

II. CASE BACKGROUND:

The Case Background as set forth in the Memorandum contains a generalized summary of events that have transpired over the past seventeen years. As a result of the factual complexity of the event surrounding this facility, the Case Background prepared by Staff contained various factual inaccuracies. PWS will not address said factual inaccuracies because it has not had sufficient time to do so.

DISCUSSIONS OF VARIOUS ISSUES

QUALITY OF SERVICE

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

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

PWS RESPONSE: Since March 1, 1995, PWS and its predecessor have properly operated the facility, complied with all local, state and federal environmental laws and met all service requests of the customers.

RATE BASE

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 for Point Water & Sewer should be \$2,338.00 for water and \$3,050.00 for wastewater (Kemp, Davis).

PWS RESPONSE: Staff maintains in its calculations that the facility, allegedly built in 1980, has no substantive value or cost basis. Clay County has valued the plant with an assessable value of \$67,000.00. PWS shows that the plant has a present fair market value of \$100,000.00. PWS contends that the proper rate base calculations as well as all other relevant calculations should utilize the fair market value of the plant. "To ignore the 'fair value' of the utility in setting its rates would be a denial of all process and tantamount to taking of property without just compensation". See Keystone Water Co. Inc. vs. Bevis, 278 So.2d. 606 (FLA. 1973).

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)

PWS RESPONSE: See response to Issue 3.

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)

PWS RESPONSE: See response to issue 3 addressing the capital structure and the fair market value of the property.

NET OPERATING INCOME

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 requirement 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)

PWS RESPONSE: Of the two alternatives proposed, the operating ratio methodology as permitted in Rule 25-30.456 of the Florida Administrative Code is the preferable choice in light of Staff's overall recommendations. This method offers the utility greater cash flow and the ability to better address unanticipated needs.

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).

Operation and Maintenance Expenses (O & M):

1) **Salaries & Wages** - Staff recommends that the one and only employee of PWS, John Yonge, its President, who devotes no less than 12.5 hours per week working for the utility, should be paid \$100.00 per week or \$5,200.00 per year. PWS currently pays Mr. Yonge \$800.00 per month for his services. PWS believes that no individual would take on the responsibility and work related to the operation of this utility for \$5,200.00 a year. Accordingly, the Staff's recommendation on this issue is without any merit. Ironically, during many times during the past year, the utility was Mr. Yonge's full-time occupation in addressing various issues and concerns including to its maintenance and repairs. Staff's recommendation has failed to note that Mr. Yonge makes himself available 24-hours a day to service the facility. Who is willing to

work for less than \$8.00 an hour and agree to be available 24 hours a day every day of the year? While staff believes that his involvement will be reduced with the passage of time, it is apparent that such will not be the case in the reasonable near future and it is inappropriate to penalize him for performing work which is reasonable and necessary to operate the facility. At present he continues to expend substantial time with respect to the certification process which goes uncompensated. PWS believes that the reasonable salary of \$800.00 per month should be reinstated. This is especially true in light of the fact that Mr. Yonge does not have any employee pension benefits or other benefits except for medical insurance as set forth below.

2) Employee Pensions & Benefits - Mr. Yonge receives health insurance at the cost of \$864.00 per year. Staff arbitrarily reduced this amount to \$86.40 a year based on a speculative 4 hour work week for Mr. Yonge. In fact, Mr. Yonge works a greater amount of time and his level of responsibility justifies his monthly rate of pay of \$800.00 and full insurance benefits as well.

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)

PWS RESPONSE: See prior responses.

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)

PWS RESPONSE: See prior responses. It should also be noted that PWS rejects as incorrect Staff's statement that in seeking insurance that PWS "had neglected to obtain bids from other insurance providers." PWS contacted a reputable insurance broker who was only able to acquire one bid. PWS also invited the PPOA, its main customer, to solicit bids, but it elected not to do so.

OTHER ISSUES

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

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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)

PWS RESPONSE: See prior responses. PWS does not believe that an "emergency" situation presently exists but supports the present adoption of rates.