BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for staff-assisted rate case in Marion County by East Marion Sanitary Systems, Inc.	DOCKET NO. 010869-WS ORDER NO. PSC-02-1168-PAA-WS ISSUED: August 26, 2002

The following Commissioners participated in the disposition of this matter:

LILA A. JABER, Chairman
J. TERRY DEASON
BRAULIO L. BAEZ
MICHAEL A. PALECKI
RUDOLPH "RUDY" BRADLEY

ORDER DECLINING TO INITIATE SHOW CAUSE PROCEEDINGS AND GRANTING TEMPORARY RATES IN THE EVENT OF A PROTEST
AND
NOTICE OF PROPOSED AGENCY ACTION
ORDER REQUIRING PROOF OF CONTINUED USE OF THE LAND AND APPROVING INCREASED RATES, CHARGES, AND DEPOSITS

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the actions discussed herein, except for our decisions declining to initiate show cause proceedings and authorizing temporary rates in the event of a protest, are preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code.

The following is a list of acronyms and commonly used technical terms which are used throughout this Order:

COMPANY AND PARTY NAMES

DEP	Department of Environmental Protection
Commission	Florida Public Service Commission
NARUC	National Association of Regulatory Utility Commissioners
OPC	Office of Public Counsel
SJRWMD	St. John's River Water Management District

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
RAFs	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.

I. BACKGROUND

East Marion Sanitary Systems, Inc. (East Marion or utility) is an existing Class "C" utility which during the historic test year was providing water and wastewater service to approximately 41 residential customers. East Marion is located east of Silver Springs along state highway 40 approximately 3 ½ miles east of county road 314A. The utility serves a subdivision originally known as Trails East which was later renamed Lakeview Woods. Lakeview Woods has a potential of 181 single family home sites that is estimated to be 181 ERCs. During our staff engineering investigation, there were 41 active customers (estimated at 41 ERCs), two completed homes ready for occupancy, four additional homes under construction, and two lots cleared for construction. The recreation pavilion and the wastewater treatment plant are two general service connections with each being estimated to be one ERC.

Pursuant to Order No. 17837, issued July 14, 1987, in Docket Nos. 870388-SU and 870389-WU, East Marion was granted Water and Wastewater Certificates Nos. 490-W and 425-S. The certificates were issued prior to the establishment of rates and charges to

enable the utility to obtain its construction permits. We approved the utility's existing rates and charges in Order No. 18545, issued December 14, 1987, but rate base was not established at that time since the utility had not been constructed.

On June 29, 1990, the utility applied for a transfer of majority organizational control of East Marion Water Distribution, Inc., and East Marion Sanitary Systems, Inc., in Marion County from Penelope A. Wagner, Trustee, to Forest Lake Village - Del American Ltd. East Marion Water Distribution, Inc. and East Marion Sanitary Systems, Inc., were originally owned by Mr. Eric Wagner, who passed away shortly after commencing development of the subdivision served by the utilities. By Order No. 24553, issued May 20, 1991, we approved the transfer of the systems from Mr. Wagner's estate to Del American, Ltd. The systems were largely inactive from 1991 through 1995.

On October 2, 1997, we received an application for approval of the transfer of majority organizational control of East Marion Water Distribution, Inc., and East Marion Sanitary Systems, Inc., from the First Federal Savings & Loan Association of Osceola County (First Federal) to Mr. Herbert Hein. According to the application, the systems were acquired by First Federal through foreclosure in 1992. The systems were in foreclosure until majority organizational control was transferred to Mr. Herbert Hein on February 14, 1995, prior to our approval. Mr. Hein also requested to operate both utilities under the name, East Marion Sanitary Systems, Inc. By Order Number PSC-98-0928-FOF-WS, issued July 7, 1998, we approved the transfer.

On June 19, 2001, East Marion filed an application for a staff assisted rate case (SARC) and paid the appropriate filing fee on August 21, 2001. We have the authority to consider this rate case pursuant to Section 367.0814, Florida Statutes. Our staff audited the utility's records for compliance with our rules and Orders and determined the components necessary for rate setting. Our staff 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. A projected test year ended December 31, 2002, has been used for this rate case.

A customer meeting was held in the service area on April 18, 2002. Approximately 45 customers attended the meeting and 13 customers chose to make comments. Our staff also conducted informal afternoon meetings with customer representatives. Prior to the customer meeting, we received several letters from customers voicing their concerns about the proposed increase. The most common concern raised among customers was that the customers did not know who to call for a billing inquiry, emergency service, or for general questions. Customers also commented about high levels of chlorine, and that the owner would threaten to turn off the water for reasons other than non-payment. Finally, many of the customers read the staff report and had specific questions concerning the allowance for a maintenance person and the high cost of a pump repair. We will address each of the above-noted concerns later in this Order.

II. QUALITY OF SERVICE

Rule 25-30.433(1), Florida Administrative Code, specifies that:

> 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 utility's product (water and wastewater); operational conditions of 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 county health departments (HRS) or lack thereof over the proceeding 3-year period shall also be considered. DEP and HRS officials' comments and testimony concerning quality of service as well as the comments and testimony of the utility's customers shall be considered.

We have analyzed below each of these three components, as shown below.

A. Quality of Product

Water

Currently, operations for the water treatment plant at Lakeview Woods/Trails East are contracted out to Aqua Pure, Inc. of Silver Springs, Fla. (Aqua Pure), a company that specializes in providing water and wastewater operations in accordance with the regulatory standards required by the DEP. Aqua Pure is also the certified laboratory in the area for testing and chemical analysis. All required testing and analysis have been performed to insure safe potable water. Those tests have been kept current, are up-to-date, and are considered satisfactory by the DEP. The product appears to meet or exceed all regulatory standards for safe drinking water.

Wastewater

Aqua Pure is also the certified laboratory that oversees the testing and chemical analysis for the wastewater treatment plant. All required wastewater testing and analysis has been performed in a timely manner, and meets or exceeds all standards for safe discharge of treated effluent as required by the DEP. The safe treatment of wastewater appears to meet or exceed all regulatory standards, and is considered satisfactory.

By all appearances, the product provided to the customers of East Marion is considered satisfactory.

B. Operational Conditions at the Plant

Water

The operations and maintenance of the physical plant facilities are also contracted through Aqua Pure. Aqua Pure provides a certified and licensed operator to service the water treatment plant in accordance with standards required by the DEP. The owner, while on visits to Florida, performs more involved housekeeping and general plant up-keeping duties. At other times, the owner hires a local maintenance person to perform basic repairs and maintenance duties that fall outside of the operator's contract with Aqua Pure. During our staff's engineering field inspection,

water plant equipment appeared to be on a regular maintenance schedule. The pumphouse was freshly painted on the outside and tidy on the inside. The plant grounds within the fenced in area were organized and neat. The Lakeview Woods water treatment plant-site appeared well maintained. The utility water plant-in-service appears to be satisfactory.

Wastewater

The Lakeview Woods wastewater plant-site did not appear to be as well maintained as the water plant, but appears to have been receiving regular attention. The totalizer flow measuring equipment between the chlorine contact chamber and the percolation ponds has been removed thereby allowing treated effluent to flow through the "V" notch weir to the percolation ponds unrecorded. This causes the operator to rely on the lapse time meters at each lift station to provide estimated flows. Registration by lapse time meters is not optimal, but it is accepted by DEP. Up to now, estimated flows have not been an issue because the flow volume is well under the capacity of the plant. The capacity of the plant was designed and built to process the development's wastewater flow at build out. The current demand on the plant only requires timed injections of air and disinfectant and a minimum of attention from the operator. The equipment at the wastewater plant appears to be properly maintained and operating according to standards. Wastewater plant- in-service appears to be satisfactory.

C. Utility's Attempt to Address Customer Satisfaction

A series of informal customer meetings were held on April 18, 2002, in the Marion County Commission Auditorium in Ocala, Florida. Several customers requested individual meetings with our staff to discuss issues related to the pending rate proceeding and to discuss problems with the utility. At these afternoon meetings, customers raised issues about the increasing water rates, sulfur smell, and excessive chlorine in the drinking water.

Customers also expressed concerns about the utility's accounting practices, and certain expenses that were noted by our staff. There were further concerns about the general maintenance person's duties, and about the cost of a pump at the water treatment plant.

The primary concern was the amount of the potential rate increase. It became apparent at the customer meeting that there is an overall lack of trust in the new owner of the utility which is fostered by the customers having difficulty in contacting the owner. There is no local utility office and no telephone number is posted at the utility plant for emergencies. Customers also raised questions about a new pump that was recently replaced and the credentials of the person installing the pump. One customer reported that Mr. Hein shuts the water off for any reason without any notice to customers. Customers also raised concerns about the quality of the water in regards to the taste and odor of the water, and the high levels of chlorine.

In the past, the owner of the utility relied on the management company which had been providing a turn-key service for the utility through its foreclosure years. Recently, that service was transferred to Aqua Pure, a local company that specializes in operation and maintenance of utilities. This has caused some confusion since phone numbers are not posted at either of the two plants or the lift stations. Mr. Hein is in Michigan a large portion of each year, and contact by phone is difficult, even for our staff. Based on the above, local emergency phone numbers shall be posted at both plants, at each lift station, and on the bills so that there will be provision for response 24 hours a day, seven days a week. Those postings shall occur no later that 60 days from the effective date of this Order. Also, the telephone number for billing inquiries shall be posted on the bill.

Since the customer meeting, our staff specifically reviewed the invoice of the new pump installation. The replacement pump was installed by a licensed well drilling company that specializes in drilling and installing wells and well pumps. A customer stated that he was an eyewitness, and was present during the pump replacement. The cost is considered reasonable and prudent for the replacement of a six-inch submersible pump.

Prior to the customer meeting, one customer had called the Commission about a threat by Mr. Hein to shut her water off if she did not pay her bill on time. Our staff contacted Mr. Hein and advised him of the proper procedure for termination of service and resolving non-payment accounts. Our staff also advised the customer of the proper procedures set forth in Commission rules that the utility must follow in order to terminate service for nonpayment. This item is further discussed later in this Order.

Regarding the excessive chlorine in the drinking water and the sulfur taste/odor experienced by the customers, the utility owner just recently changed the manner in which the dosages of chlorine were being injected into the system. Currently, the chlorine pump is set on a timer that only injects disinfectant while the pump is engaged. The disinfection process is complicated by the fact that the raw water at East Marion does contain substantial levels of hydrogen sulfide. Hydrogen sulfide is a secondary compound that is not considered to be a health hazard by the DEP. In order to remove hydrogen sulfide at the plant, the utility would have to invest in approximately $100,000 of additional equipment (aeration, ground storage and high service pumping facility). This would drive the rates even higher for the small customer base and would not be considered cost effective. The next best thing is to treat the hydrogen sulfide with chlorine since the two will not coexist in the same environment together. The levels of hydrogen sulfide will vary from day to day, and chlorine will first react with any iron, manganese, or hydrogen sulfide that may be in the raw water. If any residual (un-reacted) Chlorine remains, it will next react with organic material (including bacteria) present. The interactive variables are constantly in flux and results will shift from moment to moment. In order to ensure that the water remains protected throughout the distribution system, an excess of chlorine, usually 0.5 parts per million (ppm) is added (minimum required chlorine residual is 0.2 ppm by DEP Rule 62-550.518(4), Florida Administrative Code). This "rate of feed" is normally adjusted to make sure that sufficient chlorine is available to fully react with the organics that may be present. When both the mineral and organic reactions have been completed, any residual chlorine remains in the drinking water. Therefore, the residences that are located at the beginning of the distribution system may experience higher residual levels than other people in their community. Sensitivity to the taste of water with residual

chlorine is subjective and some customers are more sensitive than others. However, while there is a 0.2 ppm minimum free chlorine residual requirement, an upper limitation is not specified in Rule 62-550.518, Florida Administrative Code, which governs disinfection.

While the quality of service provided by the utility appears to be satisfactory, East Marion shall post phone numbers as set forth above within 60 days of the effective date of this Order.

III. RATE BASE

A. Use of Projected Test Year

For audit purposes we have selected a historic test year ending December 31, 2000. Because the utility is growing at an exceptionally high rate (10 connections a year or 25%), rates based on historical data alone will be significantly different than rates based on current or even future conditions. We find that a projected test year, ending December 31, 2002, is appropriate in this case and will better match increasing revenues with the approved expenses on a going-forward basis.

This is consistent with our decision in Order No. 15725, issued February 21, 1986, in Docket No. 840315-WS, in 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 we 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. Based upon historical data we anticipate Martin Downs will continue to experience rapid growth of demand for its services.

Use of a projected test period in cases of extremely high growth will keep the utility from overearning in the short run and will promote rate stability. We also approved a projected test

year for high growth in Order No. PSC-01-1246-PAA-WS, issued June 4, 2001, in Docket No. 001382-WS.

