

FLORIDA PUBLIC SERVICE COMMISSION
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M E M O R A N D U M

April 24, 1997

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

FROM: DIVISION OF WATER & WASTEWATER (KEMP, DAVIS) *270*
DIVISION OF LEGAL SERVICES (JOHNSON) *kmj* - *MS* *BP*

RE: DOCKET NO. ~~961434~~ 961434-WS - POINT WATER & SEWER, INC. - STAFF
ASSISTED RATE CASE
COUNTY: CLAY

AGENDA: May 6, 1997 - REGULAR AGENDA - PROPOSED AGENCY ACTION
EXCEPT ISSUE NO. 14 & 15 - INTERESTED PERSONS MAY
PARTICIPATE

CRITICAL DATES: 15-MONTH EFFECTIVE DATE: May 14, 1998
(SARC)

SPECIAL INSTRUCTIONS: S:\PSC\WAW\WP\961434-WS.RCM

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FEDERAL RECORDS REPORTING

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CASE BACKGROUND

Point Water and Sewer, Inc. (PWS or utility) is a Class "C" utility providing service in Clay County to two general service water and wastewater customers (a marina and a town home community known as the Point Property Owners Association (PPOA), which consists of 19 units). Although the Public Service Commission (PSC) has had jurisdiction over Clay County since 1967, and the utility has been in existence since 1980, the utility is not certificated. Originally, the utility was jointly owned by six different corporations, NOH, Inc., IGR, Inc., NGF, Inc., NLM, Inc., CNK, Inc., and QNK, Inc. James E. Yonge was the primary shareholder in all of these corporations. These corporations were merged into IGR, Inc. On September 12, 1995, in a related party transaction, IGR, Inc. entered into a security agreement in the amount of \$100,000 for sale of the utility to PWS. John Yonge and Patrick Carr are equal company owners of PWS. Staff was made aware of the utility's existence in December of 1995, by the Department of Environmental Protection (DEP).

On November 4, 1996, PWS submitted an application for an original water and wastewater certificate, in Docket No. 961321-WS. The PPOA filed a timely objection to the utility's certificate application, and consequently, the docket is scheduled to go to hearing in August, 1997.

On February 14, 1997, PWS filed for a staff-assisted rate case (SARC) and requested emergency rate relief but later withdrew the request for emergency rates. On January 24, 1997, staff held a meeting with the customers to explain what occurs in a certification docket versus a SARC docket. During the meeting, the customers discussed their concerns about the current owner being certificated as well as the possibility of interconnection with the county; staff will address these issues in the certification docket. The SARC issues discussed consisted of the disparity between test year and historical operating expenses, administrative hours needed, test year capitalized expenses previously paid by the customers and ERC allocations to the marina. These concerns have been addressed in the appropriate issues. The customers also detailed the history of the utility, legal disputes between the utility and the customers and their fears of rate exploitation by the utility.

As stated previously, the utility was jointly owned by several corporations in which Mr. James Yonge was the primary shareholder. The utility was constructed in 1980 to provide water and wastewater service to the Point Town home Community known as "The Point". Since its construction, service has been expanded to include one

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other customer, The Whitney Marina (the Marina), located next door to the plant. In early 1981, the PPOA and Mr. James Yonge entered into an agreement known as the Declaration of Covenants, Conditions, Restrictions and Provisions for Party Wall of the Point (Declaration) which stated:

Section 2. The owners of the respective Units and the Association shall pay for such water and sewer service the going rates presently and hereafter charged for water and sewer services by private utility companies in Clay County, Florida. If any dispute arises as to the going rates, then the rates charged by Kingsley Service Company to its residential customers in Clay County, Florida, shall be used as the going rate.

From 1981 to 1987, Mr. James Yonge, as primary shareholder, managed the plant, oversaw the operations and billed the PPOA and marina for monthly services. During that time, the utility applied for a DEP permit in which the utility was required to install a dechlorinator. In late 1987, the PPOA, believing that they had been overcharged \$16,000 for water and wastewater services provided from 1981 through 1987, filed a suit in court against Mr. James Yonge. On February 27, 1988, the PPOA and Mr. James Yonge entered into a settlement agreement by which Mr. James Yonge agreed to pay the PPOA \$12,000 for all charges, assessments and late fees due and owing to the association. Also included in the agreement was an amendment to the Declaration (herein referred to as the Amended Declaration) which stated:

Section 2. The Owners of the respective Units through and with the Association shall pay for such water and sewer service. The amount paid shall be the equivalent of all the operating, supply, maintenance, utility, testing, analysis, replacements, modifications and regulatory costs necessary for the proper and efficient operation of the water and sewer plants in compliance with all federal, state and local regulations.

Along with agreeing to pay all operating expenses of the utility, the PPOA undertook administrative control of plant operations by paying the utility's expenses directly to the vendor. Based on information from the PPOA, monthly expenses for plant operations at that time averaged \$750. In 1993, the Environmental Protection Agency (EPA) assessed a \$25,000 fine against the utility for failure to comply with a DEP permit requirement to install a dechlorinator on the wastewater treatment plant (WWTP). Mr. James Yonge advised the EPA that the PPOA was the responsible party because it was the operator of the utility. The PPOA contended that

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its only responsibility was to pay the expenses of the utility. In 1994, the EPA rescinded its fine against the PPOA and sought action against Mr. James Yonge as owner of the utility for performance of the requirement and payment of the fine. In 1995, Mr. James Yonge filed suit in court against the PPOA claiming that the PPOA was the responsible party for the EPA fine. That case is still pending in court. To preclude future misinterpretation of the PPOA's role of paying the utility's expenses, the PPOA notified Mr. James Yonge in a letter dated December 22, 1995, that it would no longer accept invoices for utility expenses. The letter also stated that all correspondence should be directed to Mr. James Yonge and that the PPOA should be charged monthly in accordance with the Amended Declaration.

On March 1, 1995, James Yonge regained control of the facility operations and billing. Seven months later, on September 12, 1995, PWS became owner of the utility in which James Yonge's son, John Yonge, is the president. Not long after gaining ownership of the utility, PWS' billed the PPOA \$21,000 for services rendered between March and September 1995, to be considered past due if not paid within 15 days. In response to the utility's bill, the PPOA requested proof of PWS authority to collect for Mr. James Yonge and complete documentation supporting monthly rates of \$3,000 for water and wastewater. The PPOA, believing that the utility's new rate was excessive, refused to make payments. However, in acknowledgment that the utility was entitled to compensation for services provided, the PPOA established an escrow account and paid \$750 each month into the account. In an effort to resolve the disagreement between the two parties and prevent termination of water and wastewater services, the PPOA contacted the DEP and requested assistance. The DEP, upon discovery that this utility was subject to PSC jurisdiction, notified PSC staff of the situation. Staff contacted the utility and advised it of PSC jurisdictional authority. The utility also was notified that since it was not authorized to charge rates, it could not terminate services to the PPOA for non-payment. The utility filed an application for exemption on July 21, 1996. Since the utility's plant capacity exceeded the minimum capacity for an exempt utility, PWS did not qualify for an exemption. The utility was then ordered to submit an application for an original certificate.

On October 1, 1996, the utility filed a complaint against the PPOA in Circuit Court, to recover amounts charged in accordance with the Amended Declaration for water and wastewater services provided. The PPOA filed a motion for a temporary injunction on October 11, 1996, and filed its answer to the complaint on October 30, 1996. On November 8, 1996, the Court issued a temporary injunction in which the utility was ordered to continue water and

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wastewater services to the PPOA and also ordered the PPOA to pay to the utility \$32,921.86 within 30 days of the order, for services rendered from March 1995 through October 1996. On November 19, 1996, the PPOA filed a motion for clarification of, or amendment to, the temporary injunction. On December 6, 1996, an Agreed Order on the PPOA's motion was issued. That Order directed the PPOA to pay 83% of actual costs to the utility for: a service technician; chemicals; tests; maintenance; taxes; regulatory expenses and necessary insurance premiums until further Order of the Court. These costs were to be paid by the PPOA within twenty days of receipt of the invoice from the utility. In conjunction with the clarification, the Court reduced the \$32,921.86 for unpaid costs from March 1995 through October 1996, to \$23,770.03. Included in the Order, the Court stated,

...Nothing herein shall be interpreted to infringe upon the jurisdiction of the Public Service Commission to set utility rates in this State. Furthermore, nothing herein shall be deemed an admission by either party as to: (a) the reasonableness of the charges, amounts or percentage set forth above; (b) what items should be considered reasonable business expenses; or (c) the rates that should be imposed by the PSC.

In accordance with the Court Order, the utility has invoiced the customers for 83% of expenses and the PPOA has remitted payment. However, on February 12, 1997, the PPOA transmitted to staff a facsimile of two invoices from the utility in the amounts of \$1,510.60 for a DEP permit and \$11,264.14 for an insurance policy with payment due 20 days after receipt. Upon notice of the invoice sent to the customers and discussions with the utility and the PPOA, staff determined that the expedition of this SARC would be in the best interest of all parties involved. Consequently, the customer meeting was rescheduled from its original date, of May 14, 1997, to March 27, 1997, and staff's recommendation filing date has been revised to reflect a May 6, 1997, agenda. The results of the customer meeting are discussed in Issue No. 1.

Since the Circuit Court had before it issues within the Commission's exclusive jurisdiction, the Commission filed, with the Circuit Court, a Petition for Leave to Intervene and Petition to Transfer the Proceeding to the Florida Public Service Commission on February 28, 1997. One day prior to the filing, counsel for the PPOA filed with the Circuit Court, a Motion to Abate or Transfer the Proceeding to the Commission. The Court has scheduled a hearing on the petition to intervene and transfer for April 29, 1997, in Clay County.

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Staff is recommending that the operating ratio method be used for calculating the revenue requirement for Point Water & Sewer. By Order No. PSC-96-0357-WU, issued March 13, 1996, in Docket No. 950641-WU, the Commission implemented the use of the operating ratio methodology and established threshold criteria for applicability.

Audit and engineering investigations have been performed to determine the appropriate components necessary for setting rates. Staff has selected a historical test year ending December 31, 1996. Due to the lack of records, the engineer performed an Original Cost Study (OCS). This utility has not yet been certificated. Staff will discuss this later in the recommendation.

