

STATE OF FLORIDA

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OFFICE OF THE GENERAL COUNSEL
HAROLD A. MCLEAN
GENERAL COUNSEL
(850) 413-6199

Public Service Commission

June 23, 2003

Mr. Kevin Cherry
Environmental Protection Systems of Pine Island, Inc.
3039 York Road
St. James City, FL 33956-2303

Re: Staff Assisted Rate Case for Environmental Protection Systems of Pine Island, Inc. in Lee County Docket No. 030106-SU

Dear Mr. Cherry:

This will confirm that Commission Staff will hold a customer meeting at 6:00 p.m. on Thursday, July 24, 2003. We ask that, if at all possible, you or another knowledgeable representative of the utility attend the meeting in order to answer customer questions. The location of the meeting will be:

The St. James City Civic Association
3300 Fourth Avenue
St. James City, FL 33956-2010

The original customer meeting notice is enclosed. Please note the date has been left blank so that you can fill in the date that the notice is sent to the customers. The customers must have at least 14 calendar days' notice of the meeting, calculated from the day that they receive the notice as required by Rule 25-22.0407(9)(b), Florida Administrative Code (F.A.C.). Please furnish me with a copy of the notice, as reproduced at the time it is distributed to your customers, together with a cover letter indicating the exact date(s) on which the notice was mailed or otherwise delivered to the customers.

Two copies of the staff report dated June 16, 2003, are enclosed. When you receive the staff report, please ensure that a copy of the completed Application for Staff Assistance and the staff report are available for review, pursuant to Rule 25-22.0407 (9)(b), F.A.C., by all interested persons at the following location:

The Pine Island Library
10700 Russell Road, NW
Bokeelia, FL 33922-3199

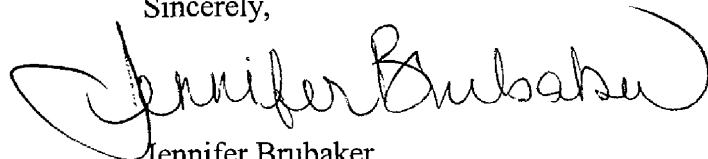
For your convenience, I have also enclosed a copy of Rule 25-22.407, F.A.C.

DOCUMENT MANAGEMENT
05500 JUN 20 03
FPSC-COMMISSION CLERK

Mr. Kevin Cherry
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June 13, 2003

Should you have any questions about any of the matters contained herein, please do not hesitate to contact me at (850) 413-6228. In addition, you may contact Sam Merta at (850) 413-6427 with any questions.

Sincerely,

A handwritten signature in black ink that reads "Jennifer Brubaker". The signature is written in a cursive style with a large, looping initial "J".

Jennifer Brubaker
Senior Attorney

Enclosures

JB:sm

cc: Division of Commission Clerk and Administrative Services (030106-SU)
Mr. Martin S. Friedman

Rule 25-22.0407(9), Florida Administrative Code

(9) When a utility applies for a staff-assisted rate case in accordance with Section 367.0814, Florida Statutes, and Rule 25-30.455, F.A.C., and staff-assistance is granted, the requirements of subsections (2), (3), (4), and (5) of this rule shall not apply.

(a) Upon receipt of the staff reports, the utility shall place two copies of its application for staff-assistance and the staff reports at any business offices it has in its service area. Such copies shall be available for public inspection during the utility's regular business hours. If the utility does not have a business office in its service area, the utility shall place two copies of its application and the staff reports at the main county library, the local community center or other appropriate location that is within or most convenient to the service area and that is willing to accept and provide public access to the copies.

(b) No less than 14 days and no more than 30 days prior to the date of a customer meeting conducted by the Commission staff, the utility shall provide, in writing, a customer meeting notice to all customers within its service area and to all persons in the same service areas who have filed a written request for service or who have been provided a written estimate for service within the 12 calendar months prior to the month the petition is filed.

(c) The customer meeting notice shall be approved by the Commission staff prior to distribution and shall include the following:

1. The date the notice was issued;
2. The time, date, location, and purpose of the customer meeting;
3. A statement that the utility has applied for a staff-assisted rate case and the general reasons for doing so;
4. A statement of the location where copies of the application and the staff reports are available for public inspection and the times during which inspection may be made;
5. A comparison of current rates and charges and the proposed new rates and charges;
6. The utility's address, telephone number, and business hours;
7. A statement that written comments regarding utility service or the proposed rates and charges should be addressed to the Director, Division of the Commission Clerk and Administrative Services, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0870, and that such comments should identify the docket number assigned to the proceeding;
8. A statement that complaints regarding service may be made to the Commission's Division of Consumer Affairs at the following toll-free number: 1(800)342-3552.
9. A statement that the Commission will be reviewing the utility's service availability charges in the pending case and that the Commission may adjust those charges.
10. The docket number assigned by the Commission's Division of the Commission Clerk and Administrative Services.

(d) The customer meeting notice shall be mailed to the out-of-town address of all customers who have provided the utility with an out-of-town address.

(e) If the proposed agency action order issued in the case is protested and any hearings are subsequently held, the utility shall give notice in accordance with subsections (6) and (7) above.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

NOTICE OF CUSTOMER MEETINGS

TO THE CUSTOMERS OF ENVIRONMENTAL PROTECTION SYSTEMS
OF PINE ISLAND, INC.

AND

ALL OTHER INTERESTED PERSONS

DOCKET NO. 030106-SU

APPLICATION OF ENVIRONMENTAL PROTECTION SYSTEMS
OF PINE ISLAND, INC.

FOR A STAFF-ASSISTED RATE CASE IN
LEE COUNTY

Issued:

Notice is hereby given that the Staff of the Florida Public Service Commission will conduct a customer meeting to discuss the application of Environmental Protection Systems of Pine Island, Inc. (EPS or utility) for a staff-assisted rate case in Lee County. The meeting will be held at the following time and place:

6:00 p.m., Thursday, July 24, 2003
St. James City Civic Association
3300 Fourth Avenue
St. James City, Florida 33956-2010

All persons who wish to comment are urged to be present at the beginning of the meeting, since the meeting may be adjourned early if no customers are present. One or more of the Commissioners of the Florida Public Service Commission may attend and participate in this meeting. The meeting will begin as scheduled and will continue until all the customers have been heard.

The Public Service Commission Staff is also attempting to meet with representatives of customer groups and homeowners associations on July 24, 2003 between 2:00pm and 4:00pm at the St. James City Civic Association. If you are a representative of a customer group or homeowners association and you have not been contacted by the Public Service Commission Staff, and wish to meet with staff,

LATE PAYMENT FEE

The purpose of a late payment fee is to provide an incentive for customers to pay their bills on time and to place the cost burden of processing delinquencies solely upon those who are the cost causers. Staff's preliminary recommendation is that the utility should be allowed a late payment fee of \$5.00 for customer bills paid after the 20-day payment period provided in the utility's tariff.