B. Used and Useful Percentages

Water Treatment Plant

The water treatment plant is a closed system operation that should be evaluated on a gallon per minute (gpm) basis. The plant's ability to meet instantaneous fluctuations in flow demands currently rests on the capacity of the 20 horsepower submersible well pump (rated at 250 gpm). Since this plant is a closed system, the used and useful calculation is more representative with a comparison study of the minimum standard of 1.1 gpm in accordance with General Waterworks Design Criteria to the number of customer connections. This standard is backed by the American Water Works Association (AWWA), and is recommended to be met by the lowest capacity well. Currently, this system has only one well, and the actual capacity of this well (250 gpm) was applied in the used and useful formula. For rate making purposes, used-and-useful percentages will be analyzed by projecting customer demand two years from the historical test year.

Customer growth has been steady over the last five years. A linear regression analysis yields an anticipated 10 ERC per year future growth. Based on this growth projection, the utility will serve an average of 55 customers two years from the test year. This exceeds the statutory growth cap of 5% per year for the five-year growth calculation pursuant to Section 367.081(2)(a)2.b., Florida Statutes. The growth in ERCs used to calculate the five year statutory growth period is 3 ERCs per year which yields an estimated 18 gpm. From the flow analysis, there does not appear to be an excessive unaccounted for water problem. By the formula, the water plant is calculated to be 60% used and useful.

Therefore, in accordance with the calculation sheet (Attachment "A", Sheet 1 of 4), we find that the used and useful percentage for the water treatment plant is 60%. This percentage shall be applied to:

Account No. 307 (Wells and Springs)
Account No. 309 (Supply Mains)
Account No. 311 (Pumping Equipment)
Account No. 320 (Water Treatment Equipment)
Account No. 339 (Other Plant and Misc Equipment)

Water Distribution System

The water distribution system has the potential of serving 181 customers (estimated to be 181 ERCs). The average number of customers anticipated two years into the future is 55 customers (estimated to be 55 ERCs). Using the statutory cap of 5% per year (3 ERCs) for the five-year growth period, the future growth is calculated to be 15 ERCs. Using the formula approach, we calculate the distribution system to be 38.7% used and useful (See Attachment "A", Page 2 of 4), with the exception of Account Number 334 (Meters and Meter Installations) which are installed upon demand and should be considered 100% used and useful.

Therefore, 38.7% shall be applied to the following accounts:

Account No. 330 (Distribution Reservoirs and Standpipes)
Account No. 331 (Transmission and Distribution Mains)
Account No. 333 (Services)

Wastewater Treatment Plant

The wastewater treatment plant at Lakeview Woods is permitted by the DEP as a 0.05 million gallon per day (50,000 gpd) annual average daily flow (AADF) facility. During the twelve-month review period, the annual average daily flow was 1,827 gpd. The annual average daily flow estimated for those customers in the future test year is 2,955 gpd. Using the limitation of 3 ERCs per year determined by the statutory 5% per year cap for the growth calculation, we estimate the increased demand for the five-year statutory growth period to be 806 gpd. There does not appear to be an excessive infiltration problem occurring within the collection system. Therefore, the formula used on the calculation sheet (Attachment "A", Sheet 3 of 4) indicates a used and useful percentage of 7.5%, and this percentage shall be applied to the following accounts:

Account No. 355 Power Generation Equipment
Account No. 364 Flow Measuring Devices
Account No. 365 Flow Measuring Installations
Account No. 380 Treatment and Disposal Equipment
Account No. 381 Plant Sewers
Account No. 382 Outfall Sewer Lines
Account No. 489 Other Plant and Misc. Equipment

Wastewater Collection System

The utility's potential customer base is 181 ERCs. The average number of customers projected for the future test year is estimated to be 55. Using the statutory cap of 5% per year for the five year growth period (3 ERCs per year), future growth for the next five years is calculated to be 15 ERCs. In accordance with the formula method used on the calculation sheet (See Attachment "A", sheet 4 of 4), the used and useful percentage is calculated to be 38.7%, and this percentage shall be applied to the following accounts:

Account No. 360 Collection Sewers - Force
Account No. 361 Collection Sewers - Gravity
Account No. 362 Special Collecting Structures
Account No. 363 Services to Customers
Account No. 370 Receiving Wells

C. Land

Audit Disclosure No. 1 specifies that the utility plant is located on property that is not owned by the utility, but by Universal Sonlight, Inc., a Nevada Corporation as Trustee. According to the audit report, the utility has an unwritten lease with the property owner that requires the utility to pay all the taxes and maintenance on the property. Pursuant to Section 367.1213, Florida Statutes, a utility is required to own the land or possess the right to continued use of the land upon which its treatment facilities are located.

This is not the first time this issue has been raised with this utility. The utility applied for a transfer of majority organizational control to Mr. Hein on October 2, 1997. In Order

No. PSC-98-0928-FOF-WS, issued July 7, 1998, in Docket No. 971269-WS, we ordered the following:

> ORDERED that Herbert Hein shall provide warranty deeds or long-term leases in the name of East Marion Sanitary Systems, Inc. as proof that the utility owns or has continued use of the land upon which its facilities are located, within 60 days of the date this Order is issued.

In response to this order, the utility submitted and the Commission accepted an affidavit dated October 14, 1998, which stated:

> That I Herbert Hein as President of East Marion Sanitary Systems, Inc. have sole control & power of direction of the Land Trusts & Trustees for the above referenced properties. These properties are where the water & sewer plants for the utility are located.

In this SARC proceeding, the utility indicated that beginning January 1, 2001, the utility will be required to pay $600 per month to the property owner in addition to paying all the taxes and any maintenance on the property. As of the date of this Order, we have not been provided with a copy of a lease containing the above provisions. Further, at the customer meeting, when our staff asked Mr. Hein who Universal Sonlight, Inc. was, Mr. Hein answered that he did not know.

The utility has contended that it can be evicted if it is not able to pay the new rent. This does not appear to be consistent with the affidavit submitted by Mr. Hein. Either Mr. Hein did not have sole control and power of direction of the Land Trusts & Trustees, as his affidavit stated, or he released such control and power in violation of Section 367.071, Florida Statutes, without securing the land in such a way that it satisfies Section 367.1213, Florida Statutes.

Therefore, the utility shall purchase the land on which it operates or enter into a long-term lease, such as a 99-year lease, pursuant to Section 367.1213, Florida Statutes, and submit either a warranty deed or copy of a long-term lease in the utility's name within six months of August 6, 2002, the day of our vote. An

affidavit shall not be accepted as proof of meeting Section 367.1213, Florida Statutes; only a warranty deed or a written lease shall be accepted. There will be no automatic show cause, but the utility is on notice that the Commission will take action if the documentation required is not provided within the 6-month time frame.

The utility believes it can enter into a long-term lease with Universal Sonlight, Inc., under the terms listed above. Financial Accounting Standard (FAS) 13 lists the criteria for classifying leases. Paragraph 25 of this document states that when land is the sole item of property leased, the following criteria must be met to qualify for a capital lease:

a. The lease transfers ownership of the property to the lessee by the end of the lease term; and
b. The lease contains a bargain purchase option.

If the listed criteria are not met, then the lease is an operating lease. If the oral lease as outlined above is reduced to writing, then it would not meet the criteria of a capital lease pursuant to FAS 13, and shall be recorded as an operating lease.

However, at this time, we find that an annual lease amount of $7,200 is not reasonable. At that level, each customer would pay $10 monthly just to pay the land rent. Consistent with our decision in Order No. PSC-00-0807-PAA-WU, issued April 25, 2000, in Docket No. 991290-WU, we find that the maximum lease amount should be the annual rate of return, based on the utility's current capital structure, times the original cost of the land when placed in service. According to the Marion County Property Appraiser, the original cost of the land per acre when the utility was constructed was $1,600. As discussed later in this Order, the approved rate of return is 10.00%.

The utility contends that it cannot purchase the land for the original cost or enter into a lease for less than the $600 per month. When the utility was first placed into service, the utility did own the land on which the treatment facilities were located. After several transfers and foreclosures, the common stock of the utility along with 171 lots was sold to Mr. Hein for a lump sum. Apparently the utility land was not part of this purchase. We

believe that it was not prudent for Mr. Hein to purchase the utility assets without also making arrangements for continued use of the land.

This land issue appears to be similar to an acquisition adjustment. It has been our practice to approve an acquisition adjustment only in extraordinary circumstances. Florida is an original cost state and approving all acquisition adjustments would move cost-based regulation to market-based regulation. (See Orders Nos. 6553, 7522, and 10465) Further, a mere change in ownership should not cause an increase in rates. The only thing that changed for this utility was ownership. The new owner did not secure the land pursuant to Section 367.1213, Florida Statutes, as part of the lump sum purchase. To allow the utility to recover current market price of the land would be inconsistent with the above-referenced orders and our prior practice, and would place an unreasonable burden on the utility's rate payers. (See Order No. 11180, issued September 21, 1982, in Docket No. 810333-S)

Because the utility does not own the land and does not appear to have a capital lease, we have removed land costs from the utility's rate base. For rate setting purposes, the utility shall be allowed an annual rent amount of $405 ($1,600 x 2.53 acres x 10%) for water and $582 ($1,600 x 3.64 acres x 10%) for wastewater to reflect annual rental expense consistent with the above-referenced orders.

D. Projected Test Year Rate Base

Pursuant to Order No. 17837, issued July 14, 1987, in Docket Nos. 870388-SU and 870389-WU, East Marion was granted Water and Wastewater Certificates Nos. 490-W and 425-S. We approved the utility's existing rates and charges in Order No. 18545, issued December 14, 1987, but did not establish rate base at that time.

During the audit investigation, our staff discovered that the utility did not have sufficient documentation to support its investment in plant. Therefore, our staff conducted an original cost study. Rate base components have been adjusted using the original cost study for plant balances through December 31, 2000. These components were then adjusted using the December 31, 2002,

projected average test year. A discussion of each component of rate base follows:

1. Utility Plant-in-Service (UPIS): As of December 31, 2000, the utility recorded UPIS balances of $89,867 and $191,262, for water and wastewater, respectively. Based on the original cost study, the balances should have been $137,698 for water and $465,010 for wastewater for the same period. To account for this difference, we have increased UPIS by $47,831 for water and $273,748 for wastewater.

Also, we have increased Account No. 311 by $5,999 to reclassify a replacement pump recorded in Account No. 636 as a pump repair. Because this is a replacement pump, the old pump should be retired. We have decreased Account No. 311 by $8,050 to retire the original cost of the pump.

For the projected test year ending December 31, 2002, we have included ten additional customers per year (the average customer growth rate). Based on this projection, we have increased water UPIS by $1,400 ($70 x 20 meters) to reflect the costs of meters associated with the additional customers.

The utility has provided us with pro forma plant additions. These additions are not required by DEP at this time and the majority of these additions are related to growth. We believe that revenues associated with the extremely high growth of this utility will offset future plant additions. We have considered the requested pro forma adjustments to calculate the appropriate service availability charges.

The utility has requested two pro forma items not related to growth to be included in rate base in this case. The first item is the replacing of the existing fence around the water and wastewater treatment plants. According to the utility owner, a great deal of time and expense is being spent patching together the existing fence (100 hours annually). We find that allowing a new fence in rate base would have less of an impact on customers than allowing the continued repair expense. Therefore, we have increased UPIS by $2,138 for water and $17,906 for wastewater, to allow for the replacement of the fence. Because the fence is being replaced, the old fence shall be retired from rate base. Therefore, we have

decreased UPIS by $1,738 for water and $9,702 for wastewater to retire the old fence from UPIS based on the original cost study.

The second pro forma item requested was the installation of a lift station alarm. We have increased UPIS by $1,431 to include the installation of a lift station alarm based on estimates provided by the utility. Our total adjustments to include pro forma plant is $3,538 ($1,400 meters + $2,138 fence) for water and $19,337 ($17,906 fence + $1,431 lift station alarm) for wastewater. East Marion shall complete the pro forma fence replacement and installation of the lift station alarm within 90 days of the effective date of this Order.

To reflect an averaging adjustment, we decreased UPIS by $550 for water and by $4,818 for wastewater. Based on the above, we calculate UPIS to be $136,897 for water and $469,827 for wastewater.

2. Land: The utility recorded land values of $35,000 for water and $50,000 for wastewater. Because the land is not owned by the utility, and because the utility does not appear to have a capital lease, the value of land recorded by the utility shall be removed from rate base, and rate base is reduced by $35,000 for water and $50,000 for wastewater.