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DISCUSSION OF ISSUES

QUALITY OF SERVICE

ISSUE 1: Is the quality of service provided by Point Water and Sewer, Inc. in Clay County satisfactory?

RECOMMENDATION: Yes. The quality of service provided by Point Water and Sewer, Inc. should be considered satisfactory. (DAVIS)

STAFF ANALYSIS: A customer meeting was held on the evening of March 27, 1997. The utility provides water and wastewater service to two (2) general service customers, a town home complex and a marina. It is calculated that there are 29 ERCs connected to the water system and 21 ERCs connected to the wastewater system. About nineteen (19) residents were in attendance at the customer meeting.

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 with the drinking water and domestic wastewater.

The product quality of the drinking water served is considered satisfactory. The utility is up-to-date with all chemical tests required by the Department of Environmental Protection (DEP). The results of those test analysis were found to meet or exceed all standards for safe potable water. Accordingly, the quality of the drinking water provided by Point Water and Sewer is considered satisfactory.

The product quality of the Point's wastewater services is also considered satisfactory. Because the wastewater plant discharges directly into the St. Johns River, it is monitored closely by the DEP through extended testing requirements. The wastewater utility is up-to-date with all chemical tests which are required by the DEP and the results of those analysis results were satisfactory. The DEP has found that the utility properly disinfects the treated wastewater with sufficient retention time prior to the dechlorination equipment. The wastewater effluent is properly dechlorinated and passes standards for surface water discharge. At present, the DEP has no open citations or corrective orders pending against the utility.

Operational conditions at both plants are acceptable. Upon staff's plant visit, no excessive or foul odors were detected from

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either plant. Each facility was operating according to its design, and equipment at both plants appears to be receiving normal maintenance. Plant-in-service operations are in compliance with DEP regulatory standards. General housekeeping needs some attention which was discussed with the owner of the utility. It was agreed that the trees next to the water plant would be trimmed, a layer of gravel would be spread around the wastewater plant, and attention would be given to weed control & general clean up. An allowance for grounds keeping has been included in the rate structure.

This utility is within the St. John's River Water Management District (SJRWMD). Due to the size of the utility, neither the water nor wastewater systems are considered jurisdictional under the SJRWMD rules. This utility is not required to obtain a Consumptive Use Permit (CUP), nor does it qualify for conservation rates.

Customer satisfaction is affected by a poor relationship between the residents of the Point Town Home Community and the owner of the utility. The primary issues of the customer meeting were rates and ownership of the utility. One quality of service issue raised was over sewage backups in the marina. Upon investigation, this does not appear to be a frequent problem in which the last occurrence was over six (6) months ago. Numerous situations could be the cause of such an incident, most all of them related to either equipment failure or improper equipment adjustment. Since this situation has not occurred recently, staff considered this issue resolved.

During discussions over rates and expenses, Ms. Lorie Easterling submitted a letter representing the homeowner's collective concerns. In that letter Ms. Easterling questioned the cost of chlorine purchases, whether or not the utility was using too much chlorine, and odors from the water treatment plant. The water treatment process includes aeration to remove Hydrogen Sulfide and disinfection by liquid chlorine. During the process of aeration, as the sulfides are released from the water, odors are produced. Those odors are not toxic, are inherent, and normal to the process. Purchases of chlorine are also considered normal to the process. Each utility is required to maintain a minimum of 0.2 milligrams per liter (mg/l) of free chlorine residual throughout the entire distribution system. While there is a required minimum level of disinfection, there is not a required ceiling. Concentrations of Hydrogen Sulfide may vary on a day to day basis causing adequate disinfection on one day to be out of balance the next day. At any time the utility may exceed the minimum requirement for chlorine levels. This is not a violation and, in

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most cases, is unavoidable. Chlorine purchases at the wastewater plant also are considered normal. Historically, chlorine purchases were considerably less than what was recorded during the test year, also historically, the DEP files show citations for improper disinfection. After the operator changed the point of chlorination and increased the dosage rate, the utility satisfied the disinfection citations and continues to be in compliance.

The utility is currently in compliance with the DEP standards and the general operating conditions of each plant, and the overall reaction of the customers concerning quality of service was favorable. All things considered, the quality of service provided by Point Water and Sewer, Inc. is considered satisfactory.

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USED AND USEFUL

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

RECOMMENDATION: The water treatment plant should be considered 57.61% used and useful. The water distribution system should be considered 80.95% used and useful with the exception of account number 334, which should be 100% used and useful. The wastewater plant should be considered 81.33% used and useful with the exception of Account Number 363, which should be 100% used and useful. The collection system should be 80.95% used and useful with the exception of Account Number 363, which should be 100% used and useful. (Davis)

STAFF ANALYSIS: The water treatment plant is an open system operation designed to accommodate the entire town home complex at build-out. Only 19 units were actually constructed, sold and currently occupied and are estimated to be 17 ERCs. At some point in the history of the utility, service was extended to the marina which is calculated (by historical flow records) to be an additional 12 ERCs. Customer growth at this utility has been stagnant over the past five years. The capacity of the plant is rated by the DEP at .028 Million Gallons per Day (MGD). According to monthly operator's reports, the peak five day average was 16,130 gallons per day (gpd), occurring in June, 1996. By the approved formula, used as an indicator of useful plant, the water plant was found to be 57.6% used and useful. It is recommended that the water treatment plant be considered 57.6% used and useful.

The existing water distribution mains were constructed to accommodate only 24 of the platted 34 lots in the service area. Twenty-one ERCs is considered to be the actual capacity of distribution system without the construction of additional mains. There are currently 19 town home units (estimated to be 17 ERCs) on this distribution system which were constructed by the developer. The marina constructed its own distribution system that extends and connects to the utility at the plant site. Because this line is privately owned by the marina, it has been exempted from the used and useful calculation. 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 80.95% 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 be considered 80.95% used and useful with the

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exception of account number 334, which should be considered 100% used and useful.

The capacity of the wastewater treatment plant is 15,000 gallons per day, operating in the extended aeration mode of treatment. The highest daily flows during the test year occurred in June, 1996, and was 12,200 gpd. There are two (2) customer connections, the town home complex which is estimated to be 17 ERCs, and the marina which is estimated to be 4 ERCs. The used and useful formula, used as an indicator, yields a percentage of useful plant at 81.33%. It is recommended that wastewater treatment plant accounts be considered 81.33% used and useful.

Roughly, the wastewater collection system is the same as the water distribution system. The configuration of the collection mains can accommodate 24 units, estimated to be 21 ERCs. While the platted maps of the service area show 34 potential homesites, only 19 units were actually constructed which are estimated to be 17 ERCs. The marina constructed its own main extension that forwards influent directly to the master lift station at the plant site. Because this line is privately owned by the marina, it has been exempted from the used and useful calculation. Customer growth over the last five years has been stagnant. The approved formula method, used as an indicator of useful plant, was the basis for calculating the usefulness of the collection system. By formula, the wastewater collection system was calculated to be 80.95% use and useful. It is recommended that the collection system be considered 80.95% used and useful.

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

RECOMMENDATION: The appropriate average amount of test year rate base for Point Water & Sewer should be \$2,338 for water and \$3,050 for wastewater. (KEMP, DAVIS)

STAFF ANALYSIS: According to the auditor, PWS does not have records supporting the costs associated with the construction of this utility. A review of the 1983 tax returns for NOH, Inc. and IGR, Inc. did not reflect any plant, accumulated depreciation or land. Also, an examination of the original town home sales agreement indicated that the customers did not incur a hook-up or connection fee. Based on the foregoing information, staff has concluded that water and wastewater plant through the end of the test year is 100% contributed. The engineer performed an Original Cost Study (OCS). The appropriate components of rate base consist of utility plant in service, non-used and useful plant, land, accumulated depreciation, CIAC, amortization of CIAC and working capital allowance. Staff has used the amounts set forth in the OCS as a basis for these rate base components. Further adjustments are necessary to reflect test year balances. A discussion of each adjusted component follows.

Depreciable Plant in Service:

Water Treatment Facility - The existing water treatment plant is an open-system plant that accesses raw ground water via a four inch (4") artesian well drilled to a depth of 600 feet with casing set at 340 feet. This is a free flowing well that is assisted by a one (1) horsepower (hp) booster pump just prior to the aeration chamber. The aeration chamber is located on top of an Enviroport type package plant. The package plant is compartmentalized to include the above mentioned aeration unit mounted over a 6,000 gallon ground storage reservoir, a 850 gallon hydropneumatic tank, and a high service pump room. There are two seven and one-half (7.5) hp high service pumps rated at 140 gpm each. These two high service pumps transfer treated water from the storage chamber into the hydropneumatic tank for pressurization and distribution via water mains. The on/off pressure range of the high service pumps was set to respond at 55/65 pressure per square inch (psi) with an average plant pressure of 60 psi. Aerated water is disinfected with liquid chlorine, injected just prior to the high service pumps by a hypomechanical chemical pump. The utility serves less than 350 persons and is not required to have an auxiliary power generator for emergency power outages.

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Wastewater Treatment Facility -The existing wastewater plant is a 15,000 gallon per day (gpd) steel Enviroport type package plant operating in the extended aeration mode of treatment. The plant's effluent is dechlorinated upon discharge from the chlorine contact chamber and is released, directly into the St. Johns River via a six (6) inch PVC out fall line. The outfall line runs underground for about 50 linear feet to a seawall. From the seawall, it continues to travel an additional 250 feet, underneath a dock, where it flows into the St. Johns River.

Water Distribution System - According to the information provided by the utility, the utility has approximately 500 linear feet of four (4) inch PVC pipe, and 50 linear feet of two (2) inch PVC pipe. The network of water distribution mains serving the customers of Point Utilities appear to be properly sized and engineered to meet pressure and supply demands.

Collection System - According to the information provided by the utility, the collection system serving the customers of Point Utilities consists of two manholes, 485 linear feet of eight (8) inch Vitrified Clay Pipe (VCP), and a master lift station at the plant site. The marina installed its own connection to the master lift station. The network of wastewater collection mains serving the customers of Point Water & Sewer appear to be properly sized and engineered to meet current flow and disposal demands.

