

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Investigation into  
potential overearnings in  
Highlands County by Highlands  
Ridge Associates, Inc.

DOCKET NO. 981147-WS  
ORDER NO. PSC-01-1488-PAA-WS  
ISSUED: July 18, 2001

The following Commissioners participated in the disposition of  
this matter:

J. TERRY DEASON  
BRAULIO L. BAEZ  
MICHAEL A. PALECKI

NOTICE OF PROPOSED AGENCY ACTION ORDER FINDING  
THAT THE UTILITY OVEREARNED BY AN IMMATERIAL AMOUNT,  
REQUIRING IMPLEMENTATION OF A WATER CONSERVATION PROGRAM,  
REQUIRING REPORTS, AND DISCONTINUING SERVICE AVAILABILITY CHARGES

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service  
Commission that the action discussed herein is preliminary in  
nature and will become final unless a person whose interests are  
substantially affected files a petition for a formal proceeding,  
pursuant to Rule 25-22.029, Florida Administrative Code.

BACKGROUND

Highlands Ridge Associates, Inc. (Highlands Ridge, HRA or  
utility) is a Class C water and wastewater utility located in Avon  
Park in Highlands County. The utility served approximately 396  
water customers and 384 wastewater customers at December 31, 2000.  
According to the utility's 2000 Annual Report, the revenues were  
\$122,731 for the water system and \$108,628 for the wastewater  
system. The corresponding net operating income (loss) was \$14,887  
for the water system and (\$3,486) for the wastewater system.

The utility was granted water and wastewater certificates in  
September 1992. The development served by the utility consists of  
site-built manufactured homes, single-family detached homes, a  
clubhouse, several golf courses and a pro shop. The utility has

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been in operation since October 1990, providing service without compensation to approximately 35 connections. By Order No. PSC-92-0954-FOF-WS, issued September 9, 1992, the utility was granted Certificates Nos. 544-W and 474-S, and had rates and charges established for its water and wastewater systems. The utility has never filed a rate case, but it has received price index rate adjustments for the years 1994-1998.

On February 3, 1998, we received from the utility a request for a refund of a portion of the regulatory assessment fees (RAFs) paid during the years 1994-1996, as well as corrected RAF returns for those corresponding years. The utility stated in its request that certain connection and meter installation fees were incorrectly recorded as revenues during those years, and that those fees are not subject to RAFs. As a result, the utility contends that it overpaid its RAFs during those years. The utility subsequently withdrew its refund request on February 6, 2001.

On February 19, 1998, we also received from the utility an application for a 1998 price index. As part of the index application review process, our staff contacted the utility, which stated that the Southwest Florida Water Management District (SWFWMD or District) had contacted the utility about the high per capita consumption of the utility's customers. According to the utility, the District indicated that the utility's Consumptive Use Permit (CUP) would be reviewed 18 months early for the primary purpose of requiring the utility to implement a conservation-oriented rate structure.

We proceeded to review certain information from the utility's 1997 Annual Report to determine, on a preliminary basis, the utility's average monthly water consumption per customer. During this review, we discovered that the utility, while indicating the number of general service (GS) customers at the beginning of the year, failed to account for those GS customers at the end of the year. When our staff called the utility to inquire about the GS customers, we were told that all GS customers were related parties to the utility and, therefore, were not billed. Therefore, although the utility's 1997 Annual Report did not indicate that the utility achieved a return greater than what was authorized, due to the number of customers who had not been billed, we began an informal investigation into the potential overearnings of this utility.

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Consequently, we requested an audit of the utility's rate base, capital structure and operating position for the test period ended December 31, 1997. During the course of the informal investigation, we learned that, in addition to the customers who are metered but not billed, the utility also has several unmetered customers. Based on this new information, our staff conducted two field investigations, during which a comprehensive billing analysis was performed for the year ended December 31, 1997. Based on the results of our preliminary analysis, by Order No. PSC-98-1623-FOF-WS, issued December 7, 1998, we ordered a full investigation of the utility's earnings for water and wastewater service. In the aforementioned Order, we ordered that the utility shall guarantee funds collected subject to refund in the amount of \$18,576. The utility subsequently provided a letter of credit to guarantee the potential refund. In addition, by Order No. PSC-99-2164-PCO-WS, issued November 8, 1999, we ordered that the utility guarantee additional funds collected subject to refund in the amount of \$22,937.

A customer meeting was held on June 19, 2000, to inform the customers of the overearnings investigation and the impending change in rate structure. Approximately 55 customers attended the meeting, which focused on discussions of the implications of the instant rate investigation and reducing water consumption.

On October 12, 2000, Highlands Ridge Associates, Inc. filed an application for the sale/transfer of its water and wastewater certificates to 27/SSH Corporation. In the transfer application, the utility states that this transfer of ownership is necessary due to the acquisition of all other assets, primarily undeveloped real property, of the Villages of Highlands Ridge (the development served by the utility) by 27/SSH Corp. A new entity, Highlands Ridge Utilities, LLC, has been created to own and manage the utility. Our staff's recommendation addressing the transfer application is scheduled to be filed on August 23, 2001, for our consideration at the September 4, 2001 Agenda Conference.

For the purpose of this investigation, a test period ended December 31, 2000 was selected. We performed an audit of all rate base, capital structure and operating statement items as of December 31, 1997. Two additional audits, one of rate base and the other of operating statement items, were performed for the year

ended December 31, 2000. We have jurisdiction pursuant to Sections 367.081 and 367.082, Florida Statutes.

#### QUALITY OF SERVICE

A quality of service determination is derived by evaluating the quality of utility product, the operational condition of the existing facilities, customer satisfaction, and compliance with the Department of Environmental Protection (DEP) and the SWFWMD.

Although the utility is presently in compliance with the DEP, it is exceeding permit withdrawal limits with the SWFWMD. Excessive residential irrigation has been identified as the main source of the problem. As reported in the District's 2000 Public Supply Per Capita Water Use Survey, the average consumption for this utility is 223 gallons per day per capita (gpdpc). The SWFWMD believes that this is inconsistent with the desired level of 150 gpdpc as reflected in the present water use permit. The utility is located within a water use restrictive area designated by the SWFWMD known as the Highlands Ridge Water Use Caution Area (HRWUCA). Water use is restricted on a per capita basis. This includes irrigating no more than twice per week. In addition to the above restrictions, recent drought conditions have caused yard irrigation to be further restricted to one day per week. As part of its permit, the utility is required to incorporate best water management practices which includes irrigation limitations, implementation of a leak detection and repair program, and evaluating the feasibility of improving the efficiency of the current irrigation system. The plan will include a strategy as to how the current amount of water used can be reduced. In addition to the above, a conservation oriented rate structure is considered by the utility and the SWFWMD as a key component to reduce usage in this case. The development of such a rate structure will be further discussed subsequently in this Order.

On June 19, 2000, a customer meeting was held in the utility's service area at the Grand Ballroom at Highlands Ridge. Approximately 55 customers attended the meeting. In addition to representatives of the utility and Commission staff, three representatives from the SWFWMD were also in attendance. The SWFWMD personnel presented an informative program about water supply and usage, and the need for conservation. They also answered specific questions from the customers about local water

use restrictions and the utility's permit compliance problems. Most of the questions asked at the customer meeting were directed towards the SWFWMD.

In addition to the above water use concerns, several questions were asked about possible rate reductions and refunds. Our staff explained that the main reason for the meeting was to hear and respond to customer comments on the quality of service provided by the utility, the utility's earnings, and water conservation issues. In writing, one customer stated that most of the water used is for the benefit of the developer to make further sales, and that the customers are paying more than a fair rate for the water and wastewater services used. Staff was not prepared at the time of the meeting to give details on rate restructuring or refunding. When asked if another meeting would be held to discuss details, the customers were informed that there were no plans to do so. However, they would have the opportunity to voice any opposition at the agenda conference.

Also, concerns over the existing wastewater cap were raised at the meeting and in the form of letters to the Commission from two customers. The customers indicated that the wastewater cap at 10,000 gallons is not reflective of actual usage since the majority of the water purchased is used for irrigation and is not returned back as wastewater. They requested that the cap be lowered. Wastewater rates are billed based on the amount of water used. The rates are designed to allow the utility to recover its prudent operational expenses and to have the opportunity to earn a fair return on its investment. Generally we consider that approximately 80% of the residential customers' water usage is returned to the wastewater treatment plant. If the customers so choose, they may request the installation of a second meter to account for irrigation. The amount used through that meter would be considered as water usage only, and would not be used for wastewater considerations. However, it must be made clear that the applicable charges include the Commission-approved charges for meter installation, as well as the base facility and gallonage charges.

We find that the quality of service provided by the utility is satisfactory. Although the customers have concerns about the wastewater cap, we find that the option discussed above concerning the installation of a second water only meter used for irrigation is the most appropriate solution in this case. We also find that

the utility is appropriately working with the water management district to address permit requirements. Therefore, we make no adjustments herein.

RATE BASE

USED AND USEFUL ADJUSTMENTS

Water Treatment Plant

As reflected in the calculation sheet appended to this Order and incorporated herein as page 1 of Attachment A, the water treatment plant is 68% used and useful. The water treatment plant has two wells that generate 850 gpm each. For the purpose of the used and useful calculation, one of the wells is considered as backup and is not part of the used and useful determination. This is necessary because DEP rules require that a second well be provided if a water system serves 350 or more people. Also, in consideration of normal residential usage, a 16 hour operating day is employed. Therefore the plant capacity with one of the wells operating is 816,000 gallons per day.

Maximum Daily Flow - An average of the 5 days with the highest pumpage rate from the month with the highest pumpage rate during the test year is used. That number is 414,000 gallons per day.

Fire flow - In recognition of the utility's ability to furnish fire protection, 120,000 gallons per day is considered. This is in compliance with the four hour duration 500 gpm minimum requirement of the local fire marshall.