3. Non-used and Useful Plant: Having previously calculated the used and useful percentages for each plant account, and applying the non-used and useful percentages to average plant results in average non-used and useful plant of $73,832 for water and $333,326 for wastewater. The average non-used and useful accumulated depreciation is $22,493 for water and $174,041 for wastewater. This results in net non-used and useful plant of $51,339 for water and $159,285 for wastewater.

4. Contributions in Aid of Construction (CIAC): The utility recorded a balance for CIAC of $13,865 for water and $26,600 for wastewater. Using the utility's tariffed system capacity charge, we calculate CIAC to be $14,430 for water, and $27,885 for wastewater. Therefore, we have increased CIAC by $565 for water and $1,285 for wastewater.

Additionally, we have increased CIAC to reflect the ten additional customers per year that will be added for the projected test year. This adjustment results in a $7,735 increase for water and a $15,100 increase for wastewater. An averaging adjustment has also been made to reduce CIAC by $2,018 for water and $3,975 for wastewater.

Based on these adjustments, the average CIAC balances for the projected year are $20,147 and $39,010 for water and wastewater, respectively.

5. Accumulated Depreciation: The utility recorded a balance for accumulated depreciation of $25,212 for water and $63,265 for wastewater. We have recalculated accumulated depreciation using the prescribed rates in Rule 25-30.140, Florida Administrative Code. Based on this recalculation, accumulated depreciation for the historic test year is $42,759 for water and $192,105 for wastewater. This results in an increase to accumulated depreciation of $17,547 for water and $128,840 for wastewater.

We also increased accumulated depreciation by $8,615 for water and $38,600 for wastewater, to reflect depreciation for the projected test year. We have decreased this account for water by $8,050 to remove depreciation associated with the pump retirement discussed above. Further, we have decreased this account by $1,738 for water and $9,702 for wastewater to reflect the retirement of the old fence. An adjustment has also been made to decrease accumulated depreciation by $1,297 for water and $4,843 for wastewater, to reflect an averaging adjustment. Based on the above, the accumulated depreciation balance for the projected test year is $40,289 for water and $216,160 for wastewater.

6. Amortization of CIAC: The utility recorded CIAC amortization of $1,654 for water and $2,405 for wastewater. We have recalculated amortization of CIAC using composite depreciation rates. For the historic test year, the amortization of CIAC is $1,675 for water and $4,239 for wastewater. Therefore, we have increased CIAC amortization by $21 for water and $1,834 for wastewater, to reflect our calculated historic test-year-end amortization of CIAC.

We then increased CIAC amortization by $1,147 for water and $2,894 for wastewater, to reflect the amortization of CIAC for the projected test year. An averaging adjustment has been made to decrease CIAC amortization by $318 for water and $797 for wastewater. Based on the above, the average amortization of CIAC for December 31, 2002, is $2,504 for water and $6,336 for wastewater.

7. Working Capital Allowance: 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, we have calculated working capital using the one-eighth of operation and maintenance (O&M) expense formula approach. Based on that formula, the working capital allowance for water is $2,024 (based on O&M of $16,193 for water, and the working capital allowance for wastewater is $2,144 (based on O&M of $17,152) for wastewater).

8. Rate Base Summary: Based on the foregoing, the appropriate projected test year rate base for this utility is $29,650 for water and $63,852 for wastewater. Our calculation of rate base is shown on Schedules Nos. 1-A and 1-B. Our related adjustments are shown on Schedule No. 1-C.

IV. COST OF CAPITAL

The utility recorded the following items in capital structure for the historic test year: common stock of $1,000, negative retained earnings of $75,921, paid-in-capital of $313,018, and long-term debt of $3,350.

The utility's $3,350 of long-term debt is related-party debt which is not supported by a debt instrument or an interest cost. By Order No. PSC-00-1165-PAA-WS, issued June 27, 2000, in Docket No. 990243-WS, we classified utility debt that was not supported by a debt instrument or an interest cost as other common equity. Therefore, we have reclassified $3,350 from long-term debt to paid-in-capital.

Using the current 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 all capital structures

with an equity ratio of 100% is 10%. Since the utility's capital structure is 100% equity, the rate of return on equity and the overall rate of return is 10% with a range of 9 to 11%.

We have reconciled the utility's capital structure with our calculation of rate base. Our calculations of the return on equity and overall rate of return are shown on Schedule No. 2.

V. NET OPERATING INCOME

A. Test Year Operating Revenues

The utility recorded revenues for the 12-month period ended December 31, 2000, of $8,357 and $8,319 for water and wastewater, respectively.

The utility's current residential tariff authorizes a base facility charge of $8.70 and a gallonage charge of $1.27 per 1,000 gallons for water, and a base facility charge of $9.61 and a gallonage charge of $1.83 per 1,000 gallons with a maximum cap of 10,000 gallons for wastewater services. We have annualized revenues for the historical test period ended December 31, 2000, using the current rates times the number of bills and consumption provided in the billing analysis. Based on this calculation, we have increased historic test year revenues by $64 for water and decreased historic test year revenues by $181 for wastewater to reflect annualized revenue based on existing rates.

Because we are using a projected test year, we have increased revenues to reflect the increase associated with an increase in customer base (ten additional customers per year) and to reflect average customer usage. This increases historic test-year revenues by $7,373 for water and by $6,811 for wastewater. This results in test-year revenues of $15,794 for water and $14,949 for wastewater.

Our calculations of test-year revenues are shown on Schedules Nos. 3-A and 3-B, and the related adjustments are shown on Schedule No. 3-C.

B. Operating Expenses

The utility recorded operating expenses of $16,099 for water and $15,604 for wastewater during the twelve-month period ending December 31, 2000. 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 twelve-month period ended December 31, 2000. Using documents provided by the utility, we have determined the appropriate operating expenses for the test year and a breakdown of expenses by account class. Adjustments have been made to reflect the appropriate annual operating expenses that are required for utility operations on a going-forward basis.

The utility's contracted operating, billing, management, engineering, and bookkeeping during the historic test year was provided by Enviro-Masters. These services are no longer being performed by Enviro-Masters. The utility has entered into new contracts with an alternate management company and has provided our staff with copies of the contracts. We have made adjustments to reflect the new contracted costs.

1. Operations and Maintenance Expenses (O&M)

Sludge Removal Expense -(711) The utility did not record an amount in this account during the historic test year. Based on the utility's growth, the utility will need sludge removal on a regular basis. On a going-forward basis, we find that $500 per year is reasonable. Therefore, we have increased the sludge removal expense account by $500 to reflect annual sludge removal.

Purchased Power -(615/715) - The utility recorded $1,298 for water and $1,298 for wastewater in this account during the historic test year. We have decreased purchased power by $696 for water and increased it by $844 for wastewater to annualize and reallocate purchased power expense based on the utility's cost documentation. We have also increased purchased power by $602 for water and $2,112 for wastewater to reflect an increase in purchased power based on projected test year gallons. Later in this Order, we have determined that there will be repression. Therefore, we have decreased this account by $120 for water and by $547 for wastewater to reflect a repression adjustment. Based on the above, we

calculate purchased power expense to be $1,084 for water and $3,706 for wastewater.

Chemicals -(618/718) - The utility recorded $199 for water and $0 for wastewater in this account during the historic test year. Based on the engineering investigation, the appropriate amount of chemical use for this utility is $364 for water and $164 for wastewater. Therefore, we have increased this account by $165 for water and $164 for wastewater to reflect the correct chemicals expense. These amounts were then increased by $364 for water and $162 for wastewater to reflect chemical expense on projected test year gallons. Later in this Order, we have determined that there will be repression. Therefore, we have decreased this account by $73 for water and by $42 for wastewater to reflect a repression adjustment. Based on the above, we calculate chemicals expense to be $655 for water and $284 for wastewater.

Materials and Supplies -(620/720) - The utility recorded $94 for water and $80 for wastewater in this account during the historic test year. We have decreased this account by $14 for water and $36 for wastewater to remove out-of-period expense. To reclassify materials and supplies from Account Nos. 636 and 736 (Contractual Services-Other), we have increased this account by $121 for water and $113 for wastewater. Based on the above, we calculate a materials and supplies expense of $201 for water and $157 for wastewater.

Contractual Services-Billing -(630/730) - The utility recorded $1,040 for water and $950 for wastewater in this account during the historic test year. These expenses were associated with the billing, operating, and management services provided by Enviro-Masters. The new management contract includes billing services; however, a specific dollar amount is not associated with the billing. Therefore, the amounts in this account shall be reclassified to the Contractual Services-Other account and shall be adjusted to reflect the new management contracts. We have reallocated $1,040 for water and $950 for wastewater to Account Nos. 636 and 736 (Contractual Services-Other).

Contractual Services-Testing -(635/735) - The utility recorded $160 in this account for water and $1,235 for wastewater during the historic test year. We have increased this account by $1,075 for

water and decreased this account by $1,075 for wastewater to reclassify water-testing expense recorded in the wastewater account.

Each utility must adhere to specific testing conditions prescribed within its operating permit. These testing requirements are tailored to each utility as required by the Florida Administrative Code and enforced by the DEP. The tests and the frequency at which those tests must be repeated for this utility are:

Water

Test	Frequency	Annual Amount
Microbiological	Monthly	$380
Primary Inorganics	3 Years	$70
Secondary Inorganics	3 Years	$53
Asbestos	1/9 Years	$27
Nitrate & Nitrite	Annual	$26
Volatile Organics	Qrtly/1st yr/36 mos.	$358
Pesticides & PCB	3 Years	$220
Radionuclides Group I	3 Years	$30
Radionuclides Group II	3 Years	$35
Unregulated Organics Group I	Qrtly/1st yr./9yr.	$105
Unregulated Organics Group II	3 Years	$45
Unregulated Organics Group III	3 Years	$70
Lead & Copper	Biannual	$320
Total		$1,739

Wastewater

Test	Frequency	Annual Amount
Biochemical Oxygen Demand (includes Nitrate, Nitrite)	Monthly	$60

Therefore, we have increased Contractual Services-Testing by $504 ($1,739 - $1,235) for water and decreased Contractual Services-Testing by $100 ($60 - $160) for wastewater to reflect annualized DEP required testing.

Contractual Services-Other -(636/736) - The utility recorded $9,413 for water and $3,870 for wastewater in this account during the historic test year. We have increased this account by $1,040 for water and by $950 for wastewater to reclassify contractual services from the Contractual Services-Billing account. This adjustment results in a Contractual Services-Other balance of $10,453 for water and $4,820 for wastewater. Of this amount $2,454 for water and $3,811 for wastewater is associated with contracted operating, management, meter reading, and billing associated with Enviro-Masters.

As discussed above, Enviro-Masters no longer provides these services to East Marion. The utility has provided our staff with signed contracts for the above listed services as follows:

	Total	Water	Wastewater
Operator	$4,500	$2,250	$2,250
Management/ Billing	$4,200	$2,100	$2,100
Enviro-Master	($6,265)	($2,454)	($3,811)
Net Adjustment	($2,065)	$1,896	$539

The operator services will be provided by Aqua Pure Water & Sewage Services, Inc. (Aqua Pure) and the management/billing services will be provided by JNP Management & Repair Services (JNP). We have increased Contractual Services-Other by $1,896 for water and by $539 for wastewater to annualize contracted operator, management, and billing associated with the new contracts.

We note that during the test year the utility hired a local resident to collect payments and deposit the payments. Since the utility has contracted with a management company to perform these services, we have not made an allowance for the local resident.

Also during the test year, the owner hired a local resident to perform the day-to-day maintenance of the utility. However, the utility has not recorded an expense for this service.

The general maintenance person should be a part-time employee that specializes in the operations and maintenance of both the water and wastewater utility plants in accordance with federal, state, and local regulatory standards. As a local person, his duties would begin where the contract operator's duties end, act as a liaison between customers and the utility, investigate complaints, perform general system repairs, pick up parts, do regular maintenance checks of the water and wastewater plants, read meters, and assist and supervise contract service projects. In the preliminary staff report presented to the customers prior to the customer meeting, our staff proposed an allowance of 20 hours a week at $12 an hour for the maintenance person or $6,240 annually per system.

Many customers commented that this allowance was too high. Among the customers who commented on this was the existing maintenance person, Mr. Pakola. According to Mr. Pakola, he received $85 a month to perform the general maintenance duties and read meters. However, since the customer meeting, Mr. Pakola has ceased performing these services, and the utility has hired another local resident to perform these services.

According to Mr. Pakola, he spent approximately 3.5 hours a week on utility business. This amount is significantly lower than our staff's original estimation. After the customer meeting, our staff advised Mr. Hein that they would probably be revising the maintenance allowance proposed to reflect the actual hours performed by Mr. Pakola. Mr. Hein did not object and pointed out that it was staff who came up with the original estimation of 20 hours a week.

