State of Florida

Public Service Commission

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COMMISSION CLERK
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DATE: MARCH 7, 2002

TO: DIRECTOR, DIVISION OF THE COMMISSION CLERK & ADMINISTRATIVE SERVICES (BAYÓ)

FROM: DIVISION OF ECONOMIC REGULATION (MERTA, FITCH, EDWARDS) SM RF
OFFICE OF THE GENERAL COUNSEL (JAEGER) JDJ

RE: DOCKET NO. 010919-SU - APPLICATION FOR STAFF-ASSISTED RATE CASE IN MARION COUNTY BY BFF CORP.
COUNTY: MARION

AGENDA: 03/19/02 - REGULAR AGENDA - PROPOSED AGENCY ACTION, EXCEPT FOR ISSUE 16 - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: 15-MONTH EFFECTIVE DATE: NOVEMBER 25, 2002 (SARC)

SPECIAL INSTRUCTIONS: NONE

FILE NAME AND LOCATION: S:\PSC\ECR\WP\010919.RCM

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Case Background

BFF Corp. (BFF or utility) is a class C wastewater utility serving 98 residential customers in Marion County. BFF's wastewater customers receive water service from Utilities, Inc.

Marion County came under the Commission's jurisdiction on May 5, 1981. By Order No. 11180, issued September 21, 1981, in Docket No. 810333-SU, the Commission granted the utility's Certificate No. 318-S under the name Panamint Corporation. On July 6, 1983, the Commission issued Order No. 12193, which approved the transfer of Certificate No. 318-S from Panamint Corporation to LTB Utility, Inc. By Order No. 22371, issued January 8, 1990, in Docket No. 890045-SU, the Commission approved the transfer of Certificate No. 318-S from LTB Utility, Inc. to BFF and amended the utility's certificate to include additional territory.

By Order No. PSC-98-0763-FOF-SU, issued June 3, 1998, in Docket No. 971182-SU, the Commission approved a year-end rate base as of October 31, 1997, to allow the utility the opportunity to earn a fair return on investments required by the Department of Environmental Protection (DEP) and set compensatory rates. The Commission also determined that the utility's quality of service was unsatisfactory since the utility was not in compliance with numerous DEP requirements and had been noncompliant over an eight-year period. In addition, the Commission determined that the utility's management had a history of poor performance dating back to 1988. Therefore, the Commission approved a reduction in the utility's return on equity by 100 basis points due to its poor quality of service and mismanagement.

In Order No. PSC-98-0763-FOF-SU, the Commission noted that according to DEP, BFF has shown a pattern of noncompliance over the past eight to ten years. This resulted in a Consent Final Judgment being entered on April 9, 1997, against the utility in the Circuit Court of the Fifth Judicial Circuit in Marion County, case number 97-1704-CA-A. The stipulated order required the utility to submit a plan concerning modification of its sprayfield and required the utility to complete the required improvements. Some of the DEP-required sprayfield improvements were included in rate base in the utility's last rate case. However, the utility's sprayfield continued to be noncompliant and DEP filed a Motion for Contempt on May 20, 1998. The Motion for Contempt was ultimately disposed of by a Stipulated Order Settling DEP's Motion for Contempt issued on

July 12, 1999. That Order required the utility to abandon the existing sprayfield and interconnect its wastewater system to Utilities, Inc. The interconnection was completed in April 2001.

By Order No. PSC-00-1507-PAA-SU, issued August 18, 2000, in Docket No. 000662-SU, the Commission denied the utility's request for a limited proceeding to allow the recovery of costs associated with DEP's required interconnection with Utilities, Inc. and restructuring of its wastewater rates because the scope of the case was too expansive for a limited proceeding.

On June 27, 2001, the utility filed an application for a staff assisted rate case (SARC) and paid the appropriate filing fee on that date. The Commission has the authority to consider this rate case under Section 367.0814, Florida Statutes. Rate base was last established for this utility in Order No. PSC-98-0763-FOF-SU, issued June 3, 1998, in Docket No. 971182-SU. BFF's request for increased rates is based on the cost associated with the interconnection with Utilities, Inc. and the loss associated with the retirement of the sprayfield and its plant.

Staff has audited the utility's records for compliance with the Commission rules and Orders and determined the components necessary for rate setting. The staff engineer also conducted a field investigation of the utility's plant and service area. A review of the utility's operation expenses, maps, files, and rate application was also performed to obtain information about the physical plant operating cost. Staff has selected a projected test year ending August 31, 2002, for this rate case.

Staff conducted a customer meeting on January 24, 2002, in the Marion County Civic Center. Thirteen customers, two representatives from the utility, and two representative from DEP attended the meeting. Seven customers chose to give comments. Each customer was asked if they preferred a flat rate structure or the current base facility gallonage charge rate structure. All customers who spoke preferred the current rate structure stating that by reducing gallons used they have some control over the rate they are charged. The majority of the customers had no complaints about quality of service which is addressed in Issue No. 1. A number of customers were concerned that the cost of the utility's failed attempt to comply with DEP standards was being passed on through rates. This concern will be addressed in Issue Nos. 4 and 6. Customers also commented that they had no other alternative for service and were "trapped" into accepting service by this utility. This issue will be addressed in Issue No. 6.

The following is a list of acronyms and commonly used technical terms which are used throughout the staff report:

COMPANY AND PARTY NAMES

DEP — Department of Environmental Protection

FPSC — Florida Public Service Commission

NARUC — National Association of Regulatory Utility Commissioners

OPC — Office of Public Counsel

GLOSSARY OF TECHNICAL TERMS

BFC — Base Facility Charge - A charge designed to recover the portion of the total expenses required to provide water and sewer service incurred whether or not the customer actually uses the services and regardless of how much is consumed.

CIAC — Contributions In Aid Of Construction - Any amount or item of money, services, or property received by a utility, from any person or governmental agency, any portion of which is provided at no cost to the utility, and which is utilized to offset the acquisition, improvement, or construction costs of the utility's property, facilities, or equipment used to provide utility services to the public. The term includes, but is not limited to, system capacity charges, main extension charges, and customer connection charges.

ERCs — Equivalent Residential Connections - A statistic used to quantify the total number of water or wastewater connections that can be served by a plant of some specific capacity. The consumption of each connection is considered to be that of a single family residential connection, which is usually considered to be a unit comprised of 3.5 persons.

gpd — Gallons Per Day - The amount of liquid that can be delivered or actually measured during a 24-hour period.

gpm	Gallons Per Minute - The amount of liquid that can be delivered or actually measured during a one-minute time period.
O&M	Operations and Maintenance Expense
RAF	Regulatory Assessment Fees
SARC	Staff Assisted Rate Case
UPIS	Utility Plant in Service - The land, facilities, and equipment used to generate, transmit, and/ or distribute utility service to customers.
Used and Useful	The amount of plant capacity that is used by current customers including an allowance for the margin reserve.
USOA	Uniform System of Accounts - A list of accounts for the purpose of classifying all plant and expenses associated with a utility's operations.

QUALITY OF SERVICE

ISSUE 1: Is the quality of service provided by BFF Corporation since the interconnection with Utilities, Inc. satisfactory?

RECOMMENDATION: Yes. The quality of service provided to its customers by BFF Corporation since the interconnection with Utilities, Inc. should be considered satisfactory. (EDWARDS)

STAFF ANALYSIS: Rule 25-30.433(1) Florida Administrative Code states:

> The Commission in every rate case shall make a determination of the quality of service provided by the utility. This shall be derived from an evaluation of three separate components of water and wastewater utility operations: quality of the utility's product (water or wastewater); operational conditions of the utility's plant and facilities; and the utility's attempt to address customer satisfaction. Sanitary surveys, outstanding citations, violations and consent orders on file with the Department of Environmental Protection (DEP) and the county health departments (HRS) or lack thereof over the preceding 3-year period shall also be considered. DEP and HRS officials' comments or testimony concerning quality of service as well as complaints or testimony of utility's customers shall be considered.

Staff's analysis below addresses each of the three components identified in the rule.

The utility's service area is located in Ocala, Florida. Wastewater treatment service is provided to the existing 98 customers by Utilities, Inc. wastewater treatment system via BFF's lift stations. BFF was ordered by the DEP to decommission its wastewater treatment plant and to interconnect with Utilities, Inc., a neighboring wastewater treatment system. Presently, BFF serves in the capacity of a consecutive system or a reseller of wastewater treatment services, which encompasses collection lines and several lift stations that interconnect with the Utilities, Inc. wastewater treatment system.

Quality of The Product

On August 27, 2001, the staff engineer conducted a field inspection of the facilities. The investigation revealed that BFF's wastewater treatment plant was decommissioned. The plant had been dismantled (the details were spelled out in the DEP procedure for abandonment for package treatment plant) and removed from the property, and the only remaining components are: a particle building structure and a force main. The building structure will be dismantled/removed from the property and the newly built force main will remain, for it was a requirement in the "Stipulated Order Settling DEP's Motion for Contempt." Because the plant no longer exists, quality of the product is not an issue.

Quality of Plant

The staff engineer's field inspection of the facilities also revealed that the dismantling of the plant removes this utility from most of the jurisdictional requirements of the DEP's rules and regulations. However, the wastewater collection system remains under DEP's jurisdictional review.

Wastewater Collection System: The wastewater collection system comprises: Collection mains and service lines consisting of PVC pipes, and four lift stations. During the engineering investigation, the collection system appeared to be operating properly.

Customer Satisfaction

On January 24, 2002, staff conducted a customer meeting, which was held in Ocala, Florida. There were 13 customers, 2 representatives from the utility, and 2 representatives from the DEP in attendance. The customers' concerns were basically focused on the newly proposed increased rates. After hearing the opinions and concerns expressed by the customers, staff concluded that the customers were unsatisfied with a possible rate increase, and that the wastewater service being provided to the customers is satisfactory.