Growth Allowance - Consideration was made to afford the utility the ability to accept additional connections/ERCs within a reasonable time frame. To reflect residential use, it has been determined that residential usage is 80% of the total recorded flow. In this case it is anticipated that another 25 connections/ERCs will be made. A growth allowance of 22,375 gallons per day using a regression analysis calculation was determined. It was calculated by using a growth allowance of 18 months for the water treatment plant. This was done in accordance with Commission policy based on Section 367.081 (2)(a) and (b), Florida Statutes (1997), the law that was in effect at the time this case was docketed, as the current statute does not apply to

rate cases which were pending on March 11, 1999. 1999 Fla. Laws Ch. 99-319(2).

Excessive Unaccounted for Water - A review of accounted for water has been made. No problems have been found.

#### Wastewater Treatment Plant

Plant Capacity - As reflected in the calculation sheet appended to this Order as page 2 of Attachment A, the wastewater treatment plant has a designed/permitted capacity of 95,000 gallons per day based on a peak three-month average daily flow. This plant is an extended aeration secondary treatment facility with effluent sent to percolation ponds. The peak three-month average daily flow during the test year was 30,000 gallons per day.

Growth Allowance - Consideration was made to afford the utility the ability to accept additional connections within a reasonable time frame. By using a regression analysis calculation, it is anticipated that another 25 connections will be made with an additional 2,027 gallons per day added. It was calculated by using a growth allowance of 18 months for the wastewater treatment plant. This was done in accordance with Commission policy based on Section 367.081 (2)(a) and (b), Florida Statutes (1997), the law that was in effect at the time this case was docketed. This is because the current statute does not apply to rate cases which were pending on March 11, 1999. 1999 Fla. Laws Ch. 99-319(2).

Excessive Infiltration - No indication of excessive infiltration was found during our review.

#### Water Distribution and Wastewater Collection System

As reflected in the calculation sheets appended to this Order as pages 3 and 4 of Attachment A, the water distribution and wastewater collection systems are 92% used and useful. Serving 377 residential connections at the end of the test year, both systems have a build out (without expansion) capacity of 429 residential connections.

Growth Allowance - Consideration was made to afford the utility the ability to accept additional connections within a reasonable time frame. By using a regression analysis calculation,

it is anticipated that another 17 connections will be made. It was calculated by using a growth allowance of 12 months for the water distribution and wastewater collection systems. This was done in accordance with Commission policy based on Section 367.081 (2)(a) and (b), Florida Statutes (1997), the law that was in effect at the time this case was docketed. This is because the current statute does not apply to rate cases which were pending on March 11, 1999. 1999 Fla. Laws Ch. 99-319(2).

#### TEST PERIOD RATE BASE

Although rate base has never been set for this utility, rate base for the purpose of estimating possible overearnings was calculated for both the water and wastewater systems as of December 31, 1997. A discussion of each rate base component, the related adjustments and our approved balances follows.

#### Plant in Service

The plant in service balances per the utility's books at December 31, 1997 were \$529,042 for the water system and \$596,630 for the wastewater system. Several adjustments to the utility's plant accounts were made in the December 1997 audit to correct for improperly recorded Allowance for Funds Used During Construction (AFUDC) and improperly recorded plant additions, and to reflect 1997 averaging adjustments. We made additional adjustments to remove a nonutility well from the water system and to remove disallowed unnecessary project additions from the wastewater system. The resulting average balances for utility plant in service at December 31, 1997 were \$451,679 for the water system and \$534,305 for the wastewater system.

Reversal of the 1997 averaging adjustment plus plant additions for the years 1998 through 2000 increased the water system balance to \$481,483 as of December 31, 2000. A 2000 averaging adjustment of \$1,636 reduces the balance to \$479,849.

Reversal of the 1997 averaging balance and plant additions for the years 1998 through 2000 increased the wastewater system balance to \$560,205 as of December 31, 2000. A 2000 averaging adjustment of \$1,050 reduces the balance to \$559,155.



Land

The utility had not recorded land on its books. The auditor made adjustments of \$443 to the water system and \$4,434 to the wastewater system to reflect the appropriate values at December 31, 1997. There have been no changes to either system; therefore, there is no change in approved land values for the year ended December 31, 2000.

Nonused and Useful Plant

As discussed previously, the water treatment plant is considered 68% used and useful, and the water distribution plant is considered 92% used and useful. As also discussed previously, the wastewater treatment plant is 34% used and useful, and the wastewater collection system is 92% used and useful. This results in corresponding nonused and useful percentages of 32% and 8% for the water system and 66% and 8% for the wastewater system.

As discussed in greater detail below, we find that total contributions in aid of construction (CIAC) shall be capped at a net contribution level of 75% for each system. Neither the water distribution system nor the wastewater collection system are 100% used and useful. Based upon our analysis, the lines for each system are 100% contributed; therefore, no used and useful adjustment is appropriate.

The effect of removing the investment in one well from used and useful calculations, plus offsetting the net remaining water system CIAC against the corresponding net depreciable treatment plant accounts, results in net water system plant subject to a used and useful adjustment of \$11,463. Applying the 32% nonused and useful adjustment results in water system net nonused and useful plant of \$3,668.

The effect offsetting the net remaining wastewater system CIAC against the corresponding depreciable treatment plant accounts results in net wastewater system plant subject to a used and useful adjustment of \$79,817. Applying the 66% nonused and useful adjustment results in wastewater system net nonused and useful plant of \$52,679.

Contributions in Aid of Construction (CIAC)

The CIAC associated with the water system per the utility's books at December 31, 1997 was (\$16,298). This balance was increased by (\$218,160) to record imputed, uncollected CIAC prior to 1998 per the utility's tariff. A 1997 averaging adjustment of \$19,762 reduced the balance to (\$198,398) at December 31, 1997. Reversing the averaging adjustment plus the imputation of additional uncollected CIAC associated with utility connections in the years 1998 through 2000 would have resulted in a contribution level of 90%. However, Rule 25-30.580(1), Florida Administrative Code, states that:

- (1) The maximum amount of contributions-in-aid-of-construction, net of amortization, should not exceed 75% of the total original cost, net of accumulated depreciation, of the utility's facilities and plant when the facilities and plant are at their designed capacity.

As stated previously, the CIAC was imputed, and never collected from customers. Therefore, in conformity with the above-referenced rule, we find it appropriate to cap the net imputation of CIAC at 75% of the corresponding net water system plant. This results in capped additional CIAC of (\$50,579). Because CIAC was capped, there were no CIAC additions, and, therefore, no averaging adjustments necessary for the year 2000. Therefore, the appropriate balance of CIAC for the water system is (\$285,037).

The CIAC associated with the wastewater system per the utility's books at December 31, 1997 was \$0. This balance was increased by (\$272,025) to record imputed, uncollected CIAC prior to 1998 per the utility's tariff. A 1997 averaging adjustment of \$24,785 reduced the balance to (\$247,241) at December 31, 1997. Reversing the averaging adjustment plus the imputation of additional uncollected CIAC associated with utility connections in the years 1998 through 2000 would have resulted in a contribution level of 80%. For the reasons stated above, we believe it is appropriate to cap the wastewater system CIAC at a net contribution level of 75%. This results in capped additional CIAC of (\$63,157). Because CIAC was capped, there were no CIAC additions, and, therefore, no averaging adjustments necessary for the year 2000.

Therefore, the appropriate balance of CIAC for the wastewater system is (\$335,182).

#### Accumulated Depreciation

The accumulated depreciation associated with the water system per the utility's books at December 31, 1997 was (\$200,093). We recalculated accumulated depreciation to reflect the depreciation rates prescribed in Rule 25-30.140, Florida Administrative Code, and removed the accumulated depreciation associated with the nonutility well. This adjustment of \$76,827 reduced the balance at December 31, 1997 to (\$123,266). A 1997 averaging adjustment of \$8,952 reduced the balance to (\$114,314). Reversing the 1997 averaging adjustment plus recording additions to the account for the years 1998 through 2000 increased the December 31, 2000 balance to (\$179,383). The 2000 averaging adjustment of \$9,442 reduces the balance to (\$169,941).

The accumulated depreciation associated with the wastewater system per the utility's books at December 31, 1997 was (\$258,687). We recalculated accumulated depreciation to reflect the depreciation rates prescribed in Rule 25-30.140, Florida Administrative Code, and removed the accumulated depreciation associated with the disallowed additions. This adjustment of \$119,117 reduced the balance at December 31, 1997 to (\$139,570). A 1997 averaging adjustment of \$9,885 reduced the balance to (\$129,685). Reversing the 1997 averaging adjustment plus recording additions to the account for the years 1998 through 2000 increased the December 31, 2000 balance to (\$200,704). The 2000 averaging adjustment of \$10,202 reduces the balance to (\$190,502).

#### Accumulated Amortization of CIAC

The accumulated amortization of CIAC associated with the water system per the utility's books at December 31, 1997 was \$1,719. We adjusted this balance by \$23,695 to reflect the accumulated amortization associated with the uncollected CIAC prior to 1998. This adjustment increased the balance at December 31, 1997 to \$25,414. A 1997 averaging adjustment of \$4,047 reduced the balance to \$21,367. Reversal of the 1997 averaging adjustment plus recording additions to the account for the years 1998 through 2000 increased the balance at December 31, 2000 to \$57,860. A 2000 averaging adjustment of \$5,587 reduces the balance to \$52,273.

The accumulated amortization of CIAC associated with the wastewater system per the utility's books at December 31, 1997 was \$0. We increased this balance to \$26,248 to reflect the accumulated amortization associated with the uncollected CIAC prior to 1998. A 1997 averaging adjustment of \$4,352 reduced the balance to \$21,897. Reversal of the 1997 averaging adjustment plus recording additions to the account for the years 1998 through 2000 increased the balance at December 31, 2000 to \$60,841. A 2000 averaging adjustment of \$6,084 reduces the balance to \$54,757.

