 5.97 acre parcel is $4,000, and $1,000 per acre for the 19.55 acres.

It is the utility's burden to prove that its costs are reasonable. Florida Power Corporation vs. Cresse, 413 So. 2d 1187, 1191 (1982). This burden is even greater when the purchase is between related parties. In GTE Florida, Inc. vs. Deason, 642 So. 2d 545 (Fla. 1994), the Court established that when affiliate transactions occur, that does not mean that "unfair or excessive profits are being generated, without more". The standard established to evaluate affiliate transactions is whether those transactions exceed the going market rate or are otherwise inherently unfair. The Commission has applied the GTE Florida case to other utility land purchases. See, for example, Order No. PSC-

96-1320-FOF-SU, issued October 30, 1996 in Docket No. 950495-WS, where the Commission disallowed a portion of the price of land purchased from a utility affiliate where the utility failed to prove the prudency of the purchase price.

Staff recognizes that the land value recorded on the property appraiser's books may not represent the commercial value of the land or the amount for which the owner would be willing to sell. Therefore, an independent appraisal is necesary to determine the fair market value of such land. The utility hired an independent appraiser to determine the fair market value of the 19.55 acres of land purchased in December 1996. The appraiser calculated a market value of $312,000, for the 19.55 acres of land, which equates to $15,959 per acre. The appraiser used comparable arms-length sales of land sold in close proximity to the 19.55 acres purchased by the utility in determining the market value. The comparable sales ranged from $8,000-$22,000 per acre. The utility purchased this land for $14,977 per acre, which is less than the calculated market value and within the mid-range of the per acre value of comparable sales used in the independent appraisal. Staff believes that the utility has met its burden in proving that the cost of the land would not be less if it was purchased from an unrelated party. Accordingly, staff recommends a land value of $292,800, $14,977 per acre, for the 19.55 acres of land.

Staff also used the above appraisal to test the resonableness of the amount paid for the 5.97 acres in 1987. Using the 43.34% growth in the Consumer Price Index (CPI) during the period 1987 through 1996, staff discounted the current per acre value of $14,977 to determine a fair market value of $10,449 per acre in 1987. This produces a total value of $62,381 for the 5.97 acres. Staff does not believe that the utility has met its burden in proving the prudency of the $150,000 purchase price. Accordingly, consistent with GTE Florida, Inc. and prior decisions staff recommends a reduction in the purchased price for the 5.97 acres of land.

The DEP has required the utility to upgrade its wastewater treatment plant, which included reconstruction of its percolation ponds. The utility's two original ponds were located on the 5.97 acres of land. The utility was required to purchase additional land for the percolation pond reconstruction. The total number of acres required for the upgrade is 19.20 acres. The utility owns 25.52 acres. Therefore, we have recognized 6.32 acres as land held for future use.

The utility recorded land value of $150,000 for wastewater. Land has been increased by $292,300 to reflect staff's recommended

value for the 19.55 acres of land and by $2,056 to reflect the cost of the recording fee and documentary stamps for this property. It has been decreased by $87,619 to reflect the recommended value of land for the 5.97 acres and decreased by $94,656 to reflect the value of land held for future use. Total adjustments for land equals $112,581 resulting in a recommended land value of $262,581 for wastewater.

ISSUE 4: What is the appropriate average test year rate base for each system?

RECOMMENDATION: The appropriate average test year rate base should be zero for water and $435,783 for wastewater. (DAVIS, DEWBERRY)

STAFF ANALYSIS: The utility has not had a prior rate case. By Order No. 16935, issued December 9, 1986, in Docket No. 850790-WS, the Commission granted the utility operating certificates and approved rates for water and wastewater and service availability charges for water only. Desoto County approved the utility's original rates and charges. The rates and charges approved in the above referenced docket were a modification of the original rates and charges approved by Desoto County. Rate base was not established in Docket No. 850790-WS.

The utility's water facility includes transmission and distribution lines. The utility's wastewater facility includes a treatment plant and collection system.

Staff has selected a historical test year ended June 30, 1996. An audit has been completed to determine rate base components at June 30, 1996. In addition, signed contracts and pro forma costs for the wastewater treatment plant expansion have also been provided and the costs are included in rate base. A discussion of each component follows:

Utility Plant in Service (UPIS): The utility recorded plant balances of $276,824 for water and $324,361 for wastewater at June 30, 1996. UPIS has been increased by $511 for water and wastewater each to reflect a reclassification from operation and maintenance expense (O&M). It has been decreased by $20,580 for wastewater to reflect the correct plant balance of $304,292 at June 30, 1996.

To satisfy a DEP consent order, the utility was required to expand its wastewater treatment plant capacity from 50,000 gpd to 87,000 gpd and reconstruct and expand its percolation ponds. During the test year the utility recorded construction work in progress (CWIP) of $127,837 for wastewater. The expansion project has been completed and UPIS has been increased by $127,837 to include CWIP recorded during the test year.

On February 20, 1997 the utility provided staff with invoices for post test year plant costs required for completing the plant expansion totaling $517,065. UPIS has been increased by $517,065 to includ post test year plant.

The averaging adjustments for rate setting is $961 for water and $255 for wastewater.

Land - As addressed in Issue 3, staff recommends a land value of $1,150 for water and $262,581 for wastewater.

Non-used and Useful Plant - Non-used and useful plant represents that portion of the utility's investment that is non-used and useful for existing customers. The staff engineer has determined the used and used percentage of each plant account. Multiplying the non-used and useful percentage times average plant results in average non-used and useful plant of $86,669 for water and $126,297 for wastewater. The corresponding average non-used and useful accumulated depreciation is $23,481 for water and $26,925 for wastewater.

The utility received $345,000 in refundable cash advances to help fund the post test year plant improvement costs of $644,902, excluding land, for wastewater. Therefore, the utility's investment in post test year plant is $299,902. Applying the non-used and useful percentage times post test year utility investment results in non-used and useful plant of $92,880 for wastewater. The corresponding non-used and useful depreciation is $6,195. These adjustments result in net non-used and useful plant of $63,188 for water and $186,057 for wastewater.

Construction Work in Progress (CWIP) - The utility recorded CWIP of $127,837 for wastewater. During the test year the utility was expanding its wastewater treatment plant and percolation ponds. All improvements have been completed and CWIP has been decreased by $127,837 to reflect a reclassification to plant.

Contributions-in-Aid-of-Construction (CIAC) - The utility recorded CIAC of $332,772 for water and $212,756 for wastewater. Based on the staff audit, year end CIAC is $389,428 for water and $244,691 for wastewater. CIAC for water include contributed plant of $107,215, capacity fees of $236,763 and meter installation fees of $45,450. CIAC for wastewater include contributed plant only.

CIAC has been increased by $56,656 for water and by $31,995 for wastewater to reflect CIAC at June 30, 1996. CIAC has been decreased by $86,669 for water and by $101,129 for wastewater to reflect non-used and useful CIAC. In addition, CIAC for wastewater has been increased by $50,173 to reflect CIAC associated with the margin reserve. **This adjustment imputes 50% of the amount of CIAC attributed to margin reserve, because the total amount imputed would be collected over the life of the margin reserve period rather than at the beginning of the period. The Commission has**

approved this departure from standard practice in the past in Order Nos. PSC-96-1320-FOF-WS and PSC-96-1338-FOF-WS issued on October 30, 1996 and November 7, 1996, respectively. The averaging adjustment is $2,143 for water. CIAC for wastewater remained constant and an averaging adjustment is not necessary. CIAC for ratesetting is $300,616 for water and $193,755 for wastewater.

Refundable Advances - A portion of the utility's post test year plant improvements were funded through cash advances from developers. Based on the agreements between the utility and developers, the utility will collect Commission approved service availability charges from future customers and refund the advance to the developers. At that time the advances should be recorded as CIAC. Refundable advances have a negative impact on rate base. Therefore, wastewater rate base has been decreased by $345,000.

As done in Docket No. 930912-WS, and as approved by the Commission in Order No. PSC-94-1168-FOF-WS, staff has calculated amortization on the cash advance. This calculation allows plant balances and the funds used to build plant to be depreciated (or amortized) over the same period of time. This allows the asset and its source of funding to be equal throughout their lives. Amortization for the refundable advance is $23,012. The net refundable advance is $321,988.

Accumulated Depreciation - The utility recorded accumulated depreciation of $67,942 for water and $62,058 for wastewater at December 31, 1996. The utility's recorded depreciation is based on a 2.5% depreciation rate. The utility recorded depreciation through June 30, 1995 has been retained to reflect the utility's reserve balance prior to the test year. Test year depreciation expense has been calculated using rates prescribed by Rule 25-30.140, Florida Administrative Code. Accumulated depreciation has been increased by $5,541 for water and by $11,641 for wastewater to reflect depreciation at June 30, 1996. Depreciation expense has also been increased by $43,015 for wastewater to reflect depreciation on post test year plant. The averaging adjustment is $4,769 for water and $8,034 for wastewater.