Approximately two weeks later, Mr. Hein contacted our staff and inquired about the allowance for a maintenance person. Our

staff informed Mr. Hein that they were going to recommend a maintenance allowance based on the information obtained at the customer meeting of 3.5 hours a week and $12 an hour as the appropriate hourly rate for this utility. Mr. Hein disagreed with this adjustment and advised our staff that they should not rely on Mr. Pakola's word. Further, Mr. Hein stated that it was he who actually performed the bulk of the maintenance at the utility.

We do not agree that Mr. Hein performs the bulk of the maintenance. Our staff states that all contact with Mr. Hein during the two to three months prior to the customer meeting, and a majority of the contact with Mr. Hein after the customer meeting, was through his residence in Michigan.

By letter dated April 29, 2002, the utility requested that the 15-month statutory time-frame be waived for six weeks so that the maintenance person allowance could be discussed. By letter dated June 21, 2002, the utility submitted an annual list by hour of the duties that Mr. Hein performs. Again, our staff questioned the amount of time Mr. Hein is actually in the state of Florida. We have received correspondence from residents who have stated Mr. Hein may spend as little as three months a year in Florida. However, we have reviewed the hours submitted and although it does not appear that Mr. Hein personally is performing all of these functions, we find that a reasonable allowance shall be made for these functions.

Mr. Hein requested an allowance of 15 hours a week for himself and 5 hours a week for the local maintenance person. As discussed above, we believe that 3.5 hours a week is reasonable for the local maintenance person.

Mr. Hein sent hourly documentation to justify the 15 hours per week (780 hours annually). We believe that 340 of the 780 annual hours Mr. Hein requested should be adjusted as follows:

Duties	Requested Hours (Annually)	Approved Hours (Annually)
Gathering estimates and hiring new employees	117 hrs.	0 hrs.
Fence Repairs	100 hrs.	0 hrs.
CUP Permit Renewal	15 hrs.	.75 hrs.
Reimbursable Repairs	45 hrs.	0 hrs.
Capitalized Labor	25 hrs.	0 hrs.
Painting/ Roof Repairs	33 hrs.	6.6 hrs.
Water Audit	5 hrs.	1 hrs.
Total	340 hrs.	8.35 hrs.

The utility estimated 117 hours annually for getting bids on new contracts, including insurance contracts, and hiring a new maintenance person. We find that the requested amounts are inflated because the utility rehired its existing lawn maintenance company and because our staff assisted Mr. Hein with information for several potential insurance providers. Further, these costs will not be incurred in the near future and should not be included in a determination of Mr. Hein's annual duties on a going-forward basis. Also, because we are allowing replacement of the existing fence, the hours spent repairing the old fence shall not be included in rates on a going-forward basis.

Mr. Hein estimated 15 hours annually to renew the utility's consumptive use permit. The permit expires 20 years from the date of issuance. Therefore, the permit shall be amortized over 20 years and .75 hours annually (15 hours ÷ 20 years) shall be included in rates over that period. Mr. Hein also lists several hours for repairs which were necessary due to damage by contractors and public utilities. These damages should be reimbursable from those responsible for the damage, and we have removed those hours above. Also, because the labor associated with capital items is reflected in our staff's original cost study, we have removed the hours associated with installing capital items of plant.

The final items include painting, roof repairs, and hours spent performing a water audit. All of these items shall be considered non-recurring and amortized over five years pursuant to Rule 25-30.433(8), Florida Administrative Code.

The above adjustments to the utility's request result in approximately 3.5 hours a week for the maintenance person, and 8.5 hours a week for Mr. Hein, for a total of 12 hours a week. Mr. Hein submitted a record for a three-and-one-half-week period from May 28, 2002, to June 20, 2002. His records indicated an average work week of 16.7 hours. As discussed above, according to the residents, Mr. Hein spends approximately three months out of the year in Florida. If we were to extrapolate the three-and-one-half-week period over a three-month period, this would result in approximately 4 hours a week. Being presented with two significantly different hours between the utility and customers, we believe that the actual hours that are appropriate are somewhere between the two. When the three-month (customer) amount is averaged with the utility's requested amount of 15 hours a week for Mr. Hein, the average is 9.5 hours a week. This amount is closer to the amount we find appropriate (8.5 hours) based on the above adjustments.

Based on the utility's request and information obtained from customers, we find that 12 hours a week is reasonable for Mr. Hein and the local maintenance person. Therefore, we have increased this account by $3,744 each for water and wastewater (12 hours a week x 52 weeks x $12 an hour ÷ 2) to reflect the approved maintenance expense.

To reflect the percentage allocation of groundskeeping per system, based on the size of land and required maintenance, we have allocated the costs of groundskeeping 40% to water and 60% to wastewater. This results in $163 being reclassified from water to wastewater.

The utility recorded $5,999 as a repair to a well pump during the historic test year. At the customer meeting, many customers commented that the repair cost was too high and that it would have been cheaper to purchase a new pump. After the customer meeting, our staff talked with several customers who were on site during the "repair" of the pump. Those customers commented that the cost was

reasonable considering that the damaged pump was replaced with a new pump. We agree that the cost of the repair appears to be a bit high and would be more in line with the cost of purchasing a reconditioned pump. Based on the cost documentation provided, it is not clear whether or not the pump is a repair or a replacement. However, we find that it is reasonable to consider the cost to be a replacement that should be capitalized. Therefore, we have decreased this account by $5,999 to reclassify the replacement pump to plant Account No. 311.

To reclassify materials and supplies recorded in the wrong account, we have reclassified $121 for water and $113 for wastewater from Contractual Services-Other to Accounts Nos. 620 and 720 (Materials and Supplies). To reflect repair cost incurred by the utility but not recorded during the test year, we have increased Contractual Services-Other by $172 for wastewater.

Based on the above, the net adjustment to this account is an increase of $397 for water and $5,455 for wastewater, for a total amount for Contractual Services-Other of $9,810 for water and $9,325 for wastewater.

Rents - (640/740) - The utility did not record an amount for this account during the historic test year. Audit Disclosure No. 1 specifies that the utility plant sits on property that is not owned by the utility, but by Universal Sonlight, Inc., a Nevada Corporation as Trustee. Based on our determination of the appropriate treatment for land discussed earlier in this Order, we have determined that the appropriate annual rental expense for the land on which the utility is located should be $405 ($1,600 x 2.53 acres x 10.00%) for water and $582 ($1,600 x 3.64 acres x 10.00%) for wastewater. Based on this determination, we have increased this account by those respective amounts.

Transportation Expense - (650/750) - The utility did not record an amount in this account during the historic test year. The owner and maintenance person use their personal vehicles to meet with regulatory personnel, run errands, make regular visits to Aqua Pure and JNP's home office, perform minor repairs and upkeep at the plants that are outside of Aqua Pure's contract. We estimate that the owner and maintenance person travel approximately 200 miles per month performing these functions. To reflect this

travel, we have increased the Transportation Expense account by $348 each for water and wastewater (200 miles a month x 12 months x $0.29 a mile).

Insurance Expense - (655/755) - The utility did not record an amount in this account during the test year. The utility has requested general liability insurance for this utility and has provided us with a written estimate for $1,714. The insurance expense shall be allocated 50/50 to the water and wastewater plant. Therefore, we have increased this account by $857 ($1,714 ÷ 2) each for water and wastewater to reflect the requested insurance. The utility shall provide our staff with proof of insurance within 90 days of our final order.

Regulatory Commission Expense -(665/765) - The utility recorded $382 for water and $357 for wastewater in this account for the historic test year. These amounts are Regulatory Assessment Fees (RAFs) and should be recorded as taxes other than income. We have reclassified $382 for water and $357 for wastewater from this account to the taxes other than income account. The utility paid a $500 rate case filing fee for water and wastewater each. To amortize rate case expense over four years, we have increased regulatory commission expense by $125 ($500/4 years) for water and wastewater each.

The utility has requested $5,000 for the services of an attorney it hired to represent the utility through the Proposed Agency Action process. This request was not accompanied by any cost justification. Rule 25-30.455(1), Florida Administrative Code, specifies that:

> If a utility that chooses to utilize the staff assistance option employs outside experts to assist in developing information for staff or to assist in evaluating staff's schedules and conclusions, the reasonable and prudent expense will be recovered through the rates developed by staff.

The $5,000 requested was for legal services performed as of June 30, 2002, plus legal services performed up to the August 6, 2002, Agenda Conference, and estimated to be performed after the agenda conference. We find that the $5,000 of rate case expense

has not been justified, but that a reasonable expense shall be allowed. Based on representations of the utility's counsel as to verified amounts spent through June 30, 2002, we find that $2,000 of attorneys' fees is appropriate to include in Regulatory Commission Expense. Therefore, we have increased this account by $250 ($1,000 ÷ 4 years) each for water and wastewater to include $1,000 each per system for rate case expense amortized over four years.

Miscellaneous Expense - (675/775) - The utility recorded $0 for water and $30 for wastewater in this account for the test year. The utility's annual bank fee for holding an account is $60. The utility recorded an annual bank fee of $30 in the miscellaneous account for wastewater but did not record this amount for water. Therefore, we have increased this account by $30 for water to reflect the water system's share of bank fees. The utility did not record the cost incurred ($1,193) in obtaining a wastewater operating permit during the test year. We have amortized this cost over five years (the life of the permit) and increased this account by $239 for wastewater to reflect one fifth of the cost associated with the operating permit.

Operation and Maintenance Expense (O&M Summary) - The total O&M adjustment is an increase of $2,918 for water and $8,643 for wastewater. Therefore, the approved O&M expenses are $16,193 for water and $17,152 for wastewater. Our calculations of O&M expenses are shown on Schedules Nos. 3-D and 3-E.

2. Depreciation Expense: The utility recorded net depreciation expense of $2,400 ($2,841 depreciation and $441 amortization of CIAC) for water and $6,023 ($6,659 depreciation and $636 amortization of CIAC) for wastewater. We have recalculated depreciation expense using the prescribed rates in Rule 25-30.140, Florida Administrative Code. Based on this recalculation, depreciation expense is $4,359 for water and $19,567 for wastewater. Therefore, we have increased depreciation expense by $1,518 ($4,359 - $2,841) for water and $12,908 ($19,567 - $6,659) for wastewater to reflect our recalculation. We have decreased depreciation expense by $2,196 for water and $15,166 for wastewater to reflect non-used and useful depreciation. Also, we have recalculated amortization of CIAC, based on composite depreciation rates, of $703 for water and $1,772 for wastewater. Therefore, we

have decreased depreciation expense by $262 ($441 - $703) for water and $1,136 ($636 - $1,772) for wastewater to reflect this recalculation of amortization of CIAC. Non-used and useful depreciation, and amortization of CIAC has a negative impact on depreciation expense. Net depreciation expense is $1,460 for water and $2,629 for wastewater.

3. Taxes Other Than Income: The utility recorded taxes other than income of $424 for water and $1,072 for wastewater during the test year. We have increased this account by $382 for water and $357 for wastewater to reclassify RAFs from the regulatory commission expense account. Also, we have increased taxes other than income by $329 for water and $316 for wastewater to reflect RAFs on the annualized revenue.

To reflect non-used and useful tangible property taxes associated with non-used and useful tangible plant, we have decreased taxes other than income by $122 for water and $584 for wastewater. Therefore, taxes other than income are $1,013 for water and $1,161 for wastewater.

4. Income Tax: The utility recorded income tax of $0 for water and wastewater. East Marion is a 1120 C corporation; however, the utility has a large amount of loss carry forwards based on its current income tax return. These loss carry forwards are in excess of the return on equity, and will continue to be so over the next couple of years. Therefore, we have not made an adjustment to this account.

5. Operating Revenues: An adjustment to increase operating revenues by $6,112 for water $12,961 for wastewater has been made to reflect the change in revenue required to cover expenses and allow the approved return on investment.

6. Taxes Other Than Income: An adjustment to increase taxes other than income by $275 for water and $583 for wastewater has been made to reflect regulatory assessment fees of 4.5% on the change in operating revenues.

7. Operating Expenses Summary: The application of our adjustments to the audited test year operating expenses results in operating expenses of $18,941 for water and $21,525 for wastewater.

Our calculation of operating expenses is shown on Schedules Nos. 3-A and 3-B. The related adjustments are shown on Schedule No. 3-C.

VI. REVENUE REQUIREMENT

The utility shall be allowed an annual increase of $6,112 (38.70%) for water and $12,961 (86.70%) for wastewater. This will allow the utility the opportunity to recover its expenses and earn a 10.00% return on its investment. Our calculations are as follows:

	Water	Wastewater
Adjusted rate base	$29,650	$63,852
Rate of Return	x .10	x .10
Return on investment	$2,965	$6,385
Adjusted O & M expense	$16,193	$17,152
Depreciation expense (Net)	$1,460	$2,629
Taxes Other Than Income	$1,288	$1,744
Revenue Requirement	$21,906	$27,910
Adjusted Test Year Revenues	$15,794	$14,949
Percent Increase/(Decrease)	38.70%	86.70%

Our calculations of the revenue requirements are shown on Schedules Nos. 3-A and 3-B.