The utility recorded test year utility plant in service balances of \$42,769 for water and \$36,549 for wastewater. Utility plant in service has been decreased by \$13,491 for water and increased by \$42,835 for wastewater. The adjustments to the water plant included: 1) a decrease of \$13,791 to reflect utility plant in service per the OCS, 2) an increase of \$600 for pro forma plant to reflect the installation of a 2" meter for the PPOA as recommended by the engineer, and 3) a decrease of \$300 to reflect an averaging adjustment on pro forma plant. Staff made one adjustment of \$42,835 to increase wastewater utility plant in service. Total utility plant in service is \$29,278 for water and \$79,384 for wastewater.

Land: The water and wastewater systems are built on three parcels of land, Parcel A, Parcel B and Parcel C.

Parcel A was originally owned by IGR, Inc. and includes one half of the wastewater treatment plant. On September 12, 1995, along with assigning all its rights, powers, duties and responsibilities as successor, IGR, Inc. sold Parcel A to PWS.

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The water plant located on Parcel B is owned by the Point Property Owners Association (PPOA). The deed for Parcel B includes an easement granting the use of the land on which the water plant sits for utility purposes.

Parcel C is owned by James Yonge and PDY, Inc. and includes one half of the wastewater treatment plant and the well for the water plant. The marina has a 99 year lease agreement on Parcel C with the owners. The marina granted an exclusive easement to James Yonge and PDY, Inc. to allow the construction of a wastewater treatment plant, lift station and all piping, plumbing and electrical service. In exchange for the easement, the marina was allowed to tie into the water and wastewater systems without any fee or tap in charge. The marina was responsible for all costs related to running the lines to the plant and was obligated to pay the monthly charges for services provided. On May 3, 1983, PDY, Inc. quitclaimed its interest in this easement to various corporations which were subsequently merged into IGR, Inc. On September 5, 1995, IGR, Inc. assigned its rights to the easement to PWS.

Although the utility does not own all of the land on which the facilities are located, or have a 99 year lease, staff believes that the easements serve as sufficient proof of the utility's right to continued use of the land as required by Rule 25-30.433 (10), Florida Administrative Code. The utility recorded land balances of \$7,231 for water and \$13,451 for wastewater. Since the utility does not own this land nor has it incurred a cost to use the land, staff has made adjustments of \$7,231 and \$13,451 for water and wastewater respectively to remove these balances from rate base.

Non-Used and Useful Plant: Non-Used and useful plant has a negative impact on rate base. In Issue No. 2, the Staff engineer recommended that the used and useful be considered 57.61% for water treatment plant, 80.95% for water distribution system, 81.33% for wastewater treatment plant and 80.95% for wastewater collection system. Staff applied the non-used and useful percentages to calculate average non-used and useful plant of \$11,030 for water and \$14,865 for wastewater. Non-used and useful accumulated depreciation is \$6,763 for water and \$11,340 for wastewater. Staff recommends a net average non-used and useful plant of \$4,267 for water and \$3,525 for wastewater.

Contributions in Aid of Construction (CIAC): CIAC has a negative impact on rate base. The utility did not record CIAC for the test year. As stated earlier, the utility did not have any records supporting the costs associated with the construction of this utility. A review of the 1983 tax returns for NOH, Inc. and IGR,

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Inc. did not reflect any plant, accumulated depreciation or land. Therefore, in accordance with Rule 25-30.140(8), Florida Administrative Code, staff has imputed CIAC on 100% of all water and wastewater plant through the end of the test year. Staff made adjustments to increase CIAC by \$28,978 for water and \$79,384 for wastewater. Staff also made adjustments to decrease CIAC by \$11,030 for water and \$14,865 for wastewater to reflect non-used and useful. The utility has not had any plant additions since 1980, for the water plant and none since 1993 for the wastewater plant, therefore an averaging adjustment was not necessary. Staff recommends CIAC balances of \$17,948 for water and \$64,519 for wastewater.

Accumulated Depreciation: Accumulated depreciation has a negative impact on rate base. The utility recorded an accumulated depreciation balance of \$2,917 each for water and wastewater. Consistent with Commission practice, accumulated depreciation was calculated using the prescribed rates described in Rule 25-30.140, Florida Administrative Code. Staff increased water by \$14,923 and wastewater by \$59,976 to reflect test year accumulated depreciation amount. An increase of \$35 for water was made to reflect accumulated depreciation on pro forma plant. Staff also reduced accumulated depreciation by \$625 and \$2,256 for water and wastewater respectively to reflect average balance. Staff recommends accumulated depreciation balances of a \$17,250 for water and \$60,637 for wastewater.

Amortization of CIAC: The utility did not record anything for amortization of CIAC. Staff made adjustments of \$17,840 for water and \$62,893 for wastewater to reflect amortization on the imputed CIAC. Amortization of CIAC was decreased by \$6,763 and \$11,340 for water and wastewater respectively to reflect the non-used and useful amortization on CIAC. Also, averaging adjustments to decrease the balances by \$625 for water and \$2,256 for wastewater were made to reflect an average. Staff recommends amortization of CIAC balances of \$10,452 for water and \$49,297 for wastewater.

Working Capital Allowance: Consistent with Rule 25-30.443, Florida Administrative Code, 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 \$2,073 for water and \$3,050 for wastewater (based on O&M of \$16,586 for water and \$24,400 for wastewater).

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Rate Base Summary: Based on the aforementioned adjustments, the appropriate balance of Point Water & Sewer, Inc. test year rate base is \$2,338 for water and \$3,050 for wastewater. Rate base is shown on Schedules Nos. 1 and 1A and adjustments are shown on Schedule No. 1B.

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ISSUE 4: Should an acquisition adjustment be approved?

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

STAFF ANALYSIS: An acquisition adjustment results when the purchase price differs from the book value (original cost less accumulated depreciation) of staff's calculated rate base. The acquisition adjustment resulting from the 1995 purchase of the utility by PWS would be calculated as follows:

Purchase Price (9/15/95):	\$ 100,000
Staff Calculated Water Rate Base	\$ 2,338
Staff Calculated Wastewater Rate Base	\$ <u>3,050</u>
Acquisition Adjustment	\$ 94,612

The utility did not have adequate records for staff to determine the costs associated with developing the systems. Therefore, the engineer performed an Original Cost Study (OCS). The OCS of the property when first dedicated to public service was used to calculate rate base.

In the absence of extraordinary circumstances, it has been Commission policy that a purchase of a utility system at a premium or discount shall not affect the rate base calculation. The circumstances in this case do not appear to be extraordinary. In addition, since the purchase was a related party transaction, staff does not recommend that an acquisition adjustment be included in the calculation of rate base.

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COST OF CAPITAL

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

RECOMMENDATION: The appropriate rate of return on equity is 11.88% with a range of 10.88% - 12.88% and the appropriate overall rate of return is 8.65% with a range of 8.65% - 8.66%. (KEMP)

STAFF ANALYSIS: The utility's capital structure consists of \$100,000 of long-term debt with an interest rate of 9.50%, short term debt of \$34,352 with an interest rate of 6.31%, short term debt of \$2,370 with an interest rate of 6.31% and common equity of \$500. Using the current leverage formula approved under Docket No. 960006-WS, Order No. PSC-96-0729-POF-WS, issued May 31, 1996, the rate of return on common equity is 11.88% with a range of 10.88% - 12.88%.

Applying the weighted average method to the total capital structure yields an overall rate of return of 8.65% with a range of 8.65% to 8.66%. Staff made pro rata adjustments to reconcile the capital structure downward to match the recommended rate base.

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

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NET OPERATING INCOME

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

RECOMMENDATION: The appropriate test year operating revenues should be \$13,685 for water and \$13,685 for wastewater. (KEMP)

STAFF ANALYSIS: Currently, the utility is in the process of certification and as of yet, does not have Commission authorized rates. Staff selected a historical test year ending December 31, 1996. During the test year the utility collected revenues of \$27,730. This represents \$300 a month from the marina and \$23,770 from the PPOA, as ordered by the circuit court. The revenues are reflected on the utility's books as \$13,685 for water and \$13,685 for wastewater. Staff did not make an adjustment.

Operating revenues are shown on Schedules Nos. 3 through 3C.

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

RECOMMENDATION: The appropriate test year losses are \$4,414 for water \$12,762 for wastewater. (KEMP)

STAFF ANALYSIS: The test year revenue is \$13,685 for water and \$13,685 for wastewater. Corresponding test year operating expenses are \$18,099 for water and \$26,447 for wastewater for corresponding operating losses of \$4,414 for water and \$12,762 for wastewater.

The test year operating losses are shown on Schedule Nos. 3 through 3-C.

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ISSUE 8: Should the Commission approve the operating ratio methodology as permitted in Rule 25-30.456, Florida Administrative Code, to be used for calculating the revenue requirements for PWS water and wastewater systems and if so, what is the appropriate margin?

RECOMMENDATION: Yes, the Commission should approve the operating ratio methodology for calculating the revenue requirement for the water and wastewater systems. The margin should be 10% of operating and maintenance expenses. (BETHEA, KEMP)

STAFF ANALYSIS: By Order No. PSC-96-0357-FOF-WU, issued March 13, 1996, in Docket No. 950641-WU, the Commission approved the use of the operating ratio methodology for setting rates. The Order also established criteria to determine the use of the operating ratio method and a guideline margin of 10% of operation and maintenance expenses.

Staff believes there are many factors involved in deciding whether to implement an operating ratio (ORM). The following discusses the threshold criteria established in Order No. PSC-96-0357-FOF-SU, and how they apply to PWS:

1) Whether utility's operation and maintenance expense exceed rate base. As discussed in Issue 3, the utility's test year plant in service is considered 100% contributed. This results in a rate base substantially lower than the level of operation and maintenance expense. Staff adjusted test year rate base for water is \$2,338 and \$3,050 for wastewater while corresponding operation and maintenance expenses are \$16,586 for water and \$24,400 for wastewater. Although the utility has received the benefit of the contributed plant, staff believes that the utility should be allowed a margin of revenues over expenses to protect it from unexpected expenditures and/or revenue shortfalls.

Traditional regulation allows only break even revenues when there is no rate base. Setting break even rates will place a utility, or any business for that matter, in financial jeopardy as it provides no cash flow with which to cover potential revenue shortfalls, higher expense levels or future investment requirements. Revenue shortfalls can result from such factors as lower usage levels (repression) in response to higher rates, or from demographic or environmental changes. Expenses can also be volatile in any given year. Although staff attempts to provide adequate expense levels in SARCs, experience shows that it has been impossible to anticipate every contingency and utilities often fail to meet their revenue requirement after completion of a case.