#### Working Capital

The utility recorded working capital balances of \$0 for both its water and wastewater systems at December 31, 1997. We calculated working capital at December 31, 1997 using the 1/8th of Operating and Maintenance (O&M) expenses formula method, which is consistent with Rule 25-30.433(2), Florida Administrative Code. This resulted in working capital allowances of \$3,758 for the water system and 4,264 for the wastewater system.

As will be discussed in greater detail below, we find that the appropriate level of O&M expenses for the year 2000 is \$89,101 for the water system and \$89,161 for the wastewater system. Therefore, using the formula method, the working capital balances at December 31, 2000 are \$11,138 for the water system and \$11,145 for the wastewater system, resulting in adjustments of \$7,380 and \$6,881, respectively.

#### Summary

Based on the foregoing, the appropriate average rate base balances for the water and wastewater systems as of December 31, 2000 are \$85,056 and \$51,128, respectively. Water rate base is shown on Schedule No. 1-A, wastewater rate base is shown on Schedule No. 1-B, and the adjustments for the respective systems are included on Schedule No. 1-C. The schedules are attached hereto and incorporated herein by reference.

COST OF CAPITAL

In Order No. PSC-92-0954-FOF-WS, we established a return on equity of 12.44% for the utility, with a range of 11.44%-13.44%, to be used in future proceedings. However, we find it is appropriate to update the utility's return on equity using the current leverage graph formula approved by Order No. PSC-00-1299-CO-WS, issued on July 18, 2000, in Docket No. 000006-WS.

The utility's capital structure consists of a negative common equity balance of \$71,521, and a loan from First Union Bank at a stated interest rate of 9.00%. Because including a negative common equity balance in the capital structure would penalize the utility by understating the overall rate of return, we have adjusted the negative common equity balance to zero. Because the equity ratio in the utility's capital structure is less than 40%, per the above-referenced Order, it is appropriate to limit the authorized return on common equity to a maximum of 9.94%.

Because the utility has no equity in its capital structure, and because the only other instrument in the capital structure is a loan at 9.00%, the overall rate of return is 9.00%.

The capital structure has been adjusted on a prorata basis to reconcile to the utility's total rate base. The return on equity and overall rate of return are shown on Schedule No. 2, attached hereto and incorporated herein by reference.

NET OPERATING INCOME

Test Year Revenues

In its 2000 Annual Report, the utility reported \$122,731 in water system revenues and \$108,628 in wastewater system revenues. We performed a comprehensive billing analysis for the year ended December 31, 2000. Based on the information gathered, we calculated revenues of \$123,027 for the water system and \$109,122 for the wastewater system. The resulting adjustments are increases to the utility's reported revenues of \$296 and \$494, respectively.

Conservation Program

In 1991, we entered into a Memorandum of Understanding (MOU) with the five Water Management Districts (WMDs), in which we recognized that it is in the public interest to engage in a joint goal to ensure the efficient and conservative utilization of water resources in Florida, and that a joint cooperative effort is necessary to implement an effective, state-wide water conservation policy. Since that time, we have increased our efforts in assisting the WMDs in achieving conservation goals. More recently, our staff has worked with the St. Johns River Water Management District (SJRWMD) and the SWFWMD in tailoring conservation programs for jurisdictional utilities that are designed to achieve significant and lasting reductions in water use. We have found in several prior cases that reasonable expenses for such programs shall be included in utility rates, because the WMDs hold the utilities, rather than the utilities' customers, responsible for reductions in water use.

We have taken a similar approach in prior cases involving excess earnings, low rates and high consumption. By Order No. 23809, issued November 27, 1990, in Docket No. 900338, we required Sanlando Utilities Corporation to set aside \$25,008 in annual revenues for future expenses specifically related to water conservation. Additionally, by Order No. PSC-93-1771-FOF-WS, issued on December 10, 1993, in Docket No. 930256-WS, we approved an inclining block rate structure for Sanlando for the purpose of funding future capital investment related solely to conservation.

We have made two similar findings in cases involving low rates and high consumption, both involving utilities in Lake County. First, in Order No. PSC-00-1165-PAA-WS, in Docket No. 990243, issued June 27, 2000, we required Sun Communities Finance Limited Partnership (Sun Communities) to implement a conservation program funded by its overearnings and developed in conjunction with the utility, staff and the SJRWMD. Specifically, we approved an aggressive conservation program which included such items as xeriscape consulting and rebates, installation of moisture sensors, meter replacements and irrigation audits.

Second, in Order No. PSC-01-1246-PAA-WS, issued June 4, 2001, in Docket No. 001382, we required Pennbrooke Utilities, Inc. (Pennbrooke) to implement a conservation program developed in

conjunction with the utility, staff and the SJRWMD. We approved an aggressive conservation program which included such items as system audits and leak detection programs for both the utility's transmission/distribution and irrigation systems. This conservation program is also funded by the utility's overearnings.

We find that there are similar circumstances regarding the need for conservation in the instant proceeding. The District's concern in the HRWUCA focuses on lake levels and excessive water withdrawals, which affects the salt water intrusion experienced along the coast. Therefore, the District has set a per capita use rate goal in the HRWUCA of 150 gallons per capita per day (gpcd).

HRA is an established utility with usage patterns showing excess consumption. As stated in a letter from the SWFWMD,

Highlands Ridge is an excellent example of a utility in need of water conservation measures. This development historically has had a very high per capita water use rate which is well in excess of regulatory per capita use rates in the area and is almost double the per capita use rate goals of the HRWUCA....[B]ased on our research, we feel that the focus of conservation efforts should be on better management of irrigation system.

In addition, due to its historically high per capita use rates, the SWFWMD has placed the following requirements in HRA's recently issued Water Use Permit:

Standard Conditions

10. The Permittee shall practice water conservation to increase the efficiency of transport, application, and use, as well as to decrease waste and to minimize runoff from the property.

Special Conditions

13. Since the Highlands Ridge Associates, Inc., has not achieved a gross/compliance water use rate of 150 gallons per capita per day (gpcd), phased reductions in the gpcd will be required

and the corresponding public supply withdrawal quantities in gallons per day (gpd) will prorated accordingly. The phased reductions in withdrawal quantities will be such that the per capita use will be: 180 gpcd for the calendar year 2000; and, 150 gpcd for the calendar year 2001.

We called upon the technical expertise of the SWFWMD to design a conservation program that is applicable to HRA's specific circumstances. As discussed in its attached letter,

[I]t appears that the per capita problem in the Highlands Ridge Associates service area is primarily related to irrigation use... We would suggest that the utility provide a professional audit service to all customers who wish to participate and initiate a pilot no-maintenance soil moisture sensor program to demonstrate their effectiveness and reliability.

Based on information contained in the District's letter, the costs of providing quality irrigation audits range from \$150 to \$200 per residence, and the costs of installing soil moisture sensors range from \$200 to \$300 per residence. Based on the above-referenced cost figures, \$11,000 shall be approved as a pro forma water conservation program expense:

Conservation Program:

- |    |  |              |
|----|--|--------------|
| 1. | Pilot program for no-maintenance soil sensors: |              |
|    | 20 homes x \$250 average cost per home =       | \$5,000      |
| 2. | Irrigation audits:                             |              |
|    | 34 homes x \$175 average cost per home =       | <u>5,950</u> |
|    | TOTAL (rounded) =                              | \$11,000     |

Based on these figures, the 20 homes included in the pilot sensor program represent approximately 10% of the utility's residential customer base. The remaining funds shall pay for approximately 34 homes, or 10% of the remaining residential customers. The irrigation audits shall be supplied on a first come, first served basis.



Due to both the utility's excessive per capita usage and that specific withdrawal reductions are conditions of the utility's Water Use Permit, it is appropriate to allow proforma expenses for an ongoing conservation program. Furthermore, we believe the utility is able to implement conservation measures to comply with District and Commission requirements. Additionally, our staff shall closely monitor the utility's progress on a quarterly basis to ensure compliance with this Order. These factors should provide sufficient assurance that the conservation program will, in fact, be implemented. Given the circumstances in this case, we find that such a program is warranted.

Based on the foregoing, a proforma allowance for a pilot conservation program in the amount of \$11,000 shall be included in operation and maintenance expenses. The conservation program shall conform to the specifications discussed above and on pages 2 and 3 of Attachment B, attached hereto and incorporated by reference. The utility shall file quarterly reports with the Commission on its conservation program for two years following initiation of the conservation program. These reports, to begin within three months of the issuance of the Consummating Order, shall list the conservation measures that were implemented during the period and the amounts expended. Our staff shall confer with the SWFWMD in reviewing the reports in order to evaluate the effectiveness of the program and ensure that the program and amounts spent are consistent with this Order. Moreover, to monitor the effects of the conservation programs on consumption, the utility shall prepare monthly reports detailing the number of bills rendered, the consumption billed and the revenue billed. These reports shall be provided, by customer class and meter size, on a quarterly basis for a period of two years, beginning with the first billing period after the initial conservation program monies are expended.

#### Operating and Maintenance Expenses

The utility reported 2000 operating and maintenance (O&M) expenses of \$85,865 for the water system and \$91,094 for the wastewater system. However, based on our audit of 2000 expenses, we approve the following adjustments.

Salaries and Wages - Employees (601)/(701): In its 2000 Annual Report, the utility recorded water system expenses of \$22,611 and wastewater system expenses of \$21,989. As mentioned previously,

the utility was sold in 2000 and a new company, Highlands Ridge Utilities, LLC, which has been created to own and manage the utility. As a result, the utility's reported expenses in its 2000 Annual Report of \$22,611 for the water system and \$21,989 for the wastewater system no longer represent employees expense on a prospective basis and have been removed.