VII. RATES AND CHARGES

A. Conservation Rate Structure

The utility's current rate structure consists of a traditional base facility charge (BFC)/gallonage charge rate structure, in which the BFC is $8.70 per month and all usage per month is charged $1.27 per kgal. Traditionally, because it is a usage sensitive rate structure which allows customers to reduce their total bill by reducing their water consumption, this has been our preferred rate

structure. However, in response to the Governor's stated water conservation policy, as well as water supply concerns throughout the state, the state's five Water Management Districts have requested the implementation of inclining-block rate structures whenever possible. We have complied with this request in the majority of recent cases in which utilities have sought rate relief.

The utility's current consumptive use permit (CUP) as issued by the St. John's River Water Management District (SJRWMD or District), and requires that the utility implement a conservation rate structure such as an inclining-block or seasonal rate structure. Based on the foregoing, East Marion's current rate structure shall be eliminated to be consistent not only with our current practice, but with the overall statewide goal of eliminating conservation-discouraging water rate structures, and to enable the utility to comply with one of the requirements of its CUP.

The goal of the inclining-block rate structure is to reduce average demand. Under this rate structure, it is anticipated that demand in the higher usage block(s) will be more elastic (responsive to price) than demand in the first block. Water users with low monthly usage will benefit, while water users with higher monthly use will pay increasingly higher rates, thereby creating a greater incentive to conserve. Factors to consider when designing inclining-block rates include, but are not limited to, the selection of the appropriate: a) conservation adjustment; b) usage blocks; and c) usage block rate factors. Consideration of other rate structure issues, such as a target usage established by environmental regulators, elasticity of demand, and revenue stability will also have an impact on how each of the components in the inclining-block rate structure should be designed.

Conservation Adjustment

A rate design adjustment which results in more conservation-oriented rates is a conservation adjustment, whereby a portion of the cost recovery is shifted from the BFC to the gallonage charge. This adjustment is made in the majority of water rate cases. We analyzed conservation adjustments of 10%, 20% and 30%, and the results of our analysis, pre-repression adjustment, is shown below:

CONSERVATION ADJUSTMENT ANALYSIS			
	PERCENTAGE PRICE CHANGES AT DIFFERENT LEVELS OF CONSERVATION ADJUSTMENTS		
MONTHLY USAGE	10%	20%	30%
0 kgal	37.1%	21.8%	6.7%
1 kgal	37.6%	25.7%	13.8%
2 kgal	38.0%	28.6%	19.4%
3 kgal	38.3%	31.0%	23.8%
4 kgal	38.5%	32.9%	27.4%
5 kgal	38.7%	34.6%	30.4%
10 kgal	39.4%	39.7%	40.1%
20 kgal	40.0%	44.3%	48.6%
35 kgal	40.3%	47.0%	53.8%

As seen above, at the 10% conservation adjustment level, lesser monthly water users receive virtually no benefit, and greater monthly users receive no greater incentive, because the percentage increase is spread relatively evenly across all usage levels. Therefore, we removed the 10% adjustment from consideration.

A review of the remaining conservation adjustments reveals that the 30% adjustment results in the lowest percentage increases at more nondiscretionary (e.g., 5 kgal or less) monthly usage levels, while resulting in the highest percentage increases at usage levels with more monthly discretionary consumption (e.g., 10 kgal or more). This provides lesser water users with the most benefit, while providing the high water users with greater incentive to conserve. Therefore, we shall implement a 30% conservation adjustment.

Usage Blocks and
Usage Block Rate Factors

Analysis of the utility's test year residential billing and consumption information indicates that the overall residential average monthly consumption is approximately 10.5 kgal. This is greater than the target desired by the SJRWMD. Based on 150 gallons per day per capita and an average of two persons per household, the District's targeted average monthly consumption is approximately 9.0 kgal. Further analysis of the billing and consumption data indicates that approximately 65% of customers' bills are accounted for at monthly consumption per customer of 10 kgal or less, representing average monthly consumption for this group of 5.0 kgal. However, the remaining bills represent average monthly consumption of 21.0 kgal.

In this case, we believe it is important to target average monthly consumption greater than 10 kgal with a higher usage rate. Therefore, we examined two different two-tier inclining-block rate structures. Both had usage blocks of 0-10 kgal and 10+ kgal, with rate factors for the second block of 1.25 and 1.50, respectively. We also considered a three-tier rate structure with usage blocks of 0-5 kgal, 5-10 kgal and 10+ kgal, with rate factors of 1.25 and 1.5 for the second and third usage blocks. The results of our analysis are included in the table below:

ANALYSIS OF USAGE BLOCKS AND USAGE BLOCK RATE FACTORS			
	PERCENTAGE PRICE CHANGES AT DIFFERENT USAGE BLOCKS (KGAL) AND RATE FACTORS		
MONTHLY USAGE	**Usage Blocks 0-10/10+ Rate Factors 1.0/1.25**	**Usage Blocks 0-10/10+ Rate Factors 1.0/1.50**	**Usage Blocks 0-5/5-10/10+ Rate Factors 1.0/1.25/1.50**
0 kgal	6.7%	6.7%	6.7%
1 kgal	12.1%	10.6%	9.8%
2 kgal	16.4%	13.7%	12.3%
3 kgal	19.7%	16.1%	14.2%
4 kgal	22.5%	18.1%	15.8%
5 kgal	24.8%	19.8%	17.1%
10 kgal	32.1%	25.1%	31.2%
20 kgal	52.7%	55.7%	56.0%
35 kgal	65.2%	74.1%	70.9%

As discussed earlier, the goal of the inclining-block rate structure is to reduce average demand. This is accomplished by having water users with higher monthly use receive increasingly higher percentage increases, thereby creating a greater incentive to conserve. Based on this criteria, the results of our analysis at usage levels of 10 kgal or greater are ambiguous. At monthly usage of 10 kgal, the two-tier inclining-block rate structure with a rate factor of 1.25 for the second block would receive the greatest percentage increase. At the 20 kgal usage level, the three-tier inclining-block rate structure provides the greatest incentive to conserve, while the two-tier structure with a rate factor of 1.5 for the second block provides the greatest incentive to conserve at monthly usage of 35 kgal. At nondiscretionary usage levels, the benefit of providing lesser water users the lowest

price increase is best accomplished using the three-tier inclining-block rate structure.

When the results of our analysis are ambiguous, another method of analysis is to calculate the total percentage point spread between 1 kgal of consumption and the greatest consumption level examined. In this case, the evaluation yields the following results:

COMPARISON OF PRICE INCREASE SPREADS			
	PERCENTAGE PRICE CHANGES AT DIFFERENT USAGE BLOCKS (KGAL) AND RATE FACTORS		
MONTHLY USAGE	**Usage Blocks 0-10/10+ Rate Factors 1.0/1.25**	**Usage Blocks 0-10/10+ Rate Factors 1.0/1.50**	**Usage Blocks 0-5/5-10/10+ Rate Factors 1.0/1.25/1.50**
1 kgal	12.1%	10.6%	9.8%
35 kgal	65.2%	74.1%	70.9%
TOTAL PERCENTAGE POINT SPREAD =	53.1%	63.5%	61.1%

As shown in the above table, the two-tier inclining-block rate structure with a rate factor of 1.5 in the second block produces the greatest total percentage point spread between 1 kgal of consumption and the greatest consumption level examined.

Based on the foregoing, a continuation of the utility's current rate structure for its water system is not appropriate in this case. The rate structure shall be changed to a two-tier inclining-block rate structure. The usage blocks shall be set at 0-10,000 gallons (10 kgal) and for usage above 10 kgal, with usage block rate factors of 1.0 and 1.50, respectively. A 30% conservation adjustment should also be implemented.

B. Repression Adjustment

Based on information contained in our database of utilities receiving rate increases and decreases, there were eleven water

utilities which experienced similar price increases, as well as very comparable prior consumption and prior prices, based on monthly usage levels below 10 kgal. On average, these utilities experienced an approximate 26% price increase while experiencing an approximate 9.4% reduction (repression) in average monthly consumption. Because of the comparability of these eleven utilities to East Marion, we believe an anticipated repression adjustment of 9.4% in the first usage block is reasonable and appropriate.

An examination of our database revealed no sufficiently similar utilities upon which we could base a repression adjustment for monthly usage levels above 10 kgal. Absent any comparable utilities, we assumed the following relationship:

$$\frac{\text{Avg price incr of all utilities of 33.3\%}}{\text{Avg consump decr of all utilities of 7.0\%}} = \frac{\text{East Marion's avg price incr of 57.5\%}}{X}$$

Solving for X, the anticipated repression in the second usage block is 12.2%. Based on the average monthly consumption per customer in the second usage block of 21.0 kgal, this adjustment appears to be reasonable.

Therefore, the overall repression adjustment to the water system is 722.5 kgal, with a corresponding adjustment of 578.0 kgal to the wastewater system. In order to monitor the effects of both the changes in rate structure and the approved revenue increases, the utility shall prepare monthly reports detailing the number of bills rendered, the consumption billed and the revenue billed. These reports shall be provided, by customer class and meter size, on a quarterly basis for a period of two years, beginning with the first billing period after the increased rates go into effect.

C. Rates

As discussed above, the appropriate revenue requirement is $21,906 for the water system and $27,910 for the wastewater system. However, for rate setting purposes, the revenue requirement, excluding miscellaneous service charges of $475 for water and $375 for wastewater, is $21,431 for water and $27,535 for wastewater. Miscellaneous service charges are used to reduce the revenue requirement recovered through rates; therefore, we have designed rates to produce the revenue requirement excluding miscellaneous

service charges. Using a two-tier inclining-block rate structure, with usage blocks of 0-10 kgal and 10+ kgal, and usage block rate factors of 1.0 and 1.50, respectively, we noted that a 30% conservation adjustment should be implemented. The appropriate repression adjustment for the water system is 722.5 kgal, and the corresponding repression adjustment for the wastewater system is 578.0 kgal.

Using projected test year number of bills and projected consumption as well as the repression adjustment discussed above, we calculated rates for wastewater based on 80% of the projected water used by residential customers less a repression adjustment and actual usage for the general service customers. Schedules of the rates and rate structure in effect at the end of the test year and our approved rates and rate structure are as follows:

Monthly Rates - Water
Residential and General Service

Base Facility Charge

Meter Sizes	Test Year Rates	Commission Approved Rates
5/8" x 3/4"	$8.70	$9.40
3/4"	$13.05	$14.10
1"	$21.75	$23.50
1 ½"	$43.50	$47.00
2"	$69.60	$75.21
3"	$139.20	$150.41
4"	$217.50	$235.02
6"	$435.00	$470.03
Gallonage Charge		
Residential Per 1,000 Gallons		
0-10,000 Gallons	$1.27	$1.96
Above 10,000 Gallons	$1.27	$2.94
General Service		
Per 1,000 Gallons	$1.27	$2.30

Monthly Rates - Wastewater

Residential

	Test Year Rates	Commission Approved Rates
Base Facility Charge		
Meter Size:		
All Meter Sizes	$9.61	$14.55
Gallonage Charge		
Per 1,000 Gallons (10,000 gallon cap)	$1.83	$4.44

Monthly Rates - Wastewater

General Service

	Test Year	Commission Approved Rates
Base Facility Charge		
Meter Sizes		
5/8" x 3/4"	$9.61	$14.55
3/4"	$14.42	$21.83
1"	$24.03	$36.38
1 ½"	$48.05	$72.77
2"	$76.88	$116.42
3"	$153.76	$232.85
4"	$240.25	$363.83
6"	$480.50	$727.65
Gallonage Charge		
Per 1,000 Gallons	$1.83	$5.33

Approximately 32% ($6,900) of the water and 38% ($10,507) of the wastewater system revenue requirement net of other revenues is recovered through the approved base facility charge. The fixed costs are recovered through the BFC based on the number of factored ERCs. The remaining 68% ($14,531) for water and 62% ($17,028) for wastewater of the revenue requirement net of other revenues represents revenues collected through the consumption charge based on the number of factored gallons.

The following is a comparison of residential water and wastewater rates at 3,000, 5,000, and 10,000 gallons. Average residential use for this utility is 9,466 gallons per month for water and 5,653 capped gallons per month for wastewater.