MISCELLANEOUS SERVICE CHARGES

Currently, the utility's tariff has no provision for miscellaneous service charges. Staff's preliminary charges, below, are designed to more accurately defray the costs associated with each service and place the responsibility of the cost on the person creating it rather than on the ratepaying body as a whole.

Wastewater

<u>Description</u>	<u>Staff's Preliminary Recommended Charges</u>
Initial Connection	\$15.00
Normal Reconnection	\$15.00
Violation Reconnection	Actual Cost
Premises Visit (in lieu of disconnection)	\$10.00

Definition of each charges is provided for clarification:

Initial Connection - this charge would be levied for service initiation at a location where service did not exist previously.

Normal Reconnection - this charge would be levied for transfer of service to a new customer account, a previously served location or reconnection of service subsequent to a customer requested disconnection.

Violation Reconnection - this charge would be levied prior to reconnection of an existing customer after disconnection of service

Pine Island Library
10700 Russell Road, NW
Bokeelia, Florida 33922-3199

PROCEDURES AFTER CUSTOMER MEETINGS

After the meetings, Public Service Commission Staff will prepare a recommendation which is scheduled to be submitted to the Public Service Commission on September 4, 2003. The Public Service Commission will then vote on staff's recommendation at its September 16, 2003 agenda conference. The Commission will thereafter issue a proposed agency action (PAA) order containing rates which may be different from those contained in staff's final recommendation. Substantially affected persons have 21 days from the date the PAA order is issued to protest the Commission's proposed agency action order. Five to ten customers or persons who attend the meeting and who wish to receive a copy of the recommendation and the order should so indicate at the meeting. Those individuals are expected to distribute the information in the recommendation and the order to other customers. Anyone who is unable to attend and who wishes to obtain a copy of the recommendation or the order may do so in writing to the Commission at the address at the end of this notice.

HOW TO CONTACT THE COMMISSION

Written comments regarding the utility and the proposed rates, and requests to be placed on the mailing list for this case, may be directed to this address:

Director, Division of Commission Clerk and Administrative Services
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

All correspondence should refer to "Docket No. 030106-SU, Environmental Protection Systems of Pine Island, Inc."

If you wish to contact the Commission regarding complaints about service, you may call the Commission's Division of Consumer Affairs at the following toll-free number: 1-800-342-3552.

This notice was prepared by Commission Staff for distribution by the utility to its customers.

State of Florida



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

-M-E-M-O-R-A-N-D-U-M-

DATE: JUNE 16, 2003

TO: MARSHALL WILLIS, BUREAU CHIEF

FROM: SAM MERTA, PROFESSIONAL ACCOUNTANT SPECIALIST *SM*
MAHNAZ MOUSSUDI, ENGINEER *MM*

RE: DOCKET NO. 030106-SU - APPLICATION FOR STAFF-ASSISTED RATE
CASE BY ENVIRONMENTAL PROTECTION SYSTEMS OF PINE ISLAND,
INC.
COUNTY: LEE

- STAFF REPORT -

This Staff Report is preliminary in nature. The Commission staff's final recommendation will not be filed until after the customer meeting.

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Per the application, the utility reached an agreement with Lee County Utilities whereby EPS's treatment facility will be taken off line and EPS will interconnect with Pine Island Regional Treatment System (PIRTS). The utility expects to interconnect with PIRTS four to six months after the Commission approves its rate increase. Construction has not begun on the facilities needed to interconnect, therefore staff will base its recommendation on projected plant, retirements, cost of removal and expenses.

Staff has audited the utility's records for compliance with the Commission rules and Orders and determined the components necessary for rate setting. The staff engineer also conducted a field investigation of the utility's plant and service area. A review of the utility's operation expenses, maps, files, and rate application was also performed to obtain information about the physical plant operating cost. Staff has selected a projected year end test year ending December 31, 2003, for this rate case.

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

COMPANY AND PARTY NAMES

FDEP Florida Department of Environmental Protection
FPSC Florida Public Service Commission
NARUC National Association of Regulatory Utility Commissioners
OPC Office of Public Counsel

GLOSSARY OF TECHNICAL TERMS

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

QUALITY OF SERVICE

ISSUE 1: Is the quality of service provided by EPS considered satisfactory?

PRELIMINARY RECOMMENDATION: The determination for quality of service provided by EPS will be deferred until after the customer meeting scheduled for July 24, 2003. (MASSOUDI)

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

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

Staff's analysis below addresses each of these three components based on the information available.

Environmental Protection Systems of Pine Island is a Class C wastewater utility located in St. James City in Lee County. During the historical test year, the utility served approximately 441 mobile homes, 65 RV sites, 2 bath houses and one laundry room in Cherry Estates and R.V. Park (commonly known as "Cherry Estates") in St. James City. Water service is provided by Greater Pine Island Water Association, a cooperative.

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The staff engineer will reserve any quality of service recommendation until after the customer meeting.

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master lift station; \$38,225 to rehabilitate lift station No. 2.; and \$709,854 for County connection fees. These costs represent 99.95% of the utility's year end rate base for the test year. This recommendation is consistent with Orders Nos. PSC-98-0763-FOF-SU, issued June 3, 1998, in Docket No. 971182-SU, (finding 36.07% of total plant to be considered an extraordinary circumstance); PSC-00-1774-PAA-WU, issued September 27, 2000, in Docket No. 991627-WU, (finding improvements representing over 52% of the utility's rate base to be considered an extraordinary circumstance); and PSC-01-1988-PAA-SU, issued October 8, 2001, in Docket No. 001682-WU, (finding improvements representing 47% of the utility's rate base to be considered an extraordinary circumstance).

Because of the above factors, staff believes that the historical test year is not representative of the change in plant-in-service and expenses which will be caused by EPS's interconnection with PIRTS. A year end test year will allow this utility an opportunity to earn a fair return on its investment made during the test year and will insure compensatory rates on a prospective basis. Therefore, staff recommends that a projected year end test year ending December 31, 2003, be approved.

ISSUE 4: Should the interconnection with PIRTS be considered prudent?

PRELIMINARY RECOMMENDATION: Yes. The interconnection with PIRTS should be considered prudent. (Merta)

STAFF ANALYSIS: Although EPS has recently renewed its operating permit, FDEP has advised the utility that future renewals could be in jeopardy due to the plant's environmentally sensitive location. At the next operating permit renewal period (2005), it is anticipated that EPS will be required to address the major system noncompliance issues such as plant structure setbacks to property lines and water bodies as well as disposal pond elevation to groundwater, and setback to the water body and wetlands. Further, the advanced age of the facility will require costly repairs and replacements will have to be made to insure that service continues to meet regulatory requirements. Staff considered two options in determining the most prudent and cost effective method of meeting future requirements. The utility could interconnect with PIRTS or it could construct a new wastewater treatment and disposal facility off site. In order to evaluate the two options, staff calculated the revenue requirement associated with each project. The capital costs as well as the expenses were adjusted to reflect the particular project.