The ORM serves a dual purpose in attempting to compensate the utility owner for the risk of not being able to cover costs in any given year and to provide an internal source of funds to cover revenue shortfalls. Under rate base regulation this "cushion" of internal funds is provided through depreciation expense and the equity portion only of the rate of return. If there is no rate base there is no depreciation or rate of return. Staff believes that failure to provide a reasonable margin of revenues over expenses is not in the best interest of the ratepayers. Break even rates will ultimately result in service degradation from deferred maintenance or inability to replace plant, thereby, resulting in higher long term costs.

2) Whether the utility is expected to become a Class B in the foreseeable future. According to Section 367.0814(7), Florida Statutes, the alternative forms of regulation being considered in this case apply to Class C utilities only. PWS is currently a Class C utility, the revenue requirements of \$20,044 for water and \$29,603 for wastewater are substantially below the threshold level for Class B status (\$150,000 per system). In addition, the utility's customer growth has been stagnant over the past years and is not expected to rise. This suggests that PWS will not become a Class B utility in the foreseeable future.

OTHER FACTORS

3) Quality of service and condition of plant. As mentioned in Issue No. 1, the quality of service provided by PWS is considered satisfactory. The utility is up-to-date with all chemical tests required by the Department of Environmental Protection (DEP). Test analysis results of the water and wastewater systems are satisfactory. According to the analysis results, the quality of the water meets or exceeds all standards for safe drinking water. In accordance with DEP records reviewed by staff, the water served by the utility is satisfactory. Because the wastewater plant discharges directly into the St. Johns River, it is monitored closely by the DEP. The DEP has found that the quality of the wastewater effluent passes standards for surface water discharge. At present, the DEP has no open citations or corrective orders pending against the utility. Upon staff's plant visit, no excessive or foul odors were detected, and each facility was operating according to its design.

4) Whether the utility is developer owned. Although the current owner is not a developer, the previous owner, Mr. James Yonge, is. Due to the father-son relationship of the current and previous owners, staff considers the purchase of the utility to be a related party transaction. Although the service area is not built out,

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customer growth has been stagnant over the last 5 years. Staff does not believe a developer relationship, in itself, should disqualify a utility from the ORM. Although one could argue in this case that a developer relationship exists, staff believes the other factors justify use of the ORM.

5) Whether the utility operates treatment facilities or is simply a distribution and/or collection system. PWS operates water treatment and distribution systems and wastewater treatment and collection systems.

MARGIN PERCENTAGE

By Order No. PSC-96-0357-FOF-WU, issued March 13, 1996, in Docket No. 950641-WU, the Commission determined that a margin of 10% shall be used unless unique circumstances justify the use of a greater or lesser margin. The Commission settled on the 10% margin due to lack of economic guidance on developing an operating ratio method rate of return. The Commission believed that it would be a futile and unwarranted exercise to try to establish a precise return applicable to all small utilities. The important question was not what the return percentage should be, but what level of operating margin will allow the utility to provide safe and reliable service and remain a viable entity. The answer to this question requires a great deal of judgement based upon the particular circumstances of the utility.

Several factors must be considered in determining a reasonable margin. First, the margin must provide sufficient revenues for the utility to cover its interest expense. Point Water & Sewer's interest expense is approximately \$463 annually. Second, use of the ORM rests on the contention that the principal risk to the utility resides in operating cost rather than in capital cost associated with rate base. As previously stated, break even rates presents great financial risk to the utility as cash flow will be insufficient to cover any unexpected variance in revenues or expenses. Therefore, the margin should adequately compensate the utility owner for that risk. Third, the ORM should provide an adequate margin of revenues over expenses to protect against potential adverse variability of either. The return on rate base method would provide PWS no cash flow through depreciation and only \$202 for water and \$264 for wastewater in operating income. Deducting interest expense from this total leaves the utility without excess funds to cover revenue and expense variances. A margin of 10% of operating and maintenance expenses will provide PWS a modest cash flow of \$1,659 for water and \$2,440 for wastewater, or \$1,457 and \$2,176, respectively, after deducting interest expense.

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In conclusion, Staff believes the above factors show that the utility needs a higher margin of revenues over operating expenses than the traditional return on rate base method would allow. Therefore, in order to provide the utility adequate cash flow to provide some assurance of safe and reliable service, Staff recommends application of the operating ratio methodology at a margin of 10% of operation and maintenance expenses.

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ISSUE 9: What are the appropriate amounts for operating expense for each system?

PRIMARY RECOMMENDATION: Using the "operating ratio method", the appropriate amounts for operating expenses for PWS should be \$18,385 for water and \$27,163 for wastewater. (KEMP, DAVIS)

ALTERNATE RECOMMENDATION: Using the "rate base method", the appropriate amounts for operating expenses for PWS should be \$18,317 for water and \$27,061 for wastewater. (KEMP)

PRIMARY STAFF ANALYSIS: The utility recorded operating expenses of \$32,667 for water and \$39,466 for wastewater. The components of these expenses include operation and maintenance expenses, depreciation expense (net of related non-used and useful depreciation on expense), amortization of CIAC (net of related non-used and useful CIAC on amortization) and taxes other than income.

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

Operation and Maintenance Expenses (O & M): The utility charged \$29,183 to water O & M and \$35,404 to wastewater O & M during the test year. A summary of adjustments that were made to the utility's recorded expenses follows:

1) **Salaries & Wages** - The utility recorded test year salaries and wages expense of \$4,800 each for water and wastewater. The utility provided a letter to support a part time officer and manager for 12.5 hours per week. The utility has costs included in contractual services to support an operator, who also performs the majority of the repairs for the utility, and an accountant. Staff believes 12.5 hours to be excessive and recommends 4 hours per week at \$25 per hour for a part time officer and manager. Adjustments to reduce salaries and wages by \$3,210 each for water and wastewater to reflect an annual salary of \$2,600 for each system.

2) **Employee Pensions & Benefits** - The utility did not record anything for test year employee pensions and benefits. However, a request to include annual health care insurance of \$864 was submitted. Consistent with the recommendation of 4 hours for a part time employee, which constitutes 10% of hours worked by a full time employee, staff has made adjustments to reflect health care coverage on a pro rata basis. Staff made

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an adjustment \$43 each for water and wastewater to include 10% of the annual costs for employee pensions and benefits.

3) Sludge Removal - Utility recorded a sludge removal expense of \$400. Staff engineer recommends that the utility have its sludge hauled twice a year. An adjustment was made to increase this balance by \$600 to reflect the engineer's recommendation. Staff recommends sludge removal expense of \$1,000.

4) Chemicals - The utility recorded test year chemicals expenses of \$599 for water and \$2,740 for wastewater. No adjustment was made to water, however, staff increased chemicals for wastewater by \$61 to reflect annualized expenses. Staff recommends water and wastewater chemicals expense of \$599 and \$2,801 respectively.

5) Contractual Services - The utility recorded contractual services expenses of \$9,621 for water and \$12,000 for wastewater during the test year. Staff made the following adjustments in contractual services to:

WATER - c) reflect an annual allowance of \$583 for maintenance and repairs, an increase of \$122; d) reflect a 30% allocation of costs for the contract operator, a decrease of \$1,320; e) reflect legal fees incurred from dispute against PPOA for nonpayment amortized over 5 years, a decrease of \$3,226; and f) reflect annualized accounting fees, an increase of \$750.

Also included in contractual services for water is an increase of \$1,131 to reflect annual DEP testing. As determined by the Staff engineer, the appropriate annual amount for DEP testing is \$2,066:

<u>Description</u>	<u>Frequency</u>	<u>Annual Cost</u>
Microbiological	Monthly	\$360
Primary Inorganics	36 mos.	\$ 85
Secondary	36 mos.	\$ 80
Asbestos	1/9yrs.	\$ 25
Nitrate & Nitrite	12 mos.	\$ 60
Volatile Organics	qtr'ly/1st yr/36 mos. subsequent/Annual	\$143
Pesticides & PCB	36 mos.	\$470
Radio nuclides		
Group I	36 mos.	\$ 35
Group II	36 mos.	\$100
Unregulated Organics		

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Group I	qtr'ly/1st yr/9yrs.	\$275
Group II	36 mos.	\$ 50
Group III	36 mos.	\$ 83
Lead/Copper	biannual	<u>\$300</u>
Test Year		<u>\$ 2,066</u>

WASTEWATER - a) reflect annual expense for grounds keeping, per the engineer, an increase of \$80; b) remove unsupported expenses for repairs, a decrease of \$140; c) reflect annual allowance of \$925 for maintenance and repairs, an increase of \$353; d) reflect a 70% allocation of costs for the contract operator, an increase of \$1,320; e) reflect legal fees incurred from dispute against PPOA for nonpayment amortized over 5 years, a decrease of \$3,226; and f) reflect annualized accounting fees, an increase of \$750.

Also included in contractual services for wastewater is a decrease of \$861 to reflect annual DEP testing. As determined by the Staff engineer, the appropriate annual amount for DEP testing is \$2,202:

<u>Description</u>	<u>Frequency</u>	<u>Annual Cost</u>
Fecal Coliform	monthly	\$300
Bio-Oxygen Demand-influent	monthly	240
Bio-Oxygen Demand-effluent	monthly	240
Total Suspended Solids-inf	monthly	132
Total Suspended Solids-eff	monthly	132
Chemical Oxygen Demand-inf	monthly	264
Carbonaceous BOD (5)-eff	monthly	240
Nitrate/Nitrite	quarterly	240
Ammonia-effluent	quarterly	64
Sludge analysis	yearly	<u>350</u>
Test year Total		<u>\$ 2,202</u>

Total adjustments to decrease contractual services were \$2,543 and \$1,724 for water and wastewater respectively. Staff recommends contractual services expense of \$7,078 for water. Staff recommends \$10,276 for wastewater.

6) Rents Expense - The utility proposes to rent an office for \$300 per month in an effort to adhere to Rule 25-30.110 (2) (b), Florida Administrative Code, which states that the utility must maintain its records at the office or offices of the utility within the state and shall keep those records open

for inspection during business hours by Commission staff. As it stands, the utility only has two customers; staff does not see the prudence in the utility obtaining an office for the sole purpose of keeping its records. The rules do not mandate that the utility have a specific office, the utility may keep its records available at its accountant's or attorney's office. In some instances, utilities have maintained their records in their homes. The \$300 rent expense proposed by the utility included office space, phone, access to a copier and facsimile machines and use of a conference room. Staff believes the utility should be allowed an amount to cover phone, storage, and access to copier and facsimile machines. Therefore, staff has recommended a monthly rent expense of \$100 per month, \$50 for water and \$50 for wastewater. Staff finds this amount to be comparable to utilities of this size. Staff recommends annual rent expense of \$600 for water and \$600 for wastewater.