Amortization of CIAC - This account has been increased by $97,145 for water and by $52,013 for wastewater to reflect amortization at June 30, 1996. Amortization has been decreased to reflect non-used and useful amortization of $23,481 for water and $18,150 for wastewater. Amortization for wastewater has been increased by $1,325 to reflect amortization on CIAC for margin reserve. The averaging adjustment for rate setting is $6,658 for water and $6,227 for wastewater.

Working Capital Allowance - 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 $15,863 for water and $5,782 for wastewater (based on O&M expense of $126,902 for water and $46,254 for wastewater). Working capital allowance has been decreased by $4,748 for water and increased by $282 for wastewater to reflect one-eighth of staff's recommended O&M expense.

Rate Base Summary - Applying all of the above adjustments results in a negative rate base of $72,125 for water. Staff has adjusted water rate base to zero for rate setting purposes. This is consistent with previous decisions in other Commission Dockets. See Order Nos. 16238 and PSC-94-0245-FOF-WS. The average rate base for wastewater is $435,783.

Rate base is shown on Schedule Nos. 1 and 1A and adjustments are shown on Schedule No. 1-B.

COST OF CAPITAL

ISSUE 5: What is the appropriate return on equity and the appropriate overall rate of return?

RECOMMENDATION: The appropriate return on equity is 11.51% with a range of 10.51% - 12.51%. The appropriate overall rate of return is 9.74% with a range of 9.28% - 10.21% (DEWBERRY)

STAFF ANALYSIS: The utility's capital structure includes 46.03% equity. Using the current leverage formula approved by Order No. PSC-96-0729-FOF-WS, issued May 31, 1996, in Docket No. 960006-WS, the rate of return on common equity is 11.51% with a range of 10.51% - 12.51%.

The utility's capital structure also includes loans with various costs. The weighted cost of each loan has been calculated based on the cost and the weight of each loan.

The utility's water rate base is negative. Consistent with previouse Commission decisions in other dockets, the negative water rate base has been adjusted to zero. See Order Nos. 16238 and PSC-94-0245-FOF-WS. Therefore, the utility's capital structure has been reconciled to the recommended rate base for wastewater on a pro rata basis. Applying the cost times the weight of each capital component results in an overall rate of return of 9.74%, with a range of 9.28% - 10.21%.

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

NET OPERATING INCOME

ISSUE 6: What are the appropriate test year revenues?

RECOMMENDATION: The appropriate test year revenues are $142,675 for water and $39,280 for wastewater. (DEWBERRY)

STAFF ANALYSIS: Based on the test year billing analysis the utility provided water service to approximately 119 residential customers, 153 multi-residential customers and 17 general service customers. It provided wastewater service to approximately 20 residential customers, 21 multi-residential customers and 13 general service customers. A revenue check has been completed using the test year billing analysis and the authorized rates in effect during the test year. The calculated test year revenue is $134,685 for water and $39,280 for wastewater. The utility recorded test year revenue on a cash basis of $126,851 for water and $43,125 for wastewater. Test year revenue has been increased by $7,834 for water and decreased by $3,845 for wastewater to reflect the appropriate accrued total of $134,685 for water and $39,280 for wastewater.

The historical test year ended June 30, 1996 has been selected for this rate case. The utility's existing water rates became effective August 28, 1995. Therefore, the utility's test year revenue include ten months of revenue collected based on the existing rates. In instances where revenue have not been collected based on existing rates for a 12-month period, annualized revenue is calculated using the test year billing analysis and existing rates for a 12-month period to reflect revenue the utility would have collected had the rates been effect for a full year. This calculation also allows the determination of the appropriate revenue increase needed to provide the appropriate revenue requirement. Staff's calculated annualized revenue is $142,675 for water. Test year revenue has been increased by $7,990 for water to reflect annualized revenue. There was no change in wastewater rates during the test year and a calculation of annualized revenue is not necessary.

Test year annualized revenues are shown on Schedule Nos. 3 and 3A and adjustments are shown on Schedule No. 3B.

ISSUE 7: What is the appropriate test year operating income/loss for each system?

RECOMMENDATION: The appropriate test year operating income is $5,475 for water and the appropriate test year operating loss is $29,304 for wastewater. (DEWBERRY)

STAFF ANALYSIS: The utility's test year revenue is $142,675 for water and $39,280 for wastewater. The corresponding test year operating expenses are $137,200 for water and $68,584 for wastewater (these figures do not include staff's recommended revenue increase and taxes). This results in a test year operating income of $5,475 for water and a loss of $29,304 for wastewater.

The test year operating income and loss are shown on Schedule Nos. 3 and 3A.

ISSUE 8: What are the appropriate operating expenses for each system?

RECOMMENDATION: The appropriate operating expense should be $136,942 for water and $71,965 for wastewater. (DAVIS, DEWBERRY)

STAFF ANALYSIS: The utility's recorded operating expenses include operation and maintenance (O&M) expense, depreciation expense, amortization of CIAC and taxes other than income. The utility's recorded expenses have been traced to invoices and adjustments have been made to reflect expenses required for operating the systems on a going forward basis. A summary of adjustments follows:

Operation and Maintenance Expenses

1) Salaries and Wages - Employees (601/701) - The utility recorded employee salaries of $9,979 for water and $579 for wastewater. The utility has one salaried employee that answers the phone, prepares and mails bills, receives and posts payment of bills, makes deposits, maintains the filing system and logs customer complaints. The utility requested a $10 per hour salary for this employee.

   The utility shares office space and employees with two other businesses. Based on the duties performed by this employee, staff believes that the salary should be based on 40 hours per month. The requested hourly rate of $10 is reasonable and staff recommends an annual employee salary of $4,800 with an allocation of 80% and 20% for water and wastewater respectively. This expense has been decreased by $6,139 for water and increased by $781 for wastewater to reflect the recommended salary.

2) Salaries and Wages - Officers (603/703) - The utility's president handles all aspects of the utility's operations such as administrative duties, maintenance and meter reading. The utility has requested an annual salary of $30,000. Based on the duties required of a utility this size, staff believes that 80 hours per month is adequate for performing the required administrative and maintenance duties. The hourly salary for a manager using salaries from a 1981 survey indexed forward for 1996 dollars is $21.34 per hour. Staff recommends and annual salary of $20,486 for administrative and

maintenance duties with an allocation of 80% to water and 20% to wastewater. In addition, staff recommends a meter reading allowance of $867 for water. The utility did not record an officer's salary and staff has increased this expense by $17,285 for water and by $4,098 for wastewater.

3) Employee Pensions and Benefits (604/704) - The utility purchased health insurance coverage for its one salaried employee at a cost of $2,304 annually. Staff has recommended an annual salary based on 480 hours, which represents 23.08% of full time hours of 2,080. Therefore, staff recommends 23.08% of the health insurance expense of $532 with an allocation of 80% to water and 20% to wastewater. This expense has been increased by $426 for water and $106 for wastewater.

4) Purchased Water and Wastewater Treatment (610/710) - The utility recorded purchased water expense of $105,896. This expense has been decreased by $29,225 to remove prior period expenses. It has been increased by $563 to reflect the annualized cost based on the existing charge that became effective September 1995.

During the test year the utility purchased some wastewater treatment from Kingsway Country Club. The utility has since completed the expansion of its wastewater treatment plant and is now providing service to all of its customers. The utility recorded a purchased wastewater treatment expense of $4,320. This service is no longer needed and this expense has been decreased by $4,320 to remove a non-recurring expense.

5) Sludge Removal Expense (711) - The rated capacity of the wastewater treatment plant is very near its practical ability to process the flow volume produced by the existing customers. The need for sludge removal was obvious during the engineering field audit, which occurred during the off-season. When the utility has completed its plant upgrade, the need to have sludge removed will continue as a normal practice. It is estimated that this utility should waste its excess sludge once each month at a cost of $150 per hauling. Staff recommends annual sludge removal allowance of $1,800. The utility recorded a sludge removal expense of $1,085. This expense has been increased by $715 to reflect the recommended sludge removal allowance.

6) Purchased Power (615/715) - The utility recorded a purchased power expense of $2,099 for water and $5,500 for wastewater. There are no facilities associated with the water system that require purchased power. The recorded purchased power expense of $2,099 for water is the power expense for the office. The rental agreement for office use include purchase power cost. Therefore, this expense has been decreased by $2,099 for water to reflect a reclassification to rent.