EPS has reached an agreement with Lee County Utilities whereby its treatment facility will be taken off line and it will interconnect to PIRTS. The agreement requires EPS to construct and maintain a master lift station to connect to a county line, and to permanently decommission its wastewater treatment plant. The utility hired Source, Inc., an engineering firm, to provide estimates for these projects.

Source, Inc. estimated approximately \$86,625 to construct the master lift station. Staff included this amount in plant-in-service. When the new lift station is placed in service, the existing wastewater treatment facilities and evaporation/percolation pond will be decommissioned. The cost of removal for the wastewater treatment plant and the pond is estimated to be \$19,608 and \$10,629, respectively. These costs were included in the calculation of the early retirement loss. In addition, the utility is required by Lee County Utilities to inspect and test its collection system prior to connection to PIRTS to assure that no "substandard private systems

	<u>Interconnection</u>	<u>New Plant</u>
Adjusted Rate Base	\$835,082	\$1,011,716
Rate of Return	x .0618	x .0812
Return on Rate of Return	\$51,608	\$82,151
Adjusted O & M Expense	\$123,238	\$107,831
Depreciation Expense (Net)	\$40,653	\$59,750
Amortization of Net Gain	(\$5,190)	(\$5,190)
Taxes Other Than Income	\$10,706	\$12,319
Income Taxes	\$0	\$0
Revenue Requirement	<u>\$221,015</u>	<u>\$256,861</u>
Adjusted Test Year Revenues	<u>\$70,829</u>	<u>\$70,829</u>
Percent Increase/(Decrease)	<u>212.04%</u>	<u>262.65%</u>

Therefore, staff recommends that the interconnection with PIRTS be considered prudent.

950495-WS, required the amortization of gains on the sale of facilities and land over a period of five years. In that order, the Commission found, "[w]hen a utility sells property that was formerly used and useful or included in uniform rates, the ratepayers should receive the benefit of the gain on the sale of such utility property." Therefore, staff believes that the gain on the sale of land is \$70,000 and should be amortized over five years.

Early Retirement Loss

As stated above, the utility will retire its treatment plant when it interconnects with PIRTS. Staff has identified the components for an early retirement loss calculation which include; the original cost of the assets retired, cost associated with removal, accumulated depreciation on the assets retired, CIAC associated with the assets retired, amortization of CIAC associated with the assets retired, and salvage value. This calculation is as follows:

Early Retirement Loss

Treatment Plant Retired	\$121,496
Associated Accumulated Depreciation	(\$79,447)
Associated Net Non-Used and Useful Plant and Accumulated Depreciation	(\$24,515)
Associated CIAC	(\$12,200)
Associated Amortization of CIAC	\$6,302
Cost of Removal	\$32,412
Salvage Value	<u>\$0</u>
Net Loss	<u>\$44,048</u>

The purpose of allowing a recovery of an early retirement loss is to allow the utility to recover the cost of prudent investments of plant that would have otherwise been recovered through rate base. If the utility had not interconnected with PIRTS, then EPS would have recovered through rates only the used and useful portion of the retired plant. Staff identified the CIAC, and the amortization of CIAC, specifically associated with the assets retired and the

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in the utility's last rate case was 10.84%. The customers have paid only \$5,420 in rates for the land. This figure is very close to the recommended net amortization amount. Therefore, staff recommends that \$25,952 (\$70,000 - \$44,048) be amortized over five years, resulting in a yearly reduction to expenses of \$5,190..

DATE: JUNE 16, 2003

Exception No. 4, the company retired the additions except for \$5,992. However, this item could not be identified or documented. Therefore, staff reduced plant by \$5,992 for the undocumented addition and reclassified plant into the appropriate plant accounts. The reclassification has a zero effect on rate base. The schedule below shows the reclassification.

<u>ACCOUNT</u>	<u>DEBIT</u>	<u>CREDIT</u>
Structures & Improvements (354)	\$58,514	
Collection Sewers Gravity (361)	85,115	
Services to Customers (363)	7,920	
Receiving Wells (370)	4,101	
Treatment Disposal (380)	27,425	
Undocumented Plant	5,992	
Total Plant Reclassified	<u>\$189,067</u>	
Power Generation Equipment (355)		\$28,486
Treatment & Distribution Eq. (380)		59,699
Plant Sewers (381)		19,511
Other Tangible Plant (398)		81,371
Total Plant Reclassified		<u>\$189,067</u>

The utility entered into an agreement with Lee County Utilities whereby EPS's treatment facility will be taken off line and the utility will interconnect with PIRTS. The agreement requires the utility to pay connection fees to the county for the customers connected to the EPS system at the time of interconnection to PIRTS (\$1,388 each home site and \$694 each RV site). The utility is also required to pay one half of the connection fees for future connections (\$694 each home site and \$347 each RV site) with the balance due at the time of connection to the EPS system. The county agreed to loan the amount of the connection fees for the sites connected to the EPS system (\$657,218) to the utility at 4.5% per annum over 20 years. Further, the utility accrued \$28,865 in legal

for these customers. The costs for the developed sites that are not connected to the EPS system and the undeveloped lots and RV sites should not be included in rates and recovered from current customers. In Issue No. 13, staff is recommending that service availability charges be set equal to the county connection fee. Therefore, these connection fees can be recovered from customers when their homes are connected to the EPS system.

Based on the above, staff recommends that \$843,796 be included in Account No. 389, Other Plant and Miscellaneous Equipment and amortized over 20 years, the term of the loan from the county. The \$133,942 associated with lots that are not connected to the system should be considered non used and useful because these are costs that will be recovered from future customers and should not be included in the rates of current customers.

The agreement between EPS and Lee County Utilities requires that EPS construct and maintain a master pump station. Per Audit Disclosure No. 1, EPS obtained an estimate of \$86,625 for the new master lift station. Staff has included \$86,625 in UPIS for this project.

Staff has also included \$38,225 to rehabilitate lift station No. 2. The improvement of the lift station will update the facility to meet current FDEP standards as well as replace old, outdated and worn out pumping units and controls.

In addition, since staff is recommending that the utility switch from biannual to monthly billing, EPS requested \$4,774 to set up a separate space specifically for the utility in its other business office. A desk, chair, file cabinet, copy machine, computer, printer and a software program to generate bills will be purchased. Staff has included \$4,774 for the office equipment. Staff will further evaluate the reasonableness of these costs for the staff recommendation.