Summary

Currently, a review of the wastewater system's evaluations for the past 3 years, which was provided by the DEP, indicates that the utility had a history of effluent disposal problems due to the inefficiency of the sprayfield. The inability of the sprayfield to process the effluent resulted in DEP ordering the utility to repair the sprayfield; however, the utility failed to comply with the original Consent Final Judgment, and the utility was ordered to dismantle the wastewater treatment plant. Currently, because no plant exists, compliance with jurisdictional requirements for the wastewater treatment plant by the DEP is no longer an issue. However, DEP does have jurisdiction over the wastewater collection system. In addition, DEP has developed Rule 62-604.500(2-3), Florida Administrative Code, to ensure that sewage collection systems produce no negative impacts to the environment or public health. A review of the wastewater collection system revealed that it appears to be functioning properly.

ISSUE 2: Should the Commission approve a projected test year for this utility?

RECOMMENDATION: Yes, the Commission should approve a projected test year for the utility. The historical test year is not representative of the change in revenues and expenses caused by BFF's interconnection with Utilities, Inc. which occurred at the end of the historical test year. Therefore, a projected test year ending August 31, 2002, should be approved. (MERTA, FITCH)

STAFF ANALYSIS: For audit purposes, staff selected a historical test year ending August 31, 2001. As discussed throughout staff's recommendation, BFF was required by DEP to abandon its wastewater treatment plant and interconnect with Utilities, Inc. This interconnection occurred in the last four months of the historical test year. The majority of the historical test year represents BFF's cost associated with operating a wastewater treatment plant. All of these costs must be adjusted to reflect the utility's operation as a wastewater reseller. Staff used the last four months of the year to annualize purchased wastewater and purchased power. Staff believes that expenses that will no longer exist, for example, chemicals, operator, and testing, must be eliminated. Staff also believes that it must reduce expenses that will still exist but to a lesser degree than before, for example, management fees, sludge removal, RAFs, and property taxes.

As discussed in a later issue, due to the unique circumstances of this case, staff annualized revenues to reflect customers who were added to the last four months of billing by the utility. This means that the purchased wastewater recorded by the utility includes use by these customers; therefore, staff must annualize revenues to match the purchased wastewater associated with those customer revenues.

Finally, staff must adjust rate base to remove the abandoned treatment plant, and calculate and amortize a loss on the early retirement.

Staff's recommended projected test year is consistent with Order No. 15725, issued February 21, 1986, in Docket No. 840315-WS, In re: Application of Martin Downs Utilities, Inc. For an increase in water and wastewater rates to its customers in Martin County, Florida, in which the Commission found the following:

> The test year is an analytical device used in rate making proceedings to compute current levels of investment and income in order to determine the amount of revenue that will be required to assure a company a fair return on its investment. Test year data must be adjusted to properly reflect conditions in the future period for which rates are being fixed.

Because of the above factors, staff believes that the historical test year is not representative of the change in revenues and expenses caused by BFF's interconnection with Utilities, Inc. Therefore, staff recommends that a projected test year ending August 31, 2002, be approved.

ISSUE 3: What percentage of the utility's force main and collection system are used and useful?

RECOMMENDATION: Staff recommends that 100% of the force main and 88% of the collection system be considered used and useful. (EDWARDS)

STAFF ANALYSIS: The utility records for the test year were utilized to calculate the used and useful percentage. Currently, the utility's and DEP's records indicate that the system is operating properly.

Force Main

The purchase and the installation of the force main were required by DEP, in the stipulation order settling DEP's motion for contempt, Case No. 97-1704-CA-A. Due to the fact that the force main was a DEP requirement, the force main is 100% used and useful, pursuant to Chapter 367.081(2)(a)2.c., Florida Statutes.

Wastewater Collection System

The utility's customer base is residential, and in this case lots are equal to equivalent residential customers (ERCs). This wastewater collection system has the potential to serve 111 ERCs/connections (one ERC = one connection) without the construction of additional collection mains or force mains. The average number of lots served during the test year was 98 lots and customer growth during the previous five years was calculated to be zero per year. In accordance with the formula method of calculating used and useful, staff calculates that the collection system should be considered 88% used and useful. This is calculated by taking the average test year number of lots plus the growth allowance then dividing that total by the estimated capacity in lots. The calculation is summarized in Attachment A.

Summary

Currently, based on the above and most recent data, staff recommends that the force main and the collection system should be considered 100% and 88%, respectively, used and useful.

ISSUE 4: Should the sprayfield improvement construction costs be considered prudent?

RECOMMENDATION: No, the sprayfield improvement construction costs should not be considered prudent, and should not be allowed. (EDWARDS, JAEGER)

STAFF ANALYSIS: Pursuant to Section 367.081(2)(a)2.c., Florida Statutes, this Commission shall:

> approve rates for service which allow a utility to recover from customers the full amount of environmental compliance costs. Such rates may not include charges for allowances for funds prudently invested or similar charges. For purposes of this requirement, the term "environmental compliance costs" includes all reasonable expenses and fair return on <u>any prudent investment incurred by a utility in complying with the requirements or conditions contained in any permitting, enforcement,</u> or similar decisions of the United States Environmental Protection Agency, the Department of Environmental Protection, a water management district, or any other governmental entity with similar regulatory jurisdiction. (Emphasis added)

According to DEP's Motion for Contempt, filed in circuit court, on May 20, 1998, the utility never complied with the specificity of the agreed upon Consent Final Judgment. In addition, documentation furnished to staff by DEP indicates that during the early 1990's this utility had shown a pattern of noncompliance over an approximate period of eight years, beginning in 1993. In addition, DEP documentation states that the utility had been notified numerous times before BFF initiated any action to correct the operation of its failing plant. The 1997 DEP document files revealed the following: BFF operated the utility under DEP permit number DO42-170444 and that the permit expired on October 15, 1994. Since the utility failed to submit a complete and timely application to renew its operating permit before the expiration date, the application was denied. In addition, BFF was operating the facility without a current and valid permit, in violation of Section 403.087(1) and 403.161(1)(b), Florida Statutes. The DEP inspector conducted site inspections, on May 15, August 23, and September 7, 1995, and March 6, 1996, which revealed that the plant's treated effluent was ponding on the facility's spray irrigation site which was discharging westerly off-site to the adjacent property into storm water ponds owned by Marion County, in violation of Rule 62-600.740(2)(a), Florida Administrative Code. Furthermore, the inspections revealed that the facility was experiencing plant upset conditions, in violation of Rule 62-600.740(2)(a), Florida Administrative Code. Several other violations were detailed in the inspectors evaluation of the facility which initiated a DEP letter of violation.

On April 9, 1997, in the Circuit Court of the Fifth Judicial Circuit in Marion County, Mr. David C. Schwartz and Mr. Frederick E. Landt, III, legal representatives for the DEP and BFF Corp., respectively, signed an agreement which would resolve the noncompliance problem. This agreement was in the form of a Consent Final Judgment which detailed the requirements of compliance for this utility.

The terms particularized in the mandates from the Circuit Court of the Fifth Judicial Circuit, case number 97-1704-CA-A, stipulated and agreed between the two parties (DEP and BFF) were as follows: DEP would issue BFF a permit, in accordance with Application No. 42-260692, for operation of the facility and construction of a surge tank, wet well, and to complete the improvements on the sprayfield. A 90-day time frame was required for the construction and installation of the surge tank and wet well. In addition, BFF was required to complete the sprayfield improvements, described in the April 15, 1996, Narrative, within 120 days of entry of the Consent Final Judgment.

BFF submitted to DEP, the engineering plans which were expected to correct the problem: a surge tank, wet well, and sprayfield improvements. The plans were reviewed and approved by DEP. Upon completion of the reconstruction project, DEP inspected the surge tank, wet well, and the sprayfield. Pursuant to DEP's documentation, the reconstruction of the sprayfield effluent disposal system was a complete failure since it did not meet the effluent disposal requirements of DEP and was not constructed according to plan, as discussed below.

On May 20, 1998, in the Circuit Court of the Fifth Judicial Circuit, DEP filed a Motion for Contempt because BFF failed to comply with the terms of the Consent Final Judgment, in the following areas:

1) Failed to enlarge the storage pond;
2) Failed to enlarge and properly regrade the sprayfield as stipulated in the Consent Final Judgment;
3) Failed to minimize to the greatest extent possible ponding on the sprayfield and prevent effluent from running off the sprayfield site onto adjacent properties;
4) Failed to properly backfill the sprayfield area as stipulated in the Consent Final Judgment;
5) Failed to comply with the application rates within any zone of operation as provided in the Consent Final Judgment;
6) Failed to construct the spray site area to prevent any runoff from entering the storage pond as required by the Consent Final Judgment;
7) Failed to finish the stormwater drainage construction as required by the Consent Final Judgment; and
8) Failed to remove the berms along the northern side that were located within that sprayfield site as required by the Consent Final Judgment.

As a result, BFF was required to make all corrective actions, which were set forth in the Stipulated Order Settling DEP's Motion for Contempt (Stipulated Order); this included the payment of fines, penalties, sanctions, or other relief deemed appropriate on account of the Company's disregard of the Court's original Consent Final Judgment. In addition, the utility was required to pay for litigation costs, including attorneys' fees for violations of the Consent Final Judgment, pursuant to Chapters 403, Florida Statutes.

The Stipulated Order was issued by the Circuit Court of the Fifth Judicial Circuit on July 12, 1999, and was agreed to by both BFF and DEP. The Stipulated Order contained the following provisions: the utility was ordered to decommission its wastewater treatment plant and the utility was required to submit a plan of abandonment for the existing sprayfield including disinfection and purging of the sprayfield distribution systems, removal of all spray heads, disconnection and capping all effluent supply lines. In addition, the utility was fined $29,000 in civil penalties plus $1,000 for costs and expenses, which was to be payed in five installments of $6,000.