The utility now has no employees. Instead, utility employee functions are carried out by employees of affiliated companies, and a portion of the related salaries and wages expense for each employee is allocated to the utility based on the time spent working on utility-related matters. We have reviewed these allocations and related expenses and find that they are reasonable. Annualization of the expenses incurred in 2000 results in our approved salaries and wages/employees expense of \$43,320 for the water system and \$39,145 for the wastewater system.

Our approved expenses are substantially greater than those reported in the utility's 2000 Annual Report. Our analysis indicates that the utility, under its prior ownership, did not record all salaries for employees performing utility duties.

Salaries and Wages - Officers (603)/(703): We removed the expenses related to the utility's prior owners of \$3,281 for each system. Consistent with our treatment of the salaries and wages/employees expense, we have reviewed the allocations of officers expense to the utility. Based upon our review and information contained in the 2000 Annual Report, the duties are carried out by one individual. Therefore, we removed the allocation associated with the second individual, and find that the remaining allocation is reasonable. Therefore, we approve annualized salaries and wages/officers expense of \$3,894 for each system.

Employee Pensions and Benefits (604)/(704): Consistent with our treatment of salaries and wages expense for employees and officers, we have removed the pensions and benefits amounts as recorded in the 2000 Annual Report of \$61 for the water system and \$67 for the wastewater system. Based on our approved treatment of salaries and wages expenses, we have calculated annualized pensions and benefits expense of \$2,969 for the water system and \$2,892 for the wastewater system.

Sludge Removal (711): The utility recorded sludge removal expense of \$8,594 in its 2000 Annual Report. Although we were unable to locate the invoices to support the level of expense, we reviewed the expense and compared it to the audited 1997 expense. Based on the increase in wastewater treatment plant flows between 1997 and 2000, we find that the utility's recorded expense is reasonable and it shall be allowed.

Purchased Power (615)/(715): The utility recorded expenses of \$5,585 for the water system and \$6,586 for the wastewater system in the year 2000. However, our review revealed that the expenses were based on less than a full year of invoices. In addition, the utility had not been billed for one of its lift stations during 2000. Annualization of the reported expenses, plus an estimate of the purchased power associated with lift station no. 4, results in expenses of \$5,595 for the water system and \$6,980 for the wastewater system.

Chemicals (618)/(718): In its 2000 Annual Report, the utility reported expenses of \$2,699 for the water system and \$4,755 for the wastewater system. Our review indicated that these expenses were based on less than a full year of invoices. Annualization of the reported expenses results in expenses of \$2,776 for the water system and \$4,626 for the wastewater system.

Materials and Supplies (620)/(720): The utility reported \$0 expense for its water and wastewater systems for the year 2000. A review of invoices for the water system indicates that the utility typically has eight meters plus the related valves in inventory. In addition, we included an allowance for each system to reflect billing expenses (envelopes, stamps, etc.) and other miscellaneous office supplies on hand. This results in an expense of \$4,108 for the water system and \$2,355 for the wastewater system.

Contractual Services - Professional (631)/(731): In its 2000 Annual Report, the utility reported expenses of \$29,862 for the water system and \$30,222 for the wastewater system. We removed these expenses and recalculated them based on our review and analysis of accounting and legal invoices provided by the utility for the test year. This review results in balances of \$3,984 for the water system and \$4,404 for the wastewater system.

Contractual Services - Testing (635)/(735): The utility reported expenses in its 2000 Annual Report of \$3,030 for the water system and \$3,827 for the wastewater system. All testing services are provided by the contract operator. A review of the contract operator invoices indicates that annualized testing expenses for 2000 are \$960 for the water system and \$4,313 for the wastewater system.

Contractual Services - Other (636)/(736): The utility's 2000 Annual Report indicated expenses of \$4,909 for the water system and \$4,910, with explanations that these represent legal expenses. However, these expenses are misclassified and were therefore removed, as we have included an allowance for legal expenses in the contractual services/professional accounts. Contractual services/other includes such items as expenses associated with the water and wastewater plant contract operator, plus other utility operations that are contracted out (e.g., mowing of the treatment plant sites). The contract operator charges \$250 per month per system. In addition, we find that a reasonable mowing allowance of \$100 per month for the water system and \$250 per month for the wastewater system shall be included. This results in expenses of \$4,200 for the water system and \$6,000 for the wastewater system.

Rents Expense (640)/(740): The utility did not record rents expense during 2000. However, the utility shares office space in two buildings with its affiliated companies. We find that a reasonable allocation is \$500 per month, or an annual expense of \$3,000 per system.

Transportation Expense (650)/(750): The utility recorded no transportation expense in its 2000 Annual Report. However, a mileage allowance is appropriate. We find that a reasonable estimate of utility-related mileage is 50 miles per week, plus two trips to Lakeland annually at 120 miles per trip. Based on cost recovery at \$.29 per mile, the total annual transportation expense is \$824, or \$412 per system.

Insurance Expense (655)/(755): The utility recorded expenses of \$1,022 for the water system and \$1,021 for the wastewater system. We made no adjustments to this account.

Regulatory Commission Expense (665)/(765): The utility recorded no expense in this account during 2000. However, based on

invoices related to this case, plus an estimate of expenses through the completion of this case, we find it appropriate to approve a four-year amortized expense allowance of \$1,225 per system.

Water Resource Conservation (668): As discussed in previously, we find that an appropriate proforma allowance for this expense is \$11,000.

Miscellaneous Expense (675)/(765): The utility recorded 2000 expenses of \$12,194 for the water system and \$5,842 for the wastewater system. However, these amounts were largely unsupported. Therefore, we removed all but \$637 associated with the water system and \$300 associated with the wastewater system.

Operating and Maintenance Expenses Summary: Based on the foregoing, we find that the appropriate O&M expenses for 2000 are \$89,101 for the water system and \$89,161 for the wastewater system. O&M expenses for the water system are shown on Schedule No. 3-D, and the corresponding expenses for the wastewater system are shown on Schedule No. 3-E, attached hereto and incorporated herein by reference.

Depreciation Expense (Net of CIAC)

Based on HRA's 2000 Annual Report, depreciation expense, net of annual CIAC amortization, was \$7,004 for the water system. We recalculated that the depreciation expense, based on our approved water plant in service balance, using the rates prescribed in Rule 25-30.140, Florida Administrative Code, net of annual CIAC amortization, was \$7,711. We reduced this amount by \$136 to reflect the depreciation expense associated with net nonused and useful plant, resulting in an approved balance of \$7,575 for the water system.

Based on HRA's 2000 Annual Report, depreciation expense, net of annual CIAC amortization, was \$6,689 for the wastewater system. We recalculated that the depreciation expense, based on our approved wastewater plant in service balance, using the rates prescribed in Rule 25-30.140, Florida Administrative Code, net of annual CIAC amortization, was \$8,237. We reduced this amount by \$2,059 to reflect the depreciation expense associated with net nonused and useful plant, resulting in an approved balance of \$6,178 for the wastewater system.

Taxes Other Than Income Taxes

In 2000, the utility recorded taxes other than income in the amount of \$14,975 for the water system and \$14,331 for the wastewater system. We reduced these balances to reflect the nonused and useful portion of property taxes paid, and increased the balances to reflect the addition in regulatory assessment fees associated with our approved revenue adjustments. Therefore, the balances for the water and wastewater systems are \$14,284 and \$12,822, respectively.

Summary

Based on the foregoing, we find that the appropriate level of test year operating expenses is \$110,961 for the water system and \$108,161 for the wastewater system. Operating expenses for the respective systems are shown on Schedules Nos. 3-A and 3-B, the related adjustments are shown on Schedule No. 3-C, and O&M expenses for the respective systems are shown on Schedules Nos. 3-D and 3-E, attached hereto and incorporated by reference.

Test Year Net Operating Income

As discussed previously, the adjusted test year revenues are \$123,027 for the water system and \$109,122 for the wastewater system. The approved operating expenses are \$110,961 for the water system and \$108,161 for the wastewater system. These adjustments result in net operating incomes before any revenue increase or decrease of \$12,066 for the water system and \$961 for the wastewater system.

REVENUE REQUIREMENT

Based on our approved revenue requirement, the utility earned in excess of its approved rate of return for the water system, while operating at a slight revenue deficiency for the wastewater system. According to our calculations, the appropriate revenue adjustments are a decrease in the amount of \$4,619, or (3.75%) for the water system and an increase of \$3,812, or 3.49% for the wastewater system. These adjustments will allow the utility the opportunity to recover its expenses and earn a 9.00% return on its investment.

	<u>Water</u>	<u>Wastewater</u>
Adjusted rate base	\$ 85,056	\$ 51,128
Rate of return	<u>x .0900</u>	<u>x .0900</u>
Return on investment	\$ 7,655	\$ 4,601
plus		
Adjusted O&M expense	89,101	89,161
Depreciation expense	7,575	6,178
Amortization expense	( 0)	( 0)
Taxes other than income	<u>14,077</u>	<u>12,993</u>
Revenue requirement	\$118,408	\$112,934
Test year revenue	<u>(123,027)</u>	<u>(109,122)</u>
Decrease in revenue	<u>\$ ( 4,619)</u>	<u>\$ 3,812</u>
Percentage incr. (decr).	( 3.75)%	3.49%

Our approved adjustments result in a revenue excess of \$4,619 for the water system, but a revenue deficiency of \$3,812 for the wastewater system.

In Order No. PSC-96-1205-FOF-WS, issued on September 23, 1996, in Docket No. 960011-WS, we found it appropriate to combine the earnings of Indiantown Company, Inc.'s water and wastewater systems for the purpose of establishing overearnings, since the effect of netting was small, both systems had a common service area and, for the most part, common customers. In that case, the water system was overearning, while the wastewater system was underearning. In Order No. PSC-97-1501-FOF-WS, issued on November 25, 1997, in Docket No. 961364-WS, we found that similar circumstances existed in the overearnings investigation of Lindrick Service Corporation. In that case, the water system was operating at a deficiency while the wastewater system was overearning, resulting in a revenue deficiency on a combined basis. We found that, because of the virtually identical customer base, the netting of water and wastewater system earnings was appropriate and in the best interests of both the utility and its customers.