As discussed above, EPS has elected to abandon its treatment plant and interconnect its wastewater system to PIRTS. As a result, the utility's wastewater plant will be retired. Accordingly, staff has reduced Account No. 354, Structures and Improvements, by \$80,727 and by \$13,344, respectively, and Account No. 380, Treatment Disposal, by \$27,425 for a total reduction to plant of \$121,496.

The utility collected CIAC related to the wastewater treatment facilities now being retired. Therefore, staff has decreased CIAC by \$12,200 to retire the pro rata share of CIAC associated with those facilities.

Staff's net adjustments to this account results in CIAC of \$124,526.

Accumulated Depreciation: The utility recorded a balance for accumulated depreciation of \$181,327 at December 31, 2002. Staff has calculated accumulated depreciation using the prescribed rates in Rule 25-30.140, Florida Administrative Code. Staff's calculated accumulated depreciation at December 31, 2002, is \$185,698. Therefore, staff has increased this account by \$4,371 to reflect depreciation calculated per staff. In addition, staff has decreased this account by \$79,447 to remove accumulated depreciation on the retirement of treatment plant discussed in Issue No. 5. Further, staff has increased this account by \$46,401 to reflect one year of depreciation for the projected test year.

The utility has been using 2.5% to depreciate its plant since 1983 because those were the rates in effect at the time of its last rate case. In 1984, new Commission approved depreciation rates became effective. Therefore, on a prospective basis, the utility should use the depreciation rates prescribed in Rule 25-30.140, F.A.C.

These adjustments result in accumulated depreciation of \$152,652.

Amortization of CIAC: Based on the utility's records at December 31, 2002, the utility recorded amortization of CIAC of \$63,324. Amortization of CIAC has been recalculated by staff using composite depreciation rates. This account has been increased by \$8,671 to reflect year end amortization of \$71,995 as calculated by staff.

Staff removed CIAC related to the wastewater treatment facilities now being retired. Therefore, staff has also reduced amortization of CIAC by \$6,302 to retire the pro rata share of CIAC amortization associated with those facilities.

Staff's net adjustments to this account results in amortization of CIAC of \$65,693.

COST OF CAPITAL

ISSUE 7: What is the appropriate rate of return on equity and the appropriate overall rate of return for this utility?

PRELIMINARY RECOMMENDATION: The appropriate rate of return on equity is 11.10% with a range of 10.10% - 12.10%. The appropriate overall rate of return for the utility is 6.18% (MERTA)

STAFF ANALYSIS: According to staff's audit the utility recorded the following items in capital structure: common stock of \$500, negative retained earnings of \$75,917, other paid in capital of \$161,864 and long term debt of \$102,691 for a total capital of \$189,138.

As discussed in Issue No. 4, staff has included in capital structure a line of credit for \$280,750 to finance the costs associated with the new master lift station (\$86,625), the removal of the treatment plant (\$19,608), the removal of the ponds (\$40,575) and the connection fees for future connections (\$133,942). In addition, staff has included the county loan of \$657,218 for the connection fees related to the developed lots that are currently connected to the EPS system. Further, staff has decreased retained earnings by \$3,437 for out of period adjustments related to CIAC and the associated amortization recorded as revenue, for depreciation related to misclassified plant and for the removal of land from rate base.

Using the leverage formula approved by Order No. PSC-02-0898-PAA-WS, issued July 5, 2002, in Docket No. 020006-WS, the appropriate rate of return on equity for a capital structure with an equity ratio of less than 40% is a maximum of 11.10%. Because the Capital Structure is 7.39% equity, the rate of return on equity is 11.10%. Staff will further evaluate the return on equity when the order becomes final in Docket No. 030006-WS, Annual Reestablishment of Authorized Range of Return on Common Equity.

The utility's capital structure has been reconciled with staff's recommended rate base. Staff's recommended return on equity is 11.10% with a range of 10.10% - 12.10% and an overall rate of return of 6.18%.

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

ISSUE 9: What is the appropriate amount of operating expense?

PRELIMINARY RECOMMENDATION: The appropriate amount of operating expense for this utility is \$169,407. (MERTA, MASSOUDI)

STAFF ANALYSIS: The utility recorded operating expenses of \$93,200 during the test year ending December 31, 2002. These expenses were incurred before EPS's interconnection with PIRTS. Staff has made adjustments to operating expenses to reflect operating expenses for a wastewater resale company on a going forward basis.

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 historic test year ending December 31, 2002. Staff has determined the appropriate operating expenses for the projected test year ending December 31, 2003 and a breakdown of expenses by account class using the documents provided by the utility. Adjustments have been made to reflect the appropriate annual operating expenses that are required for utility operations on a going forward basis.

Operations and Maintenance Expenses (O&M)

Salaries and Wages - Officers - (703) - The utility recorded salaries and wages of \$24,322 for the test year ending December 31, 2002.

The utility has two officers who receive salaries, the president and the secretary. Mr. Kevin Cherry, the President, is currently paid \$46.08 per hour and estimates he will spend 15 hours per week on utility business after the interconnection. His duties include: customer complaints, locating lines for contractors, reviewing financial statements, consultations with the CPA, loan negotiation, financial planning, oversight of rate filings, responding to county, state and federal agencies, monitoring insurance costs and coverage, and oversight of maintenance, repairs and construction. Mr. Cherry is currently performing additional duties that relate to the changing from a treatment and distribution operation to a distribution operation only. Staff believes these additional duties will disappear or diminish drastically when the utility interconnects.

While staff understands the variety of responsibilities and skills required for this position, it believes \$46.08 per hour is

These officers also receive salaries from related companies. Staff has allocated the pensions and benefits based on the ratio of utility salaries to total salaries (18.25% and 68.24%). Staff recommends \$14,295 for total allocated pensions and benefits. Therefore, staff has increased this account by \$13,792 to reflect the allocated amount (\$14,295-503).

Purchased Wastewater Treatment - (710) - The utility did not record a dollar amount in this account during the test year.

EPS elected to interconnect with PIRTS's wastewater collection system and pay a bulk wastewater charge. Staff has estimated the cost of purchased wastewater treatment by multiplying the gallons projected for 2003 times the \$3.36 wholesale rate. Projected test year gallons are based on six additional customers and the average use for those customers. Staff projects annual purchased wastewater treatment expense to be \$38,809. Therefore, staff has increased this account by \$38,809 to reflect annual purchased wastewater treatment expense.

Sludge Removal Expense - (711) - The utility recorded \$3,585 in this account during the test year. The utility will no longer have a wastewater treatment plant; therefore, sludge removal will not be required. Staff has decreased this account by \$3,585 to remove sludge removal expense.