Staff acknowledges that the reconstruction cost was in excess of $100,000, for the improvements to the plant. In addition, the improvements were undertaken by the utility in accordance with Order No. PSC-98-0763-FOF-SU, which required the utility to make all necessary changes required by DEP in the Consent Final Judgment; however, pursuant to DEP, the utility's corrective actions failed because the utility's efforts never met the specified requirements of the judgment.

Summary

All conclusions are based upon DEP's documentation. The sequences of events, BFF's inability to meet standards regarding the sprayfield effluent disposal problem, led DEP to order the utility to decommission the wastewater treatment plant and to interconnect with Utilities, Inc. wastewater treatment system.

The quintessence of this issue is prudence and compliance. The answer to the question of prudence is determined by addressing whether or not the utility made a wise decision regarding paying the vendors prior to the project performance being completed and inspected by the appropriate authority, in this case DEP. In addition, the question of compliance is addressed in DEP's documentation which indicates that the attempt to improve the sprayfield was a huge failure and amounted to contempt of the Consent Final Judgment. The DEP and the PSC staff consider the utility owner to be the responsible party for all of the utility's activities. Pursuant to DEP's appraisal of the situation, the contractor failed to follow the as-built plans and there was almost no chance whatsoever that the construction as executed would be successful.

Staff believes that after BFF had reviewed the inspection report from DEP which indicated that the construction project had failed (therefore, the utility failed to comply); the utility should have taken actions to either require the contractor to make all necessary corrections that would bring the sprayfield into compliance, as required by the Consent Final Judgment or to demand financial compensation from the contractor for its failed attempt to execute its part of the contract. The utility should have pursued every course of action to ensure that the burden of a failed reconstruction project cost would not be passed on to its 98 customers. Therefore, staff recommends that the sprayfield improvement construction costs be considered not a "prudent investment incurred by a utility in complying with the requirements" of DEP (see Section 367.081(2)(a)2.c., Florida Statutes), and that the utility not be allowed to recover these costs.

ISSUE 5: What is the appropriate treatment of the land associated with the wastewater treatment plant?

RECOMMENDATION: Land in the amount of $33,221 should be reclassified to Property Held for Future Use and recorded below-the-line. Because this land was included in rate base, the utility should report to this Commission any future sale, foreclosure, or any transaction involving transfer of ownership of the land and any proposed rate reduction resulting therefrom within 60 days of such occurrence. (MERTA, FITCH)

STAFF ANALYSIS: The utility recorded $34,800 in Land and Land Rights for the historical test year. The land consists of 5.51 acres; the cost per acre is $6,316. DEP required the utility to abandon its wastewater treatment plant and interconnect its wastewater system to Utilities, Inc. Therefore, only that portion of land associated with collection plant should remain in rate base. Staff engineer has determined that one quarter of an acre is used by BFF for its wastewater collection system. By Order Nos. PSC-97-1458-FOF-SU, issued November 19, 1997, in Docket No. 961475-SU and PSC-93-0295-FOF-SU issued February 24, 1993, in Docket No. 910637-WS, the Commission removed the land associated with abandoned wastewater treatment plant from rates. Consistent with those orders, staff has reclassified $33,221 ($6,316/4 - $34,800 = $33,221) from Land to Property Held for Future Use and recorded it below-the-line. Staff recommends a land value of $1,579 for rate setting purposes.

The final disposition of the land will likely result in a net gain since land appreciates in value. Because this land was included in rate base, the utility should report to this Commission any future sale, foreclosure, or any transaction involving transfer of ownership of the land and any proposed rate reduction resulting therefrom within 60 days of such occurrence. Rates should be adjusted to reflect the sale.

ISSUE 6: What is the appropriate amount of abandonment/early retirement loss associated with the utility's interconnection with BFF and how should this loss be recovered by the utility?

RECOMMENDATION: The appropriate amount of abandonment/early retirement loss associated with the utility's interconnection with BFF is $12,922. This loss should be recovered through rates over a five year period. If the Commission finds that the sprayfield improvements are prudent and complied with the requirements of the operating permit and enforcement actions of DEP, the appropriate amount of abandonment/early retirement loss is $133,107 and should be recovered through rates over a 20-year period. (MERTA, FITCH)

STAFF ANALYSIS: Staff has identified the components for an abandonment/early retirement loss calculation which include: the original cost of the assets retired, cost associated with removal, accumulated depreciation on the assets retired, CIAC associated with the assets retired, amortization of CIAC associated with the assets retired, and salvage value. This calculation is as follows:

Abandonment/Early Retirement Loss

Treatment Plant Retired	$91,247
Associated Accumulated Depreciation	($70,213)
Associated Net Non-Used and Useful Plant and Accumulated Depreciation	($2,314)
Associated CIAC	($13,994)
Associated Amortization of CIAC	$10,070
Cost of Removal	$1,126
Salvage Value	($3,000)
Net Loss	$12,922

The purpose of allowing a recovery of an abandonment/early retirement loss is to allow the utility to recover the cost of prudent investments of plant that would have otherwise been recovered through rate base. Had the utility not been required by DEP to interconnect with Utilities, Inc., then BFF would have recovered only the used and useful portion of the retired plant through rates. Staff has identified the above salvage value and removal cost associated with the retirement. Although staff believes that additional removal cost will be incurred, staff believes it is likely that the cost will be offset by salvage values. The loss calculated above does not include retirement of the land associated with the treatment plant. Staff is reclassifying the land as held for future use. The final disposition of the land will likely result in a net gain since land, unlike plant, appreciates in value. Staff is not in a position to estimate the potential gain; however, once the land is sold, the utility should notify the Commission and rates should be adjusted to reflect the sale.

Section 367.081(2)(a)2.c., Florida Statutes, specifies that the Commission shall approve rates for service which allow a utility to recover from customers the full amount of environmental compliance cost. The sprayfield improvements were meant to eliminate the overflow of treated wastewater into the county's storm drains and the land of adjacent homeowners. Since the utility's improvements did not result in the utility complying with DEP's environmental standards, staff believes that these costs should not be passed on to customers. Section 367.081, Florida Statutes, defines environmental compliance costs as:

> all reasonable expenses and fair return on any prudent investment incurred by a utility in complying with the requirements or conditions contained in any permitting, enforcement, or similar decisions of the United States Environmental Protection Agency, the Department of Environmental Protection, a water management district, or any other governmental entity with similar regulatory jurisdiction.

The utility's operating permit required the utility to make specific sprayfield improvements. These sprayfield improvements were a solution, presented to DEP by the utility, to attempt to meet the DEP standards for disposal of effluent. DEP accepted the improvements presented and included the specific improvements as a requirement in the utility's operating permit in order to assure the utility would complete the improvements. The Commission approved rates for this utility which included recovery of the sprayfield improvements required by DEP. According to a Motion for Contempt filed by DEP the utility did not make the improvements approved and outlined in the Consent Final Judgment and operating permit.

Because of the above circumstances, staff has recommended that these improvements were not prudent and did not comply with the requirements of the operating permit or DEP's enforcement action since the improvements failed to correct the effluent problem and were not completed in accordance with the Consent Final Judgment and operating permit as discussed in Issue No. 4. Therefore, staff has not included the loss associated with the sprayfield in the above calculation.

Rule 25-30.433(9), Florida Administrative Code, specifies that:

> The amortization period for forced abandonment or the prudent retirement, in accordance with the National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts, of plant assets prior to the end of their depreciable life shall be calculated by taking the ratio of the net loss (original cost less accumulated depreciation and contributions-in-aid-of-construction (CIAC) plus accumulated amortization of CIAC plus any costs incurred to remove the asset less any salvage value) to the sum of the annual depreciation expense, net of amortization of CIAC, plus an amount equal to the rate of return that would have been allowed on the net invested plant that would have been included in rate base before the abandonment or retirement. This formula shall be used unless the specific circumstances surrounding the abandonment or retirement demonstrate a more appropriate amortization period.

Using the above formula results in a loss recovery period of two years. This results in an annual loss of $6,461. This amount represents 10% of staff's adjusted revenue requirement before allowance for the loss or approximately $5 per customer per month. This is a material increase caused by the utility's failure to meet DEP requirements. Staff believes that the specific circumstances surrounding the abandonment/retirement demonstrate that a more appropriate amortization period be used as discussed below.

Staff believes, in this case, that the customers should not be burdened with the accelerated recovery of this loss. Because the utility did not construct the improvements in the manner prescribed in the Consent Final Judgment, staff believes that the risk that the plant constructed would not satisfy DEP requirements should be borne by the utility. Further, amortizing a loss of this magnitude over a period of two years would most likely result in the utility experiencing substantial overearnings at the end of the two-year period. Staff believes that because of the magnitude of the loss and the circumstances leading up to the retirement, another amortization period would be appropriate.

Staff recommends that the recovery period for the $12,922 should be equal to the weighted average remaining life of the utility assets being retired (5 years). Amortizing the loss over five years would result in an annual loss of $2,584, approximately 40% of the loss that would be recognized using the formula in Rule 25-30.433(9), Florida Administrative Code. Staff also believes that this amortization period is fair to the utility because the utility would be recovering its investment over the same period of time it would have if the utility had not been forced to interconnect with Utilities, Inc.

Therefore, staff believes the loss should be recovered over a five-year period, the weighted average remaining life of the assets retired. All the figures in staff's recommendation reflect staff's position that the sprayfield improvements were not prudent and did not comply with the requirements of the operating permit and therefore, should not be passed on to customers.

Sprayfield Improvements Included in Loss - If the Commission disagrees with staff concerning the treatment of the sprayfield and the sprayfield improvements are found to be prudent and compliant with the utility's operating permit in Issue No. 4, and the Commission determines that the loss associated with the retirement of the sprayfield improvements should be passed on to customers, staff recommends the net early retirement/abandonment loss including the sprayfield should be $133,107. The sprayfield improvements retired were added in the two to three-year period prior to the historical test year. This means that virtually all of the cost of the sprayfield improvements would be included in the loss calculation since the plant has only two years of accumulated depreciation.