Staff has estimated a purchased power cost of $6,382 for wastewater to accommodate the upgrade of the wastewater treatment plant and to include three lift stations. The utility's recorded expense of $5,500 include purchased power cost of $500 for the office and $5,000 for the wastewater system. This expense has been decreased by $500 to reflect a reclassification to rent and has been increased by $1,382 to reflect the annual allowance for the system.

7) Chemicals (718) - The utility uses liquid chlorine, which is injected into the chlorine contact chamber by a hypomechanical pump for wastewater. Scheduled as part of the treatment plant upgrade is the change-over from liquid chlorine to chlorine gas. Based on a comparison study of three of the similar sized utilities, it is estimated that Lake Suzy will need to purchase 12 cylinders of gas chlorine per year to disinfect its effluent leaving the plant. The most recently reviewed cost for a 150 pound cylinder of gas chlorine was $95. It is anticipated that $1,140 per year will be needed to properly disinfect the treated effluent for disposal.

In addition, other chemicals (lime, round-up, etc.) are needed on occasions to suppress bacterial growth, arrest vegetation in the ponds, etc. During the test year, either the utility or the utility's operator utilized a total of $301 for chemicals (other than chlorine). The use of these chemicals is considered necessary to the process of wastewater treatment and the purchase of these chemicals is considered reasonable.

Staff recommends an annual chemical allowance of $1,441 for wastewater. The utility recorded a chemical expense of $427. This expense has been increased by $948 to reflect a reclassification from contractual services and by $66 to reflect the recommended annual allowance.

8) Materials and Supplies (620/720) - The utility recorded an expense of $6,626 for water and $5,896 for wastewater. This expense has been decreased by $511 for water and wastewater each to reflect a reclassification to plant. The water expense has been decreased by $512 to remove a prior period expense and by $113 to reflect a reclassification to contractual services.

9) Contractual Services (630/730) - The utility recorded a contractual service expense of $13,781 for water and $19,449 for wastewater. The utility's recorded contractual expense include a legal expense of $11,158 for water and $3,998 for wastewater. Subsequent to the test year the utility received bills for contractual services performed during the year, but was not recorded. The unrecorded expense include cost for legal and consultant services. This expense has been increased by $1,028 for water and by $257 for wastewater to reflect unrecorded legal expense. This expense has also been decreased by $6,085 for water and by $1,521 for wastewater to remove non-utility legal expense. This results in a total legal expense of $8,835 for water and wastewater. This amount appears excessive for any one year. This amount has been amortized over 5 years allowing $1,767 annually for legal expense with an allocation of 80% for water and 20% for wastewater. Therefore, this expense has been decreased by $4,687 for water and by $2,381 for wastewater to reflect the recommended annual legal expense.

This expense has been increased by $313 for water and wastewater each to reflect a reclassification of consultant costs from regulatory commission expense. It has also been increased by $20,868 for water and by $5,218 for wastewater to reflect unrecorded consultant cost. The total consultant cost is $26,712. This amount appears excessive for annual duties perform by the consultant firm and has been amortized over five years allowing $5,342 annually. This expense has been decreased by $16,907 for water and by $4,463 for wastewater to reflect an annual consultant allowance of $5,342 with 80% allocated to water and 20% allocated to wastewater. This expense provides service for annual report preparation, index and pass through applications and maintenance of the utility's books. Contractual billing cost included in this expense have been increased by $113 for water to reflect a reclassification from materials and supplies decreased by $28 for water and

increased by $28 for wastewater to reflect a reclassification and decreased by $1,330 for water and by $1,137 for wastewater to reflect an 80% allocation for water and 20% for wastewater.

Wastewater operator services are contracted through American Commonwealth, a service company that specializes in providing certified operators to operate and maintain utility plants in accordance with federal, state, and local regulatory standards. For this service Lake Suzy pays $683.35 per month for wastewater operations. This amount includes collecting the required monthly sampling and transporting those samples to a certified lab for analysis (cost of analysis is separate). Considering the location of the utility, $8,200 per year is considered reasonable wastewater operator services. However, when the wastewater upgrade is complete those customers currently connected to the Kingsway wastewater plant will be served by the utility and staff has estimated an additional $300 per month operator service expense. Staff recommends an annual operator allowance of $11,800. The utility recorded operator service expense of $9,561 for wastewater. This expense has been increased by $2,239 for wastewater to reflect the recommended annual allowance.

The utility recorded DEP required testing expense of $780 for wastewater. Required testing expenses for water and wastewater have been determined by the staff engineer and this expense has been increased by $1,485 to reflect the annual cost for microbiological test, lead and copper test and asbestos. It has also been increased by $350 for wastewater to reflect an annual cost for sludge analysis. A schedule of recommended testing expenses follows:

Water

Description	Frequency	Annual Cost
Microbiological	Monthly	$ 480
Lead & Copper	Biannual/Subseq. Annual	500
Asbestos	1 every 9 years	25
TOTAL		$1,485

WasteWater

Description	Frequency	Annual Cost
Fecal Coliform	Monthly	$ 360
Nitrate	Monthly	420
Sludge Analysis	Annually	350
TOTAL		$1,130

The utility contracts a groundskeeping service for its wastewater facility for mowing the land on which the treatment plant is located and for pond sites. The land on which water facilities are located for the interconnection with Desoto county also requires upkeep. Staff recommends an annual allowance of $160 for water and $600 for wastewater. This expense has been increased by $160 for water and by $600 for wastewater for groundskeeping service.

In addition this expense has been decreased by $948 to reflect a reclassification to chemicals, by $1,905 to remove a prior period expense, and by $804 to remove a duplicate entry for wastewater.

10) Rents (640/740) - The utility recorded rent expense of $4,952 for water and $5,848 for wastewater. The recorded expense for water is rent for office space. The recorded expense for wastewater include $960 in rent for office space and $4,888 for a land lease payment on which the wastewater treatment plant is located. The utility purchased this land in December 1996 and the value of the land is included in plant. Therefore this expense has been decreased by $4,888 for wastewater to remove a non-recurring expense.

This expense has been increased by $2,099 for water and by $500 for wastewater to reflect power expense for the office. The utility shares an office with two other businesses. The utility has agreed to pay $400 per month for space and share the power expense. This expense has been decreased by $1,399 for water and by $333 for wastewater to reflect one-third of the power expense.

The total recorded expense for office space is $5,912. The annual rent cost for space at $400 per month is $4,800. This expense has been decreased by $1,112 for water to reflect the appropriate rent allocation of 80% for water and 20% for wastewater.

11) Transportation Expense (650/750) - The utility recorded $6,296 for water and $1,344 for wastewater for this expense. This expense has been decreased by $331 for water to remove a car payment. As determined by the staff engineer, 60% of the transportation expenses should be allowed for utility business. This expense has been decreased by $2,386 for water and by $537 for wastewater to reflect an annual transportation expense of $3,579 for water and $807 for wastewater.

12) Insurance (655) - The utility recorded an insurance expense covering a truck of $1,599 for water and $905 for wastewater. This expense has been decreased by $1,079 for water and by $776 for wastewater to reflect 60% of the cost for utility purposes.

The utility has expanded its wastewater treatment plant. The utility has purchased insurance coverage for the plant and has submitted the policy and proof of payment. The cost of the insurance is $3,172 annually. This expense has been increased by $3,172 to reflect the annual insurance expense for the wastewater plant.

13) Regulatory Commission Expense (665/765) - The utility recorded $4,849 for water and $2,740 for wastewater in this expense. This expense has been decreased by $313 for water and wastewater each to reflect a reclassification to contractual services. It has been decreased by $4,353 for water and by $2,294 for wastewater to remove prior period expenses, and decreased by $183 for water and by $133 for wastewater to reflect a reclassification to miscellaneous expense.

The utility paid a rate case filing fee of $1,000 for water and $500 for wastewater. The filing fee has been amortized over four year and this expense has been increased by $250 for water and by $125 for wastewater.

14) Miscellaneous Expense (675/775) - The utility recorded an expense of $8,810 for water and $3,992 for wastewater. This expense has been decreased by $4,240 for water and by $165 for wastewater to allow one-third of the annual phone bill for utility business. It has been increased by $183 for water and by $133 for wastewater to reflect a reclassification, and increased by $274 for water and by $2,367 for wastewater to reflect an annual repair and maintenance expense. In addition, this expense has been decreased by $1,250 for wastewater to remove a penalty

payment associated with the DEP consent order, increased by $200 for wastewater to reflect an operating permit cost amortized over 5 years and has been increased by $160 for wastewater to reflect a land appraisal cost amortized over 5 years.