7) Transportation Expense - The utility did not record anything for transportation expenses. The engineer recommends 100 miles per month as a reasonable travel allowance to be split 50-50 between water and wastewater. Staff made an adjustment to increase transportation expense by \$186 for water and \$186 for wastewater.

8) Insurance Expense - The utility did not record anything for insurance expense. Because the utility discharges effluent into the St. Johns River, the risk of environmental contamination is ever present. During the audit, the utility submitted an insurance bid with an annual premium of \$13,571. The quote included coverage for general liability, property damage, and environmental pollution. Since then, staff has directed the utility to obtain another quote. The utility was able to obtain a quote for general liability, property damage and pollution control coverage with an annual premium of \$4,606 for water and wastewater. Staff considers this to be a reasonable amount. Staff made an adjustment to increase water and wastewater by \$2,303 each.

9) Regulatory Commission Expense - The utility recorded test year regulatory commission expense of \$4,020 each for the water and wastewater systems. These amounts reflect SARC legal fees incurred during the test year. Staff made adjustments to; a) reflect legal fees incurred during the SARC and Certification docket amortized over four years, a decrease \$2,493 for water and \$1,950 for wastewater (Staff notes that this being the utility's first time before the Commission, as a primary reason for the enormous legal fees. However, staff

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admonishes the utility on a going forward basis to be prudent in its use of legal counsel when/if expecting to recover those costs in rates); b) reclassify application fee for certification amortized over four years, an increase of \$188 each for water and wastewater; c) include the application fee for the SARC amortized over four years, an increase of \$50 each for water and wastewater; and d) reflect accounting fees of \$6,400 incurred during the SARC amortized over four years, an increase of \$800 each for water and wastewater. Staff recommends \$2,565 of water and \$3,108 of wastewater Regulatory Commission Expense.

10) Miscellaneous Expense - The utility recorded \$7,025 for water and \$8,325 for wastewater miscellaneous expenses. Staff has made adjustments to: a) remove interest expense, decreases of \$6,275 each for water and wastewater; b) reflect annual allowance of \$250 each for miscellaneous expenses, increase of \$250 for water and wastewater; c) reflect annualized bank charges, increases of \$60 each for water and wastewater; d) reflect reclassification of application fees for certification, decreases of \$750 each for water and wastewater; e) reflect DEP permit fee amortized over five years, a decrease of \$800 for wastewater; f) include engineering fee related to the DEP permit amortized over five years, an increase of \$370; and g) Although it is not necessary for a utility of this size to provide office hours on a daily basis, should an emergency arise, the customers must be able to contact a representative of the utility. Therefore, staff is recommending a monthly expense of \$20 for a pager or answering service, an increase of \$120 each for water and wastewater. Staff recommends \$430 for water miscellaneous expenses and \$1,300 for wastewater miscellaneous expenses.

Operation and Maintenance Expenses (O & M) Summary: Total operation and maintenance was decreased by \$12,597 for water and \$11,004 for wastewater. Although the amounts recommended by staff exceed historical operating and maintenance expense, staff notes that there were a number of costs incurred during the test year that the utility did not previously incur. Also, because the utility discharges into the St. Johns River, DEP testing and treatment requirements have increased greatly. All expenses recommended by staff have been examined for reasonableness and prudence. Staff recommends Operation and Maintenance Expenses of \$16,586 for water and \$24,400 for wastewater. Operation and Maintenance Expenses are shown in Schedule Nos. 3E and 3F.

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Depreciation Expense (Net of non-used and useful): The utility recorded \$2,500 each for water and wastewater in depreciation expense during the test year. Consistent with Commission practice, Staff calculated test year depreciation expense using the prescribed rates described in Rule 25-30.140, Florida Administrative Code. Staff made increasing adjustments to depreciation expense in the amounts of \$1,285 for water and \$2,012 for wastewater. Applying the prescribed depreciation rates to the appropriate used and useful plant in service account balances, Staff decreased water by \$480 and wastewater by \$844. Also, an adjustment was made to increase water by \$35 to reflect depreciation on the pro forma meters. Staff recommends net test year depreciation expense of \$770 for water and \$3,668 for wastewater.

CIAC Amortization Expense (Net of non-used and useful): The utility did not record any amortization expense. Applying the prescribed depreciation rate to the plant balances in which CIAC was imputed, staff made adjustments of \$1,125 and \$4,512 for water and wastewater respectively. Staff also made an adjustment to reduce amortization by \$480 for water and \$844 for wastewater to reflect non-used and useful on these accounts. Staff recommends a negative amortization balance of \$735 for water and \$3,668 for wastewater.

Taxes Other Than Income Taxes (TOTI): The utility recorded test year TOTI of \$984 for water and \$1,562 for wastewater. Staff made an adjustment of \$494 for water and \$485 for wastewater to reflect annual payroll taxes.

Increase in Operating Revenues and Expenses Summary:

Operating Revenues - Revenue has been increased by \$6,359 for water and \$15,981 for wastewater to reflect the increase in revenue required to allow the utility to recover its expenses and earn a margin return on O & M.

Taxes Other Than Income - TOTI has been increased by \$286 for water and \$716 for wastewater to reflect regulatory assessment fee at 4.5% on the required revenue increase.

The application of staff's recommended adjustments to the utility's recorded operating expenses results in recommended operating expenses of \$18,385 for water and \$27,163 for wastewater.

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ALTERNATE STAFF ANALYSIS: Should the Commission find "rate base method" appropriate, there would be two differences to the above analysis, the revenue requirement and the level of regulatory assessment fees. Staff recommends that revenues be increased by \$1,834 for water and \$13,639 for wastewater to reflect the annual revenue required to cover the utility expenses and allow a recommended rate of return on investment. TOTI has been adjusted by \$218 for water and \$614 for wastewater to reflect regulatory assessment fees of 4.5% on the increased revenues. These adjustments allow the utility to cover its expenses and allow a recommended rate of return on investment. The application of staff's recommended adjustments to the utility's test year operating expenses results in operating expenses of \$18,317 for water and \$27,061 for wastewater.

Operating expenses are shown on Schedules Nos. 3 through 3C. Adjustments are shown on Schedule No. 3D.

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REVENUE REQUIREMENT

ISSUE 10: What is the appropriate revenue requirement for each system?

PRIMARY STAFF RECOMMENDATION: The appropriate revenue requirements using the "operating ratio method" for PWS, are \$20,044 for water and \$29,603 for wastewater. (KEMP)

ALTERNATE STAFF ANALYSIS: The appropriate revenue requirements using the "rate base method" for PWS, are \$18,519 for water and \$27,324 for wastewater. (KEMP)

PRIMARY STAFF ANALYSIS: Based on the "operating ratio method" of calculating the revenue requirement, PWS should be allowed an annual increase in revenues of \$6,359 (46.47%) for water and \$15,918 (116.32%) for wastewater. This will allow the utility the opportunity to recover its expenses and earn a 10% margin on its operating and maintenance expense. The calculations are as follows:

	<u>Water</u>	<u>Wastewater</u>
Adjusted O & M expense	\$16,586	\$24,400
Operating Margin	<u>x .1000</u>	<u>x .1000</u>
Margin Return on O & M	\$ 1,659	\$ 2,440
Adjusted O & M expenses	16,586	24,400
Depreciation Expense (Net)	770	3,668
Amortization Expense (Net)	(735)	(3,668)
Taxes Other Than Income Taxes	<u>1,764</u>	<u>2,763</u>
Revenue Requirement	<u>\$20,044</u>	<u>\$29,603</u>
Annual Revenue Increase	\$ 6,359	\$15,918
Percentage Increase	<u>46.47%</u>	<u>116.32%</u>

ALTERNATE STAFF ANALYSIS: Based on the "rate base method" of calculating the revenue requirement, PWS should be allowed an annual increase in revenues of \$4,834 (35.32%) for water and \$13,639 (99.67%) wastewater. This will allow the utility the opportunity to recover its expenses and earn a 8.65% return on its investment. The calculations are as follows:

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	<u>Water</u>	<u>Wastewater</u>
Adjusted Rate Base	\$ 2,338	\$ 3,050
Rate of Return	<u>x .0865</u>	<u>x .0865</u>
Return on Investment	\$ 202	\$ 264
Adjusted Operation Expenses	16,586	24,400
Depreciation Expense (Net)	770	3,668
Amortization Expense (Net)	(735)	(3,668)
Taxes Other Than Income Taxes	<u>1,695</u>	<u>2,661</u>
Revenue Requirement	<u>\$18,519</u>	<u>\$27,061</u>
Annual Revenue Increase	\$ 4,834	\$13,639
Percentage Increase	<u>35.32%</u>	<u>99.67%</u>

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

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RATES AND CHARGES

ISSUE 11: What is the appropriate rate structure and what are the recommended rates for this utility?

PRIMARY RECOMMENDATION: The recommended rates should be designed to produce revenues of \$20,044 for water and \$29,603 for wastewater. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet pursuant to Rule 25-30.475(1), Florida Administrative Code, provided the customers have received notice. The rates should not be implemented until proper notice has been received by the customers. The utility should provide proof of the date notice was given within 10 days after the date of the notice. (KEMP, JOHNSON)

ALTERNATE RECOMMENDATION: The recommended rates should be designed to produce revenues of \$18,519 for water and \$27,324 for wastewater. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet pursuant to Rule 25-30.475(1), Florida Administrative Code, provided the customers have received notice. The rates should not be implemented until proper notice has been received by the customers. The utility should provide proof of the date notice was given within 10 days after the date of the notice. (KEMP)

PRIMARY STAFF ANALYSIS: As mentioned earlier, PWS does not currently hold a certificate of authorization from the Commission; however, a certification docket is currently pending before the Commission. Despite the lack of certification, staff believes that the Commission has the statutory authority to establish rates for this utility in the SARC docket. Section 367.011(2), Florida Statutes, grants the Commission exclusive authority over each utility with respect to its authority, service, and rates. The statute does not specifically require that the utility, over which the Commission has jurisdiction, be a certificated utility, it only requires that the utility be subject to the Commission's jurisdiction. This utility has been subject to the Commission's jurisdiction since its inception in 1980. In addition, Section 367.081, Florida Statutes, grants the Commission the authority to fix rates for utilities within its exclusive jurisdiction. Staff believes that these statutory provisions along with Section 367.011(3), Florida Statutes, which specifically permits liberal construction of the statute in the Commission's exercise of its police power for the protection of the public health, safety and welfare, form a sound and sufficient statutory basis on which to base Commission authority to establish final rates in a SARC proceeding before a certificate is issued. Staff notes however, that this would be the first time, outside of a grandfather

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certification, where the Commission would be setting rates before a certificate was granted.