Using the formula described in Rule 25-30.433(9), Florida Administrative Code, results in an amortization period of 5 years or an annual loss amortization of $26,621. This annual loss represents an increase of approximately 40% of staff's adjusted revenue requirement before allowance for the loss. This is a substantial increase caused by the utility's failure to meet DEP requirements. As stated above, staff believes that the specific circumstances surrounding the abandonment/retirement demonstrate that a longer amortization period is warranted.

If the Commission does decide that the customers should pay for this loss, staff believes, in this case, that the customers should not be burdened with the accelerated recovery of this loss. Staff believes that the risk that the plant constructed would not satisfy DEP requirements should be borne by the utility. Staff believes that because of the magnitude of the loss and the circumstances leading up to the retirement, another amortization period would be appropriate.

Staff recommends that the recovery period should be twenty years. Amortizing the loss over twenty years would result in an annual loss of $6,655, a quarter of the loss that would be recognized using the formula in Rule 25-30.433(9), Florida Administrative Code. At the customer meeting, many customers commented that they were "trapped" by this utility because BFF was their only choice for wastewater service. The Commission's Statement of Agency Organization & Operations states that it is a goal of the Commission to encourage competitive markets. Staff believes that in a competitive market this utility would not be able to pass on the loss to customers over a period of less than twenty years without significant loss of customers and possible bankruptcy. Further, this utility has not been in compliance with DEP for approximately ten years, and this noncompliance has led directly to this issue. Therefore, staff believes that the recovery period of the loss should not be less than the weighted average remaining life of the plant retired (10 years) plus the length of time the utility has not been in compliance with DEP standards, i.e. a total of twenty years.

Therefore, if the Commission finds that the sprayfield improvements were prudent and complied with the requirements of the operating permit and DEP's enforcement action, staff recommends that the appropriate amount of abandonment/early retirement loss is $133,107 and this loss should be recovered through rates over a 20-year period. Staff's recommended rate base, revenue requirement, and rates do not reflect the sprayfield improvements being considered a prudent investment incurred by the utility in complying with the requirements of DEP.

ISSUE 7: What is the appropriate projected test year rate base for the utility?

RECOMMENDATION: The appropriate projected test year rate base for the utility is $150,636. (MERTA, FITCH)

STAFF ANALYSIS: The utility's rate base was last established in Order No. PSC-98-0763-FOF-SU, issued June 3, 1998, in Docket No. 971182-SU. Staff has selected a projected test year ended August 31, 2002 for this rate case. Rate base components, established in Order No. PSC-98-0763-FOF-SU, have been updated through August 31, 2002, using information obtained from staff's audit and engineering reports. A discussion of each rate base component follows:

Utility Plant in Service (UPIS): The utility recorded UPIS of $493,771 for the test year ended August 31, 2001.

Per Audit Exception No. 2, the utility inaccurately adjusted its rate base to the previous Commission Order. Therefore, staff has decreased UPIS by $17,219 (Account No. 362 by $4,200 and Account No. 380 by $13,019) to reflect the Commission approved UPIS for the year ended October 31, 1997.

BFF sold its surge tank, which was part of retired plant, when the utility interconnected with Utilities, Inc. Per Audit Exception No. 6., the utility incorrectly credited plant for the $3,000 salvage value of the tank. Therefore, staff has increased Account 380 by $3,000 to reverse BFF's posting of the transaction. The salvage value is included in staff's calculation of the loss on early retirement.

Per Audit Exception No. 8, BFF included costs applicable to engineering and surveying services related to the force main project of interconnecting with Utilities, Inc.'s system in expenses. These costs should be capitalized. Therefore, staff has increased Account 360 by $9,372 to reclassify the costs from Account 731, Contractual Services - Professional.

In addition, per Audit Exception No. 9, BFF included capital expenditures of $677 for engineering services applicable to a force main construction project in Account 735, Contractual Services - Other. These costs should be capitalized. Therefore, staff has increased Account 360 by $677 to reclassify the costs from expenses.

Further, per Audit Exception No. 10, BFF recorded various charges for services applicable to a force main construction project in Account 775, Miscellaneous Expenses. These costs should be capitalized. Therefore, staff has increased Account 360 by $250, Account No. 362 by $250, and Account No. 365 by $383, for a total increase to plant of $883 to reclassify the costs from expenses.

As discussed in the case background, BFF was required by DEP to abandon its treatment plant and interconnect its wastewater system to Utilities, Inc. As a result, the utility's wastewater treatment plant was retired. Accordingly, staff has reduced Account No. 354, Structures and Improvements, by $17,415, Account No. 380, Treatment and Disposal Equipment, by $73,832, and Account 380, Sprayfield, by $168,431 for a total reduction to plant of $259,678.

Staff's net adjustment to UPIS is a decrease of $262,965. Staff recommends UPIS of $230,806.

Land and Land Rights: The utility recorded $34,800 in land. This account has been reduced by $33,221 to reflect plant held for future use, as previously addressed. Staff recommends $1,579 for this account.

Non-used and Useful Plant: The staff engineer has determined the used and useful percentages for the utility's plant accounts. The force main is 100% used and useful, and the wastewater collection system is 88% used and useful. The calculation of the wastewater collection system used-and-useful percentage is set forth in Attachment A on page 53. Applying the non-used and useful percentages to the wastewater system results in non-used and useful plant of $14,168. The non-used and useful accumulated depreciation is $4,769. This results in net non-used and useful UPIS of $9,399.

Contribution in Aid of Construction (CIAC): The utility recorded CIAC of $42,916 for the test year ended August 31, 2001.

BFF's wastewater tariff provides a system capacity charge of $1,620 per customer connection. Per Audit Exception No. 4, four additional customers were connected to the wastewater system in 2001. The utility did not record the system capacity charge for the additional customers. Therefore, staff has increased this account by $6,480 to reflect the unrecorded fees.

The utility collected CIAC related to the wastewater treatment facilities now being retired. Therefore, staff has reduced CIAC by $13,994 to retire the pro rata share of CIAC associated with those facilities. Staff has calculated CIAC to be $35,402.

<u>Accumulated Depreciation</u>: The utility recorded a balance for accumulated depreciation of $159,794 on August 31, 2001. Staff has calculated accumulated depreciation using the prescribed rates in Rule 25-30.140, Florida Administrative Code. Staff's calculated accumulated depreciation at August 31, 2001, is $154,630. Therefore, staff has decreased this account by $5,164 to reflect depreciation calculated per staff. In addition, staff has decreased this account by $108,357 to remove accumulated depreciation on the retirement of treatment plant. Further, staff has increased this account by $7,426 to reflect one year of depreciation for the projected test year. Finally, staff has decreased this account by $3,713 to reflect an averaging adjustment.

These adjustments result in accumulated depreciation of $49,986.

<u>Amortization of CIAC</u>: Based on the utility's records on August 31, 2001, the utility recorded amortization of CIAC of $16,317. Amortization of CIAC has been recalculated by staff using composite depreciation rates.

This account has been increased by $1,528 to reflect year-end amortization of $17,845 as calculated by staff. Staff has decreased this account by $569 to reflect an averaging adjustment.

Staff removed CIAC related to the wastewater treatment facilities now being retired. Therefore, staff has also reduced amortization of CIAC by $10,070 to retire the pro rata share of CIAC amortization associated with those facilities.

Staff's net adjustments to this account results in amortization of CIAC of $7,206.

<u>Working Capital Allowance</u>: Working Capital is defined as the investor-supplied funds necessary to meet operating expenses or going-concern requirements of the utility. Consistent with Rule 25-30.433(2), Florida Administrative Code, staff recommends that the one-eighth of the O&M expense formula approach be used for

calculating working capital allowance. Applying that formula, staff recommends a working capital allowance of $5,832 (based on O&M of $46,658). The utility did not record a working capital allowance. Working capital has been increased by $5,832 to reflect one-eighth of staff's recommended O&M expenses.

Rate Base Summary: Based on the foregoing, staff recommends that the appropriate projected test year rate base is $150,636.

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

ISSUE 8: Should the Commission continue the penalty approved in Order No. PSC-98-0763-FOF-SU, by reducing BFF's return on equity by 100 basis points for mismanagement and unsatisfactory quality of service prior to the mandated interconnection?

RECOMMENDATION: Yes, the Commission should continue the penalty approved in Order No. PSC-98-0763-FOF-SU, by reducing BFF's return on equity by 100 basis points for mismanagement and unsatisfactory quality of service prior to the DEP mandated interconnection. (MERTA, FITCH, JAEGER)

STAFF ANALYSIS: Pursuant to Section 367.111, Florida Statutes, the Commission has the authority to reduce a utility's return on equity if it finds that the utility has failed to provide its customers with water and wastewater service that meets the standards promulgated by DEP. Moreover, the Commission has the authority to reduce a utility's return on equity for mismanagement. However, the reduction must fall within the reasonable range of return on equity. Gulf Power v. Wilson, 597 So. 2d 270 (Fla. 1992).

As discussed previously, the utility failed to provide its customers with wastewater service that complies with the standards set forth by DEP prior to the mandated interconnection. Further, regarding the issue of mismanagement, the Commission found in the utility's last rate case that BFF's management was extremely slow in complying with DEP standards. The Commission also found that BFF's management had a history of poor performance dating back to 1988. Although the utility attempted to comply with DEP standards, as discussed above, they did not comply and as a result were forced to interconnect with Utilities, Inc. The actions of BFF, DEP, and the Circuit Court of the Fifth Judicial Circuit are discussed in detail in Issue No. 4. The required interconnection was the final step resulting from years of BFF's noncompliance with DEP standards. It should be noted that noncompliance and mismanagement continued in spite of the penalty approved in the last rate case.