We find that a similar situation exists in the instant case. HRA's water and wastewater systems operate under common management in identical service areas. The utility also has virtually the same number of water and wastewater customers. Based on our decisions in prior similar situations, we find that the utility shall be allowed to net its water and wastewater earnings. On a

combined basis, Highlands Ridge overearns by \$807 annually. However, this amount is immaterial as it does not cause the utility to exceed its approved rate of return of 9.00% on a combined basis.

The revenue requirement for the water system is shown on Schedule No. 3-A, the corresponding revenue requirement for the wastewater system is shown on Schedule No. 3-B, and the adjustments made to each system's operating statement are shown on Schedule No. 3-C, attached hereto and herein incorporated by reference.

#### RATES AND CHARGES

The utility's current rate structure for both its water and wastewater systems consists of a traditional base facility and uniform gallonage charge rate structure. Due to the high per capita consumption of the utility's customers, the SWFWMD advocates a water system rate structure change to an inclining-block rate structure. The District has advocated rate structures that provide pricing incentives to conserve for a number of years.

Highlands Ridge is located in Highlands County within the SWFWMD. Much of the District has been designated a water use caution area, and for many years the District has advocated rate structures that provide pricing incentives to conserve. HRA is located in both the Highlands Ridge Water Use Caution Area (HRWUCA) and the Southern Water Use Caution Area (SWUCA), and, according to the District, HRA's high per capita water use has well exceeded the regulatory per capita use rates in the area. Therefore, the District has asked that we allow the utility water rates and a water conservation rate structure which will provide earnings sufficient to pay for the District's recommended conservation measures.

Our analysis of HRA's residential customers' consumption data during the test year indicates that they are using excessive amounts of water. The overall average residential consumption is approximately 10,500 gallons per month, with 43% of residential bills and 29% of the residential gallons reflecting consumption of 10,000 gallons (10 kgal) per month and above. Under normal circumstances, we would use the water system revenue requirement increase to design an inclining-block rate structure. However, this case does not present us with a normal set of circumstances, as the water system appears to be overearning. If a change to an



inclining-block rate structure is initiated at this time, many customers would experience overall price decreases in their water bills. These decreases might stimulate consumption, which would not only be counterproductive to conservation goals, but might exacerbate the overearnings for the water system.

Therefore, in order to address the high residential usage, and absent an increase in water system revenue requirement, we find that the utility shall implement a proactive water conservation program. If conservation expenditures are not approved, rate reductions will be necessary to avoid future overearnings. In addition, as discussed above, rate reductions might actually stimulate consumption.

As discussed previously, we are ordering that the utility implement water conservation programs which specifically targets residential irrigation. These programs are expected to have an effect on consumption. We believe that if a change in rate structure is concurrently initiated, customers' subsequent consumption habits will be affected both by the conservation programs and by price changes resulting from the change in rate structure. By continuing the utility's current rate structure during the introduction of the recommended conservation programs, we will be better able to isolate the effects of the conservation programs on consumption. This information would then be considered in designing consumption charges when this issue is subsequently revisited.

In addition, we do not believe it is possible to appropriately quantify the magnitude of the conservation programs' effects on consumption at this time. There are ranges of consumption reductions that might reasonably be expected to occur, and we believe this information is critical in order to appropriately design rates. However, since we lack any historical information in this regard, we find that a change in rate structure is inappropriate at this time.

Therefore, the appropriate rate structure for water and wastewater service is a continuation of the traditional base facility and uniform gallonage charge rate structure. The utility is ordered to file a rate restructuring case with the Commission no earlier than one year but no later than two years after the

implementation of the utility's conservation program, at which time the rate structure issue shall be revisited.

Discontinuance of Service Availability Charges

Highlands Ridge provides service to a developing retirement community, and its residential customers are all single family homes.

Rule 25-30.580(1), Florida Administrative Code, states that:

- (1) The maximum amount of contributions-in-aid-of-construction, net of amortization, should not exceed 75% of the total original cost, net of accumulated depreciation, of the utility's facilities and plant when the facilities and plant are at their designed capacity.

As discussed previously, we have capped each system's net CIAC contribution level at 75%, in conformity with the above-referenced rule. Furthermore, we find that the utility's water system is overearning. The utility's customer base is growing, and by allowing the water system's service availability charges to continue (with no anticipated plant additions), its rate base will erode, exacerbating the overearnings for the water system. We therefore find it appropriate to discontinue the service availability charges for the water system. However, the meter installation charges as reflected in the water system's tariff shall be continued.

Like the water system, allowing the wastewater system's service availability charges to continue (with no anticipated plant additions) will have an eroding effect on its rate base. This has the potential of reducing the wastewater system's revenue deficiency, thereby exacerbating the net overearnings for the combined systems. Therefore, we also find it appropriate to discontinue the service availability charges for the wastewater system.

Although we find that the utility's service availability charges shall be discontinued, the meter installation charges as reflected in the water system's tariff shall be continued. The utility shall file revised tariff sheets within thirty days of the

issuance date of the consummating order which are consistent with our decision herein. Our staff shall have administrative authority to approve the revised tariff sheets upon staff's verification that the tariffs are consistent with this Order. If the revised tariff sheets are filed and approved, the discontinued service availability charges shall become effective for connections made on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(2), Florida Administrative Code.

The letters of credit shall be released. If no timely protest is received upon expiration of the protest period, this Order will become final upon the issuance of the Consummating Order. However, this docket shall remain open for an additional three months from the effective date of the Order to allow staff to verify that the utility has begun implementation of the pilot conservation program approved herein. Once staff has verified that this work has been completed, the docket shall be closed administratively.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that each of the findings made in the body of this Order is hereby approved in every respect. It is further

ORDERED that the provisions of this Order, issued as proposed agency action, shall become final and effective upon the issuance of a Consummating Order unless an appropriate petition, in the form provided by Rule 28-106.201, Florida Administrative Code, is received by the Director, Division of the Commission Clerk and Administrative Services, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings" attached hereto. It is further

ORDERED that all matters contained in the attachments and schedules appended hereto are incorporated herein by reference. It is further

ORDERED that a pro forma allowance for a pilot conservation program in the amount of \$11,000 shall be included in operation and maintenance expenses. The conservation program shall conform to the specifications set forth herein. It is further

ORDER NO. PSC-01-1488-PAA-WS  
DOCKET NO. 981147-WS  
PAGE 28

ORDERED that the utility shall file quarterly reports with the Commission on its conservation program for two years following initiation of the conservation program. These reports, to begin within three months of the issuance of the Consummating Order, shall list the conservation measures that were implemented during the period and the amounts expended. It is further

ORDERED that our staff shall confer with the SWFWMD in reviewing the reports in order to evaluate the effectiveness of the program and ensure that the program and amounts spent are consistent with our decision herein. It is further

ORDERED that the utility shall prepare monthly reports detailing the number of bills rendered, the consumption billed and the revenue billed. These reports shall be provided, by customer class and meter size, on a quarterly basis for a period of two years, beginning with the first billing period after the initial conservation program monies are expended. It is further

ORDERED that Highlands Ridge Associates, shall file a rate restructuring case with the Commission no earlier than one year but no later than two years after the implementation of the utility's conservation program, at which time the rate structure issue shall be revisited. It is further

ORDERED that the utility's service availability charges shall be discontinued; however, the meter installation charges as reflected in the water system's tariff shall be continued. It is further

ORDERED that the utility shall file revised tariff sheets within thirty days of the issuance date of the Consummating Order which are consistent with our decision herein. It is further

ORDERED that staff shall have administrative authority to approve the revised tariff sheets upon staff's verification that the tariffs are consistent with our decision herein. It is further

ORDERED that once the revised tariff sheets are filed and approved, the discontinued service availability charges shall become effective for connections made on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(2), Florida Administrative Code. It is further

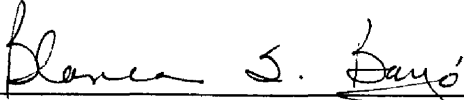
ORDER NO. PSC-01-1488-PAA-WS  
DOCKET NO. 981147-WS  
PAGE 29

ORDERED that the utility's letters of credit shall be released. It is further

ORDERED that if no timely protest is received upon expiration of the protest period, this Order will become final upon the issuance of the Consummating Order. It is further

ORDERED that this docket shall remain open for an additional three months from the effective date of the Order to allow staff to verify that the utility has begun implementation of the pilot conservation program approved herein. Once staff has verified that this work has been completed, this docket shall be closed administratively.

By ORDER of the Florida Public Service Commission this 18th day of July, 2001.

  
\_\_\_\_\_  
BLANCA S. BAYÓ, Director  
Division of the Commission Clerk  
and Administrative Services

( S E A L )

JSB

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing that is available under Section 120.57, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing will be granted or result in the relief sought.

Mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing.

The action proposed herein is preliminary in nature. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Director, Division of the Commission Clerk and Administrative Services, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on August 8, 2000.

In the absence of such a petition, this order shall become final and effective upon the issuance of a Consummating Order.