As indicated in the case background, it is imperative that rates for PWS are established immediately. The utility and the PPOA are currently operating under a court order which mandates the PPOA to pay 83% of all utility invoices for operating and maintenance costs within 20 days of receipt. The marina is not subject to the court order and pays the utility \$300 per month for water and wastewater services. Staff is uneasy with the idea of allowing this payment process to continue for any length of time for several reasons. The 83% of operating and maintenance expenses mandated by the court does not consider that some costs such as insurance and permits are amortized over the life of the expense nor does it provide incentive for the utility to be financially prudent when incurring these expenses. An example of staff's concern is an invoice for annual plant insurance sent to the PPOA in the amount of \$11,264.14, due 20 days from receipt. In this example, the utility had neglected to obtain bids from other insurance providers. Furthermore, the utility asked the PPOA to pay the invoice before it finalized the insurance policy or made any premium payments. In essence, 83% of the bill was passed directly on to the PPOA for payment. In addition to the insurance invoice, the PPOA has paid over \$6,000 in invoices since the December, 1996 court order. Also, there is a risk that the utility will have collected more than it should by the time rates are established. Currently, there is no protection to the customers such as revenues held subject to refund, which protects customers if in fact the utility has collected excess revenues. On the other hand, the 83% of O & M expenses paid by the PPOA and \$300 a month paid by the marina does not ensure that the utility is earning enough to cover its monthly expenses. Furthermore, it is likely that the PPOA is paying more than its share of costs to the utility under the current allocation 83% of costs. The utility's current rates, as set out by the court order plus the \$300 a month paid by the marina, exposes both the customers and the utility to unnecessary risk.

As a regulating body, it is staff's duty to ensure that the customers receive quality service at a fair cost. Staff believes it almost impossible for a utility to provide quality service without adequate funds to cover the day to day operating expenses. This allowance is critical if the utility is to provide safe and reliable service. Should the expenses such as testing, chemicals, or operator services, to name a few, go unpaid, the ratepayers could be placed at risk. The pending certification docket is scheduled to go to hearing on August 1, 1997, and to the agenda conference for a Commission decision on November 18, 1997. If the utility has to wait until after certification, it could not expect

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to receive compensatory rates until sometime after November 18, 1997. Requiring the utility to wait until the certification decision is final in order to establish a rate may hamper PWS' ability to perform and maintain minimum levels of service. Staff believes that the setting of final rates by the Commission in this SARC proceeding is the most equitable solution and in the best interests of all parties involved.

During the test year, PWS provided service on a flat rate basis to 2 general service water and wastewater customers (the marina and the PPOA). The utility currently has a 2" meter for the marina, but not the PPOA. The engineer has recommended that the utility install a 2" inch meter for the service extending to the PPOA.

The cost for a meter has been included in rate base; the engineer recommends the utility be given 90 days from the stamped date of the order to complete the installation of the meter. Consequently, Staff has calculated rates in two Phases. Phase I consists of water and wastewater flat rates for both customers. These rates will remain in effect until the utility has installed the meter and has filed new tariff sheets with the Commission reflecting metered water rates and flat wastewater rates for both customers. The marina has 3 restrooms and two showers, that are connected to the wastewater system. Whereas wastewater metered rates usually are based on water consumption, staff believes that this would not fairly represent wastewater treated for the marina. Due to these uncertainties, staff calculated flat rates for the wastewater system.

Staff has calculated rates based on test year expenses and estimated average consumption for water and ERC's for wastewater. The flat rates and metered rates have been calculated to generate Staff's recommended revenue requirement. The utility's current rates and Staff's preliminary rates are as follows.

OPERATING RATIO METHOD

MONTHLY GENERAL SERVICE WATER RATES

<u>Flat Rate</u>	<u>Existing Rates</u>
Marina	\$ 150
PPOA	\$1,500

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(PHASE I)

<u>Flat Rate</u>	<u>Staff's Recommended Rates</u>
Marina	\$ 760.74
PPOA	\$ 909.04

(PHASE II)

<u>Metered Rates</u>	<u>Staff's Recommended Rates</u>
Base Facility Charge	
<u>Meter Size</u>	
5/8" x 3/4"	\$ 63.31
3/4"	94.97
1"	158.29
1-1/2"	316.57
2"	506.52
3"	1,013.04
4"	1,582.87
6"	3,165.74

<u>Gallorage Charge</u>	
Per 1,000 gallons	\$ 1.99
(all metered connections)	

MONTHLY GENERAL SERVICE WASTEWATER RATES

<u>Flat Rate</u>	<u>Existing rates</u>
Marina	\$ 150
PPOA	\$1,500

<u>Flat Rate</u>	<u>Staff's Recommended Rates</u>
Marina	\$ 616.73
PPOA	\$1,850.19

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In accordance with Rule 25-30.475, Florida Administrative Code, the rates should be effective for service rendered as of the stamped approval date on the tariff sheets, provided the customers have received notice. The tariff sheets should be approved upon Staff's verification that the tariffs are consistent with the Commission's decision, that the customer notice is adequate, and that any required security has been provided. The utility should provide proof of the date notice was given within 10 days after the date of the notice.

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

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

ALTERNATE STAFF ANALYSIS: During the test year, PWS provided service on a flat rate basis to 2 general service water and wastewater customers (the marina and the PPOA). The utility currently has a meter for the marina, but not the PPOA. The engineer has recommended that the utility install a two inch meter for the service extending to the PPOA.

The cost for a meter has been included in rate base; the engineer recommends the utility be given 90 days from the stamped date of the order to complete the installation of the meter. Consequently, Staff has calculated rates in two Phases. Phase I consists of water and wastewater flat rates for both customers. These rates will remain in effect until the utility has installed the meter and has filed new tariff sheets with the Commission reflecting metered water rates and flat wastewater rates for both customers. The marina has 3 restrooms and two showers, that are connected to the wastewater system. Whereas wastewater metered rates usually are based on water consumption, staff believes that this would not fairly represent wastewater treated for the marina. Due to these uncertainties, staff calculated flat rates for the wastewater system.

Staff has calculated rates based on test year expenses and estimated average consumption for water and ERC's for wastewater. The flat rates and metered rates have been calculated to generate

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Staff's recommended revenue requirement. The utility's current rates and Staff's preliminary rates are as follows.

RATE BASE METHOD

MONTHLY GENERAL SERVICE WATER RATES

<u>Flat Rate</u>	<u>Existing Rates</u>
Marina	\$ 150
PPOA	\$ 1,500

(PHASE I)

<u>Flat Rate</u>	<u>Staff's Recommended Rates</u>
Marina	\$ 504.89
PPOA	\$ 832.57

(PHASE II)

<u>Metered Rates</u>	<u>Staff's Recommended Rates</u>
Base Facility Charge	
<u>Meter Size</u>	
5/8" x 3/4"	\$ 63.11
3/4"	94.67
1"	157.78
1-1/2"	315.56
2"	504.89
3"	1,009.78
4"	1,577.78
6"	3,155.56
<u>Gallonage Charge</u>	
Per 1,000 gallons (all metered connections)	\$ 1.62

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MONTHLY GENERAL SERVICE WASTEWATER RATES

<u>Flat Rate</u>	<u>Existing rates</u>
Marina	\$ 150
PPOA	\$1,500

<u>Flat Rate</u>	<u>Staff's Recommended Rates</u>
Marina	\$ 569.26
PPOA	\$1,707.77

In accordance with Rule 25-30.475, Florida Administrative Code, the rates should be effective for service rendered as of the stamped approval date on the tariff sheets, provided the customers have received notice. The tariff sheets should be approved upon Staff's verification that the tariffs are consistent with the Commission's decision, that the customer notice is adequate, and that any required security has been provided. The utility should provide proof of the date notice was given within 10 days after the date of the notice.

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

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

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ISSUE 12: 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 \$2,685.86 and \$3,254.45 annually for water and wastewater, respectively, to reflect the removal of rate case expense grossed-up for regulatory assessment fees which are being amortized over a four year period. The effect of the revenue reduction results in rate decreases as shown on Schedule Nos. 4 through 4C. The decrease in rates should become effective immediately following the expiration of the four year rate case expense recovery period, pursuant to Section 367.0816, Florida Statutes. The utility should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction.
(KEMP)

STAFF ANALYSIS: Section 367.0816, Florida Statutes, requires that the rates be reduced immediately following the expiration of the four year period by the amount of the rate case expense previously included in the rates. The reduction will reflect the removal of revenues associated with the amortization of rate case expense and the gross-up for regulatory assessment fees which is \$2,685.86 for water and \$3,254.45 for wastewater annually. The reduction in revenues will result in the rates recommended by Staff on Schedules Nos. 4 through 4C.

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

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

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OTHER ISSUES

ISSUE 13: Should the utility be required to reconcile its books and records to the Commission Order as well as maintain them in conformity with the 1984 NARUC Uniform System of Accounts (USOA)?

RECOMMENDATION: Yes, the utility should be required to reconcile its books and records to the Commission Order as well as maintain them in conformity with the 1984 NARUC Uniform System of Accounts. (KEMP)

STAFF ANALYSIS: During the test year, the utility's books were not maintained in conformity with the USOA. Rule 25-30.115 (1), Florida Administrative Code, requires jurisdictional utilities to maintain their books and records in conformity with NARUC USOA. Staff has made an allowance, as discussed in Issue 9 under contractual services, for the utility to pay its C.P.A. to reconcile its books and records as well as maintain them in conformity with the 1984 NARUC Uniform System of Accounts. Allowing this expense for accounting service provides the utility with the expertise to convert and maintain its books and records in conformity with NARUC USOA. Therefore, staff recommends that the utility be required to maintain its books and records in conformity with NARUC USOA.