	Existing Rate		Approved Rate	
Gallons	Water	Wastewater	Water	Wastewater
3,000	$12.51	$15.10	$15.28	$27.87
5,000	$15.05	$18.76	$19.20	$36.75
10,000	$21.40	$27.91	$29.00	$58.95

These rates shall 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 our staff's verification that the tariffs are consistent with our 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.

D. Four Year Rate Reduction

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 RAFs which is $393 annually for water and $393 annually for wastewater. 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 Schedules Nos. 4 and 4A.

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

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

E. Service Availability Charges

The utility's existing tariff authorizes a system capacity charge of $300 for water and $715 for wastewater. We have recalculated the existing system capacity charge as a plant capacity and main extension charge.

The utility's current contribution level is 15.41% for water and 5.45% for wastewater. The utility's water and wastewater facilities can accommodate additional connections.

In order to evaluate the utility's service availability charges, we have used Rule 25-30.580, Florida Administrative Code, which states in part that:

(1) The maximum amount of contributions-in-aid-of-construction, net of amortization, should not exceed 75% of the total original cost, net of accumulated depreciation, of the utility's facilities and plant when the facilities and plant are at their designed capacity; and
(2) The minimum amount of contributions-in-aid-of-construction should not be less than the percentage of such facilities and plant that is represented by the water transmission and distribution lines and sewage collection systems.

We have designed service availability charges such that the utility's contribution level will approach the maximum level prescribed in Rule 25-30.580, Florida Administrative Code, at build out. A schedule of the utility's existing charges and our approved charges are set forth below:

Water

System Capacity Charge	Existing Charge	Approved Charge
Residential-Per ERC (349 GPD)	$300.00	N/A
All Others-Per Gallon	N/A	N/A
Main Extension Charge		
Residential-Per ERC (349 GPD)	N/A	$255.00
All Others-Per Gallon	N/A	$0.73
Plant Capacity Charge		
Residential-Per ERC (349 GPD)	N/A	$112.00
All Others-Per Gallon	N/A	$0.32

Wastewater

System Capacity Charge	Existing Charge	Approved Charge
Residential-Per ERC (349 GPD)	$715.00	N/A
All Others-Per Gallon	N/A	N/A
Main Extension Charge		
Residential-Per ERC (349 GPD)	N/A	$517.00
All Others-Per Gallon	N/A	$1.48
Plant Capacity Charge		
Residential-Per ERC (349 GPD)	N/A	$358.00
All Others-Per Gallon	N/A	$1.03

The service availability charges shall become effective for connections made on or after the stamped approval date of the revised tariff sheets, if no protest is filed and provided customers have been noticed.

VIII. OTHER ISSUES

A. Customer Deposits

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. The utility's existing tariff authorizes the utility to collect a $10 customer deposit for water and for wastewater. This amount will not provide an average bill for a 2-month period based on our approved rates. Therefore, we have calculated customer deposits using our approved rates and an average monthly bill for a 2-month period. A schedule of the utility's existing and our approved deposits follows:

Water

Residential and General Service

Meter Size	Existing Deposit	Commission Approved Deposit
5/8" x 3/4"	$10.00	$61.00
All over 5/8" x 3/4"	$10.00	2 x Average Bill

Wastewater

Residential and General Service

Meter Size	Existing Deposit	Commission Approved Deposit
5/8" x 3/4"	$10.00	$80.00
All over 5/8" x 3/4"	$10.00	2 x Average Bill

The utility shall file revised tariff sheets which are consistent with the above. The customer deposits shall become effective for connections made on or after the stamped approval date of the revised tariff sheets, if no protest is filed and provided customers have been noticed.

B. Late Payment Charge

In its application, the utility requested approval to implement a $5 late payment charge. The purpose of this charge is not only to provide an incentive for customers to make timely payment, thereby reducing the number of delinquent accounts, but also to place the cost burden of processing such delinquencies solely upon those who are the cost causers.

Presently, our rules provide that late payers may be required by the utility to provide an additional deposit. However, we found in Order No. PSC-96-1409-FOF-WU, issued November 20, 1996, in Docket No. 960716-WU, Crystal River Utilities, Inc., that there is no further incentive for either delinquent or late-paying customers to pay their bills on time after the additional deposit. In that same Order, we also found that the cost causer should pay the

additional cost incurred to the utility by late payments, rather than the general body of the utility's ratepayers.

The utility's contracted billing company charges $5 per bill to process late payment charges. Therefore, this amount is reasonable and is approved. The utility shall file revised tariff sheets and proposed notice, which are consistent with this approved charge. The late payment charge shall become effective on the stamped approval date of the tariff sheets, if no protest is filed and provided customers have been noticed.

C. Temporary Rates Subject to Refund

We have proposed an increase in water and wastewater rates. A timely protest might delay what may be a justified rate increase resulting in an unrecoverable loss of revenue to the utility. Therefore, pursuant to Section 367.0814(7), Florida Statutes, in the event of a protest filed by a party other than the utility, our proposed rates shall be approved as temporary rates. If the utility implements the approved rates as temporary rates, the rates collected by the utility shall be subject to the refund provisions discussed below.

The utility shall be authorized to collect the temporary rates upon our staff's approval of an appropriate security for both the potential refund and a copy of the proposed customer notice. The security shall be in the form of a bond or letter of credit in the amount of $12,966. Alternatively, the utility could establish an escrow agreement with an independent financial institution.

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

1) The Commission approves the rate increase; or

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

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

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

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

If security is provided through an escrow agreement, the following conditions shall 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 should be an interest bearing account.

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

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

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

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

7) This escrow account is established by the direction of the Florida Public Service Commission for the purpose(s) set forth in its order requiring such account. Pursuant to Cosentino v. Elson, 263 So. 2d 253 (Fla. 3d DCA 1972), escrow accounts are not subject to garnishments.

8) The Director of 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 shall the maintenance and administrative costs associated with the refund be borne by the customers. These costs are the responsibility of, and shall 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 shall be maintained by the utility. If a refund is ultimately required, it shall be paid with interest calculated pursuant to Rule 25-30.360(4), Florida Administrative Code. The utility shall 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 shall file reports with the Division of Commission Clerk and Administrative Services no later than 20 days after each monthly billing. These reports shall indicate the amount of revenue collected under the increased rates subject to refund.

D. Show Cause

On March 27, 2002, our staff received a call from Ms. Tonia Nieves who was very concerned that her water and wastewater services were about to be cut off. She stated that Mr. Hein, President of East Marion, had called her, and advised her that he had not received her payment for the last bill, that it was past due, and that he could cut her off at any time. Ms. Nieves further stated that she never received any written notice, had mailed the payment two days ahead of the due date to a local post office box, and that it had always been received timely before. Ms. Nieves further advised our staff that there was no local telephone number to call for either billing problems or in case of emergency.

Upon investigation, our staff discovered that Mr. Hein had a telephone number listed for the Michigan area and after a couple of calls reached him at this number. Mr. Hein denied that he had threatened to cut Ms. Nieves off, but that he had called her as a

courtesy to tell her that he had not received payment. He also advised our staff that he had just recently changed management companies, and that the customers had not yet been advised of this change and of the new address and telephone number.

Our staff advised Mr. Hein of the appropriate rules for cut off and the need for a local number in case of emergencies and also for billing inquiries. Mr. Hein stated that he had never intended to cut Ms. Nieves off and that he had since received payment for the past-due bill. Upon receiving this information, our staff immediately called Ms. Nieves and advised her that her payment had been received and that she was not in danger of having her service cut off.

At the customer meeting held on April 18, 2002, several customers complained that they had also been threatened with cut off without receiving written notice, and that they had been unable to reach Mr. Hein and did not know of the change in management companies. However, these customers did admit that the local maintenance man, who was also a customer, apparently knew how to contact Mr. Hein. Also, at least two customers said they had been threatened with cut off for matters that were unrelated to their water and wastewater service (i.e., for either violating homeowners' covenants or for improper removal of dirt).

Our staff states that Ms. Nieves appeared to be traumatized by the telephone call of Mr. Hein, and that, with small children at home, she was very concerned that she would be without water. Also, other customers expressed the same concerns as Ms. Nieves.

Section 367.161, Florida Statutes, authorizes this Commission to assess a penalty of not more than $5,000 per day for each offense, if a utility is found to have knowingly refused to comply with, or to have willfully violated any Commission rule, order, or provision of Chapter 367, Florida Statutes. Utilities are charged with the knowledge of our rules and statutes. Additionally, "it is a common maxim, familiar to all minds that 'ignorance of the law' will not excuse any person, either civilly or criminally." Barlow v. United States, 32 U.S. 404, 411 (1833).

Thus, any intentional act, such as the utility's improper discontinuance of service or failure to provide required

information to customers, would meet the standard for a "willful violation." In In Re: Investigation Into The Proper Application of Rule 25-14.003, Florida Administrative Code, Relating To Tax Savings Refund for 1988 and 1989 For GTE Florida, Inc., Order No. 24306, issued April 1, 1991, in Docket No. 890216-TL, this Commission, having found that the company had not intended to violate the rule, nevertheless, found it appropriate to order it to show cause why it should not be fined, stating that "'willful' implies an intent to do an act, and this is distinct from an intent to violate a statute or rule." Id. at 6.

Although regulated utilities are charged with knowledge of our rules and statutes, we do not believe that it is absolutely clear that East Marion has violated Rules 25-30.320 and .330, Florida Administrative Code. Rule 25-30.320(2)(g), Florida Administrative Code, states that a utility may discontinue service:

> For nonpayment of bills, . . . only after there has been a diligent attempt to have the customer comply, including at least 5 working days' written notice to the customers. Such notice shall be separate and apart from any bill for service. For purposes of this subsection, "working day" means any day on which the utility's office is open and the U.S. Mail is delivered.

Also, Rule 25-30.320(6), Florida Administrative Code, states:

> No utility shall discontinue service to any customer, between 12:00 noon on a Friday and 8:00 a.m. the following Monday or between 12:00 noon on the day preceding a public holiday and 8:00 a.m. the next working day; provided, however, that this provision shall not apply when:
> (a) Discontinuance is requested by or agreed to by the customer; or
> (b) A hazardous condition exists; or
> (c) Meters or other utility-owned facilities have been tampered with; or
> (d) Service is being obtained fraudulently or is being used for unlawful purposes.

It is unclear whether the utility has actually violated the above-noted provisions, but we are very concerned about the traumatizing effects of verbal threats. Therefore, while we will not initiate a show cause proceeding in regard to improper discontinuance of service at this time, the utility shall review in detail under what conditions service may be discontinued, and, also, the proper procedures for discontinuing service. If the utility chooses to make a courtesy call, the utility shall specifically state that the customer must also receive five working-days written notice before service may be discontinued.

Rule 25-30.330, Florida Administrative Code, provides:

> (1) Each utility shall provide its customers with the following information on at least an annual basis:
> (a) Telephone numbers regular and after hours;
> (b) Office address;
> (2) Each utility shall provide its customers, upon request, with such other information and assistance as reasonably may be necessary to ensure that the customer receives safe, efficient service.