Purchased Power - (715) - The utility recorded \$6,864 in this account during the test year. As discussed above, the utility will no longer operate a treatment plant; however, the utility will still maintain two lift stations. The annual power cost for the new master lift station is estimated to be \$1,200. The annual power cost for the existing lift station is \$207. Staff recommends annual purchased power of \$1,407. Therefore, staff has decreased this account by \$5,457 (\$6,864-\$1,407) to reflect purchased power expense associated with the lift stations.

Chemicals - (718) - The utility recorded \$5,206 in this account during the test year. As stated above, the utility will no longer operate a treatment plant; however, the utility will still need chemicals to clean and degrease the two lift stations. Staff believes that \$100 annually is reasonable for the purchase of chemicals. Therefore, staff has decreased this account by \$5,106 (\$5,206 - \$100) to reflect chemical expense.

for operator services. Therefore, staff has decreased this account by \$4,160 (\$6,240 - \$2,080).

Per Audit Disclosure No. 8, of the \$17,018 recorded for repairs and maintenance, only \$811 was related to lift station, line or office repairs. Repairs on the retired plant amounted to \$10,456. Therefore, staff has reduced this account by \$10,456 (\$17,013 - \$5,746 reclassified - \$811 allowed) to remove repairs and maintenance related to the retired plant.

Per Audit Disclosure No. 9, the utility recorded \$984 in operator repairs to the retired plant. Staff has reduced this account by \$984 to remove these costs.

Staff recommends Contractural Services - Other expense of \$2,891.

Rents - (740) - The utility recorded \$10,000 in this account during the test year. As stated above, the treatment plant will be retired and the land it occupied will no longer be needed by the utility. As a result, rent expense will no longer be incurred. Therefore, per Audit Disclosure No. 9, staff has reduced this account by \$10,000 to remove rent expense.

Insurance Expense - (755) - The utility recorded \$2,594 in this account during the test year: \$2,027 for commercial; office physical, flood and wind; \$469 for workers compensation insurance; and \$98 for an umbrella policy.

Insurance expense on the common facilities totaled \$3,340 and \$1,135 (33.99%) was allocated to the utility based on the ratio of utility salaries to total company salaries. Staff reduced this amount by \$469 for workers compensation insurance that is included in the taxes on pensions and benefits discussed above and \$98 for an umbrella policy that was already recorded on the utility's books. Therefore, staff has increased this account by \$568 (\$1,135 - \$469 - \$98) for allocated insurance on common facilities.

Per Audit Disclosure No. 7, the utility provided an estimate of \$150 for insurance on the lift stations only. EPS recorded \$2,027 for insurance on the plant during the test year. Therefore, staff has decreased this account by \$1,877 (\$2,027 - \$150) to remove insurance associated with retired plant.

Per Audit Disclosure No. 4, a related company paid common bills such as electric, telephone, water and mowing and often did not allocate to the utility. These costs are common to all affiliate companies owned by the Cherry's and relate mainly to the office on York Road. Total costs to be allocated are \$9,274 and \$3,186 (33.99%) based on the ratio of utility salaries to total company salaries. Staff reduced this amount by \$283 for telephone costs and by \$3 for water service that was already recorded on the utility's books. Therefore, staff has increased this account by \$2,900 (\$3,186 - \$283 - \$3) for allocated costs on common facilities. Staff will further evaluate the reasonableness of these costs for the staff recommendation.

The utility requested \$2,220 for direct office supplies, postage, telephone, post office box, tangible tax and maintenance contracts, per Audit Disclosure No. 4. Staff reduced this amount by \$115 for check charges and by \$877 for office costs already recorded on the utility's books. Therefore, staff has increased this account by \$1,228 (\$2,220 - \$115 - \$877) for direct office costs. Staff will further evaluate the reasonableness of these costs for the staff recommendation.

The utility requested bank charges of \$288 per month based on the bank fee of \$1.10 per every \$1,000 over \$10,000 in deposits. Since the utility only collected revenue twice a year, the deposits in those two months were higher than what was normally collected in a month. Per Audit Disclosure No. 5, staff estimates the bank fees will be \$30 a month or \$360 annually when the utility switches to monthly billing. As stated above, the utility recorded \$75 for bank charges. Therefore, staff has increased this account by \$285 (\$360 - \$75). Staff will further evaluate the reasonableness of these costs for the staff recommendation.

The total annual expense for this account is \$10,430.

Operation and Maintenance Expense (O&M Summary) - The total O&M adjustment is an increase of \$38,039. Staff's recommended O&M expense is \$123,238. O&M expenses are shown on Schedules 3-C.

Depreciation Expense - The utility recorded depreciation expense net of CIAC amortization of \$4,769 (\$8,123 Depreciation Expense and \$3,354 Amortization of CIAC) during the test year. Depreciation expense has been calculated by staff using the prescribed rates in Rule 25-30.140, Florida Administrative Code, and the unretired UPIS.

DOCKET NO. 030106-SU
DATE: JUNE 16, 2003

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

ISSUE 11: What are the appropriate rate structure, billing cycle and rates for the system?

PRELIMINARY RECOMMENDATION: The appropriate rate structure for this system is the base facility charge/gallongage charge rate structure. Customers should be billed on a monthly basis. The recommended rates should be designed to produce revenue of \$221,015, as shown in the staff analysis. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), Florida Administrative Code. The rates should not be implemented until notice has been received by the customers. The utility should provide proof of the date notice was given within 10 days after the date of the notice. (MERTA)

STAFF ANALYSIS: EPS provides wastewater service to approximately 441 residential customers, and one general service customer. Currently, residential customers are charged flat monthly rates of \$12.79 and are billed biannually. The general service customer is charged a base facility charge and a gallongage charge. The utility's current rate structure was originally approved by the Commission in 1976 under grandfather provisions. All customers are metered by the Association, which provides their water service.

Metered Rates Versus Flat Rates

It has been Commission practice that whenever possible, a flat rate structure is converted to a base facility and gallongage charge rate structure in order to promote state conservation goals and to eliminate subsidization of those who use excessive amounts of water by those who do not. This usage sensitive rate structure allows customers to reduce their total bill by reducing their water consumption.