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ISSUE 14: 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. (KEMP)

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 \$15,390. Alternatively, the utility could establish an escrow agreement with an independent financial institution.

If the utility chooses a bond as security, the bond should contain wording to the effect that it will be terminated only under the following conditions:

- 1) The Commission approves the rate increase; or
- 2) If the Commission denies the increase, the utility shall refund the amount collected that is attributable to the increase.

If the utility chooses a letter of credit as 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.

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

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

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

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

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ISSUE 15: Should this docket be closed?

RECOMMENDATION: No. Upon expiration of the protest period, if no timely protest is received from a substantially affected person, this docket should remain open for an additional 90 days from the issuance date of the Order to allow the utility time to complete pro forma installation of the 2" meter recommended in Issue 3. After the utility has complied with the Order in all respects, and has submitted and has had approved revised tariff sheets reflecting the Phase II rates, this docket should be closed administratively. However, if the utility fails to timely complete the aforementioned pro forma additions, Staff will prepare a follow-up recommendation.
(JOHNSON)

STAFF ANALYSIS: As discussed in Issue 3, Staff has recommended that the utility install a 2" meter for the PPOA general service customer. Therefore, this docket should remain open for an additional 90 days from the issuance date of the Order to allow the utility time to complete the pro forma meter installation recommended in Issue 3. After the utility has complied with the Order in all respects, and has submitted and has had approved revised tariff sheets reflecting the Phase II rates, this docket should be closed administratively. However, if the utility fails to timely complete the aforementioned pro forma additions, Staff will prepare a follow-up recommendation.

POINT WATER & SEWER, INC.
 TEST YEAR ENDING 12/31/96

SCHEDULE NO. - 1
 DOCKET NO. 961484-WS

SCHEDULE OF WATER RATE BASE

COMPONENT		BALANCE PER UTILITY	STAFF ADJUSTMENTS	BALANCE PER STAFF
1	UTILITY PLANT IN SERVICE	\$ 42,769	\$ (13,491)	\$ 29,278
2	LAND/NON-DEPRECIABLE ASSETS	7,231	(7,231)	0
4	NON-USED AND USEFUL PLANT	0	(4,267)	(4,267)
5	ACQUISITION ADJUSTMENT			0
6	CONTRIBUTIONS IN AID OF CONSTRUCTION	0	(17,948)	(17,948)
7	ACCUMULATED DEPRECIATION	(2,917)	(14,333)	(17,250)
8	AMORTIZATION OF ACQUISITION ADJUSTMENT		0	0
9	AMORTIZATION OF CIAC	0	10,452	10,452
10	WORKING CAPITAL ALLOWANCE	0	2,073	2,073
	WATER RATE BASE	\$ 47,088	\$ (44,745)	\$ 2,338

POINT WATER & SEWER, INC.
 TEST YEAR ENDING 12/31/96

SCHEDULE NO. - 1A
 DOCKET NO. 961484-WS

SCHEDULE OF WASTEWATER RATE BASE

COMPONENT	BALANCE PER UTILITY	STAFF ADJUSTMENTS	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	\$ 36,649	\$ 42,836	\$ 79,384
2. LAND/NON-DEPRECIABLE ASSETS	13,461	(13,461)	0
4. NON-USED AND USEFUL PLANT	0	(3,525)	(3,525)
5. ACQUISITION ADJUSTMENT	0	0	0
6. CONTRIBUTIONS IN AID OF CONSTRUCTION	0	(64,519)	(64,519)
7. ACCUMULATED DEPRECIATION	(2,917)	(57,720)	(60,637)
8. AMORTIZATION OF ACQUISITION ADJUSTMENT	0	0	0
9. AMORTIZATION OF CIAC		49,297	49,297
10. WORKING CAPITAL ALLOWANCE	0	3,050	3,050
WASTEWATER RATE BASE	\$ 47,088	\$ (44,033)	\$ 3,050

ADJUSTMENTS TO RATE BASE

EXPLANATION	WATER	WASTEWATER
A. UTILITY PLANT IN SERVICE		
1. To reflect plant per the Original Cost Study	(13,791)	42,835
2. To record pro forma plant - meter	600	
3. To record averaging adjustment on pro form plant	(300)	
	\$ (13,491)	\$ 42,835
B. LAND		
1. To remove land	\$ (7,231)	\$ (13,451)
C. NON-USED AND USEFUL PLANT		
1. To reflect non-used & useful on plant	(11,030)	(14,865)
2. To reflect non-used & useful on average accumulated depreciation	6,783	11,340
	\$ (4,267)	\$ (3,525)
D. CIAC		
1. To reflect 100% of plant contributed	(28,978)	(79,384)
2. To reflect avg. non-used & useful on CIAC	11,030	14,865
	\$ (17,948)	\$ (64,519)
E. ACCUMULATED DEPRECIATION		
1. To concile the utility's balance to reflect the calculation of accumulated depreciaiton as set in Rule 25-30.140 (4) (b)	(14,923)	(59,976)
2. To reflect accumulated depreciation of pro forma plant	(35)	
3. To reflect averaging adjustment	625	2,256
	\$ (14,333)	\$ (57,720)
H. AMORTIZATION OF CIAC		
1. To reflect amortization of CIAC imputed on plant	17,840	62,893
2. To reflect avg. non-used & useful on amortized CIAC	(6,763)	(11,340)
3. To reflect averaging adjustment	(625)	(2,256)
	\$ 10,452	\$ 49,297
I. WORKING CAPITAL ALLOWANCE		
1. To reflect 1/8 of test year O & M expenses	\$ 2,073	\$ 3,050

SCHEDULE OF CAPITAL STRUCTURE

DESCRIPTION	PER UTILITY	STAFF ADJUSTMENTS	BALANCE PER STAFF	% OF TOTAL	COST	WEIGHTED COST
LONG TERM DEBT	\$ 100,000	\$ (86,073)	\$ 3,927	72.88%	9.50%	6.92%
SHORT TERM DEBT-IGR	34,352	(33,003)	1,349	25.03%	6.31%	1.58%
SHORT TERM DEBT-JEY	2,370	(2,277)	93	1.73%	6.31%	0.11%
EQUITY	500	(480)	20	0.36%	11.88%	0.04%
PREFERRED STOCK	0	0	0	0.00%	0.00%	0.00%
CUSTOMER DEPOSITS	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	<u>6.00%</u>	<u>0.00%</u>
TOTAL	\$ 137,222	\$ (131,834)	\$ 5,388	100.00%		<u>8.65%</u>

RANGE OF REASONABLENESS

	<u>LOW</u>	<u>HIGH</u>
RETURN ON EQUITY	10.88%	12.88%
OVERALL RATE OF RETURN	8.65%	8.66%

POINT WATER & SEWER, INC.
 TEST YEAR ENDING 12/31/96

SCHEDULE NO. - 3
 DOCKET NO. 961434-WS

SCHEDULE OF WATER OPERATING INCOME

DESCRIPTIONS	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	REVENUE INCREASE	REVENUE REQUIRED
OPERATING REVENUES	\$ 13,685	\$ 0	13,685	\$ 6,359	\$ 20,044
OPERATING EXPENSES:					
OPERATION AND MAINTENANCE	\$ 29,183	(12,597)	16,586	0	16,586
DEPRECIATION (NET)	2,500	(1,730)	770	0	770
AMORTIZATION	0	(735)	(735)	0	(735)
TAXES OTHER THAN INCOME	984	494	1,478	286	1,764
INCOME TAXES	0	0	0	0	0
TOTAL OPERATING EXPENSES	\$ 32,667	\$ (14,568)	\$ 18,099	\$ 286	\$ 18,385
OPERATING MARGIN	\$ (18,982)		\$ (4,414)		\$ 1,659
MARGIN % OF O & M	<u>-65.04%</u>		<u>-26.61%</u>		<u>10.00%</u>
OPERATING RATIO	<u>238.71%</u>		<u>132.26%</u>		<u>91.73%</u>

SCHEDULE OF WATER OPERATING INCOME

DESCRIPTIONS	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	REVENUE INCREASE	REVENUE REQUIRED
OPERATING REVENUES	\$ 13,685	\$ 0	13,685	\$ 4,834	\$ 18,519
OPERATING EXPENSES:					
OPERATION AND MAINTENANCE	\$ 29,183	(12,597)	16,586	0	16,586
DEPRECIATION (NET)	2,500	(1,730)	770	0	770
AMORTIZATION	0	(735)	(735)	0	(735)
TAXES OTHER THAN INCOME	984	494	1,478	218	1,695
INCOME TAXES	0	0	0	0	0
TOTAL OPERATING EXPENSES	\$ 32,667	\$ (14,568)	\$ 18,099	\$ 218	\$ 18,317
OPERATING INCOME/(LOSS)	\$ (18,982)		\$ (4,414)		\$ 202
WATER RATE BASE	\$ 47,083		\$ 2,338		\$ 2,338
RATE OF RETURN	<u>-40.32%</u>		<u>-188.76%</u>		<u>8.65%</u>

SCHEDULE OF WASTEWATER OPERATING INCOME

DESCRIPTIONS	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	REVENUE INCREASE	REVENUE REQUIRED
OPERATING REVENUES	\$ 13,685	\$ 0	13,685	\$ 15,918	\$ 29,603
OPERATING EXPENSES:					
OPERATION AND MAINTENANCE	\$ 35,404	(11,004)	24,400	0	24,400
DEPRECIATION (NET)	2,500	1,168	3,668	0	3,668
AMORTIZATION	0	(3,668)	(3,668)	0	(3,668)
TAXES OTHER THAN INCOME	1,562	485	2,047	716	2,763
INCOME TAXES	0	0	0	0	0
TOTAL OPERATING EXPENSES	\$ 39,466	\$ (13,019)	\$ 26,447	\$ 716	\$ 27,163
OPERATING MARGIN	\$ (25,781)		\$ (12,762)		\$ 2,440
MARGIN % OF O & M	<u>-72.82%</u>		<u>-52.30%</u>		<u>10.00%</u>
OPERATING RATIO	<u>288.39%</u>		<u>193.25%</u>		<u>91.76%</u>