Depreciation Expense - Test year depreciation expense has been calculated using rates prescribed by Rule 25-30.140, Florida Administrative Code. Test year depreciation is $9,594 for water and $59,101 for wastewater including depreciation on year end and post test year plant for wastewater. Non-used and useful depreciation is $2,722 for water and $19,669 for wastewater. Net test year depreciation expense is $6,872 for water and $39,432 for wastewater. The utility recorded depreciation expense of $8,002 for water and $8,855 for wastewater. This expense has been decreased by $1,130 for water and increased by $30,577 for wastewater to reflect net test year depreciation expense.

Amortization of CIAC - Amortization of CIAC has a negative impact on depreciation expense. The utility's CIAC for water includes contributed plant and cash collected from meter installation and system capacity charges. The utility's year end CIAC exceeds the value of its year end plant. Therefore, amortization of CIAC is greater than the test year depreciation. Test year amortization expense for water is $13,410, non-used and useful amortization is $2,722 and net amortization is $10,688. This amount exceeds net depreciation expense by $3,816. If the excess amortization is included in the calculation of rates, the utility will not recover the recommended operating costs required for operating the system. Therefore, staff believes that amortization expense of $3,816 should be removed to match net depreciation and amortization. The utility recorded amortization expense of $9,736. This expense has been increased by $952 to reflect net amortization. It has been decreased by $3,816 to adjust amortization total to match the depreciation total. This results in an amortization expense of $6,872 for water.

Test year amortization of CIAC and cash advances for wastewater is $35,466. The corresponding non-used and useful amortization is $12,017. Amortization of CIAC on the margin reserve is $2,649. The net amortization is $26,098. The utility recorded amortization expense of $6,117 for wastewater. This expense has been increased by $19,981 to reflect net test year amortization.

Taxes Other Than Income - The utility recorded $6,456 for water and $6,093 for wastewater. This expense has been decreased by $436 for wastewater to remove a prior period real estate tax expense and increased by $2,257 for water and by $72 for wastewater to reflect payroll taxes on recommended salaries. It also has been increased by $1,585 for water and by $186 for wastewater to reflect regulatory assessment fees on test year revenue.

Income Tax Expense - The utility is an 1120 Corporation and is subject to a tax liability for wastewater only. The utility did not record an income tax expense. This expense has been increased by $3,081 for wastewater to reflect staff's calculated income tax expense.

Increase/Decrease in Operating Revenues and Expenses

Operating Revenues - Revenue has been decreased by $5,733 for water and has been increased by $75,130 for wastewater to allow the utility to recover its expenses for water and recover its expenses and earn a 9.74% return on its investment for wastewater.

Taxes Other Than Income - This expense has been decreased by $258 for water and increased by $3,381 for wastewater to reflect the regulatory assessment fee at 4.5% on the required decrease and increase in revenue.

The application of staff's recommended adjustments to the utility's recorded operating expenses results in an operating expense of $136,942 for water and $71,965 for wastewater.

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

REVENUE REQUIREMENT

ISSUE 9: What are the appropriate revenue requirements?

RECOMMENDATION: The appropriate revenue requirements are $136,942 for water and $114,410 for wastewater. (DEWBERRY)

STAFF ANALYSIS: The utility's water revenues should be decreased by $5,733 (4.02%). It should be allowed to recover its expenses only for water. The utility should be allowed an annual increase in revenue of $75,130 (191.26%) for wastewater. This will allow the utility to recover its expenses and earn a 9.74% return on its investment. The calculations are as follows:

	Water	Wastewater
Adjusted Rate Base	$ -0-	$ 435,783
Rate of Return	x -0-	x .0974
Return on Investment	$ -0-	$ 42,445
Adjusted Operating Expense	126,902	46,254
Depreciation Expense (NET)	-0-	13,334
Taxes Other than Income	10,040	9,296
Income Tax	-0-	3,081
Revenue Requirement	$ 136,942	$ 114,410

Revenue requirements are shown on Schedule Nos. 3 and 3-A.

RATES AND TARIFF CHARGES

ISSUE 10: What are the appropriate rates and rate structure?

RECOMMENDATION: The recommended rates should be designed to produce revenue of $136,942 for water and $114,410 for wastewater. The utility should employ the base facility and gallonage charge rate structure for water and retain the same for wastewater. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), Florida Administrative Code. The rates may 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. (DEWBERRY)

STAFF ANALYSIS: The utility currently employs the base facility and a block gallonage charge rate structure for water. The utility currently employs the base facility and gallonage charge rate structure for wastewater. Staff recommends that the utility employ the base facility and gallonage charge rate structure for water and retain the same for wastewater. This rate structure is designed to provide equitable sharing by the ratepayers of both the fixed and variable costs for providing service. The base facility charge is based on the concept of readiness to serve all customers connected to the system. This ensures that ratepayers 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).

During the test year the utility provided water service to approximately 119 residential customers, 153 multi-residential customers, and 17 general service customers for a total of 289 customers. It provided wastewater service to approximately 20 residential customers, 21 multi-residential customers and 13 general service customers for a total of 54 customers.

Rates have been calculated using the number of customers billed and consumption for the test year ended June 30, 1996. A schedule of the utility's existing rates and staff's recommended rates follows:

MONTHLY RATES
Water
Residential, Multi-residential and General Service

Base Facility Charge Meter Size	Existing Rates
5/8" x 3/4"	$ 12.63
1"	30.27
1 1/2"	60.58
2"	98.11
Gallonage Charge	
Per 1,000 gallons	
0-8,000 gals.	$ 3.54
over 8,000 gals.	5.45

Base Facility Charge Meter Size	Staff's Recommended Rates
5/8" x 3/4"	$ 9.76
3/4"	14.65
1"	24.41
1 1/2"	48.82
2"	78.11
3"	156.22
4"	244.10
6"	488.19
Gallonage Charge	
Per 1,000 gallons	$ 4.88

Wastewater
Monthly Rates

Residential

Base Facility Charge Meter Size	Existing Rates	Staff's Recommended Rates
All sizes	$ 13.59	$ 28.98
Gallonage Charge		
per 1,000 gals.	$ 2.00	$ 8.58
maximum gals.	10,000	6,000

Multi-residential and General Service

Base Facility Charge Meter Size	Existing Rates	Staff's Recommended Rates
5/8" x 3/4"	$ 13.59	$ 28.98
3/4"	N/A	43.46
1"	32.63	72.44
1 1/2"	65.22	144.88
2"	105.63	231.80
3"	N/A	463.60
4"	N/A	724.38
6"	N/A	1,448.76
Gallonage Charge per 1,000 gals.	$ 2.39	$ 10.30

The average water usage for a residential customer with a 5/8" x 3/4" meter is approximately 4,196 gallons per month. A schedule of an average bill using existing and recommended rates follows:

Average bill using recommended rates	$30.24
Average bill using existing rates	(27.48)
Increase in bill	$ 2.76
Percentage increase in bill	10.04% ($2.76/$27.48)

Even though staff has recommended a decrease in revenue for water, the average monthly bill for a single family residential customer will increase. This is due to the change from the existing inclining block rate structure where multi-family and general service customers have been paying a disproportionate share of the costs.

The average number of gallons of wastewater billed a residential customer is approximately 4,029 gallons per month. A schedule of an average billing using existing and recommended rates follows:

Average bill using recommended rates	$63.55
Average bill using existing rates	(21.65)
Increase in bill	$41.90
Percentage increase in bill	193.53% ($41.90/$21.65)

The recommended rates are designed to produce revenue of $136,942 for water and $114,410 for wastewater. The utility should employ the base facility and gallonage charge rate structure for water and retain the same for wastewater. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1),

Florida Administrative Code. The rates may 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.

ISSUE 11: Should the utility be authorized to collect miscellaneous charges, and if so, what are the appropriate charges?

RECOMMENDATION: Yes, the utility should be authorized to collect miscellaneous service charges and the appropriate charges should be the recommended charges specified in the staff analysis. The approved charges will be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), Florida Administrative Code. These charges may not be implemented until proper notice has been received by the customers. The utility should provide proof of the date notice was given no less than 10 days after the date of the notice. (DEWBERRY)

STAFF ANALYSIS: The utility's existing tariff does not authorize the utility to collect miscellaneous service charges. Staff recommends that the utility be authorized to collect charges consistent with Commission practice. The recommended charges are designed to defray the costs associated with each service and place the responsibility of the cost on the person creating it rather than on the rate paying body as a whole. A schedule of staff's recommended charges follows:

Staff's Recommended Charges

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

When both water and wastewater services are provided, staff believes that only a single charge is appropriate unless circumstances beyond the control of the utility require multiple actions.

Definition of each charge is provided for clarification:

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

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

Violation Reconnection - this charge would be levied prior to reconnection of an existing customer after disconnection of service for cause according to Rule 25-30.320(2), Florida Administrative Code, including a delinquency in bill payment.