Based on the foregoing, the Commission should continue the penalty approved in Order No. PSC-98-0763-FOF-SU, by reducing BFF's return on equity by 100 basis points for the prior continued unsatisfactory quality of service and mismanagement. This reduction falls within the reasonable range of return of equity and is therefore consistent with Gulf. This recommendation is also consistent with past Commission decisions in this regard. See

Orders Nos. 14931, 17760, and 24643, issued September 11, 1985, June 29, 1987, and June 10, 1991, respectively.

COST OF CAPITAL

ISSUE 9: 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 10.34% with a range of 10.34% - 12.34%. The appropriate overall rate of return for the utility is 9.27% (MERTA, FITCH)

STAFF ANALYSIS: The utility recorded the following items in capital structure: common stock of $1,000, negative retained earnings of $161,649, other paid in capital of $202,281, other common equity of negative $2,500, long term debt of $196,943, and customer deposits of $780 for a total capital of $236,855.

A review of the utility's trial balance for the historical test year revealed that $115,640 of plant improvements were funded by M.I.R.A. International, Inc. (M.I.R.A.), a related company. This amount consists of accounts payable of $61,221 for 1995-1999, $14,520 for 2000, a loan advance of $19,899 for 1998 and a loan advance for 2001 of $20,000. There is no debt instrument associated with this debt; however, the utility pays M.I.R.A. a 9% interest rate. Staff believes that these accounts payable should be recognized as long term debt and has increased long term debt by $115,640. Since the cost rate of the Wachovia Bank loan is 9.25%, the 9.00% cost of this debt benefits the rate payer by lowering the overall cost of capital. In addition, staff has included in long term debt a $12,000 loan from B.J. Roaderick. This loan was obtained in 1997 to finance plant replacements and bears a 9% interest rate.

Using the leverage formula approved by Order No. PSC-01-2514-FOF-WS, issued December 24, 2001, in Docket No. 010006-WS, the appropriate rate of return on equity for a capital structure with an equity ratio of less than 40% is a maximum of 11.34%. Because the Capital Structure is 10.74% equity, the rate of return on equity is 11.34%. Staff has reduced return on equity by 100 basis points due to mismanagement and unsatisfactory quality of service as discussed in the previous issue. Therefore, staff's adjusted return on equity is 10.34% which is the lower end of the range.

The utility's capital structure has been reconciled with staff's recommended rate base. Staff's recommended return on equity is 10.34% with a range of 10.34% - 12.34% and an overall rate of return of 9.27%.

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

NET OPERATING INCOME

ISSUE 10: What is the appropriate projected test year revenue?

RECOMMENDATION: The appropriate projected test year revenue for this utility is $64,120 for wastewater. (MERTA, FITCH)

STAFF ANALYSIS: The utility booked revenues during the historical test year of $50,946 for wastewater. Audit Exception No. 7 specifies that the utility recorded $8,289 for purchased wastewater and $2,646 for RAFs in a contra revenue account (a reduction of revenue). These items should be recorded in the appropriate expense accounts. Therefore, staff has reclassified $8,289 to account No. 710 (purchased wastewater treatment) and $2,646 to taxes other than income from this account. Because these amounts were recorded as a decrease of revenue, reclassifying these expenses results in an increase in revenues.

Staff has re-calculated revenues using rates at historical test year end times the number of bills and consumption provided in the billing analysis. Revenues have been increased by $198 to reflect staff calculated revenues from rates of $62,079.

The utility added four customers at the end of the historical test year. These customers existed during the historical test year; however, the utility was not allowed to serve these customers until BFF interconnected to Utilities, Inc. Staff is recommending in a prior issue that a projected test year be approved. Therefore, staff has increased this account by $1,792 to reflect projected revenues based on the number of customers at year end times the BFC plus average use for those customers times the gallonage charge.

Staff has also increased this account by $249 to reflect other revenues not recorded by the utility. Staff recommends projected test year revenues of $64,120.

Projected test year revenue is shown on Schedule No. 3-A. The related adjustments are shown on Schedule No. 3-B.

ISSUE 11: What is the appropriate amount of operating expense?

RECOMMENDATION: The appropriate amount of operating expense for this utility is $57,118. (MERTA, FITCH)

STAFF ANALYSIS: The utility recorded operating expenses of $59,679 during the test year ending August 31, 2001. The majority of these expenses were incurred before BFF's interconnection with Utilities, Inc. Staff has made adjustments to operating expenses to reflect operating expenses for a wastewater resale company on a going forward basis.

Staff spoke with the utility before the customer meeting about staff's preliminary analysis of operating expenses, specifically contractual management. The utility was asked to submit a list of duties and costs associated with the contractual management services. The utility submitted the requested information on January 3, 2002, along with a previously unrequested allowance for owner's salary.

The utility provided the auditor with access to all books and records, invoices, canceled checks, and other utility records to verify its O&M and taxes other than income expense for the historical test year ending August 31, 2001. Staff has determined the appropriate operating expenses for the projected test year ending August 31, 2002, and a breakdown of expenses by account class using the documents provided by the utility. Adjustments have been made to reflect the appropriate annual operating expenses that are required for utility operations on a going forward basis.

Operations and Maintenance Expenses (O&M)

Salaries and Wages-Officer - (703) - The utility did not record an amount in this account during the historical test year. The utility requested $6,800 annually for an officer's salary. This request was based on the owner's travel time from Miami to Ocala at an estimated 40 hours a year plus $800 annually for travel, meals, and lodging and 20 hours a year for a review of the books and records. The hourly rate requested was $100 per hour.

Staff does not believe the customers of the utility should be responsible for the owner's travel time to and from work. The Commission in the past has allowed transportation expense; however, this expense was for travel through the service area and to and from meetings with regulatory agencies and to utility related seminars. Therefore, staff believes the requested travel expenses for the owner of $4,800 should be disallowed.

Further, staff believes the requested rate of $100 an hour is excessive. The Commission has allowed as high as $30 an hour for officer's salary in a SARC in Order No. PSC-99-2116-PAA-SU, issued October 25, 1999, in Docket No. 980778-SU, however, this allowance was for an owner who spent 11 hours a week on utility business. Staff considers the owner of this utility to be an absentee owner, that is, the owner is not involved in the day-to-day operations of the utility. The utility asserts that the owner spends 20 hours a year (excluding travel time) on utility business or approximately 20 minutes a week. Staff believes that merely reviewing the books and records of the utility does not require a salary, in fact, staff views an absentee owner as only a holder of common stock. Staff believes that the appropriate compensation for an absentee owner is the return on the owner's investment.

The utility is now a reseller of wastewater and is virtually built out. This reduces the oversight and decision making of the owner. Further, the Commission did not allow an officer's salary in the utility's last rate case. For the foregoing reasons, staff recommends that the utility's request for an officer's salary be denied.

Purchased Wastewater Treatment -(704) - The utility did not record a dollar amount in this account during the historical test year. Staff has increased this account by $8,289 to reclassify purchased wastewater treatment cost from the utility's contra revenue account.

BFF was required to interconnect with Utilities, Inc.'s wastewater collection system and pay a bulk wastewater charge. Although the historical test year included only four months of bulk rate wastewater bills, staff was able to obtain additional bills after the historical test year to better project annual purchased wastewater treatment expense. Staff has annualized these bills and projects annual purchased wastewater treatment expense to be $34,812. Therefore, staff has increased this account by $26,523 to reflect annual purchased wastewater treatment expense.

Sludge Removal Expense-(711) - The utility recorded $4,232 in this account during the historical test year. The utility no longer has a wastewater treatment plant; therefore, the only sludge removal required would be at the lift stations. Staff engineer has determined that $1,000 annually is adequate to remove sludge from the lift stations. Therefore, staff has decreased this account by $3,232 to reflect annual sludge removal expense for the lift station.

Purchased Power-(715) - The utility recorded $3,107 in this account during the historical test year. As discussed above, the utility no longer operates a treatment plant; however, the utility still maintains lift stations. Staff was able to obtain documentation of the electric expense associated with the lift stations of $1,617 annually. Therefore, staff has decreased this account by $1,490 to reflect purchased power expense associated with the lift stations.

Contractual Services-Professional-(731) - The utility recorded $11,524 in this account during the historical test year. Staff has reclassified $9,372 from this account to Account No. 360 for engineering fees associated with plant additions that should have been capitalized. Staff has also reduced this account by $1,181 to remove legal fees associated with fines imposed by DEP. Staff believes that the legal fees incurred were not prudent because they were caused by the utility's continued noncompliance with DEP's rules over a ten-year period as discussed in Issue Nos. 4, 6, and 8.

Contractual Services Other-(736) - The utility recorded $14,641 in this account during the historical test year. Staff has reclassified $677 from this account to Account No. 360 for engineering fees associated with plant additions that should have been capitalized. Because the utility no longer has a wastewater treatment plant, staff has reduced this account by $3,164 to remove the cost of the plant operator.

The Commission approved an annual management fee of $8,400 in the utility's last rate case. The utility recorded a management fee of $10,800. Staff has decreased this account by $2,400 to reflect the management fee approved in the last rate case. The duties described in the management contract included meeting with regulatory agencies, preparing reports for regulatory agencies, assisting the plant operator with repairs and testing, and general accounting functions. Staff believes that the majority of these duties no longer exist since the interconnection.

Staff requested that the utility provide a list of the duties that would still be required and the cost of those duties. The utility provided a request for an officer's salary as discussed above and the following contractual management salary.

Description	Requested	Staff Recommended
Maintenance	$10,710	$4,550
Billing/ Meter Reading	$3,486	$1,188
General Accounting	$630	$450
Annual PSC Reporting	$420	$150
Postage and supplies	$900	$0
CPA/ Tax Return	$900	$0
Total	$17,046	$6,338

The utility requested a management fee of $17,046. Although the management company's duties and responsibilities would decrease after the interconnection, the utility requested $7,000 more than it recorded during the historical test year and twice the amount allowed in the last rate case. Staff's recommended allowances were based on the following.