SCHEDULE OF WASTEWATER OPERATING INCOME

DESCRIPTIONS	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	REVENUE INCREASE	REVENUE REQUIRED
OPERATING REVENUES	\$ 13,685	\$ 0	13,685	\$ 13,639	\$ 27,324
OPERATING EXPENSES:					
OPERATION AND MAINTENANCE	\$ 35,404	(11,004)	24,400	0	24,400
DEPRECIATION (NET)	2,500	1,168	3,668	0	3,668
AMORTIZATION	0	(3,668)	(3,668)	0	(3,668)
TAXES OTHER THAN INCOME	1,562	485	2,047	614	2,661
INCOME TAXES	0	0	0	0	0
TOTAL OPERATING EXPENSES	\$ 39,466	\$ (13,019)	\$ 26,447	\$ 614	\$ 27,061
OPERATING INCOME/(LOSS)	\$ (25,781)		\$ (12,762)		\$ 264
WASTEWATER RATE BASE	\$ 47,083		\$ 3,050		\$ 3,050
RATE OF RETURN	<u>-54.76%</u>		<u>-418.42%</u>		<u>8.65%</u>

ADJUSTMENTS TO OPERATING INCOME

EXPLANATION	WATER	WASTEWATER
A OPERATION AND MAINTENANCE EXPENSES		
1. Salaries & Wages -Employee		
a. To reflect annual salary for a part time employee	\$ (3,210)	\$ (3,210)
2. Employee Pensions & Benefits		
a. To reflect annualized health insurance on employee	\$ 43	\$ 43
3. Sludge Removal		
a. To reflect annual sludge removal expense		\$ 600
4. Chemicals		
a. To reflect annual chemicals expense		\$ 61
5. Contractual Services		
a. To reflect annual expense for groundskeeping per engineer	0	80
b. To remove unsupported expenses for repairs		(140)
c. To reflect annual allowance for maintenance & repairs of \$583 for water and \$925 for wastewater	122	353
d. To reflect proper allocation of contract operator cost	(1,320)	1,320
e. To reflect total legal fees against PPOA for nonpayment amortized over 5 years	(3,226)	(3,226)
f. To reflect annualized accounting fees	750	750
g. To reflect annual expenses for DEP required testing per engineer	1,131	(861)
	\$ (2,543)	\$ (1,724)
6. Rent Expense		
a. To reflect annualized monthly rent expense of \$100	\$ (1,326)	\$ (1,326)
7. Transportation Expense		
a. To reflect annual transportation expense per engineer	\$ 186	\$ 186

ADJUSTMENTS TO OPERATING INCOME

EXPLANATION	WATER	WASTEWATER
8. Insurance Expense		
a. To reflect annual insurance expense	\$ <u>2,303</u>	\$ <u>2,303</u>
9. Regulatory Commission Expense		
a. To reflect legal fees amortized over 4 years	(2,493)	(1,950)
b. To reflect reclassification of application fees for Certification amortized over 4 years	188	188
c. To reflect SARC application fee amortized over 4 years	50	50
d. To include accounting fees related to the SARC amortized over 4 years	800	800
	\$ (1,455)	\$ (912)
10 Miscellaneous Expenses		
a. To remove interest expense	(6,275)	(6,275)
b. To reflect allowance of \$275 for misc. expenses	250	250
c. To reflect annualized bank charges	60	60
d. To reflect reclassify application fees for Certification	(750)	(750)
e. To reflect DEP permit application fee amortized over 5 years		(800)
f. To reflect engineering fees for DEP permit amortized over 5 yrs..		370
g. To reflect a monthly expense for a pager or emergency service.	120	120
	\$ (6,595)	\$ (7,025)
TOTAL O & M ADJUSTMENTS	\$ (12,597)	\$ (11,004)

ADJUSTMENTS TO OPERATING INCOME

EXPLANATION	WATER	WASTEWATER
B. DEPRECIATION EXPENSE (NET)		
1. To reflect test year depreciation expense	(1,285)	2,012
2. To reflect non-used & useful on depreciation expense	(480)	(844)
3. To reflect depreciation expense on pro forma meters	35	
	<u>\$ (1,730)</u>	<u>\$ 1,168</u>
C. AMORTIZATION EXPENSE (CIAC)		
1 To reflect amortization expense for CIAC	(1,215)	(4,512)
2 To reflect non-used & useful on amortization of CIAC	480	844
	<u>\$ (735)</u>	<u>\$ (3,668)</u>
D. TAXES OTHER THAN INCOME		
1. To reflect payroll taxes on partime employee	494	485
	<u>\$ 494</u>	<u>\$ 485</u>
E. OPERATING REVENUES		
1. Primary Rec - to reflect revenue increase	\$ 6,359	\$ 15,918
2. Alternative Rec - to reflect revenue increase	\$ 4,834	\$ 13,639
F. TAXES OTHER THAN INCOME		
1. Primary Rec - to reflect TOTI per revenue requirement	\$ 286	\$ 716
2. Alternative Rec - to reflect TOTI per revenue requirement	\$ 218	\$ 614

ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE

DESCRIPTION	TOTAL PER UTILITY	STAFF ADJUST.	TOTAL PER STAFF
(601) SALARIES AND WAGES - EMPLOYEES	\$ 5,810	\$ (3,210)	\$ 2,600
(603) SALARIES AND WAGES - OFFICERS	0		
(604) EMPLOYEE PENSIONS AND BENEFITS	0	43	43
(610) PURCHASED WATER	0		
(615) PURCHASED POWER	0		0
(616) FUEL FOR POWER PRODUCTION			
(618) CHEMICALS	599	0	599
(620) MATERIALS AND SUPPLIES	182	0	182
(630) CONTRACTUAL SERVICES	8,687	(3,675)	5,012
DEP REQUIRED TESTING	934	1,132	2,066
(640) RENTS	1,926	(1,326)	600
(650) TRANSPORTATION EXPENSE	0	186	186
(655) INSURANCE EXPENSE	0	2,303	2,303
(655) REGULATORY COMMISSION EXPENSE	4,020	(1,455)	2,565
(670) BAD DEBT EXPENSE			
(675) MISCELLANEOUS EXPENSES	7,025	(6,595)	430
UNCLASSIFIED DISBURSEMENTS			
TOTAL O & M EXPENSES	\$ 29,183	\$ (12,597)	\$ 16,586

ANALYSIS OF WASTEWATER OPERATION AND MAINTENANCE EXPENSE

DESCRIPTION	TOTAL PER UTILITY	STAFF ADJUST.	TOTAL PER STAFF
(701) SALARIES AND WAGES - EMPLOYEES	\$ 5,810	\$ (3,210)	\$ 2,600
(703) SALARIES AND WAGES - OFFICERS	0		0
(704) EMPLOYEE PENSIONS AND BENEFITS	0	43	43
(710) PURCHASED SEWAGE TREATMENT			
(711) SLUDGE REMOVAL EXPENSE	400	600	1,000
(715) PURCHASED POWER	0		0
(716) FUEL FOR POWER PRODUCTION			
(718) CHEMICALS	2,740	61	2,801
(720) MATERIALS AND SUPPLIES	183	0	183
(730) CONTRACTUAL SERVICES	8,937	(863)	8,074
DEP REQUIRED TESTING	3,063	(861)	2,202
(740) RENTS	1,926	(1,326)	600
(750) TRANSPORTATION EXPENSE	0	186	186
(755) INSURANCE EXPENSE	0	2,303	2,303
(765) REGULATORY COMMISSION EXPENSES	4,020	(912)	3,108
(770) BAD DEBT EXPENSE			
(775) MISCELLANEOUS EXPENSES	8,325	(7,025)	1,300
UNCLASSIFIED DISBURSEMENTS			
	\$ 35,404	\$ (11,004)	\$ 24,400

RECOMMENDED RATE REDUCTION SCHEDULE

POINT WATER & SEWER, INC.
 TEST YEAR ENDING 12/31/96

SCHEDULE NO. - 4
 DOCKET NO. 961484-WS

MONTHLY WATER RATES

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

RESIDENTIAL & GENERAL SERVICE	MONTHLY RECOMMENDED RATES	MONTHLY RATE REDUCTION
BASE FACILITY CHARGE:		
Meter Size:		
5/8"X3/4"	\$ 63.31	\$ 8.48
3/4"	94.97	12.73
1"	158.29	21.21
1-1/2"	316.57	42.42
2"	506.52	67.87
3"	1,013.04	135.75
4"	1,582.87	212.10
6"	3,165.74	424.21
RESIDENTIAL GALLONAGE CHARGE PER 1,000 GALLONS	\$ 1.99	\$ 0.27

RECOMMENDED RATE REDUCTION SCHEDULE

POINT WATER & SEWER, INC.
 TEST YEAR ENDING 12/31/86

SCHEDULE NO. - 4A
 DOCKET NO. 961484-WS

MONTHLY WATER RATES

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

RESIDENTIAL & GENERAL SERVICE	MONTHLY RECOMMENDED RATES	MONTHLY RATE REDUCTION
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BASE FACILITY CHARGE:

Meter Size:

5/8"X3/4"	\$ 63.11	\$ 9.15
3/4"	94.67	13.73
1"	157.78	22.88
1-1/2"	315.56	45.77
2"	504.89	73.23
3"	1,009.78	146.45
4"	1,577.78	228.83
6"	3,155.56	457.66

RESIDENTIAL GALLONAGE CHARGE
 PER 1,000 GALLONS

	\$ 1.62	\$ 0.23
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RECOMMENDED RATE REDUCTION SCHEDULE

POINT WATER & SEWER, INC.
TEST YEAR ENDING 12/31/96

SCHEDULE NO. - 4B
DOCKET NO. 961434-WS

MONTHLY WASTEWATER RATES

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

RESIDENTIAL & GENERAL SERVICE	MONTHLY RECOMMENDED RATES	MONTHLY RATE REDUCTION
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Marina	616.73	67.80
PPOA	1,850.19	203.40

RECOMMENDED RATE REDUCTION SCHEDULE

**POINT WATER & SEWER, INC.
TEST YEAR ENDING 12/31/96**

**SCHEDULE NO. - 4C
DOCKET NO. 961434-WS**

MONTHLY WASTEWATER RATES

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

RESIDENTIAL & GENERAL SERVICE	MONTHLY RECOMMENDED RATES	MONTHLY RATE REDUCTION
Marina	569.26	67.80
PPOA	1,707.77	203.40