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

If staff's recommended miscellaneous service charges are approved by the Commission, they should be effective for service rendered on or after the stamped approval date on the revised tariff sheets 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 no less than 10 days after the date of the notice.

ISSUE 12: What are the appropriate service availability charges for each system?

RECOMMENDATION: The utility's existing system capacity charge for water should be discontinued. Staff recommends that the utility's existing meter installation charges for water remain in effect. The appropriate service availability charges for wastewater should be the recommended charges listed in the staff analysis. The approved charges should be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), Florida Administrative Code. (DAVIS, DEWBERRY)

STAFF ANALYSIS: The utility's water plant include transmission and distribution lines only. The utility's original water system capacity charge of $750 was approved by Desoto county. By Order No. 16935, issued December 9, 1986, the Commission granted the utility's operating certificates, decreased the water system capacity charge to $562.50 and approved meter installation charges. Based on the staff audit the utility's contribution level for water exceeds 100%. Therefore, the system capacity charge for water should be discontinued. Staff recommends that the utility's existing meter installation charges remain in effect.

During the test year, the utility's wastewater system included a 50,000 gpd treatment plant and collection lines. To satisfy a DEP consent order, the utility has completed the expansion of its treatment plant to 87,000 gpd capacity. In its application for this rate case the utility requested emergency service availability charges for wastewater. By Order No. PSC-96-1284-FOF-WS, issued October 15, 1996, the Commission approved a system capacity charge of $920 and a main extension charge of $639. These charges became effective November 6, 1996. These charges were calculated prior to the staff audit and engineering investigation. The utility requested a service availability charge of $2,135. After the staff audit and engineering investigation staff calculated a new service availability charge for wastewater and found that the requested charge will not cause the utility to exceed the 75% maximum contribution level per Rule 25-30.580, Florida Administrative Code. A schedule of staff's recommended charges follows:

Service Availability Charges
Wastewater

	Staff's Recommended Charges
Plant Capacity residential per ERC (209gpd)	$1,950.00
All others - per gallon	$ 9.33
Main extension charge residential per ERC (209gpd)	$ 185.00
All others - per gallon	$ .86

If the Commission approves staff's recommendation, the approved charges should be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), Florida Administrative Code.

ISSUE 13: 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 $262 for water and by $131 for wastewater 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 Nos. 4 and 4-A. The decrease in rates should become effective immediately following the expiration of the 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. (DEWBERRY)

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 the revenues associated with the amortization of rate expense and the gross-up for regulatory assessment fees, which is $262 for water and $131 wastewater. The reduction in revenues will result in the rates recommended by staff on Schedule Nos. 4 and 4-A.

The utility should be required to file revised tariffs 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 shall be filed for the price index and/or pass-through increase or decrease, and for the reduction in the rates due to the amortized rate case expense.

ISSUE 14: Should the utility be authorized to collect Allowance for Funds Prudently Invested (AFPI) charges, and if so, what are the appropriate charges?

RECOMMENDATION: Yes, the utility should be authorized to collect AFPI charges. The appropriate charges should be staff's recommended charges on Schedule 5. The charges should be effective on or after July 1996, the month following the end of the test year in accordance with Rule 25-30.434(4), Florida Administrative Code. (DEWBERRY)

STAFF ANALYSIS: The utility requested AFPI charges for its wastewater treatment plant. Rule 25-30.434, Florida Administrative Code, allows a utility the opportunity to earn a fair return on prudently constructed plant held for future use from future customers to be served by the plant. This charge allows the recovery of carrying cost on the non-used and useful plant. This one-time charge is based on the number of ERCs and is generally applicable to all future customers who have not already prepaid connection fees, CIAC or customer advances.

In this case the utility's existing wastewater facility can accommodate 199 future ERCs. Staff has calculated AFPI charges allowing carrying costs relative to the non-used and useful plant for the 199 ERCs. The amount of the AFPI charges are based on the date future customers connect. Staff recommends that utility collect AFPI charges as shown on Schedule 5, for the five year period ended June 2001. Carrying costs incurred beyond five years should be considered excessive, unless the utility demonstrates extraordinary or unusual circumstances. The charges should become effective on or after July 1996, the month following the end of the test period in accordance with Rule 25-30.434(4), Florida Administrative Code.

ISSUE 15: Should the recommended rates be approved for the utility on a temporary basis in the event of a timely protest filed by a party other than the utility?

RECOMMENDATION: Yes, the recommended rates should be approved for the utility on a temporary basis in the event of a timely protest filed by a party other than the utility. The utility should be authorized to collect the temporary rates after staff's approval of the security for potential refund, the proposed customer notice, and the revised tariff sheets. (CYRUS-WILLIAMS, DAVIS, DEWBERRY)

STAFF ANALYSIS: This recommendation proposes an increase in water and wastewater rates. A timely protest might delay what may be a justified rate increase resulting in an unrecoverable loss of revenue to the utility. Therefore, in the event of a timely 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 the security for potential refund and the proposed customer notice. The security should be in the form of a bond or letter of credit in the amount of $51,903.

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 should refund the amount collected that is attributable to the increase.

If the utility chooses a letter of credit as 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 final Commission order is rendered, either approving or denying the rate increase.

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 should be an interest bearing account.

3) If a refund to the customers is required, all interest earned by the escrow account should be distributed to the customers.

4) If a refund to the customers is not required, the interest earned by the escrow account should revert to the utility.

5) All information on the escrow account should be available from the holder of the escrow account to a Commission representative at all times.

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

ISSUE 16: Should this docket be closed?

RECOMMENDATION: Yes, upon the expiration of the protest period, if no timely protest is received from a substantially affected person within 21 days from the issuance of the Order, this docket should be closed administratively. (DAVIS, DEWBERRY, CYRUS-WILLIAMS)

STAFF ANALYSIS: Upon expiration of the protest period, if no timely protest is received within 21 days from the issuance of the Order, this docket should be closed administratively.

LAKE SUZY UTILITIES, INC.
TEST YEAR ENDING JUNE 30, 1996
SCHEDULE OF WATER RATE BASE

SCHEDULE NO. 1
DOCKET NO. 960799-WS

	BALANCE PER UTILITY	STAFF. ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
UTILITY PLANT IN SERVICE	$ 276,824	$ (450) A	$ 276,374
LAND/NON-DEPRECIABLE ASSETS	1,150	0 B	1,150
NON USED AND USEFUL PLANT	0	(63,188) C	(63,188)
CWIP	0	0 D	0
CIAC	(332,772)	32,156 E	(300,616)
REFUNDABLE ADVANCES	0	0 F	0
ACCUMULATED DEPRECIATION	(67,942)	(772) G	(68,714)
AMORTIZATION OF ACQUISITION ADJUSTMENT	0	0	0
AMORTIZATION OF CIAC	0	67,006 H	67,006
WORKING CAPITAL ALLOWANCE	20,611	(4,748) I	15,863
WATER RATE BASE	$ (102,129)	$ 30,004	$ (72,125)

LAKE SUZY UTILITIES, INC.
TEST YEAR ENDING JUNE 30, 1996
SCHEDULE OF WASTEWATER RATE BASE

SCHEDULE NO. 1A
DOCKET NO. 960799-WS

	BALANCE PER UTILITY	STAFF. ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
UTILITY PLANT IN SERVICE	$ 324,361	$ 624,578 A	$ 948,939
LAND/NON-DEPRECIABLE ASSETS	150,000	112,581 B	262,581
NON USED AND USEFUL PLANT	0	(186,057)C	(186,057)
CWIP	127,837	(127,837)D	0
CIAC	(212,756)	19,001 E	(193,755)
REFUNDABLE ADVANCES	0	(321,988)F	(321,988)
ACCUMULATED DEPRECIATION	(62,058)	(46,622)G	(108,680)
AMORTIZATION OF ACQUISITION ADJUSTMENT	0	0	0
AMORTIZATION OF CIAC	0	28,961 H	28,961
WORKING CAPITAL ALLOWANCE	5,500	282 I	5,782
WASTEWATER RATE BASE	$ 332,884	$ 102,899	$ 435,783