Again, it is unclear whether the utility has violated these provisions, and we will initiate no show cause proceeding based on the provisions in Rule 25-30.330, Florida Administrative Code, at this time. However, as required earlier in this Order, the utility shall place emergency numbers in a prominent place at the water treatment plant, wastewater plant and lift stations, and place the number for billing inquiries and emergency service on its bills to its customers.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that East Marion Sanitary Systems, Inc.'s application for increased rates and charges is hereby approved as set forth in the body of this Order. It is further

ORDERED that the provisions of this Order, issued as proposed agency action, shall become final and effective upon the issuance of a Consummating Order unless an appropriate petition, in the form provided by Rule 28-106.201, Florida Administrative Code, is

received by the Director, Division of the Commission Clerk and Administrative Services, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings" attached hereto. It is further

ORDERED that each of the findings made in the body of this Order is hereby approved in every respect. It is further

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

ORDERED that East Marion Sanitary Systems, Inc., shall purchase the land on which its facilities are located or enter into a long-term lease, such as a 99-year lease, pursuant to Section 367.1213, Florida Statutes, and submit either a warranty deed or copy of a long-term lease in the utility's name within six months of August 6, 2002. It is further

ORDERED that East Marion Sanitary Systems, Inc., is hereby authorized to charge the new rates and charges as set forth in the body of this Order. It is further

ORDERED that the approved rates shall be effective for service rendered on or after the stamped approval date on the tariff sheets, pursuant to Rule 25-30.475(1), Florida Administrative Code, provided customers have received notice. The tariff sheets will be approved upon our staff's verification that the tariffs are consistent with this Order and the customer notice is adequate. It is further

ORDERED that the rates shall not be implemented until notice has been received by the customers. The notice shall include contact numbers for emergency, billing, and general inquiries. It is further

ORDERED that East Marion Sanitary Systems, Inc., shall provide proof of the date notice was given within 10 days after the date of the notice. It is further

ORDERED that in no event shall the rates be effective for service rendered prior to the stamped approval date. It is further

ORDERED that if the effective date of the new rates falls within a regular billing cycle, the initial bills at the new rate may be prorated as set forth in the body of this Order. It is further

ORDERED that East Marion Sanitary Systems, Inc., shall post local emergency phone numbers at both plants, at each lift station, and on the bills so that there will be provision for response 24 hours a day, seven days a week. Those postings shall occur no later that 60 days from the effective date of the Order for this rate case. Also, the telephone number for billing inquiries shall be posted on the bill. It is further

ORDERED that East Marion Sanitary Systems, Inc., shall provide our staff with proof of insurance within 90 days of our final order. It is further

ORDERED that East Marion Sanitary Systems, Inc., shall complete the pro forma fence replacement and installation of the lift station alarm within 90 days of the effective date of this Order. It is further

ORDERED that East Marion Sanitary Systems, Inc., shall prepare monthly reports detailing the number of bills rendered, the consumption billed and the revenue billed. These reports shall be provided, by customer class and meter size, on a quarterly basis for a period of two years, beginning with the first billing period after the increased rates go into effect. It is further

ORDERED that East Marion Sanitary Systems, Inc., shall reduce its rates following the expiration of the four-year rate case expense recovery period pursuant to Section 367.0816, Florida Statutes. It is further

ORDERED that East Marion Sanitary Systems, Inc., shall file revised tariff sheets no later than one month prior to the actual date of the required rate reduction. The utility shall also file a proposed customer notice setting forth the lower rates and the reason for the reduction. It is further

ORDERED that if East Marion Sanitary Systems, Inc., files this reduction in conjunction with a price index or pass-through rate adjustment, separate data shall be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense. It is further

ORDERED that East Marion Sanitary Systems, Inc., shall charge the service availability charges, deposits, and late payment charges approved in this Order and that these charges shall become effective for connections made on or after the stamped approval date of the revised tariff sheets, if no protest is filed and provided customers have been noticed. It is further

ORDERED that East Marion Sanitary Systems, Inc., shall file revised tariff sheets and proposed notice, which are consistent with the approved service availability charges, approved customer deposits, and approved late payment charges. It is further

ORDERED that pursuant to Section 367.0814(7), Florida Statutes, the rates approved herein shall be approved for East Marion Sanitary Systems, Inc., on a temporary basis, subject to refund, in the event of a protest filed by a party other than the utility. It is further

ORDERED that, prior to any implementation of temporary rates, East Marion Sanitary Systems, Inc., shall provide appropriate security as set forth in the body of this Order. Irrespective of the form of security chosen by the utility, an account of all monies received as a result of the rate increase shall be maintained by the utility. It is further

ORDERED that if a refund is ultimately required, it shall be paid with interest calculated pursuant to Rule 25-30.360(4), Florida Administrative Code. It is further

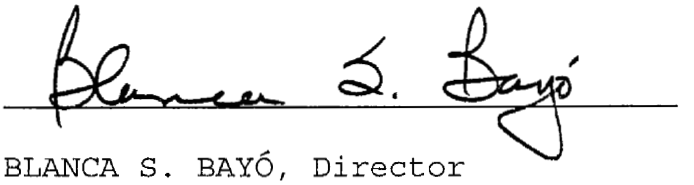
ORDERED that East Marion Sanitary Systems, Inc., shall maintain a record of the amount of the bond, and the amount of revenues that are subject to refund. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(7), Florida Administrative Code, the utility shall file reports with the Division of Commission Clerk and Administrative Services no later than 20 days after each monthly billing. These reports shall

indicate the amount of revenue collected under the increased rates subject to refund. It is further

ORDERED that while this Commission will not implement show cause proceedings against East Marion Sanitary Systems, Inc., the utility shall review Rule 25-30.320, Florida Administrative Code, in detail to ascertain under what conditions service may be discontinued, and, also, the proper procedures for discontinuing service. If the utility chooses to make a courtesy call, the utility shall specifically state that the customer must also receive five working-days written notice before service may be discontinued. It is further

ORDERED that in the event this Order becomes final, this docket shall remain open for an additional eight months from the effective date of the Order to allow our staff to verify that the utility has: purchased insurance, posted telephone numbers as required, completed the pro forma improvements, and purchased the land on which its treatment systems are located or has entered into a long-term lease such as a 99-year lease. Upon verification of the above by our staff, the docket may be administratively closed.

By ORDER of the Florida Public Service Commission this 26th day of August, 2002.



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

(S E A L)

RRJ

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

As identified in the body of this order, our actions, except for the approving of temporary rates subject to refund and declining to initiate show cause proceedings, are preliminary in nature. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Director, Division of the Commission Clerk and Administrative Services, at 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on September 16, 2002. If such a petition is filed, mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing. In the absence of such a petition, this order shall become effective and final upon the issuance of a Consummating Order.

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

Any party adversely affected by the Commission's final action in this matter may request: (1) reconsideration of the decision by filing a motion for reconsideration with the Director, Division of the Commission Clerk and Administrative Services within fifteen (15) days of the issuance of this order in the form prescribed by Rule 25-22.060, Florida Administrative Code; or (2) judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or the First District Court of Appeal in the case of a water or wastewater utility by filing a notice of appeal with the Director, Division of the Commission Clerk and Administrative

Services and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days after the issuance of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.

IX. Schedules and Attachments
Attachment A, page 1 of 4

WATER TREATMENT PLANT - USED AND USEFUL DATA

Docket No. 010396-WS - East Marion Sanitary Systems, Inc.

1)	**Capacity of Plant**	250	gallons per minute
2)	**Average of 5 Highest Days From Maximum Month** (60 cut X 1.1 gpm X 2)	132	gallons per minute
3)	**Average Daily Flow** (60 cut X 1.1 gpm)	66	gallons per minute
4)	**Fire Flow Capacity**	0	gallons per minute

a) Required Fire Flow: 250 gpm is not sufficient to support Fire Flow

5)	**Growth**	18	gallons per minute

a) Test year Customers in ERCs:

Begin	49
End	60
Average	55

(Use average number of customers)

b) Customer Growth in ERCs using Regression Analysis for most recent 5 years including Test Year: 3 ERCs

c) Statutory Growth Period: 5 Years

(b)x(c)x [3\(a)]= 18 gallons per minute for growth

6)	**Excessive Unaccounted for Water**	0	gallons per minute
	a) Total Unaccounted for Water	N/A	gallons per minute
	Percent of Average Daily Flow	10%	
	b) Reasonable Amount	N/A	gallons per minute
	(10% of average Daily Flow)		
	c) Excessive Amount	N/A	gallons per minute

USED AND USEFUL FORMULA

[(2)+(4)+(5)-(6)]/(1) = 60.0% Used and Useful

WATER DISTRIBUTION SYSTEM - USED AND USEFUL DATA

Docket No. 010396-WS - East Marion Sanitary Systems, Inc.

1)	**Capacity of System** (Number of Potential Customers, ERCs or Lots Without Expansion)	181	ERCs
2)	**Test year connections**		
	a) Beginning of Test Year	49	ERCs
	b) End of Test Year	60	ERCs
	c) Average Test Year	55	ERCs
3)	**Growth**	15	ERCs
	a) customer growth in connections for last 5 years including Test Year using Regression Analysis	3	ERCs
	b) Statutory Growth Period	5	Years

(a) x (b) = 15 connections allowed for growth

USED AND USEFUL FORMULA

[2+3]/(1) = 38.7% Used and Useful

WASTEWATER TREATMENT PLANT - USED AND USEFUL DATA

Docket No. 010396-WS - East Marion Sanitary Systems, Inc.

1)	**Permitted Capacity of Plant** (AADF)	50,000	gallons per day
2)	**Maximum Daily Flow**	3,528	gallons per day
3)	**Average Daily Flow**	2,955	gallons per day
4)	**Growth**	806	gallons per day
	a) Test year Customers in ERCs: Beginning		49
	Ending		60
	Average		55
	b) Customer Growth in ERCs using Regression Analysis for most recent 5 years including Test Year	3	ERCs
	c) Statutory Growth Period	5	Years
	(b x c) x [3/(a)]= 806 gallons per day for growth		
5)	Excessive Infiltration or Inflow (I&I)	N/A	gallons per day
	a) Total I&I:	N/A	gallons per day
	Percent of Average Daily Flow	0.00%	
	b) Reasonable Amount	6,800	gallons per day
	(500 gpm per inch dia pipe per mile)		
	c) Excessive Amount	N/A	gallons per day

USED AND USEFUL FORMULA

[(3)+(4)-(5)]/(1) = 7.5% Used and Useful

WASTEWATER COLLECTION SYSTEM - USED AND USEFUL DATA

Docket No. 010396-WS - East Marion Sanitary Systems, Inc.

1)	Capacity of System (Number of potential customers, ERCs or Lots without expansion	181	ERCs
2)	Test year connections		
	a) Beginning of Test Year	49	ERCs
	b) End of Test Year	60	ERCs
	c) Average Test Year	55	ERCs
3)	Growth	15	ERCs
	a) customer growth in connections for last 5 years including Test Year using Regression Analysis	3	ERCs
	b) Statutory Growth Period	5	Years

(a) x (b) = 15 connections allowed for growth

USED AND USEFUL FORMULA

[(2)+(3)]/(1) = 38.7% Used and Useful

EAST MARION SANITARY SYSTEMS, INC.
TEST YEAR ENDING 12/31/02
SCHEDULE OF WATER RATE BASE

SCHEDULE NO. 1-A
DOCKET NO. 010869-WS

DESCRIPTION	BALANCE PER UTILITY	COMMN ADJUST. TO UTIL. BAL.	BALANCE PER COMMN
1. UTILITY PLANT IN SERVICE	$89,867	$47,030	$136,897
2. LAND & LAND RIGHTS	35,000	(35,000)	$0
3. NON-USED AND USEFUL COMPONENTS	0	(51,339)	($51,339)
4. CIAC	(13,865)	(6,282)	($20,147)
5. ACCUMULATED DEPRECIATION	(25,212)	(15,077)	($40,289)
6. AMORTIZATION OF CIAC	1,654	850	$2,504
7. WORKING CAPITAL ALLOWANCE	0	2,024	$2,024
8. WATER RATE BASE	$87,444	($57,794)	$29,650

EAST MARION SANITARY SYSTEMS, INC.
TEST YEAR ENDING 12/31/02
SCHEDULE OF WASTEWATER RATE BASE

SCHEDULE NO. 1-B
DOCKET NO. 010869-WS

DESCRIPTION	BALANCE PER UTILITY	COMMN ADJUST. TO UTIL. BAL.	BALANCE PER COMMN
1. UTILITY PLANT IN SERVICE	$191,262	$278,565	$469,827
2. LAND & LAND RIGHTS	50,000	(50,000)	$0
3. NON-USED AND USEFUL COMPONENTS	0	(159,285)	($159,285)
4. CIAC	(26,600)	(12,410)	($39,010)
5. ACCUMULATED DEPRECIATION	(63,265)	(152,895)	($216,160)
6. AMORTIZATION OF CIAC	2,405	3,931	$6,336
7. WORKING CAPITAL ALLOWANCE	0	2,144	$2,144
8. WASTEWATER RATE BASE	$153,802	($89,950)	$63,852

EAST MARION SANITARY SYSTEMS, INC.
TEST YEAR ENDING 12/31/02
ADJUSTMENTS TO RATE BASE

SCHEDULE NO. 1-C
DOCKET NO. 010869-WS

	WATER	WASTEWATER
UTILITY PLANT IN SERVICE		
1. Plant per original cost study	$47,831	$273,748
2. Capitalize Pump from Acct 636	$5,999	$0
3. Retire Old Pump	($8,050)	$0
4. Projected meter additions/ fence and lift station alarm	3,538	19,337
5. Retire Old Fence	(1,738)	(9,702)
6. Averaging adjustment	(550)	(4,818)
Total	$47,030	$278,565
LAND		
1. Remove Land not owned by the utility	($35,000)	($50,000)
NON-USED AND USEFUL PLANT		
1. To reflect non-used and useful plant.	($73,832)	($333,326)
2. To reflect non-used and useful accumulated depreciation.	22,493	174,041
Total	($51,339)	($159,285)
CIAC		
1. CIAC based on tariffed service availability charges	($565)	($1,285)
2. Projected CIAC for 10 customers a year x 2 years	(7,735)	(15,100)
3. Averaging adjustment	2,018	3,975
Total	($6,282)	($12,410)
ACCUMULATED DEPRECIATION		
1. Depreciation adjustment per Rule 25-30.140 FAC	($17,547)	($128,840)
2. Projected depreciation	(8,615)	(38,600)
3. Retire Old Pump	8,050	0
4. Pro forma Retirement	1,738	9,702
5. Averaging adjustment	1,297	4,843
Total	($15,077)	($152,895)
AMORTIZATION OF CIAC		
1. To adjust amortization of CIAC based on composite rates	$21	$1,834
2. Projected amortization	1,147	2,894
3. Averaging adjustment	(318)	(797)
Total	$850	$3,931
WORKING CAPITAL ALLOWANCE		
1. To reflect 1/8 of test year O & M expenses.	$2,024	$2,144