Staff believes usage rates should be instituted for this utility. There will be additional costs related to billing usage rates. However, the utility is willing to undertake this task. As stated above, all customers are metered by the water company. The Association charges \$1,852 for annual meter reading and consumption data (\$0.35 x 441 bills x 12 months). The utility currently handles its customer billing. Billing usage rates will require additional time to calculate individual customer bills as opposed to billing one flat rate to all customers. In order to recover these costs, staff has included \$4,664 in expenses for billing usage rates

Monthly Rates - Wastewater

GENERAL SERVICE

	<u>Existing Rates</u>	<u>Staff's Preliminary Rates</u>
<u>Base Facility Charge</u>		
<u>Meter Sizes</u>		
5/8" x 3/4	N/A	\$22.96
3/4"	N/A	\$34.44
1"	N/A	\$57.40
1 1/2"	N/A	\$114.80
2"	\$46.76	\$183.68
3"	N/A	\$367.36
4"	N/A	\$573.99
6"	N/A	\$1,147.99
 <u>Gallonage Charge</u>		
Per 1,000 Gallons	\$3.26	\$9.85

Staff considered a gallonage cap for this utility. However, the average usage per customer is not excessive (2,058 gallons per month). In addition, the County will be charging EPS a bulk rate for every gallon used with no cap. A gallonage cap could cause the utility to collect less from customers than it pays to the County for purchased wastewater treatment. Therefore, staff is not recommending a gallonage cap for EPS.

Staff's recommended increase in revenue requirements is \$150,185 or approximately 212.04%. The rates approved for the utility should be designed to produce revenues of \$221,015.

Approximately 57% (\$125,360) of the revenue requirement is recovered through the recommended base facility charge. The fixed costs are recovered through the BFC based on the number of factored ERCs. The remaining 43% (\$95,655) represents revenues collected through the consumption charge based on the number of gallons.

If the Commission approves staff's recommendation, 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 staff's verification that

ISSUE 12: What is the appropriate amount by which rates should be reduced four years after the established effective date to reflect the removal of the amortized rate case expense as required by Section 367.0816, Florida Statutes?

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

STAFF ANALYSIS: Section 367.0816, Florida Statutes requires that the rates be reduced immediately following the expiration of the four year period by the amount of the rate case expense previously included in the rates. The reduction will reflect the removal of revenues associated with the amortization of rate case expense and the gross-up for regulatory assessment fees which is \$374 annually. Using the utility's current revenues, expenses, capital structure and customer base the reduction in revenues will result in the rate decreases as shown on Schedule No. 4.

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

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

In order to evaluate the utility's service availability charges, staff relied on Rule 25-30.580, F.A.C., 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 and sewage collection systems.

Staff has designed service availability charges such that the utility's contribution level will approach the maximum level prescribed in Rule 25-30.580, F.A.C., at build out. The purpose of the connection charge is to comply with the rule as well as to match the connection fee from the County. Due to this unique circumstance, staff will further evaluate this charge for the staff recommendation. A schedule of the utility's existing charges and staff's recommended charges are as follows:

<u>Wastewater</u>		
<u>Customer Connection Charge</u>	<u>Existing Charge</u>	<u>Preliminary Recommended Charge</u>
Home Sites		
All Meter Sizes	\$110	\$1,388
RV Sites	N/A	\$694

The service availability charges should become effective for connections made on or after the stamped approval date of the revised tariff sheets, if not protest if filed and provided customers have been noticed.

Staff believes that the goal of allowing late fees to be charged by a utility is two fold: first, to encourage current and future customers to pay their bills on time; and second, if payment is not made on time, to insure that the cost associated with the late payments is not passed on to the customers who do pay on time.

Staff believes there is a need for this incentive. As discussed in Issue Nos. 8 and 15, staff is recommending an allowance for bad debt expense, and miscellaneous services charges, respectively. Apparently, 71 customers pay late each payment period and several have not paid for three years. It is these customers who should pay the costs associated with their late payments. It appears that the majority of utilities who have Commission approved late fees charge \$5.00. The utilities who have higher charges have provided adequate documentation in support of those higher fees. Staff believes that \$5.00 is a reasonable fee for EPS. If the utility can document a higher fee, it should file the appropriate request with the Commission.

Therefore, staff recommends that, consistent with the orders cited above, a \$5.00 late payment should be approved. The utility should file revised tariff sheets which are consistent with the Commission's vote within one month of the Commission's final vote. The revised tariff sheets should be approved upon staff's verification that the tariffs are consistent with the Commission's decision. If revised tariff sheets are filed and approved, the late payment charge should become effective on the stamped approval date of the tariff sheets, if no protest is filed and provided customers have been noticed.

Initial Connection - this charge would be levied for service initiation at a location where service did not exist previously.

Normal Reconnection - this charge would be levied for transfer of service to a new customer account, a previously served location or reconnection of service subsequent to a customer requested disconnection.

Violation Reconnection - this charge would be levied prior to reconnection of an existing customer after disconnection of service for cause according to Rule 25-30.320(2), Florida Administrative Code, including a delinquency in bill payment.

Premises Visit Charge (in lieu of disconnection) - this charge would be levied when a service representative visits a premises for the purpose of discontinuing service for non-payment of a due and collectible bill and does not discontinue service, because the customer pays the service representative or otherwise makes satisfactory arrangements to pay the bill.

The utility should file revised tariff sheets which are consistent with the Commission's vote within one month of the Commission's final vote. The revised tariff sheets should be approved upon staff's verification that the tariffs are consistent with the Commission's decision. If revised tariff sheets are filed and approved, the miscellaneous service charges should become effective for connections made on or after the stamped approval date of the revised tariff sheets, if no protest is filed.

<u>Wastewater</u>		
<u>General Service</u>		
<u>Meter Size</u>	<u>Existing Deposit</u>	<u>Staff's Preliminary Deposit</u>
All meter sizes	N/A	2 X Average Bill

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

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

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

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

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

WASTEWATER TREATMENT PLANT - USED AND USEFUL DATA

Docket No. 030106-SU;

ENVIRONMENTAL PROTECTION SYSTEMS OF PINE ISLAND

1) Permitted Capacity of Plant (AADF)	95,000	gallons per day	
2) Maximum Daily Flow	67,955	gallons per day	
3) Average Daily Flow (AADF)	37,020	gallons per day	
4) Growth	2,619	gallons per day	
a) Test year Customers in ERCs: (Jan 03 - Dec. 03)	Beginning		421
	Ending		427
	Average		424
b) Customer Growth in ERCs using Regression Analysis for most recent 5 years including Test Year		6	ERCs
c) Statutory Growth Period		5	Years
(b x c) x [3/(a)]= 2,619	gallons per day for growth		
5) Excessive Infiltration or Inflow (I&I)	0	gallons per day	
a) Total I&I:	11,509	gallons per day	
Percent of Average Daily Flow	N/A		
b) Reasonable Amount (500 gpd per inch dia pipe per mile)	13,182	gallons per day	
c) Excessive Amount	0	gallons per day	

USED AND USEFUL FORMULA

$$[(3)+(4)-(5)]/(1) = 41.7\% \text{ Used and Useful}$$

Environmental Protection Systems of Pine Island, Inc.
 TEST YEAR ENDING DECEMBER 31, 2003
 SCHEDULE OF WASTEWATER RATE BASE