LAKE SUZY UTILITIES, INC.
TEST YEAR ENDING JUNE 30, 1996
ADJUSTMENTS TO RATE BASE

SCHEDULE NO. 1B
DOCKET NO. 960799-WS

		WATER	WASTEWATER
A.	**UTILITY PLANT IN SERVICE**		
1.	Reclassification from O&M expense	$ 511	$ 511
2.	To reflect plant at 6/30/96	0	(20,580)
3.	Reclassification from CWIP	0	127,837
4.	To reflect additional proforma plant	0	517,065
5.	To reflect averging adjustment	(961)	(255)
		$ (450)	$ 624,578
B.	**LAND**		
1.	To reflect value for 19.55 acres of land	$ 0	$ 292,800
2.	To reflect recording and documentary stamp cost	0	2,056
3.	To reflect value for 2.97 acres of land	0	(87,819)
4.	To reflect land held for future use	0	(94,656)
		$ 0	$ 112,581
C.	**NON USED AND USEFUL PLANT**		
1.	To reflect average non used and useful plant	$ (86,669)	$ (126,297)
2.	Average non used and accum. depre. on plant @ 6/30/96	23,481	26,025
3.	Non used and useful post test year util. plant investment	0	(92,880)
4.	Non used and useful post test year depreciation	0	6,195
		(63,188)	(186,057)
D.	**CONSTRUCTION WORK IN PROGRESS(CWIP)**		
1.	To reflect a reclassification to plant	$ 0	$ (127,837)
E.	**CONTRIBUTIONS IN AID OF CONSTRUCTION (CIAC)**		
1.	To reflec the accumulated balance at 6/30/96	$ (56,656)	$ (31,955)
2.	non used and useful CIAC	86,669	101,129
3.	CIAC for margin reserve	0	(50,173)
4.	To reflect averaging adjustment	2,143	0
		$ 32,156	$ 19,001
F.	**REFUNDABLE ADVANCES**		
1.	To reflect refundable cash advances	$ 0	$ (345,000)
2.	Amortization on cash advances	0	23,012
		0	$ (321,988)
G.	**ACCUMULATED DEPRECIATION**		
1.	To reflect the accumulated balance at 6/30/96	$ (5,541)	$ (11,641)
2.	Depre. on post test year plant	0	(43,015)
5.	To reflect averaging adjustment	4,769	8,034
		$ (772)	$ (46,622)
H.	**AMORTIZATION OF CIAC**		
1.	To reflect accumulated balance at 6/30/96	$ 97,145	$ 52,013
2.	Non used and useful amortization of CIAC	(23,481)	(18,150)
3.	Amortization of CIAC for margin reserve	0	1,325
6.	To reflect averaging adjustment	(6,656)	(6,227)
		$ 67,006	$ 28,961
I.	**WORKING CAPITAL ALLOWANCE**		
1.	To reflect 1/8 of test year O & M expense	$ (4,748)	$ 282

LAKE SUZY UTILITIES, INC.
TEST YEAR ENDING JUNE 30, 1996
SCHEDULE OF CAPITAL STRUCTURE

SCHEDULE NO. 2
DOCKET NO. 960799-WS

	PER UTILITY	STAFF. ADJUST. TO UTIL. BAL.	BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST
LONG-TERM DEBT	$ 42,000	$ (9,404)	$ 32,596	7.48%	9.50%	0.71%
LONG TERM DEBT	12,000	(2,674)	9,326	2.14%	8.00%	0.17%
LONG TERM DEBT	218,506	(49,030)	169,476	38.89%	8.00%	3.11%
SHORT TERM DEBT	11,643	(2,622)	9,021	2.07%	8.00%	0.17%
SHORT TERM DEBT	19,037	(4,264)	14,773	3.39%	8.50%	0.29%
COMMON EQUITY	258,602	(58,011)	200,591	46.03%	11.51%	5.30%
CUSTOMER DEPOSITS	0	0	0	0.00%	0.00%	0.00%
TOTAL	$ 561,788	$ (126,005)	$ 435,783	100.00%		9.74%

RANGE OF REASONABLENESS	LOW	HIGH
RETURN ON EQUITY	10.51%	12.51%
OVERALL RATE OF RETURN	9.28%	10.21%

LAKE SUZY UTILITIES, INC.
TEST YEAR ENDING JUNE 30, 1996
SCHEDULE OF WATER OPERATING INCOME

SCHEDULE NO. 3
DOCKET NO. 960799-WS

	TEST YEAR PER UTILITY	STAFF. ADJ. TO UTILITY	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	TOTAL PER STAFF
OPERATING REVENUES	$ 126,851	$ 15,824 A	$ 142,675	$ (5,733) G	$ 136,942
OPERATING EXPENSES:					
OPERATION AND MAINTENANCE	164,888	(37,986) B	126,902	0	126,902
DEPRECIATION	8,002	(1,130) C	6,872	0	6,872
AMORTIZATION(CIAC)	(9,736)	2,864 D	(6,872)	0	(6,872)
TAXES OTHER THAN INCOME	6,456	3,842 E	10,298	(258) H	10,040
INCOME TAXES	0	0 F	0	0	0
TOTAL OPERATING EXPENSES	$ 169,610	$ (32,410)	$ 137,200	$ (258)	$ 136,942
OPERATING INCOME/(LOSS)	$ (42,759)		$ 5,475		$ 0
WATER RATE BASE	$ (102,129)		$ 0		$ 0
RATE OF RETURN	(41.87%)		0.00%		0.00%

LAKE SUZY UTILITIES, INC.
TEST YEAR ENDING JUNE 30, 1996
SCHEDULE OF WASTEWATER OPERATING INCOME

SCHEDULE NO. 3A
DOCKET NO. 950799-WS

	TEST YEAR PER UTILITY	STAFF. ADJ. TO UTILITY	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	TOTAL PER STAFF
OPERATING REVENUES	$ 43,125	$ (3,845) A	$ 39,280	$ 75,130 G	$ 114,410
OPERATING EXPENSES:					
OPERATION AND MAINTENANCE	52,085	(5,831) B	46,254	0	46,254
DEPRECIATION	8,855	30,577 C	39,432	0	39,432
AMORT.(CIAC & ADVANCES)	(6,117)	(19,981) D	(26,098)	0	(26,098)
TAXES OTHER THAN INCOME	6,093	(178) E	5,915	3,381 H	9,296
INCOME TAXES	0	3,081 F	3,081	0	3,081
TOTAL OPERATING EXPENSES	$ 60,916	$ 7,668	$ 68,584	$ 3,381	$ 71,965
OPERATING INCOME/(LOSS)	$ (17,791)		$ (29,304)		$ 42,445
WASTEWATER RATE BASE	$ 332,884		$ 435,783		$ 435,783
RATE OF RETURN	-5.34%		-6.72%		9.74%

LAKE SUZY UTILITIES, INC.
TEST YEAR ENDING JUNE 30, 1996
ADJUSTMENTS TO OPERATING INCOME

SCHEDULE NO. 3B (Page 1 of 2)
DOCKET NO. 960799-WS

		WATER	WASTEWATER
A.	**OPERATING REVENUES**		
1.	To reflect test year accrued total	$ 7,834	$ (3,845)
2.	To reflect annualized revenue based on existing rates	7,990	0
		$ 15,824	$ (3,845)
B.	**OPERATION AND MAINTENANCE EXPENSES**		
1.	**Salaries and Wages - Employees**		
a.	To reflect annual salary	$ (6,139)	$ 381
2.	**Salaries and wages - Officers**		
a.	To reflect annual salary	$ 17,285	$ 4,096
3.	**Employee pensions and Benefits**		
a.	To reflect annual insurance expense for employee	$ 426	$ 106
4.	**Purchased Water & Wastewater Treatment**		
a.	To remove a prior period expense	$ (29,225)	$ 0
b.	To remove a non-recurring expense	0	(4,320)
c.	To reflect annual cost based on existing rates	563	0
		(28,662)	(4,320)
5.	**Sludge Removal Expense**		
a.	To reflect annual expense	$ 0	$ 715
6.	**Purchased Power Expense**		
a.	To reclassify power expense for office to rent	$ (2,099)	$ (500)
b.	To reflect annual expense for utility operations	0	1,382
		(2,099)	$ 882
7.	**Chemical Expense**		
a.	Reclassification from contractual services	$ 0	$ 948
b.	To reflect annual expense	0	66
		$ 0	$ 1,014
8.	**Material and supplies**		
a.	Reclassification to plant	$ (511)	$ (511)
b.	To remove a prior period expense	(512)	0
c.	Reclassification to contractual services	(113)	0
		$ (1,136)	$ (511)
9.	**Contractual Services**		
a.	To reflect an unrecorded legal expense	$ 1,028	$ 257
b.	To remove a non utility legal expense	(6,085)	(1,521)
c.	To reflect annual legal expense	(4,687)	(2,381)
d.	To reflect unrecorded consultant expense	20,868	5,218
e.	Reclassification from reg. comm. expense	313	313
f.	To reflect annual consultant expense	(16,907)	(4,463)
g.	Reclassification from materials and supplies	113	0
h.	Reclassification from water to wastewater	(28)	28
i.	To reflect annual billing costs	(1,330)	(1,137)
j.	To reflect annual DEP required testing expense	1,485	350
k.	To reflect annual operator allowance	0	2,239
l.	To reflect annual groundskeeping allowance	160	600
m.	To reflect a reclassification to chemical expense	0	(948)
n.	To remove a prior period expense	0	(1,905)
o.	To remove a duplicate entry	0	(804)
		$ (6,070)	$ (4,154)