Any objection or protest filed in this docket before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

WATER TREATMENT PLANT

USED AND USEFUL DATA

Docket No. 981147-WS Utility Highlands Ridge Assoc. Date May, 01

- 1) Capacity of Plant 816,000 gallons per day  
 \* (1-850 gpm well @ 16 hr. day. 2nd well is backup and not used in calc.) (For growth use Res.flow est. at 80% of total flows.)
- 2) Maximum Daily Flow <sup>^</sup>331,200 414,000 gallons per day
- 3) Average Daily Flow 235,100 gallons per day
- 4) Fire Flow Capacity 120,000 gallons per day
  - a) Needed Fire Flow 120,000 gallons per day
- 5) Growth Allowance 22,375 gallons per day
  - a) Test Year Customers in ERCs Begin 363 End 377 Av. 370
  - b) Customer Growth Using Regression Analysis in ERCs  
 for Most Recent 5 Years Including Test Year 25 ERCs
  - c) Construction Time for Additional Capacity 1.5 Years  
 (Reg. Anal. @ 1.5 yrs.  
 =25 con.) 2
- (b) x (e) x [ 22,375 gallons per day ]
- 6) Excessive Unaccounted for Water none gallons per day
  - a) Total Amount            gallons per day            % of Av. Daily Flow
  - b) Reasonable Amount            gallons per day            % of Av. Daily Flow
  - c) Excessive Amount            gallons per day            % of Av. Daily Flow

PERCENT USED AND USEFUL FORMULA

$$\left[ \frac{(2 + 5) + 4a - 6}{1} \right] = \underline{\quad 68 \quad} \% \text{ Used and Useful}$$

WASTEWATER TREATMENT PLANT

USED AND USEFUL DATA

Docket No. 981147-WS Utility Highlands Ridge Date May, 01

- 1) Capacity of Plant 95,000 gallons per day
- 2) Maximum Daily Flow 48,000 gallons per day
- 3) Average Daily Flow (3 mo. avg.) 30,000 gallons per day
- 4) Fire Flow Requirements NOT APPLICABLE gallons per day
- 5) Growth Allowance 2,027 gallons per day  
\*Not to exceed 20% of present customers

- a) Test Yr. Cust. in ERCs - Begin 363 End 377 Av. 370
- b) Customer Growth Using Regression Analysis in ERCs  
for Most Recent 5 Years Including Test Year 17 ERCs
- c) Construction Time for Additional Capacity 1.5  
Years

(Reg. Anal. @ 1.5 yrs.

=25 con.)  $\frac{3}{(a)}$  = 2,027 gallons per day

- 6) Excessive Infiltration none found gallons per day
  - a) Total Amount      gallons per day     % of Av. Daily Flow
  - b) Reasonable Amount      gallons per day     % of Av. Daily Flow
  - c) Excessive Amount      gallons per day     % of Av. Daily Flow

PERCENT USED AND USEFUL FORMULA

$\frac{[(3) + (5)] - 6}{1} = \underline{34} \% \text{ Used and Useful}$



WATER DISTRIBUTION SYSTEM

USED AND USEFUL DATA

Docket No. 981147-WS Utility HIGHLANDS RIDGE. Date May,01

1) Capacity 429 ERCs (Number of potential customers without expansion)

2) Number of TEST YEAR END Connections 377 ERCs

\* Residential customers only

a) Begin Test Year 363 ERCs

b) End Test Year 377 ERCs

c) Average Test Year 370 ERCs

3) Growth Allowance @ 1yr = 17 ERCs

a) Customer Growth Using Regression Analysis in ERCs for Most Recent 5 Years Including Test Year 17 ERCs

c) Construction Time for Additional Capacity 1 Years

(a) x (b) = 17 ERCs Margin Reserve

PERCENT USED AND USEFUL FORMULA

$$\frac{(2 + 3)}{1} = \underline{92} \% \text{ Used and Useful}$$

WASTEWATER COLLECTION SYSTEM

USED AND USEFUL DATA

Docket No. 981147-WS Utility HIGHLANDS RIDGE. Date May,01

1) Capacity 429 ERCs (Number of potential customers without expansion)

2) Number of TEST YEAR END Connections 377 ERCs

\* Residential customers only

a) Begin Test Year 363 ERCs

b) End Test Year 377 ERCs

c) Average Test Year 370 ERCs

3) Growth Allowance 17 ERCs

\*Not to exceed 20% of present customers

a) Customer Growth Using Regression Analysis in ERCS's for Most Recent 5 Years Including Test Year 17 ERCs

c) Construction Time for Additional Capacity 1 Years

(a) x (b) = 17 ERCS's Margin Reserve

PERCENT USED AND USEFUL FORMULA

$$\frac{(2 + 3)}{1} = \underline{92} \% \text{ Used and Useful}$$

January 31, 2001  
Page 3

a variance from the current one day per week restrictions for participants if the restrictions are maintained for a long period of time.

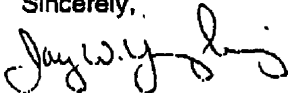
Subsequent successful completion of a pilot project, the utility could then proceed to a cost sharing program with customers to provide sensors to the maximum number of customers possible, focusing initially on seasonal residents. This program should be on-going to keep irrigation systems and system management efficient and maintain per capita reductions over time by addressing resident turnover.

The cost of implementing the recommended conservation practices will vary depending on current conditions and the details of how the recommendations are implemented. However, based on the costs of providing quality irrigation audits (\$150 - \$200 per residence), installing soil moisture sensors (\$200 - \$300 per residence), and administering a pilot project and educational efforts, the District recommends that all over-earnings by the utility be dedicated to conservation efforts.

FPSC authorization of water rates and a conservation rate structure that will allow for implementation of water conservation measures at Highlands Ridge Associates is in the best interest of water utility customers since conserving Florida's water resources assures that higher quality water will be available to them for a longer time at a relatively lower price. If existing water sources are not used wisely and efficiently, alternative and more costly sources will have to be developed sooner.

This is a very important opportunity for the FPSC and the District to work cooperatively on a meaningful conservation program and to demonstrate the practical use of very effective conservation tools. If you should have any questions or any suggestions as to how we can further this effort, please do not hesitate to call me at (800) 423-1476, extension 4406 or Suncom 628-4406.

Sincerely,



Jay W. Yingling  
Senior Economist  
Planning Department

cc: Bill Bilenky            Richard Owen  
     Brian Starford       Mike Balsler  
     Kathy Foley           Said Abusada  
     Joanne McClellan     Albert Bond

January 31, 2001  
Page 2

and achieve significant water savings. Therefore it is in the public interest to allow the utility to increase its rates and to fund, from the sale of water, conservation.

Highlands Ridge Associates, a retirement development in Highlands County, is located within both the District's Highlands Ridge Water Use Caution Area (HRWUCA) and Southern Water Use Caution Area (SWUCA). Highlands Ridge is an excellent example of a utility in need of water conservation measures. This development historically has had a very high per capita water use rate which is well in excess of regulatory per capita use rates in the area and is almost double the per capita use rate goals of the HRWUCA. The District recommends that Highlands Ridge Associates be allowed to have water rates and a water conservation rate structure which will provide sufficient earnings to pay for the below described conservation measures.

Based on the high per capita water usage, low persons per household, and the fact that the service area was established after 1984 when more water conserving plumbing codes were enacted, it appears that the per capita problem in the Highlands Ridge Associates service area is primarily related to irrigation use. Furthermore, the population is highly seasonal and it is likely that irrigation is not actively managed during the period when seasonal residents are absent. This results in excessive irrigation. While additional indoor conservation efforts may reduce per capita use somewhat, based on our research, we feel that the focus of conservation efforts should be on better management of irrigation systems. Irrigation audits to improve the efficiency of existing systems and the addition of virtually no maintenance soil moisture sensors to residential irrigation systems to better manage irrigation would likely be the two most effective means to reduce per capita usage in this service area.

We would suggest that the utility provide a professional audit service to all customers who wish to participate and install a pilot no-maintenance soil moisture sensor program to demonstrate their effectiveness and reliability. The audit service should be made available to all willing customers as soon as financially possible. The developer/permittee has already expressed an interest in installing sensors on the common area irrigation systems as the water used in the common areas will now have to be metered and paid for. We would suggest that the utility also provide free soil moisture sensor installation and monitoring for a number of residences in the first year, again to document their effectiveness and reliability. It may be desirable that the virtually no-maintenance sensors be used in place of tensiometers because of the seasonal nature of the service area population and the lack of maintenance that may occur during their absence.

Revenue would also be needed to document the results of the pilot program. We would suggest that the sensor pilot programs be packaged as a study or demonstration program. It is important that we demonstrate that the sensors provide satisfactory results under normal conditions (2 day per week irrigation). By packaging the program as a pilot demonstration project during the first year or two, it may be possible to obtain

PLANNING DEPARTMENT ID:3527546749



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# Southwest Florida Water Management District

**Tampa Service Office**  
7601 Highway 301 North  
Tampa, Florida 33637-6769  
(813) 985-7481 or  
1-800-836-0797 (FL only)  
SUNCOM 578 2070

**Barrow Service Office**  
170 Century Boulevard  
Barrow, Florida 33830-7700  
(863) 634-1448 or  
1-800-492-7802 (FL only)  
SUNCOM 672-8200

2375  
(352) 706-7211 or 1-800-423-1476 (FL only)  
SUNCOM 628-4150 TDD only 1-800-231-6103 (FL only)  
World Wide Web: <http://www.swfwmd.state.fl.us>

**Venice Service Office**  
115 Corporation Way  
Venice, Florida 34292-3524  
(941) 486-1212 or  
1-800-320-3503 (FL only)  
SUNCOM 626 6000

**Lecanto Service Office**  
3600 West Sovereign Path  
Suite 220  
Lecanto, Florida 34461-8070  
(352) 527-8131  
SUNCOM 667-3271

ATTACHMENT B PAGE 1

- Ronald C. Johnson  
Chair, Polk
- Merrie "Al" Coogler  
Vice Chair, Citrus
- Sally Thompson  
Secretary, Hillsborough
- Ronnie E. Dunson  
Treasurer, Pinellas
- Edward W. Chamee  
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- Thomas S. DeWay, II  
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- Famela L. Fortrose  
Highlands
- Watson L. Nguyen, II  
Pinellas
- Jared D. Kevsek  
Hillsborough
- Heidi E. McGree  
Hillsborough
- John K. Banks, III  
Pasco

- E. D. "Beany" Vargas  
Executive Director
- Gene A. South  
Assistant Executive Director
- William S. Blensky  
General Counsel

January 31, 2001

VIA FAX

Ms. Jennie Lingo  
Economic Analyst  
Division of Economic Regulation  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, Florida 32399-0850

Subj: Funding of Water Conservation Measures at Highlands Ridge Associates Utility

Dear Ms. Lingo:

In setting the water rates which the Highlands Ridge Associates utility may charge to its customers, the Southwest Florida Water Management District (District) urges the Florida Public Service Commission (FPSC) to consider authorizing rates, and a water conservation promoting rate structure, that will encourage and fund beneficial water conservation measures. The District promotes water conservation for the purpose of sustaining, or at least extending, the usefulness of existing water supply sources. This goal is supported by conservation requirements in the District's water use permitting rules and by providing technical and financial assistance to permittees to help them achieve efficient water use. However, even with assistance from the District, water supply utilities may face considerable expense in implementing conservation measures.