The utility requested $35 an hour for the management company's services. In Order No. PSC-00-2500-PAA-WS, issued December 26, 2000, in Docket No. 000327-WS, the Commission approved a $25 an hour fee for a contracted manager. Staff believes that the $25 an hour fee is appropriate (see also Order PSC-95-0142-FOF-WU, issued January 31, 1995, in Docket No. 940558-WU, for Floralino Properties, Inc.).

For maintenance, the utility requested one hour per day, five days a week, to check lift station operations and operating times. DEP does not have guidelines for checking lift station operations. Staff believes that checking the lift stations every other day is sufficient considering the small number of customers connected to the system and the seasonality of the customer base. The utility believes that checking the lift stations five days a week is sufficient; this means that the lift stations are not checked two days a week. Based on this, staff believes that, at a maximum, the utility should check the lift stations every other day. Therefore, staff has allowed three and one half hours per week at $25 an hour for checking the lift stations. The utility also requested 4 hours a month for mowing. Mowing expense was already recorded by the utility in the miscellaneous account and is further discussed in Account No. 775.

In the past, the Commission has determined the appropriate amount for billing/meter reading based on a per customer basis. In Order No. PSC-99-2116-PAA-SU, issued October 25, 1999, in Docket No. 980778-SU, the Commission approved $1.50 per bill for billing services and in Order No. PSC-00-1163-PAA-SU, issued June 26, 2000, in Docket No. 990937-SU, the Commission approved $0.85 per bill for billing services. The Commission approved billing services include postage and meter reading. The utility has requested 3 hours a week at $35 an hour to read 98 meters and 3.5 hours per month at $35 an hour for the billing function. Staff believes that $0.50 per meter is appropriate. Therefore staff recommends $588 ($0.50 x 98 customers x 12 months) for meter reading. Staff also believes that two hours a month at $25 an hour (or $50 a month) is appropriate for the billing function. Allowing $50 a month to account for billing results in approximately $0.51 per customer. When postage ($0.34) and the above recommended meter reading ($0.50) is added to the billing, the total billing cost is $1.35 per customer and is consistent with past Commission allowances. Therefore, staff has allowed $1,188 annually for billing/meter reading (2 hrs. a month x 12 months x $25 an hour + $588 for meter reading). Postage expense is included in the utility's materials and supplies account.

The utility requested general accounting expenses of $630. This amount was based on a $35 an hour rate. As discussed above, staff believes that $25 an hour is appropriate. The utility provided a detailed list of time allotted to different accounting functions totaling 2.5 hours a month. Of this amount one hour per month was allotted for annual PSC reporting. Staff believes that an hour per month is excessive for PSC reporting and that if the general accounting function is properly maintained, annual PSC reporting would be simplified. Since staff is allowing amounts for the general accounting function, staff believes that one half hour a month is reasonable. Therefore staff has allowed $150 (.5 hrs. x 12 months x $25 an hour) for annual PSC reporting and $450 (1.5 hrs. x 12 months x $25 an hour) for general accounting.

The utility requested $900 annually each for postage/supplies and CPA services. The utility recorded amounts for postage, supplies, and professional accounting services in the miscellaneous, materials and supplies, and the contractual services-professional accounts during the historical test year. Therefore, staff has not increased this account for those items since they are already included in the utility's historical test year figures.

Based on the above, staff has decreased the management fee of $8,400 previously approved by the Commission by $2,062 ($6,338 - $8,400) to reflect the change in management functions caused by the interconnection with Utilities, Inc.

Insurance Expense- (755) - The utility recorded $720 in this account during the historical test year. Staff has reduced this account by $480 to remove insurance associated with retired plant.

Regulatory Commission Expense-(765) - The utility recorded $200 for a SARC filing fee in this account for the historical test year. This expense has been decreased by $150 ($200/4 years - $200) to amortize rate case expense over four years. The utility is required by Rule 25-30.475(1)(a), Florida Administrative Code, to mail notices of any rate increase to its customers. Staff has increased this account by $23 to include notice expense amortized over four years ($92/4 years).

Miscellaneous Expense-(775) - The utility recorded $4,745 in this account for the historical test year. Staff has reclassified and capitalized $883 from this account to UPIS to reflect items that should have been capitalized. Staff has also removed $1,126 from this account for plant removal cost which should be included in the loss calculation.

Staff is also recommending that the utility's land be held for future use. Therefore, staff has decreased this account by $1,490 to remove the cost of mowing the portion of land no longer included in rate base. Staff recommends a net decrease to this account of $3,499. The total annual expense for this account is $1,246.

Operation and Maintenance Expense (O&M Summary) - The total O&M adjustment is an increase of $7,128. Staff's recommended O&M expense is $46,658. O&M expenses are shown on Schedules 3-C.

Depreciation Expense - The utility recorded depreciation expense net of CIAC amortization of $19,562 ($21,139 Depreciation Expense and $1,577 Amortization of CIAC) during the historical test year. Depreciation expense has been calculated by staff using the prescribed rates in Rule 25-30.140, Florida Administrative Code. Staff has decreased depreciation expense by $13,774 to reflect staff's calculated depreciation of $7,365. Staff has decreased this account by $394 to reflect non-used and useful depreciation. Staff has calculated amortization of CIAC based on composite rates. Staff's calculated amortization of CIAC is $1,130. Therefore, staff has increased this account by $447 to reflect staff calculated amortization of CIAC. Non-used and useful depreciation and amortization of CIAC has a negative impact on depreciation expense. Net depreciation expense is $5,841.

Abandonment/Early Retirement Loss - As previously discussed, staff has determined the amount of the abandonment/early retirement loss to be $12,922. Staff also recommended in Issue No. 6 to amortize the loss over five years. Therefore, staff has increased this account by $2,584 ($12,922 ÷ 5 years) to reflect the annual amortization of the abandonment/early retirement loss.

Taxes Other Than Income - The utility recorded taxes other than income of $587 during the historical test year. Staff has increased this account by $2,646 to reclassify RAFs from the utility's contra revenue account. Staff has also increased this account by $239 to reflect RAFs on projected test year revenues.

Pursuant to Section 367.145(1)(a), Florida Statutes, any utility that purchases wastewater treatment from another utility regulated by the FPSC is allowed to deduct the annual expense for purchased wastewater treatment from its gross operating revenues before calculating the amount of the RAFs due. Utilities, Inc. provides the purchased wastewater treatment to BFF and is regulated by the FPSC. Therefore, staff has decreased this account by $1,567 to remove RAFs associated with projected purchased wastewater treatment. Staff has decreased this account by $183 to remove property taxes associated with the abandonment/early retirement loss and the land held for future use.

The total adjustment to this account is an increase of $1,135.

Income Taxes - BFF is a Subchapter S Corporation; therefore, pursuant to Rule 25-30.433(7), Florida Administrative Code, the utility has no income tax liability.

Operating Revenues - Revenues have been increased by $6,962 to reflect the change in revenue required to cover expenses and allow the recommended return on investment.

Taxes Other Than Income - This expense has been increased by $313 to reflect regulatory assessment fees of 4.5% on the change in revenues.

Operating Expenses Summary - The application of staff's recommended adjustments to the audited historical test year operating expenses results in staff's calculated operating expenses of $57,118.

Operating expenses are shown on Schedule No. 3-A. The related adjustments are shown on Schedule No. 3-B.

REVENUE REQUIREMENT

ISSUE 12: What is the appropriate revenue requirement?

RECOMMENDATION: The appropriate revenue requirement is $71,082 for wastewater. (MERTA, FITCH)

STAFF ANALYSIS: The utility should be allowed an annual increase of $6,962 (10.86%) for wastewater. This will allow the utility the opportunity to recover its expenses and earn a 9.27% return on its investment. The calculations are as follows:

	Wastewater
Adjusted Rate Base	$150,636
Rate of Return	x .0927
Return on Rate of Return	$13,964
Adjusted O & M expense	$46,658
Depreciation expense (Net)	$5,841
Amortization of Retirement Loss	$2,584
Taxes Other Than Income	$2,035
Income Taxes	$0
Revenue Requirement	$71,082
Adjusted Test Year Revenues	$64,120
Percent Increase/(Decrease)	10.86%

Revenue requirements are shown on Schedule No. 3-A.

ISSUE 13: What are the appropriate rates for the system?

RECOMMENDATION: The recommended rates should be designed to produce revenue of $70,833 excluding miscellaneous service charge revenue, as shown in the staff analysis. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), Florida Administrative Code. The rates should not be implemented until 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. (MERTA, FITCH)

STAFF ANALYSIS: During the historical test year the utility provided service to approximately 98 residential customers. As discussed previously, the appropriate revenue requirement is $71,082. However, for rate setting purposes, the revenue requirement is $70,833. The utility has other revenues of $249. Other revenues should be used to reduce the revenue requirement recovered through rates; therefore, staff has designed rates to produce the revenue requirement not covered by the other revenues.

Staff has calculated rates using projected test year number of bills and consumption. Staff's calculated rates for wastewater have been calculated based on 80% of the water used by residential customers and actual usage for the general service customers. Staff's calculated rates also include a 10,000 gallon gallonage cap for residential wastewater customers. The utility also has two residential customers on private wells and, therefore, no water meter readings are available. Staff has also designed a flat rate for customers who are not provided metered water service. This rate was calculated based on staff's recommended BFC plus the average residential capped usage times the residential gallonage rate.