LAKE SUZY UTILITIES, INC.
TEST YEAR ENDING JUNE 30, 1996
ADJUSTMENTS TO OPERATING INCOME

SCHEDULE NO. 3B (Page 1 of 2)
DOCKET NO. 960799-WS

10.	Rent		
a.	To reflect a reclassification from purchased power	$ 2,099	$ 500
b.	To reflect one-third of power expense for office	(1,009)	(333)
c.	To reflect annual rent for office space	(1,112)	0
d.	To remove a non-recurring land lease expense	0	(4,888)
		$ (412)	$ (4,721)
11.	Transportation Expense		
a.	To remove a car payment	$ (331)	$ 0
b.	To reflect 60% of transportation expense	(2,386)	(537)
		$ (2,717)	$ (537)
12.	Insurance Expense		
a.	To reflect 60% of insurance expense for truck	$ (079)	$ (776)
b.	To reflect proforma insurance expense for wastewater plant	0	3,172
		$ (079)	$ 2,396
13.	Regulatory Commission Expense:		
a.	To reflect reclassification to contractual service	$ (313)	$ (313)
b.	To remove an out of period expense	(4,353)	(2,294)
c.	Reclassification to misc. expense	(183)	(133)
b.	To reflect rate case filing fee over four years	250	125
		$ (4,599)	$ (2,615)
14.	Miscellaneous Expense		
a.	To reflect one-third of annual telephone expense	$ (4,240)	$ (169)
b.	Reclassification from reg. comm. expense	183	133
c.	To reflect annual repair and maintenance expense	273	2,367
d.	To remove a penalty expense	0	(1,250)
e.	To reflect permit cost amortized over five years	0	200
f.	To reflect land appraisal cost amortized over five years	0	160
		$ (3,784)	$ 1,436
	TOTAL O&M ADJUSTMENTS	(37,669)	(6,831)
C.	DEPRECIATION EXPENSE		
1.	To reflect test year depreciation expense net of non-used and useful depreciation	$ (1,132)	$ 30,577
D.	AMORTIZATION OF CIAC		
1.	Amort. of CIAC to include the margin reserve and advances net of non used and useful amort.	$ (952)	$ (19,991)
2.	To adj amort. expense to match depre. expense	3,816	0
		$ 2,864	$ (19,991)
E.	TAXES OTHER THAN INCOME		
1.	To reflect payroll taxes on recommended salaries	$ 2,257	$ 72
2.	To remove a prior period real estate tax	0	(430)
3.	To reflect regulatory assessment fees on test year revenue	1,585	186
		$ 3,842	$ (178)
F.	INCOME TAX		
1.	To reflect estimated income tax expense	$ 0	$ 3,081
G.	OPERATING REVENUES		
1.	To reflect recommended decrease and increase in revenue for water and wastewater respectively	$ (6,733)	$ 75,130
H.	TAXES OTHER THAN INCOME		
1.	To reflect regulatory assessment fee on decrease and increase in revenue	$ (7 98)	$ 3,381

LAKE SUZY UTILITIES, INC.
TEST YEAR ENDING JUNE 30, 1996
ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE

SCHEDULE NO. 3C
DOCKET NO. 960799-WS

	TOTAL PER UTIL.	STAFF ADJUST.	TOTAL PER STAFF
(601) SALARIES AND WAGES - EMPLOYEES	$ 9,979	$ (6,139)[1]	$ 3,840
(603) SALARIES AND WAGES - OFFICERS	0	17,285 [2]	17,285
(604) EMPLOYEE PENSIONS AND BENEFITS	0	426 [3]	426
(610) PURCHASED WATER	105,896	(28,662)[4]	77,234
(615) PURCHASED POWER	2,099	(2,099)[6]	0
(616) FUEL FOR POWER PRODUCTION	0	0	0
(618) CHEMICALS	0	0	0
(620) MATERIALS AND SUPPLIES	6,626	(1,136)[8]	5,490
(630) CONTRACTUAL SERVICES	13,781	(5,070)[9]	8,711
(640) RENTS	4,952	(412)[10]	4,540
(650) TRANSPORTATION EXPENSE	6,296	(2,717)[11]	3,579
(655) INSURANCE EXPENSE	1,599	(1,079)[12]	520
(665) REGULATORY COMMISSION EXPENSE	4,849	(4,599)[13]	250
(670) BAD DEBT EXPENSE	0	0	0
(675) MISCELLANEOUS EXPENSES	8,811	(3,784)[14]	5,027
	$ 164,888	$ (37,986)	$ 126,902

LAKE SUZY UTILITIES, INC.
TEST YEAR ENDING JUNE 30, 1996
ANALYSIS OF WASTEWATER OPERATION AND MAINTENANCE EXPENSE

SCHEDULE NO. 3D
DOCKET NO. 960799-WS

	TOTAL PER UTIL.	STAFF ADJUST.	TOTAL PER STAFF
(701) SALARIES AND WAGES - EMPLOYEES	$ 579	$ 381 [1]	$ 960
(703) SALARIES AND WAGES - OFFICERS	0	4,098 [2]	4,098
(704) EMPLOYEE PENSIONS AND BENEFITS	0	106 [3]	106
(710) PURCHASED SEWAGE TREATMENT	4,320	(4,320)[4]	0
(711) SLUDGE REMOVAL EXPENSE	1,085	715 [5]	1,800
(715) PURCHASED POWER	5,500	882 [6]	6,382
(716) FUEL FOR POWER PRODUCTION	0	0	0
(718) CHEMICALS	427	1,014 [7]	1,441
(720) MATERIALS AND SUPPLIES	5,896	(511)[8]	5,385
(730) CONTRACTUAL SERVICES	19,449	(4,154)[9]	15,295
(740) RENTS	5,848	(4,721)[10]	1,127
(750) TRANSPORTATION EXPENSE	1,344	(537)[11]	807
(755) INSURANCE EXPENSE	905	2,396 [12]	3,301
(765) REGULATORY COMMISSION EXPENSES	2,740	(2,615)[13]	125
(770) BAD DEBT EXPENSE	0	0	0
(775) MISCELLANEOUS EXPENSES	3,992	1,435 [14]	5,427
	$ 52,085	$ (5,831)	$ 46,254

STAFF RECOMMENDED RATE REDUCTION SCHEDULE

LAKE SUZY UTILITIES, INC.
TEST YEAR ENDING JUNE 30, 1996

SCHEDULE NO. 4
DOCKET NO. 960799-WS

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

MONTHLY WATER RATES

RESIDENTIAL, MULTI-RESDENTIAL AND GENERAL SERVICE	MONTHLY RECOMMENDED RATES	MONTHLY RATE REDUCTION
BASE FACILITY CHARGE:		
Meter Size:		
5/8" x 3/4"	$ 9.76	$ 0.02
3/4"	14.65	0.03
1"	24.41	0.05
1-1/2"	48.82	0.09
2"	78.11	0.15
3"	156.22	0.30
4"	244.10	0.46
6"	488.19	0.93
GALLONAGE CHARGE PER 1,000 GALLONS	$ 4.88	$ 0.01

STAFF RECOMMENDED RATE REDUCTION SCHEDULE

LAKE SUZY UTILITIES, INC.
TEST YEAR ENDING JUNE 30, 1996

SCHEDULE NO. 4A
DOCKET NO. 960799-WS

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

MONTHLY WASTEWATER RATES

RESIDENTIAL, MULTI-RESIDENTIAL AND GENERAL SERVICE	MONTHLY RECOMMENDED RATES	MONTHLY RATE REDUCTION
BASE FACILITY CHARGE:		
Meter Size:		
5/8" x 3/4"	$ 28.98	$ 0.03
3/4"	43.46	0.05
1"	72.44	0.08
1-1/2"	144.88	0.16
2"	231.80	0.25
3"	463.60	0.51
4"	724.38	0.80
6"	1,448.76	1.59
RESIDENTIAL GALLONAGE CHARGE PER 1,000 GALLONS	$ 8.58	$ 0.01
GENERAL SERVICE GALLONAGE CHARGE PER 1,000 GALLONS	$ 10.30	$ 0.01

COMPANY: Lake Suzy Utilities, Inc.
SEWER TREATMENT PLANT
TEST YEAR ENDED JUNE 30, 1996

SCHEDULE NO. 5
DOCKET NO. 960739-WS

Allowance for Funds Prudently Invested
Schedule of Charges:

	1996	1997	1998	1999	2000	2001	2002
January		106.13	290.87	485.40	694.04	918.16	1,014.33
February		121.29	306.43	502.08	711.94	937.40	1,014.33
March		136.45	321.99	518.75	729.83	956.63	1,014.33
April		151.61	337.55	535.43	747.73	975.86	1,014.33
May		166.77	353.12	552.10	765.62	995.10	1,014.33
June		181.93	368.68	568.77	783.52	1,014.33	1,014.33
July	15.16	290.87	385.35	586.67	802.75	1,014.33	1,014.33
August	30.32	306.43	402.03	604.57	821.99	1,014.33	1,014.33
September	45.48	321.99	418.70	622.46	841.22	1,014.33	1,014.33
October	60.64	337.55	435.38	640.36	860.46	1,014.33	1,014.33
November	75.80	353.12	452.05	658.25	879.69	1,014.33	1,014.33
December	90.96	368.68	468.73	676.15	898.93	1,014.33	1,014.33

DOCKET NO. : 960799-WS DATE: 10/18/96

UTILITY NAME: LAKE SUZY UTILITIES, INC.