Publicly owned utilities may freely choose to raise rates to pass the cost of water conservation on to customers who are responsible for excess usage. However, investor owned utilities regulated by the FPSC have that option only if the FPSC allows it. In the event that the FPSC does not allow the utility to recover the costs of implementing conservation practices, it may not be able to afford to implement them without creating financial losses for its investors. By failing to allow a utility to recover the cost of implementing water conservation practices, we often miss out on the opportunity to implement very beneficial water conservation measures

**HIGHLANDS RIDGE ASSOCIATES, INC.**  
**DOCKET NO. 981147-WS**  
**TEST YEAR ENDED DECEMBER 31, 2000**  
**SCHEDULE OF WATER RATE BASE**

Schedule No. 1-A

<u>Description</u>	<u>1997 Balance per Books</u>	<u>Commission Adjusts</u>		<u>1997 Commn. Adj Balance</u>	<u>1998-2000 Adjusts</u>		<u>2000 Commn. Approv. Balance</u>
Utility Plant in Service	\$529,042	(\$77,363)	A	\$451,679	\$28,170	G	\$479,849
			A				
Land	0	443	B	443	0		443
Nonused and Useful Plant	0	0		0	(3,668)	H	(3,668)
CIAC	(16,298)	(198,398)	C	(214,696)	(70,341)	I	(285,037)
Accumulated Depreciation	(200,093)	85,779	D	(114,314)	(55,627)	J	(169,941)
Accumulated Amortization of CIAC	1,719	19,648	E	21,367	30,906	K	52,273
Working Capital	0	3,758	F	3,758	7,380	L	11,138
<b>TOTAL</b>	<b><u>314,370</u></b>	<b><u>(\$166,133)</u></b>		<b><u>\$148,237</u></b>	<b><u>(\$ 63,181)</u></b>		<b><u>\$85,056</u></b>

**HIGHLANDS RIDGE ASSOCIATES, INC.**  
**DOCKET NO. 981147-WS**  
**TEST YEAR ENDED DECEMBER 31, 2000**  
**SCHEDULE OF WASTEWATER RATE BASE**

Schedule No. 1-B

<u>Description</u>	<u>1997 Balance per Books</u>	<u>Commission Adjusts</u>		<u>1997 Commn. Adj Balance</u>	<u>1998-2000 Adjusts</u>		<u>2000 Commn. Approv. Balance</u>
Utility Plant in Service	\$596,630	(\$62,325)	A	\$534,305	\$24,850	G	\$559,155
Land	0	4,434	B	4,434	0		4,434
Nonused and Useful Plant	0	0		0	( 52,679)	H	(52,679)
CIAC	0	(247,241)	C	(247,241)	( 87,942)	I	(335,182)
Accumulated Depreciation	(258,687)	129,002	D	(129,685)	(60,817)	J	(190,502)
Accumulated Amortization of CIAC	0	21,897	E	21,897	32,860	K	54,757
Working Capital	0	4,264	F	4,264	6,881	L	11,145
<b>TOTAL</b>	<b><u>\$337,943</u></b>	<b><u>(\$149,969)</u></b>		<b><u>\$187,974</u></b>	<b><u>(\$295,487)</u></b>		<b><u>\$ 51,128</u></b>

**HIGHLANDS RIDGE ASSOCIATES, INC.**  
**DOCKET NO. 981147-WS**  
**TEST YEAR ENDED DECEMBER 31, 2000**  
**SCHEDULE OF RATE BASE ADJUSTMENTS**

Schedule No. 1-C

<u>Description</u>	<u>Water</u>	<u>Wastewater</u>
<b><u>A. Utility Plant in Service</u></b>		
1. To reflect unrecorded plant additions	\$49,483	\$47,600
2. To remove disallowed AFUDC recorded prior to Order No. PSC-92-0954-FOF-WS	(\$47,307)	(\$51,113)
3. To remove nonutility well	(56,898)	0
4. To remove disallowed project additions		(35,012)
5. Averaging adjustment	<u>(22,641)</u>	<u>(23,800)</u>
	<b>(\$77,363)</b>	<b>(\$62,325)</b>
<b><u>B. Land</u></b>		
1. To record land	\$443	\$4,434
<b><u>C. Contributions in Aid of Construction (CIAC)</u></b>		
1. To record uncollected CIAC prior to 1998 per tariff	(\$218,160)	(\$272,025)
2. Averaging adjustment	<u>19,762</u>	<u>24,785</u>
	<b>(\$198,398)</b>	<b>(\$247,241)</b>
<b><u>D. Accumulated Depreciation</u></b>		
1. To adjust accumulated depreciation to reflect depreciation rates prescribed in Rule 25-30.140, Florida Administrative Code, including removal of accumulated depreciation associated with nonutility well and disallowed additions	\$76,827	\$119,117
2. Averaging adjustment	<u>8,952</u>	<u>9,885</u>
	<b>\$85,779</b>	<b>\$129,002</b>
<b><u>E. Accumulated Amortization of CIAC</u></b>		
1. To reflect accumulated amortization of CIAC associated with unrecorded CIAC prior to 1998	\$23,695	\$26,248
2. Averaging adjustment	<u>(4,047)</u>	<u>(4,352)</u>
	<b>\$19,648</b>	<b>\$21,897</b>
<b><u>F. Working Capital</u></b>		
1. To reflect working capital based on the 1/8 O&M formula method	\$3,758	\$4,264
<b>TOTAL ADJUSTMENTS PRE-1998</b>	<b><u>(\$166,133)</u></b>	<b><u>(\$149,969)</u></b>



**HIGHLANDS RIDGE ASSOCIATES, INC.**  
**DOCKET NO. 981147-WS**  
**TEST YEAR ENDED DECEMBER 31, 2000**  
**SCHEDULE OF RATE BASE ADJUSTMENTS**

Schedule No. 1-C

<u>Description</u>	<u>Water</u>	<u>Wastewater</u>
<b><u>G. Utility Plant in Service</u></b>		
1. Reverse 1997 averaging adjustment	\$22,641	\$23,800
2. Plant additions 1998-2000	7,164	2,100
3. Averaging adjustment 2000	(1,636)	(1,050)
	<b>\$28,170</b>	<b>\$24,850</b>
<b><u>H. Nonused and Useful Plant (NUUP)</u></b>		
1. Average balance of nonused and useful plant net of accumulated depreciation	(3,668)	(52,679)
	<b>(\$ 3,668)</b>	<b>(\$ 52,679)</b>
<b><u>I. Contributions in Aid of Construction (CIAC)</u></b>		
1. Reverse 1997 averaging adjustment	(\$19,762)	(\$24,785)
2. Additional imputed CIAC 1998-2000 capped 3. at a net contribution level of 75%	(50,579)	(63,157)
	<b>(\$ 70,341)</b>	<b>(\$ 87,942)</b>
<b><u>J. Accumulated Depreciation</u></b>		
1. Reverse 1997 averaging adjustment	(\$8,952)	(\$9,885)
2. Additional accumulated depreciation 1998-2000	(56,117)	(61,134)
3. Averaging adjustment 2000	9,442	10,202
	<b>(\$55,627)</b>	<b>(\$56,181)</b>
<b><u>K. Accumulated Amortization of CIAC</u></b>		
1. Reverse 1997 averaging adjustment	\$4,047	\$4,352
2. Additional accumulated amortization 1998-2000	32,446	34,592
3. Averaging adjustment 2000	(5,587)	(6,084)
	<b>\$30,906</b>	<b>\$32,860</b>
<b><u>L. Working Capital</u></b>		
1. Adjustment necessary to reflect Comm approved balance based on 1/8 O&M formula method	\$7,380	\$6,881
<b>TOTAL ADJUSTMENTS 1998- 2000</b>	<b>(\$ 63,181)</b>	<b>(\$136,847)</b>

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**HIGHLANDS RIDGE ASSOCIATES, INC.**  
**DOCKET NO. 981147-WS**  
**TEST YEAR ENDED DECEMBER 31, 2000**  
**SCHEDULE OF CAPITAL STRUCTURE**

Schedule No. 2

<u>Description</u>	<u>Balance per Utility</u>	<u>Recom Adjs</u>	<u>Balance per Comm.</u>	<u>Pro Rata Adjs</u>	<u>Adjusted Balance per Comm.</u>	<u>Percent of Total</u>	<u>Cost Rate</u>	<u>Average Cost of Capital</u>
Retained Earnings	(\$71,521)	\$71,521	0	0	0	0.00%	9.94%	0.00%
Debt: 1st Union National Bank	501,107	0	\$501,107	(\$364,923)	\$136,184	100.00%	9.00%	9.00%
<b>TOTAL</b>	<b>\$429,586</b>	<b>\$71,521</b>	<b>\$501,107</b>	<b>\$0</b>	<b>\$136,184</b>	<b>100.00%</b>		<b>9.00%</b>