In its filing the utility proposed a flat rate for residential service of $97.31 per month. It is unique for a utility to request residential rates in a SARC. However, staff believes it is important to compare the utility's requested rates and staff's recommended rates. Although the utility requested a residential flat rate, they also provided proposed residential base facility and gallonage charge rates. Schedules of the utility's current rates, proposed rates, and staff's recommended rates are as follows:

MONTHLY RATES - WASTEWATER

RESIDENTIAL

	Existing Rates	Utility's Requested Rates	Staff's Recommended Rates
Flat Rate			
Unmetered Customers Only	N/A	$97.31	$60.23
Base Facility Charge			
Meter Size:			
All Meter Sizes	$26.92	$47.02	$29.63
Gallonage Charge:			
Per 1,000 Gallons (10,000 gallon Cap)	$5.85	$12.27	$6.40

MONTHLY RATES - WASTEWATER

GENERAL SERVICE

	Existing Rates	Staff's Recommended Rates
Base Facility Charge		
Meter Sizes		
5/8" x 3/4"	$19.63	$29.63
3/4"	$29.64	$44.44
1"	$49.40	$74.06
1 ½"	$98.81	$148.13
2"	$158.09	$237.01
3"	$316.16	$474.01
4"	$494.00	$740.64
6"	$988.00	$1,481.29
Gallonage Charge		
Per 1,000 Gallons	$2.57	$7.68

Staff's recommended increase in revenue requirements is $6,962 or approximately 10.86%. The rates approved for the utility should be designed to produce revenues of $70,833, (excluding miscellaneous service charge revenues).

Approximately 49% ($34,840) of the revenue requirement is recovered through the recommended base facility charge. The fixed costs are recovered through the BFC based on the number of factored ERCs. The remaining 51% ($35,993) represents revenues collected through the consumption charge based on the number of gallons.

The following is a comparison of residential wastewater rates at 3,000, 5,000, and 10,000 gallons. Average residential use for this utility is 4,783 gallons per month.

Gallons	Existing Rate	Recommended Rate
3,000	$44.47	$48.82
5,000	$56.17	$61.62
10,000	$85.42	$93.62

Staff's recommended rates should be effective for service rendered as of the stamped approval date on the tariff sheets provided customers have received notice. The tariff sheets will be approved upon staff's verification that the tariffs are consistent with the Commission's decision and the customer notice is adequate.

If the effective date of the new rates falls within a regular billing cycle, the initial bills at the new rate may be prorated. The old charge shall be prorated based on the number of days in the billing cycle before the effective date of the new rates. The new charge shall be prorated based on the number of days in the billing cycle on and after the effective date of the new rates. In no event shall the rates be effective for service rendered prior to the stamped approval date.

ISSUE 14: What is the appropriate amount by which rates should be reduced four years after the established effective date to reflect the removal of the amortized rate case expense as required by Section 367.0816, Florida Statutes?

RECOMMENDATION: The wastewater rates should be reduced as shown on Schedule No. 4, to remove rate case expense grossed-up for regulatory assessment fees and amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, Florida Statutes. The utility should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. If the utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense. (MERTA, FITCH)

STAFF ANALYSIS: Section 367.0816, Florida Statutes, requires that the rates be reduced immediately following the expiration of the four-year period by the amount of the rate case expense previously included in the rates. The reduction will reflect the removal of revenues associated with the amortization of rate case expense and the gross-up for regulatory assessment fees which is $76 annually. Using the utility's current revenues, expenses, capital structure, and customer base the reduction in revenues will result in the rate decreases as shown on Schedule No. 4.

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

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

ISSUE 15: What are the appropriate customer deposits for this utility?

RECOMMENDATION: The appropriate customer deposits should be as specified in the staff analysis. The utility should file revised tariff sheets, which are consistent with the Commission's vote. Staff should be given administrative authority to approve the revised tariff sheets upon staff's verification that the tariffs are consistent with the Commission's decision. If revised tariff sheets are filed and approved, the customer deposits should become effective for connections made on or after the stamped approval date of the revised tariff sheets, if no protest is filed. (MERTA, FITCH)

STAFF ANALYSIS: Rule 25-30.311, Florida Administrative Code, provides guidelines for collecting, administering and refunding customer deposits. It also authorizes customer deposits to be calculated using an average monthly bill for a 2-month period. Staff has calculated customer deposits using recommended rates and an average monthly bill for a 2-month period. A schedule of the utility's existing and staff's recommended deposits follows:

Residential - Wastewater

Meter Size	Existing Deposit	Staff's Recommended Deposit
All meter sizes	$60.00	$120.00

General Service - Wastewater

Meter Size	Existing Deposit	Staff's Recommended Deposit
5/8" x 3/4"	N/A	$133.00
All over 5/8" x 3/4"	N/A	2 X Average Bill

The utility should file revised tariff sheets, which are consistent with the Commission's vote. Staff should be given administrative authority to approve the revised tariff sheets upon staff's verification that the tariffs are consistent with the Commission's decision. If revised tariff sheets are filed and approved, the customer deposits should become effective for connections made on or after the stamped approval date of the revised tariff sheets, if no protest is filed.

ISSUE 16: Should the recommended rates be approved for the utility on a temporary basis, subject to refund, in the event of a protest filed by a party other than the utility?

RECOMMENDATION: Yes. Pursuant to Section 367.0814(7), Florida Statues, the recommended rates should be approved for the utility on a temporary basis, subject to refund, in the event of a protest filed by a party other than the utility. Prior to implementation of any temporary rates, the utility should provide appropriate security. If the recommended rates are approved on a temporary basis, the rates collected by the utility should be subject to the refund provisions discussed below in the staff analysis. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(7), Florida Administrative Code, the utility should file reports with the Division of Commission Clerk and Administrative Services no later than 20 days after each monthly billing. These reports should indicate the amount of revenue collected under the increased rates subject to refund. (JAEGER, MERTA, FITCH)

STAFF ANALYSIS: This recommendation proposes an increase in wastewater rates. A timely protest might delay what may be a justified rate increase resulting in an unrecoverable loss of revenue to the utility. Therefore, pursuant to Section 367.0814(7), Florida Statutes, in the event of a protest filed by a party other than the utility, staff recommends that the recommended rates be approved as temporary rates. The recommended rates collected by the utility should be subject to the refund provisions discussed below.

The utility should be authorized to collect the temporary rates upon the staff's approval of an appropriate security for both the potential refund and a copy of the proposed customer notice. The security should be in the form of a bond or letter of credit in the amount of $4,696. Alternatively, the utility could establish an escrow agreement with an independent financial institution.

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

1) The Commission approves the rate increase; or

2) If the Commission denies the increase, the utility shall refund the amount collected that is attributable to the increase.

If the utility chooses a letter of credit as a security, it should contain the following conditions:

1) The letter of credit is irrevocable for the period it is in effect; and

2) The letter of credit will be in effect until a final Commission order is rendered, either approving or denying the rate increase.

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

1) No refunds in the escrow account may be withdrawn by the utility without express approval of the Commission;

2) The escrow account shall be an interest bearing account;

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

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

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

6) The amount of revenue subject to refund shall be deposited in the escrow account within seven days of receipt;

7) This escrow account is established by the direction of the Florida Public Service Commission for the purpose(s) set forth in its

order requiring such account. Pursuant to Cosentino v. Elson, 263 So. 2d 253 (Fla. 3d DCA 1972), escrow accounts are not subject to garnishments; and

8) The Director of Commission Clerk and Administrative Services must be a signatory to the escrow agreement.

This account must specify by whom and on whose behalf such monies were paid.

In no instance should the maintenance and administrative costs associated with the refund be borne by the customers. These costs are the responsibility of, and should be borne by, the utility. Irrespective of the form of security chosen by the utility, an account of all monies received as result of the rate increase should be maintained by the utility. If a refund is ultimately required, it should be paid with interest calculated pursuant to Rule 25-30.360(4), Florida Administrative Code. The utility should maintain a record of the amount of the bond, and the amount of revenues that are subject to refund. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(7), Florida Administrative Code, the utility should file reports with the Division of Commission Clerk and Administrative Services no later than 20 days after each monthly billing. These reports should indicate the amount of revenue collected under the increased rates subject to refund.

ISSUE 17: Should the docket be closed?

RECOMMENDATION: Yes. If no timely protest is filed by a substantially affected person, this docket should be closed upon the issuance of a Consummating Order. (MERTA, FITCH, JAEGER)

STAFF ANALYSIS: If no timely protest is filed by a substantially affected person, this docket should be closed upon the issuance of a Consummating Order. If a protest is filed within 21 days of the issuance of the Order, the tariffs should remain in effect with any increase held subject to refund pending resolution of the protest, and the docket should remain open.

Attachment A

WASTEWATER COLLECTION SYSTEM - USED AND USEFUL DATA

Docket No. 010919-SU - BFF CORPORATION

1)	Capacity of System (Number of potential customers, ERCs or Lots without expansion)	111	ERC's
2)	Test year connections	98	
	a) Beginning of Test Year	98	ERC's
	b) End of Test Year	98	ERC's
	c) Average Test Year	98	ERC's
3)	Growth	0	ERC's
	(Use End of Test Year and End of Previous Years for growth connections)		
	a) customer growth in connections for last 5 years including Test Year using Regression Analysis	0	ERC's
	b) Statutory Growth Period	5	Years
	(a)x(b) = 0 connections allowed for growth		

USED AND USEFUL FORMULA

[(2)+(3)]/(1) = 88% Used and Useful

BFF Corp.
TEST YEAR ENDING 8/31/02
SCHEDULE OF WASTEWATER RATE BASE

SCHEDULE NO. 1-A
DOCKET NO. 010919-SU

	DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
1.	UTILITY PLANT IN SERVICE	$493,771	($262,965)	$230,806
2.	LAND & LAND RIGHTS	34,800	(33,221)	1,579
3.	NON-USED AND USEFUL COMPONENTS	0	(9,399)	(9,399)
4.	CIAC	(42,916)	7,514	(35,402)
5.	ACCUMULATED DEPRECIATION	(159,794)	109,808	(49,986)
6.	AMORTIZATION OF CIAC	16,317	(9,111)	7,206
7.	WORKING CAPITAL ALLOWANCE	0	5,832	5,832
8.	WASTEWATER RATE BASE	$342,178	($191,542)	$150,636