EAST MARION SANITARY SYSTEMS, INC.
TEST YEAR ENDING 12/31/02
SCHEDULE OF CAPITAL STRUCTURE

SCHEDULE NO. 2
DOCKET NO. 010869-WS

CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUST-MENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUST-MENTS	BALANCE PER COMMN	PERCENT OF TOTAL	COST	WEIGHTED COST
1. COMMON STOCK	$1,000	$0	$1,000					
2. RETAINED EARNINGS	(75,921)	0	(75,921)					
3. PAID IN CAPITAL	313,018	3,350	316,368					
4. TREASURY STOCK	0	0	0					
5. TOTAL COMMON EQUITY	$238,097	$3,350	241,447	(147,945)	93,502	100.00%	10.00%	10.00%
6. TOTAL LONG TERM DEBT	3,350	(3,350)	0	0	0	0.00%	0.00%	0.00%
7. CUSTOMER DEPOSITS	0	0	0	0	0	0.00%	6.00%	0.00%
8. TOTAL	$241,447	$0	$241,447	($147,945)	$93,502	100.00%		10.00%

RANGE OF REASONABLENESS	LOW	HIGH
RETURN ON EQUITY	9.00%	11.00%
OVERALL RATE OF RETURN	9.00%	11.00%

EAST MARION SANITARY SYSTEMS, INC.
TEST YEAR ENDING 12/31/02
SCHEDULE OF WATER OPERATING INCOME

SCHEDULE NO. 3-A
DOCKET NO. 010869-WS

	TEST YEAR PER UTILITY	COMMN ADJUSTMENTS	COMMN ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	$8,357	$7,437	$15,794	$6,112 38.70%	$21,906
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	13,275	2,918	16,193	0	16,193
3. DEPRECIATION (NET)	2,400	(940)	1,460	0	1,460
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	424	589	1,013	275	1,288
6. INCOME TAXES	0	0	0	0	0
7. TOTAL OPERATING EXPENSES	$16,099	$2,567	$18,666	$275	$18,941
8. OPERATING INCOME/(LOSS)	($7,742)		($2,872)		$2,965
9. WATER RATE BASE	$87,444		$29,650		$29,650
10. RATE OF RETURN	-8.85%		-9.69%		10.00%

EAST MARION SANITARY SYSTEMS, INC.
TEST YEAR ENDING 12/31/02
SCHEDULE OF WASTEWATER OPERATING INCOME

SCHEDULE NO. 3-B
DOCKET NO. 010869-WS

	TEST YEAR PER UTILITY	COMMN ADJUSTMENTS	COMMN ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	$8,319	$6,630	$14,949	$12,961 86.70%	$27,910
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	8,509	8,643	17,152	0	17,152
3. DEPRECIATION (NET)	6,023	(3,394)	2,629	0	2,629
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	1,072	89	1,161	583	1,744
6. INCOME TAXES	0	0	0	0	0
7. TOTAL OPERATING EXPENSES	$15,604	$5,338	$20,942	$583	$21,525
8. OPERATING INCOME/(LOSS)	($7,285)		($5,993)		$6,385
9. WASTEWATER RATE BASE	$153,802		$63,852		$63,852
10. RATE OF RETURN	-4.74%		-9.39%		10.00%

EAST MARION SANITARY SYSTEMS, INC.
TEST YEAR ENDING 12/31/02
ADJUSTMENTS TO OPERATING INCOME

SCHEDULE NO. 3-C
DOCKET NO. 010869-WS
PAGE 1 OF 2

	WATER	WASTEWATER
OPERATING REVENUES		
1. Annualize revenues for test year	$64	($181)
2. Projected Revenues	7,373	6,811
Subtotal	$7,437	$6,630
OPERATION AND MAINTENANCE EXPENSES		
1. Sludge Removal Expense (711)		
a. To include sludge hauling	$0	$500
2. Purchased Power (615/ 715)		
a. Reallocate and annualize expense	($696)	$844
b. To reflect projected usage	602	2,112
c. To reflect a repression adjustment	(120)	(547)
Subtotal	($214)	$2,408
3. Chemicals (618/ 718)		
a. To reflect chemicals	$165	$164
b. To reflect projected usage	364	162
c. To reflect a repression adjustment	(73)	(42)
Subtotal	$456	$284
4. Materials & Supplies (620/ 720)		
a. Out of period expense	($14)	($36)
b. Reclassify from Acct# 736	121	113
Subtotal	$107	$77
5. Contractual Services - Billing (630/ 730)		
a. Reallocate to Contracted Services Other (636/ 736)	($1,040)	($950)
6. Contractual Services - Testing (635/ 735)		
a. Reallocate testing expense to water from wastewater	$1,075	($1,075)
b. To Include annualized DEP required testing	504	(100)
Subtotal	$1,579	($1,175)

(O & M EXPENSES CONTINUED ON NEXT PAGE)

EAST MARION SANITARY SYSTEMS, INC.
TEST YEAR ENDING 12/31/02
ADJUSTMENTS TO OPERATING INCOME

SCHEDULE NO. 3-C
DOCKET NO. 010869-WS
PAGE 2 OF 2

(O & M EXPENSES CONTINUED)	WATER	WASTEWATER
7. Contractual Services - Other (636/ 736)		
a. Reallocate from Contracted Services Billing (630/ 730)	$1,040	$950
a. Adjustment to include salaries for a maintenance employee	$3,744	$3,744
b. Include new contracted services per contracts	1,896	539
c. Reallocate Grounds Keeping (40/60)	(163)	163
d. Capitalize Pump in Acct 311	(5,999)	0
e. Reclassify to Account (620/720)	(121)	(113)
f. Unrecorded repairs	0	172
Subtotal	$397	$5,455
8. Rents (640/ 740)		
a. To include Land rent approved	$405	$582
9. Transportation Expense (650/750)		
a. Transportation expense adjustment	$348	$348
10. Insurance Expense (655/755)		
a. To include allowance for insurance	$857	$857
11. Regulatory Expense (665/ 765)		
a. Reclassify RAF's as Taxes Other Than Income	($382)	($357)
b. Amortization of Attorney Fees ($2,000/4)	250	250
c. Amortize rate case filing fee over 4 years ($1000/4)	125	125
Subtotal	($7)	$18
12. Miscellaneous Expense (675/ 775)		
a. Reallocate bank fees	$30	$0
b. Operating permit (amort. 5 years)	0	239
Subtotal	$30	$239
TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	$2,918	$8,643
DEPRECIATION EXPENSE		
1. To reflect test year dep. calculated per 25-30.140, F.A.C.	$1,518	$12,908
2. Non-used and useful depreciation	(2,196)	(15,166)
3. To reflect test year CIAC amortization approved	(262)	(1,136)
Total	($940)	($3,394)
TAXES OTHER THAN INCOME		
1. Reallocate from Regulatory Expense (665/ 765)	$382	$357
2. Adjust RAF's to annualized revenue	329	316
3. Non used & useful tangible property taxes	(122)	(584)
Total	$589	$89

EAST MARION SANITARY SYSTEMS, INC.
TEST YEAR ENDING 12/31/02
ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE

SCHEDULE NO. 3-D
DOCKET NO. 010869-WS

	TOTAL PER UTILITY	COMMN PER ADJUST.		TOTAL PER COMMN
(601) SALARIES AND WAGES - EMPLOYEES	$0	$0		$0
(603) SALARIES AND WAGES - OFFICERS	0	0		$0
(604) EMPLOYEE PENSIONS AND BENEFITS	0	0		$0
(610) PURCHASED WATER	0	0		$0
(615) PURCHASED POWER	1,298	(214)	[1]	$1,084
(616) FUEL FOR POWER PRODUCTION	0	0		$0
(618) CHEMICALS	199	456	[3]	$655
(620) MATERIALS AND SUPPLIES	94	107	[4]	$201
(630) CONTRACTUAL SERVICES - BILLING	1,040	(1,040)	[5]	$0
(631) CONTRACTUAL SERVICES - PROFESSIONAL	650	0		$650
(635) CONTRACTUAL SERVICES - TESTING	160	1,579	[6]	$1,739
(636) CONTRACTUAL SERVICES - OTHER	9,413	397	[7]	$9,810
(640) RENTS	0	405	[8]	$405
(650) TRANSPORTATION EXPENSE	0	348	[9]	$348
(655) INSURANCE EXPENSE	0	857	[10]	$857
(665) REGULATORY COMMISSION EXPENSE	382	(7)	[11]	$375
(670) BAD DEBT EXPENSE	39	0		$39
(675) MISCELLANEOUS EXPENSES	0	30	[12]	$30
	13,275	2,918		16,193

EAST MARION SANITARY SYSTEMS, INC.
TEST YEAR ENDING 12/31/02
ANALYSIS OF WASTEWATER OPERATION AND MAINTENANCE EXPENSE

SCHEDULE NO. 3-E
DOCKET NO. 010869-WS

	TOTAL PER UTILITY	COMMN ADJUST-MENT		TOTAL PER COMMN
(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	0		$0
(711) SLUDGE REMOVAL EXPENSE	0	500	[1]	$500
(715) PURCHASED POWER	1,298	2,408	[2]	$3,706
(716) FUEL FOR POWER PRODUCTION	0	0		$0
(718) CHEMICALS	0	284	[3]	$284
(720) MATERIALS AND SUPPLIES	80	77	[4]	$157
(730) CONTRACTUAL SERVICES - BILLING	950	(950)	[5]	$0
(731) CONTRACTUAL SERVICES - PROFESSIONAL	650	0		$650
(735) CONTRACTUAL SERVICES - TESTING	1,235	(1,175)	[6]	$60
(736) CONTRACTUAL SERVICES - OTHER	3,870	5,455	[7]	$9,325
(740) RENTS	0	582	[8]	$582
(750) TRANSPORTATION EXPENSE	0	348	[9]	$348
(755) INSURANCE EXPENSE	0	857	[10]	$857
(765) REGULATORY COMMISSION EXPENSES	357	18	[11]	$375
(770) BAD DEBT EXPENSE	39	0		$39
(775) MISCELLANEOUS EXPENSES	30	239	[12]	$269
	8,509	8,643		17,152

RATE REDUCTION SCHEDULE

EAST MARION SANITARY SYSTEMS, INC. | **SCHEDULE NO. 4**
TEST YEAR ENDING 12/31/02 | **DOCKET NO. 010869-WS**

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

MONTHLY WATER RATES

RESIDENTIAL AND GENERAL SERVICE BASE FACILITY CHARGE:		COMMISSION APPROVED RATES	MONTHLY RATE REDUCTION
Meter Size:			
5/8"X3/4"	$	9.40	0.17
3/4"		14.10	0.25
1"		23.50	0.42
1-1/2"		47.00	0.84
2"		75.21	1.35
3"		150.41	2.70
4"		235.02	4.21
6"		470.03	8.43
RESIDENTIAL GALLONAGE CHARGE (per 1,000 Gallons)			
0-10,000 GALLONS	$	1.96	0.04
ABOVE 10,000 GALLONS	$	2.94	0.05
GENERAL SERVICE GALLONAGE CHARGE PER 1,000 GALLONS	$	2.30	0.04

RATE REDUCTION SCHEDULE

EAST MARION SANITARY SYSTEMS, INC.
TEST YEAR ENDING 12/31/02

SCHEDULE NO. 4A
DOCKET NO. 010869-WS

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

MONTHLY WASTEWATER RATES

		COMMISSION APPROVED RATES	MONTHLY RATE REDUCTION
RESIDENTIAL			
BASE FACILITY CHARGE:			
Meter Size: All Meter Sizes	$	14.55	0.20
GALLONAGE CHARGE:			
PER 1,000 GALLONS (10,000 gallon cap)	$	4.44	0.06
GENERAL SERVICE			
BASE FACILITY CHARGE:			
Meter Size:			
5/8"X3/4"	$	14.55	0.20
3/4"		21.83	0.31
1"		36.38	0.51
1-1/2"		72.77	1.02
2"		116.42	1.64
3"		232.85	3.28
4"		363.83	5.12
6"		727.65	10.24
GALLONAGE CHARGE:			
PER 1,000 GALLONS	$	5.33	0.08