WATER DISTRIBUTION PLANT USED AND USEFUL CALCULATION

$$\% \text{ USED AND USEFUL} = \frac{(2 + 3)}{1} = 61.18\ \%$$

(1) Capacity of present distribution system in ERCs - - - - - 756 ERCs

(2) Average number of ERCs connected to the system - - - - - - 425 ERCs

(3) Margin Reserve (not to exceed 20% of present Cust):

(a) Average yearly customer growth in ERCs for most recent 5 years 25

(b) Construction time for additional capacity (in months) 18

$$\text{Margin Reserve} = 3a \times \frac{3b}{12 \text{ mths}} = 38 \text{ ERCs}$$

RTW

signature

Engineer assigned

ATTACHMENT "A"

DOCKET NO. : 960799-WS DATE: 10/18/96

UTILITY NAME: LAKE SUZY UTILITIES, INC.

WASTEWATER TREATMENT PLANT USED AND USEFUL CALCULATION

$$\% \text{ USED AND USEFUL} = \frac{(2 + 3 - 4)}{1} = 69.03\ \%$$

(1) Capacity of plant - 87,000 GPD

(2) Average Daily Flow (Peak Month , Feb. 1996) - - - - - - - 63,000 GPD

(3) Margin Reserve (not to exceed 20% of present ERC's):

(a) Average number of ERCS during test Year 199

(b) Average yearly growth in ERCs for most recent 5 years 31

(c) Construction time for additional capacity (in months) 18

$$\text{Margin Reserve} = 3b \times \frac{3c}{12\ \text{mths}} \times \frac{2}{3a} = 14,721\ \text{GPD}$$

(4) Excessive Infiltration- - - - - - - - - - - - - - - - - - 17,665 GPD

(a) Total amount 23,965 GPD 38.04 % of Avg. Daily Flow

(b) Reasonable amount 6,300 GPD 10.00 % of Avg. Daily Flow

signature

Engineer assigned

ATTACHMENT "B"

DOCKET NO. : 960799-WS DATE: 10/18/96

UTILITY NAME: LAKE SUSY UTILITIES, INC.

WASTEWATER COLLECTION SYSTEM USED AND USEFUL CALCULATION

$$\% \text{ USED AND USEFUL} = \frac{(2 + 3)}{1} = 51.36\ \%$$

(1) Capacity of present collection system in ERCs - - - - - - 478 ERCs

(2) Average number of ERCs during Test Year - - - - - - - - - - 199 ERCs

(3) Margin Reserve (not to exceed 20% of present Cust):

(a) Average yearly growth in ERCs for most recent 5 years: 31

(b) Construction time for additional capacity (in months): 18

$$\text{Margin Reserve} = 3a \times \frac{3b}{12 \text{ mths}} = 47 \text{ ERCs}$$

RTD

Engineer assigned

ATTACHMENT "C"

DOCKET NO. 960799-WS
APRIL 2, 1997

ISSUE AND RECOMMENDATION SUMMARY

ISSUE 1: Is the quality of service provided by Lake Suzy Utilities, Inc. in Desoto County satisfactory?

RECOMMENDATION: Yes. The quality of service provided by Lake Suzy Utilities, Inc. should be considered satisfactory. (DAVIS)

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

RECOMMENDATION: A used and useful percentage for the water treatment plant is not applicable. The water distribution system is **61.18% used and useful** with the exception of account number 334, which is **100% used and useful.** The wastewater plant accounts are **69.03% used and useful** with the exception of Account Number 363, which is **100% used and useful.** The collection system is **51.36% used and useful** with the exception of Account Number 363, which is **100% used and useful.** (Davis)

ISSUE 3: Who owns the land on which the utility's facilities are located and what is the appropriate value for each system?

RECOMMENDATION: The utility owns the land on which its facilities are located. The appropriate value is $1,150 for water and $262,581 for wastewater. (Davis, Dewberry)

ISSUE 4: What is the appropriate average test year rate base for each system?

RECOMMENDATION: The appropriate average test year rate base should be zero for water and $435,783 for wastewater. (DAVIS, DEWBERRY)

ISSUE 5: What is the appropriate return on equity and the appropriate overall rate of return?

RECOMMENDATION: The appropriate return on equity is 11.51% with a range of 10.51% - 12.51%. The appropriate overall rate of return is 9.74% with a range of 9.28% - 10.21%. (DEWBERRY)

ISSUE 6: What are the appropriate test year revenues?

RECOMMENDATION: The appropriate test year revenues are $142,675 for water and $39,280 for wastewater. (DEWBERRY)

ISSUE 7: What is the appropriate test year operating income/loss for each system?

RECOMMENDATION: The appropriate test year operating income is $5,475 for water and the appropriate test year operating loss is

$29,304 for wastewater. (DEWBERRY)

ISSUE 8: What are the appropriate operating expenses for each system?

RECOMMENDATION: The appropriate operating expense should be $136,942 for water and $71,965 for wastewater. (DAVIS, DEWBERRY)

ISSUE 9: What are the appropriate revenue requirements?

RECOMMENDATION: The appropriate revenue requirements are $136,942 for water and $114,410 for wastewater. (DEWBERRY)

ISSUE 10: What are the appropriate rates and rate structure?

RECOMMENDATION: The recommended rates should be designed to produce revenue of $136,942 for water and $114,410 for wastewater. The utility should employ the base facility and gallonage charge rate structure for water and retain the same for wastewater. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), Florida Administrative Code. The rates may 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. (DEWBERRY)

ISSUE 11: Should the utility be authorized to collect miscellaneous charges, and if so, what are the appropriate charges?

RECOMMENDATION: Yes, the utility should be authorized to collect miscellaneous service charges and the appropriate charges should be the recommended charges specified in the staff analysis. The approved charges will be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), Florida Administrative Code. These charges may not be implemented until proper notice has been received by the customers. The utility should provide proof of the date notice was given no less than 10 days after the date of the notice. (DEWBERRY)

ISSUE 12: What are the appropriate service availability charges for each system?

RECOMMENDATION: The utility's existing system capacity charge for water should be discontinued. Staff recommends that the utility's existing meter installation charges for water remain in effect. The appropriate service availability charges for wastewater should be the recommended charges listed in the staff analysis. The approved charges should be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), Florida Administrative Code. (DAVIS, DEWBERRY)

ISSUE 13: 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 $262 for water and by $131 for wastewater 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 Nos. 4 and 4-A. The decrease in rates should become effective immediately following the expiration of the 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. (DEWBERRY)

ISSUE 14: Should the utility be authorized to collect Allowance for Funds Prudently Invested (AFPI) charges, and if so, what are the appropriate charges?

RECOMMENDATION: Yes, the utility should be authorized to collect AFPI charges. The appropriate charges should be staff's recommended charges on Schedule 5. The charges should be effective on or after July 1996, the month following the end of the test year in accordance with Rule 25-30.434(4), Florida Administrative Code. (DEWBERRY)

ISSUE 15: Should the recommended rates be approved for the utility on a temporary basis in the event of a timely protest filed by a party other than the utility?

RECOMMENDATION: Yes, the recommended rates should be approved for the utility on a temporary basis in the event of a timely protest filed by a party other than the utility. The utility should be authorized to collect the temporary rates after staff's approval of the security for potential refund, the proposed customer notice, and the revised tariff sheets. (CYRUS-WILLIAMS, DAVIS, DEWBERRY)

ISSUE 16: Should this docket be closed?

RECOMMENDATION: Yes, upon the expiration of the protest period, if no timely protest is received from a substantially affected person within 21 days from the issuance of the Order, this docket should be closed administratively. (DAVIS, DEWBERRY, CYRUS-WILLIAMS)