SCHEDULE NO. 1-A
 DOCKET NO. 030106-SU

DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	\$307,442	\$860,515	\$1,167,957
2. LAND & LAND RIGHTS	2,000	(2,000)	\$0
3. NON-USED AND USEFUL COMPONENTS	0	(136,795)	(\$136,795)
4. CIAC	(116,669)	(7,857)	(\$124,526)
5. ACCUMULATED DEPRECIATION	(181,327)	28,675	(\$152,652)
6. AMORTIZATION OF CIAC	63,324	2,369	\$65,693
7. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>15,405</u>	<u>15,405</u>
8. WASTEWATER RATE BASE	\$74,770	\$760,312	\$835,082

Environmental Protection Systems of Pine Island, Inc.
TEST YEAR ENDING DECEMBER 31, 2003
ADJUSTMENTS TO RATE BASE

SCHEDULE NO. 1-B
DOCKET NO. 030106-SU
PAGE 1 OF 2

WASTEWATER

UTILITY PLANT IN SERVICE

1. To include lines laid in 1985 and never transferred to the utility (361)	\$8,837
2. Reclassify control panel from 736 to 370	5,746
3. Remove undocumented plant	(5,992)
4. Include projected connection fees paid to the County (389)	843,796
5. Include projected new master lift station (370)	86,625
6. Include projected rehabilitation of lift station no. 2 (370)	38,225
7. Include projected office furniture & equipment (390)	4,774
8. Retire treatment plant (354, 380)	<u>(121,496)</u>
9.	
Total	<u>\$860,515</u>

LAND AND LAND RIGHTS

1. Remove land owned by KRS Resorts	<u>(\$2,000)</u>
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NON-USED AND USEFUL PLANT

1. To reflect non-used and useful plant.	(\$4,659)
2. To reflect non-used and useful accumulated depreciation.	1,806
3. To reflect non-used and useful connection fees	(133,942)
Total	<u>(\$136,795)</u>

CIAC

1. To include lines contributed in 1985	(\$8,837)
2. To include imputed CIAC	(10,560)
3. To include projected CIAC for 6 customers	(660)
4. To remove retired CIAC	<u>12,200</u>
5.	
Total	<u>(\$7,857)</u>

ACCUMULATED DEPRECIATION

1. Accumulated depreciation per Rule 25-30.140, FAC, 2002	(\$4,371)
2. Remove accumulated depreciation on retirements	79,447
3. Projected test year depreciation	<u>(46,401)</u>
4.	
Total	<u>\$28,675</u>

AMORTIZATION OF CIAC

1. To adjust Amortization of CIAC based on composite rates	\$8,671
2. Retired Amortization of CIAC	<u>(6,302)</u>
3.	
Total	<u>\$2,369</u>

WORKING CAPITAL ALLOWANCE

1. To reflect 1/8 of test year O & M expenses.	<u>\$15,405</u>
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Environmental Protection Systems of Pine Island, Inc.
 TEST YEAR ENDING DECEMBER 31, 2003
 SCHEDULE OF CAPITAL STRUCTURE

SCHEDULE NO. 2
 DOCKET NO. 030106-SU

CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUST-MENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUST-MENTS	BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST
1. COMMON STOCK	\$500	\$0	\$500					
2. RETAINED EARNINGS	(75,917)	(3,437)	(79,354)					
3. PAID IN CAPITAL	161,864	0	161,864					
4. OTHER COMMON EQUITY	0	0	0					
TOTAL COMMON EQUITY	\$86,447	(\$3,437)	83,010	(21,319)	61,691	7.39%	11.10%	0.82%
LONG TERM DEBT								
5. Notes Payable Cherry Estates	15,316	0	15,316	(3,934)	11,382	1.36%	8.00%	0.11%
6. Notes Payable KRS Land Dev.	55,436	0	55,436	(14,237)	41,199	4.93%	8.00%	0.39%
7. Notes Payable KRS Resort	7,500	0	7,500	(1,926)	5,574	0.67%	8.00%	0.05%
8. Notes Payable Cherry Bldrs.	24,439	0	24,439	(6,277)	18,162	2.17%	8.00%	0.17%
9. Line of Credit SunTrust		280,750	280,750	(72,104)	208,646	24.99%	8.00%	2.00%
10. County Loan		657,218	657,218	(168,790)	488,428	58.49%	4.50%	2.63%
TOTAL LONG TERM DEBT	102,691	937,968	1,040,659	(267,268)	773,391	92.61%		
8. CUSTOMER DEPOSITS	0	0	0	0	0	0.00%	6.00%	0.00%
9. TOTAL	<u>\$189,138</u>	<u>\$934,531</u>	<u>\$1,123,669</u>	<u>(\$288,587)</u>	<u>\$835,082</u>	<u>100.00%</u>		<u>6.18%</u>
RANGE OF REASONABLENESS						<u>LOW</u>	<u>HIGH</u>	
RETURN ON EQUITY						<u>10.10%</u>	<u>12.10%</u>	
OVERALL RATE OF RETURN						<u>6.11%</u>	<u>6.26%</u>	

Environmental Protection Systems of Pine Island, Inc.
 TEST YEAR ENDING DECEMBER 31, 2003
 SCHEDULE OF WASTEWATER OPERATING INCOME

SCHEDULE NO. 3-A
 DOCKET NO. 030106-SU

	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$67,181</u>	<u>\$3,648</u>	<u>\$70,829</u>	<u>\$150,185</u> 212.04%	<u>\$221,015</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	85,199	38,039	123,238	0	123,238
3. DEPRECIATION (NET)	4,769	35,884	40,653	0	40,653
4. AMORTIZATION	0	(5,190)	(5,190)	0	(5,190)
5. TAXES OTHER THAN INCOME	3,232	715	3,947	6,758	10,706
6. INCOME TAXES	0	0	0	0	0
7. TOTAL OPERATING EXPENSES	<u>\$93,200</u>	<u>\$69,448</u>	<u>\$162,648</u>	<u>\$6,758</u>	<u>\$169,407</u>
8. OPERATING INCOME/(LOSS)	<u>(\$26,019)</u>		<u>(\$91,819)</u>		<u>\$51,608</u>
9. WASTEWATER RATE BASE	<u>\$74,770</u>		<u>\$835,082</u>		<u>\$835,082</u>
10. RATE OF RETURN	<u>-34.80%</u>		<u>-11.00%</u>		<u>6.18%</u>

Environmental Protection Systems of Pine Island, Inc.
TEST YEAR ENDING DECEMBER 31, 2003
ADJUSTMENTS TO OPERATING INCOME