<u>Range of Reasonableness</u>	<u>Low</u>	<u>High</u>
Return on Equity	8.94%	10.94%
Overall Rate of Return	9.00%	9.00%

adjustments  
 to reconcile  
 rate base to  
 capital  
 structure

**HIGHLANDS RIDGE ASSOCIATES, INC.**  
**DOCKET NO. 981147-WS**  
**TEST YEAR ENDED DECEMBER 31, 2000**  
**SCHEDULE OF WATER OPERATING INCOME**

<u>Per Utility</u>	<u>Per Utility</u>	<u>Approved Adjs to Util Balance</u>	<u>Test Year Balance per Comm.</u>	<u>Approved Adjs for Incr (Decrease)</u>	<u>Balance per Comm.</u>
Operating Revenues	\$122,731	\$296	\$123,027	(\$4,619) -3.75%	\$118,408
<b><u>Operating Expenses:</u></b>					
Operation and Maintenance	85,865	3,236	89,101	0	89,101
Depreciation	7,004	571	7,575	0	7,575
Amortization	0	0	0	0	0
Taxes Other Than Income	14,975	(691)	14,284	(208)	14,077
Income Taxes	0	0	0	0	0
Total Operating Expenses	<u>\$107,844</u>	<u>\$3,117</u>	<u>\$110,961</u>	<u>(\$208)</u>	<u>\$110,753</u>
Operating Income (Loss)	\$14,887	(\$2,821)	\$12,066	(\$4,411)	\$7,655
RATE BASE	\$141,835		\$85,056		\$85,056
RATE OF RETURN	10.50%		14.19%		9.00%

HIGHLANDS RIDGE ASSOCIATES, INC.  
DOCKET NO. 981147-WS  
TEST YEAR ENDED DECEMBER 31, 2000  
SCHEDULE OF WASTEWATER OPERATING INCOME

Schedule No. 3-B

<u>Per Utility</u>	<u>Per Utility</u>	<u>Commission Adjs to Util Balance</u>	<u>Test Year Balance per Commission</u>	<u>Commission Adjs for Incr (Decrease)</u>	<u>Balance per Commission</u>
Operating Revenues	\$108,628	\$494	\$109,122	\$3,812	\$112,934
		A		3.49% E	
<b><u>Operating Expenses:</u></b>					
Operation and Maintenance	91,094	(1,933)	89,161	0	89,161
Depreciation	6,689	(511)	6,178	0	6,178
Amortization	0	0	0	0	0
Taxes Other Than Income	14,331	(1,509)	12,822	172	12,993
Income Taxes	<u>0</u>	<u>0</u>	0	<u>0</u>	<u>0</u>
		B			
		C			
		D		F	
<b>Total Operating Expenses</b>	<b><u>\$112,114</u></b>	<b><u>(\$3,953)</u></b>	<b><u>\$108,161</u></b>	<b><u>\$172</u></b>	<b><u>\$108,332</u></b>
Operating Income (Loss)	(\$3,486)	\$4,447	\$961	\$3,640	\$4,601
RATE BASE	\$292,943		\$51,128		\$51,128
RATE OF RETURN	-1.19%		1.88%		9.00%

**HIGHLANDS RIDGE ASSOCIATES, INC.**  
**DOCKET NO. 981147-WS**  
**TEST YEAR ENDED DECEMBER 31, 2000**  
**SCHEDULE OF OPERATING INCOME**  
**ADJUSTMENTS**

Schedule No. 3-C

Page 1 of 2

<u>Description</u>	<u>Water</u>	<u>Wastewater</u>
<b>A. Operating Revenues</b>		
1. Adjustment necessary to reconcile 2000 revenues to comprehensive billing analysis	\$296	\$494
<b>B. Operation and Maintenance Expense</b>		
1. To remove 2000 salaries - employees expense as recorded in the Annual Report	(\$22,611)	(\$21,989)
2. To reflect Commission approved salaries - employees expense	43,320	39,145
3. To remove 2000 salaries - officers expense as recorded in the Annual Report	(3,281)	(3,281)
4. To reflect Commission approved salaries - officers expense	3,894	3,894
5. To remove pensions & benefits expense as recorded in the Annual Report	(61)	(67)
6. To reflect Commission approved pensions & benefits expense	2,969	2,892
7. To reflect additional purchased power expense	10	394
8. Remove unsupported expense fuel for power production expense	(611)	
9. Adjustments to reflect Commission approved chemicals expense balance	77	(129)
10. To reflect water meters in inventory plus additional materials and supplies expense	4,108	2,355
11. To remove unsupported contractual professional expense	(29,862)	(30,222)
12. To reflect Commission approved contractual professional expense balance	3,984	4,404
13. Adjustments to reflect Commission approved contractual testing expense balance	(2,070)	486
14. Adjustments to reflect Commission approved contractual other expense balance	(709)	1,090
15. To reflect allocation for rents expense	3,000	3,000
16. To reflect allocation for transportation expense	412	412
17. To reflect Commission approved regulatory commission expense balance	1,225	1,225

**HIGHLANDS RIDGE ASSOCIATES, INC.**  
**DOCKET NO. 981147-WS**  
**TEST YEAR ENDED DECEMBER 31, 2000**  
**SCHEDULE OF OPERATING INCOME**  
**ADJUSTMENTS**

Schedule No. 3-C

Page 2 of 2

<u>Description</u>	<u>Water</u>	<u>Wastewater</u>
18. To include a proforma allowance for a water conservation program requested by the SWFWMD	11,000	
19. To remove unsupported miscellaneous expense	(12,194)	(5,842)
20. To reflect Commission approved miscellaneous expense	<u>637</u>	<u>300</u>
	\$3,236	(\$1,933)
<b>C. Depreciation Expense</b>		
1. Adjustment to reflect Commission approved depreciation expense including amortization of CIAC excluding NUUP	\$707	\$1,548
2. To reduce depreciation expense associated with NUUP	<u>(136)</u>	<u>(2,059)</u>
	\$571	(\$511)
<b>D. Taxes Other Than Income</b>		
1. Adjustment necessary to arrive at Commission approved balance	(\$691)	(\$1,509)
<b>E. Operating Revenues</b>		
1. To reflect Commission approved decrease in revenues	<u>(\$4,619)</u>	<u>\$3,812</u>
<b>F. Taxes Other Than Income</b>		
1. To reflect the reduction in regulatory assessment fees associated with Commission approved revenue decrease	<u>(\$208)</u>	<u>\$172</u>

**HIGHLANDS RIDGE ASSOCIATES, INC.**  
**DOCKET NO. 981147-WS**  
**INVESTIGATION INTO POTENTIAL OVERTURNINGS**  
**TEST YEAR ENDED DECEMBER 31, 2000**

Schedule No. 3-D

<b>WATER SYSTEM</b>
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<u>Acct.</u> <u>No.</u>	<u>Title</u>	<u>Balance</u> <u>per Books</u>	<u>Commission</u> <u>Approved</u> <u>Adjustments</u>	<u>Commission</u> <u>Approved</u> <u>Balance</u>
601	Salaries and Wages - Employees	\$22,611	\$20,709	\$43,320
603	Salaries and Wages - Officers	3,281	613	3,894
604	Employee Pensions and Benefits	61	2,908	2,969
610	Purchased Water	0	0	0
615	Purchased Power	5,585	10	5,595
616	Fuel for Power Production	611	(611)	0
618	Chemicals	2,699	77	2,776
620	Materials and Supplies	0	4,108	4,108
630	Contractual Services - Billing	0	0	0
631	Contractual Services - Professional	29,862	(25,878)	3,984
635	Contractual Services - Testing	3,030	(2,070)	960
636	Contractual Services - Other	4,909	(709)	4,200
640	Rents	0	3,000	3,000
650	Transportation Expenses	0	412	412
655	Insurance Expenses	1,022	0	1,022
665	Regulatory Commission Expenses	0	1,225	1,225
668	Water Resource Conservation	0	11,000	11,000
670	Bad Debt Expenses	0	0	0
675	Miscellaneous Expenses	12,194	(11,557)	637
	<b>TOTAL</b>	<b>\$85,865</b>	<b>\$3,237</b>	<b>\$89,102</b>

**HIGHLANDS RIDGE ASSOCIATES, INC.**  
**DOCKET NO. 981147-WS**  
**INVESTIGATION INTO POTENTIAL OVEREARNINGS**  
**TEST YEAR ENDED DECEMBER 31, 2000**

Schedule No. 3-E

**WASTEWATER SYSTEM**

<u>Acct. No.</u>	<u>Title</u>	<u>Balance per Books</u>	<u>Commission Approved Adjustments</u>	<u>Commission Approved Balance</u>
701	Salaries and Wages - Employees	\$21,989	\$17,156	\$39,145
703	Salaries and Wages - Officers	3,281	613	3,894
704	Employee Pensions and Benefits	67	2,825	2,892
710	Purchased Water	0	0	0
711	Sludge Removal Expense	8,594	0	8,594
715	Purchased Power	6,586	394	6,980
716	Fuel for Power Production	0	0	0
718	Chemicals	4,755	(129)	4,626
720	Materials and Supplies	0	2,355	2,355
730	Contractual Services - Billing	0	0	0
731	Contractual Services - Professional	30,222	(25,818)	4,404
735	Contractual Services - Testing	3,827	486	4,313
736	Contractual Services - Other	4,910	1,090	6,000
740	Rents	0	3,000	3,000
750	Transportation Expenses	0	412	412
755	Insurance Expenses	1,021	0	1,021
765	Regulatory Commission Expenses	0	1,225	1,225
770	Bad Debt Expenses	0	0	0
775	Miscellaneous Expenses	<u>5,842</u>	<u>(5,542)</u>	<u>300</u>
	<b>TOTAL</b>	<b>\$91,094</b>	<b>(\$1,933)</b>	<b>\$89,161</b>