BFF Corp.	SCHEDULE NO. 1-B
TEST YEAR ENDING 8/31/02	DOCKET NO. 010919-SU
ADJUSTMENTS TO RATE BASE	
	WASTEWATER
UTILITY PLANT IN SERVICE	
1. Agree plant balances @ 10/31/97 per Order No. PSC-98-0763-FOF-SU	($17,219)
2. Reverse salvage on surge tank (380)	3,000
3. Reclassify engineering & surveying from 731 to 360	9,372
4. Reclassify engineering from 736 to 360	677
5. Reclassify capital items from expenses (775) to 365, 362 & 360	883
6. Retire treatment plant (354, 380)	(259,678)
Total	($262,965)
LAND AND LAND RIGHTS	
1. Reclassify Land to Property Held for Future Use	($33,221)
NON-USED AND USEFUL PLANT	
1. To reflect non-used and useful plant.	($14,168)
2. To reflect non-used and useful accumulated depreciation.	4,769
Total	($9,399)
CIAC	
1. Unrecorded CIAC	($6,480)
2. Retired CIAC	13,994
Total	$7,514
ACCUMULATED DEPRECIATION	
1. Accumulated depreciation per Rule 25-30.140, FAC	$5,164
2. Remove depreciation on retirements	108,357
3. Projected depreciation	(7,426)
4. Averaging adjustment	3,713
Total	$109,808
AMORTIZATION OF CIAC	
1. To adjust Amortization of CIAC based on composite rates	$1,528
2. Averaging adjustment	(569)
3. Retired Amortization of CIAC	(10,070)
Total	($9,111)
WORKING CAPITAL ALLOWANCE	
1. To reflect 1/8 of test year O & M expenses.	$5,832

BFF Corp.
TEST YEAR ENDING 8/31/02
SCHEDULE OF CAPITAL STRUCTURE

SCHEDULE NO. 2
DOCKET NO. 010919-SU

CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUST-MENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUST-MENTS	BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST
1. COMMON STOCK	$1,000		$1,000					
2. RETAINED EARNINGS	(161,649)		(161,649)					
3. PAID IN CAPITAL	202,281		202,281					
4. OTHER COMMON EQUITY	(2,500)		(2,500)					
5. TOTAL COMMON EQUITY	$39,132	$0	39,132	(22,960)	16,172	10.74%	10.34%	1.11%
LONG TERM DEBT								
6. Wachovia Bank	196,943		196,943	(115,552)	81,391	54.03%	9.25%	5.00%
7. Mira International, Inc.	0	115,640	115,640	(67,849)	47,791	31.73%	9.00%	2.86%
8. B.J. Roaderick	0	12,000	12,000	(7,041)	4,959	3.29%	9.00%	0.30%
9. CUSTOMER DEPOSITS	780	0	780	(458)	322	0.21%	6.00%	0.01%
10. TOTAL	$236,855	$127,640	$364,495	($213,859)	$150,636	100.00%		9.27%

RANGE OF REASONABLENESS	LOW	HIGH
RETURN ON EQUITY	10.34%	12.34%
OVERALL RATE OF RETURN	9.27%	9.49%

BFF Corp.
TEST YEAR ENDING 8/31/02
SCHEDULE OF WASTEWATER OPERATING INCOME

SCHEDULE NO. 3-A
DOCKET NO. 010919-SU

	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	$50,946	$13,174	$64,120	$6,962 10.86%	$71,082
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	39,530	7,128	46,658	0	46,658
3. DEPRECIATION (NET)	19,562	(13,721)	5,841	0	5,841
4. AMORTIZATION	0	2,584	2,584	0	2,584
5. TAXES OTHER THAN INCOME	587	1,135	1,722	313	2,035
6. INCOME TAXES	0	0	0	0	0
7. TOTAL OPERATING EXPENSES	$59,679	($2,874)	$56,805	$313	$57,118
8. OPERATING INCOME/(LOSS)	($8,733)		$7,315		$13,964
9. WASTEWATER RATE BASE	$342,178		$150,636		$150,636
10. RATE OF RETURN	-2.55%		4.86%		9.27%

BFF Corp.	Schedule No. 3-B
TEST YEAR ENDING 8/31/02	DOCKET NO. 010919-SU
ADJUSTMENTS TO OPERATING INCOME	Page 1 of 2
	WASTEWATER
OPERATING REVENUES	
1. To adjust utility revenues to audited test year amount.	$198
2. Reclassify purchased wastewater treatment from revenue to 710	8,289
3. Reclassify RAF from revenues to taxes other	2,646
4. Include "Other Sewer Revenues"	249
5. Projected 2002 revenues	1,792
Subtotal	$13,174
OPERATION AND MAINTENANCE EXPENSES	
1. Purchased Wastewater Treatment (710)	
a. Reclassify from revenue to 710	$8,289
b. Annualize purchased wastewater treatment	26,523
Subtotal	$34,812
2. Sludge Removal Expense (711)	
a. Reduce sludge removal since interconnection	($3,232)
3. Purchased Power (615/ 715)	
a. Reduce purchased power since interconnection	($1,490)
4. Contractual Services - Professional (631/ 731)	
a. Reclass engineering & surveying from 731 to 360	($9,372)
b. Remove legal fees for fines imposed by DEP	(1,181)
Subtotal	($10,553)
5. Contractual Services - Other (636/ 736)	
a. Reclassify engineering from 736 to 360	($677)
b. Remove Operator expense since interconnection	(3,164)
c. Reduce management fee for overaccrual	(2,400)
d. Reduce management fee since interconnection	(2,062)
Subtotal	($8,303)
6. Insurance Expenses (655/ 755)	
a. Reduce insurance since retirement of T&D plant	($480)
7. Regulatory Expense (665/ 765)	
a. Amortize Rate Case Filing Fee over 4 years ($200/4-200)	($150)
b. Include and amortize notice expense over 4 years	23
Subtotal	($127)
8. Miscellaneous Expense (675/ 775)	
a. Reclassify from 775 to 365, 362 and 360	($883)
b. Reclassify from 775 to accum deprec. - cost of removal	(1,126)
c. Remove mowing expense on PHFU	(1,490)
Subtotal	($3,499)
TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	$7,128

BFF Corp.	Schedule No. 3-B
TEST YEAR ENDING 8/31/02	DOCKET NO. 010919-SU
ADJUSTMENTS TO OPERATING INCOME	Page 2 of 2
	WASTEWATER
DEPRECIATION EXPENSE	
1. To reflect test year depreciation calculated per 25-30.140, F.A.C.	($13,774)
2. Non-Used and Useful Depreciation	(394)
3. CIAC per Composite rates	$447
Total	($13,721)
AMORTIZATION	
1. Amortization of Abandonment/ Early Retirement over 9 years	$2,584
TAXES OTHER THAN INCOME	
1. Reclass RAF from revenues to Taxes Other	$2,646
2. Adjust RAF's to Projected Revenue	239
3. Reduce RAF's on purchased wastewater treatment	(1,567)
4. Reduce Tangible & Property Tax to bill amount	(183)
Total	$1,135

BFF Corp.
TEST YEAR ENDING 8/31/02
ANALYSIS OF WASTEWATER OPERATION AND MAINTENANCE EXPENSE

SCHEDULE NO. 3-C
DOCKET NO. 010919-SU

	TOTAL PER UTILITY	STAFF ADJUST-MENT		TOTAL PER STAFF
(701) SALARIES AND WAGES - EMPLOYEES	$0	$0		$0
(703) SALARIES AND WAGES - OFFICERS	0	0		0
(704) EMPLOYEE PENSIONS AND BENEFITS	0	0		0
(710) PURCHASED SEWAGE TREATMENT	0	34,812	[1]	34,812
(711) SLUDGE REMOVAL EXPENSE	4,232	(3,232)	[2]	1,000
(715) PURCHASED POWER	3,107	(1,490)	[3]	1,617
(716) FUEL FOR POWER PRODUCTION	0	0		0
(718) CHEMICALS	0	0		0
(720) MATERIALS AND SUPPLIES	361	0		361
(730) CONTRACTUAL SERVICES - BILLING	0	0		0
(731) CONTRACTUAL SERVICES - PROFESSIONAL	11,524	(10,553)	[4]	971
(735) CONTRACTUAL SERVICES - TESTING	0	0		0
(736) CONTRACTUAL SERVICES - OTHER	14,641	(8,303)	[5]	6,338
(740) RENTS	0	0		0
(750) TRANSPORTATION EXPENSE	0	0		0
(755) INSURANCE EXPENSE	720	(480)	[6]	240
(765) REGULATORY COMMISSION EXPENSES	200	(127)	[7]	73
(770) BAD DEBT EXPENSE	0	0		0
(775) MISCELLANEOUS EXPENSES	4,745	(3,499)	[8]	1,246
	39,530	7,128		46,658

RECOMMENDED RATE REDUCTION SCHEDULE

BFF Corp. SCHEDULE NO. 4
TEST YEAR ENDING 8/31/02 DOCKET NO. 010919-SU

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

MONTHLY WASTEWATER RATES		MONTHLY RECOMMENDED RATES	MONTHLY RATE REDUCTION
RESIDENTIAL SERVICE			
BASE FACILITY CHARGE:			
Meter Size:			
All Meter Sizes	$	29.63	0.03
Flat rate (no meter)	$	60.23	0.06
GENERAL SERVICE			
BASE FACILITY CHARGE:			
Meter Size:			
5/8"X3/4"	$	29.63	0.03
3/4"		44.44	0.05
1"		74.06	0.08
1-1/2"		148.13	0.16
2"		237.01	0.26
3"		474.01	0.51
4"		740.64	0.80
6"		1,481.29	1.60
RESIDENTIAL GALLONAGE CHARGE PER 1,000 GALLONS (10,000 GALLON CAP)	$	6.40	0.01
GENERAL SERVICE GALLONAGE CHARGE PER 1,000 GALLONS	$	7.68	0.01