Schedule No. 3-B
DOCKET NO. 030106-SU
Page 1 of 2

WASTEWATER

OPERATING REVENUES

1. To adjust utility revenues to audited test year amount.	\$2,727
2. Projected 2003 revenues	921
Subtotal	<u>\$3,648</u>

OPERATION AND MAINTENANCE EXPENSES

1. Salaries and Wages - Officers (703)	<u>\$23,219</u>
2. Employee Pensions and Benefits (704)	
a. Include allocated pensions and benefits	<u>\$13,792</u>
3. Purchased Wastewater Treatment (710)	
a. Annualize purchased wastewater treatment	<u>\$38,809</u>
4. Sludge Removal Expense (711)	
a. Remove sludge removal	<u>(\$3,585)</u>
5. Purchased Power (715)	
a. Reduce purchased power since interconnection	<u>(\$5,457)</u>
6. Chemicals (718)	
a. Reduce chemicals since interconnection	<u>(\$5,106)</u>
7. Contractual Services - Professional (731)	
a. Remove deferred engineering costs capitalized with connection fees	<u>(\$350)</u>
8. Contractual Services - Testing (735)	
a. Remove testing since interconnection	<u>(\$1,227)</u>
9. Contractual Services - Other (736)	
a. Reclassify control panel from 736 to 370	(5,746)
b. Reduce Operator expense since interconnection	(4,160)
c. Remove repairs on retired plant	(10,456)
d. Remove operator repairs on retired plant	(984)
Subtotal	<u>(\$21,346)</u>
10. Rents (740)	
a. Remove rent	<u>(\$10,000)</u>
11. Insurance Expenses (755)	
a. Increase insurance for office to allocated amount	\$568
b. Decrease insurance for retired plant	(1,877)
Subtotal	<u>(\$1,309)</u>
12. Regulatory Expense (765)	
a. Amortize Rate Case Filing Fee over 4 years (\$1,000/4-250)	\$250
b. Include and amortize notice expense over 4 years	107
Subtotal	<u>\$357</u>
13. Bad Debt Expense (770)	
a. Include bad debt expense	<u>\$1,165</u>

(O & M EXPENSES CONTINUED ON NEXT PAGE)

Environmental Protection Systems of Pine Island, Inc.
TEST YEAR ENDING DECEMBER 31, 2003
ADJUSTMENTS TO OPERATING INCOME

Schedule No. 3-B
DOCKET NO. 030106-SU
Page 2 of 2

WASTEWATER

14. Miscellaneous Expense (775)	
a. Include costs for monthly billing	\$4,664
b. Include allocation of common costs	2,900
c. Include direct office costs	1,228
d. Include additional bank fees	285
Subtotal	<u>\$9,077</u>

TOTAL OPERATION & MAINTENANCE ADJUSTMENTS \$38,039

DEPRECIATION EXPENSE

1. To reflect test year depreciation calculated per 25-30.140, F.A.C.	\$38,278
2. Non-Used and Useful Depreciation	(160)
3. CIAC per Composite rates	<u>(\$2,234)</u>
Total	<u>\$35,884</u>

AMORTIZATION

1. Amortization of Net Early Retirement Loss/Gain on Sale of Land over 5 yrs	<u>(\$5,190)</u>
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TAXES OTHER THAN INCOME

1. Adjust RAF's to Projected Revenue	\$164
2. Include Tangible Property Tax	<u>551</u>
Total	<u>\$715</u>

Environmental Protection Systems of Pine Island, Inc.
TEST YEAR ENDING DECEMBER 31, 2003
ANALYSIS OF WASTEWATER OPERATION
AND MAINTENANCE EXPENSE

SCHEDULE NO. 3-C
DOCKET NO. 030106-SU

	TOTAL PER UTILITY	STAFF ADJUST- MENT	TOTAL PER STAFF
(701) SALARIES AND WAGES - EMPLOYEES	\$0	\$0	\$0
(703) SALARIES AND WAGES - OFFICERS	24,322	23,219	\$47,541
(704) EMPLOYEE PENSIONS AND BENEFITS	503	13,792	\$14,295
(710) PURCHASED SEWAGE TREATMENT	0	38,809 [1]	\$38,809
(711) SLUDGE REMOVAL EXPENSE	3,585	(3,585) [2]	\$0
(715) PURCHASED POWER	6,864	(5,457) [3]	\$1,407
(716) FUEL FOR POWER PRODUCTION	0	0	\$0
(718) CHEMICALS	5,206	(5,106)	\$100
(720) MATERIALS AND SUPPLIES	0	0	\$0
(730) CONTRACTUAL SERVICES - BILLING	0	0	\$0
(731) CONTRACTUAL SERVICES - PROFESSIONAL	5,308	(350) [4]	\$4,958
(735) CONTRACTUAL SERVICES - TESTING	1,227	(1,227)	\$0
(736) CONTRACTUAL SERVICES - OTHER	24,237	(21,346) [5]	\$2,891
(740) RENTS	10,000	(10,000)	\$0
(750) TRANSPORTATION EXPENSE	0	0	\$0
(755) INSURANCE EXPENSE	2,594	(1,309) [6]	\$1,285
(765) REGULATORY COMMISSION EXPENSES	0	357 [7]	\$357
(770) BAD DEBT EXPENSE	0	1,165	\$1,165
(775) MISCELLANEOUS EXPENSES	<u>1,353</u>	<u>9,077</u> [8]	<u>\$10,430</u>
	<u>85,199</u>	<u>38,039</u>	<u>123,238</u>

RECOMMENDED RATE REDUCTION SCHEDULE

Environmental Protection Systems of Pine Island, Inc.
 TEST YEAR ENDING DECEMBER 31, 2003

SCHEDULE NO. 4
 DOCKET NO. 030106-SU

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

MONTHLY WASTEWATER RATES

	<u>MONTHLY RECOMMENDED RATES</u>	<u>MONTHLY RATE REDUCTION</u>
<u>RESIDENTIAL SERVICE</u>		
BASE FACILITY CHARGE:		
Meter Size:		
All Meter Sizes	\$ 22.96	0.04
<u>GENERAL SERVICE</u>		
BASE FACILITY CHARGE:		
Meter Size:		
5/8"X3/4"	\$ 22.96	0.04
3/4"	34.44	0.06
1"	57.40	0.10
1-1/2"	114.80	0.19
2"	183.68	0.31
3"	367.36	0.62
4"	573.99	0.97
6"	1,147.99	1.94
RESIDENTIAL GALLONAGE CHARGE PER 1,000 GALLONS	\$ 8.21	0.01
GENERAL SERVICE GALLONAGE CHARGE PER 1,000 GALLONS	\$ 9.85	0.02