COMMISSIONERS:
LILA A. JABER, CHAIRMAN
J. TERRY DEASON
BRAULIO L. BAEZ
RUDOLPH "RUDY" BRADLEY
CHARLES M. DAVIDSON

STATE OF FLORIDA

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

Public Service Commission

June 23, 2003

Martin S. Friedman, Esquire
Rose, Sundstrom & Bentley, LLP
600 S. North Lake Boulevard, Suite 160
Altamonte Springs, Florida 32701Name and Address

Re: Docket No. 030106-SU - Application for staff-assisted rate case in Lee County by Environmental Protection Systems of Pine Island, Inc.

Dear Mr. Friedman:

Please find enclosed a copy of the Staff Report in above-referenced docket. The copy which was mailed to you on June 23, 2003 was not duplexed. I apologize for any inconvenience this may have caused. If you have any questions, please do not hesitate to contact Jennifer Brubaker at (850) 413-6228.

Sincerely,

Dorothy E. Menasco
Assistant to Jennifer Brubaker

/dm

cc: Division of the Commission Clerk and Administrative Services

I:\030106-friedman.jsb

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.

Table of Contents

ISSUE	DESCRIPTION	PAGE
	Case Background	2
	QUALITY OF SERVICE	
1	Quality of Service (Massoudi)	5
	RATE BASE	
2	Projected Year End Test year (Merta)	8
3	Used and Useful Percentages (Massoudi)	10
4	Prudency of the Interconnection with PIRTS (Merta, Massoudi)	11
5	Sale and Early Retirement of Property (Merta)	14
6	Rate Base (Merta)	18
	COST OF CAPITAL	
7	Rate of Return (Merta)	25
	NET OPERATING INCOME	
8	Test Year Operating Revenue (Merta)	26
9	Operating Expenses (Merta, Massoudi)	27
	REVENUE REQUIREMENT	
10	Revenue Requirement (Merta)	36

ISSUE	DESCRIPTION	PAGE
	RATES AND CHARGES	
11	Rates (Merta)	37
12	Four-Year Rate Reduction (Merta)	41
13	Service Availability Charges (Merta)	42
14	Late Payment Charge (Merta)	44
15	Miscellaneous Service Charges (Merta)	46
16	Customer Deposits (Merta)	48
	OTHER ISSUES	
17	Rates Subject to Refund (Brubaker, Merta)	50
SCHEDULES	DESCRIPTION	
	Used and Useful	53
1-A	Wastewater Rate Base	55
1-B	Adjustments to Rate Base	56
2	Capital Structure	57
3-A	Wastewater Operating Income	58
3-B	Adjustments to Operating Income	59
3-C	Wastewater O&M Expenses	61
4	Four Year Rate Reduction	62

CASE BACKGROUND

This Staff Report is a **preliminary** analysis of the utility prepared by the Florida Public Service Commission (PSC) staff to give utility customers and the utility an advanced look at what staff may be proposing. The final recommendation to the Commission (currently scheduled to be filed September 4, 2003 for the September 16, 2003 Agenda Conference) will be revised as necessary using updated information and results of customer quality of service or other relevant comments received at the customer meeting.

Environmental Protection Systems of Pine Island, Inc. (EPS or utility) is a Class C wastewater utility located in Lee County. During the historical test year, the utility served approximately 441 mobile homes and 65 RV sites in Cherry Estates and R.V. Park in St. James City, which is located at the southern end of Pine Island, approximately 30 miles from Fort Myers. Water service is provided by Greater Pine Island Water Association (Association), a cooperative. The mobile home customers are individually metered by the Association; the RV park is served by a master meter.

The utility began operations in 1969. Pursuant to Order No. 7398, issued August 16, 1976, in Docket No. 760396-S, Sewer Certificate No. 206-S was issued to Cherry Estates, Inc. The utility's rates were approved by the Commission in 1976 under grandfather provisions. Rate base was first established by Order No. 8507, issued October 4, 1978, in Docket No. 780016-S. Order No. 13018, issued February 21, 1984, in Docket No. 830325-S, also addressed rate base and granted a rate increase. Order No. 24177, issued February 28, 1991, in Docket No. 910023-SU, approved the utility's request to change its name to Environmental Protection Systems of Pine Island, Inc. By Order No. 25083, issued September 20, 1991, in Docket No. 910728-SU, EPS's certificate was amended to include additional territory in Lee County. According to the utility's 2002 annual report, total gross revenue was $67,148, total operating expenses were $91,748 for a net operating loss of ($24,600).

On January 30, 2003, EPS filed an application for a staff assisted rate case (SARC) and paid the appropriate filing fee on March 18, 2003. The Commission has the authority to consider this rate case under Section 367.0814, Florida Statutes.

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.

CIAC	Contributions In Aid Of Construction - Any amount or item of money, services, or property received by a utility, from any person or governmental agency, any portion of which is provided at no cost to the utility, and which is utilized to offset the acquisition, improvement, or construction costs of the utility's property, facilities, or equipment used to provide utility services to the public. The term includes, but is not limited to, system capacity charges, main extension charges, and customer connection charges.
ERCs	Equivalent Residential Connections - A statistic used to quantify the total number of water or wastewater connections that can be served by a plant of some specific capacity. The consumption of each connection is considered to be that of a single family residential connection, which is usually considered to be a unit comprised of 3.5 persons.
gpd	Gallons Per Day - The amount of liquid that can be delivered or actually measured during a 24-hour period.
gpm	Gallons Per Minute - The amount of liquid that can be delivered or actually measured during a one-minute time period.
O&M	Operations and Maintenance Expense
RAF	Regulatory Assessment Fees
SARC	Staff Assisted Rate Case
UPIS	Utility Plant in Service - The land, facilities, and equipment used to generate, transmit, and/ or distribute utility service to customers.
Used and Useful	The amount of plant capacity that is used by current customers including an allowance for the margin reserve.
USOA	Uniform System of Accounts - A list of accounts for the purpose of classifying all plant and expenses associated with a utility's operations.

QUALITY OF SERVICE

ISSUE 1: Is the quality of service provided by 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.

QUALITY OF UTILITY'S PRODUCT

Wastewater

Jurisdiction over EPS's wastewater facilities is regulated by the FDEP's South District. According to the FDEP, the utility is currently up-to-date with all chemical analysis and all test results are satisfactory. The quality of wastewater service appears to meet or exceed regulatory standards and is considered satisfactory.

OPERATIONAL CONDITIONS AT THE PLANT

Wastewater

The wastewater plant-in-service is also reflective of the product provided by the utility. The overall capacity of the wastewater plant is sufficient to process the average daily flows of the on-line customers. The utility's operating permit was issued on December 11, 2001 and will expire on December 10, 2006. During the engineering field inspection, staff noticed that the wastewater plant was very old and was in bad shape. The concrete on the plant tanks was cracked. The pipes in the plant were very old and were out of shape. There was no local emergency phone number at the lift stations so that someone can respond to an emergency in a timely manner. Although the plant is very old and it needed to be upgraded and be improved totally, the utility still is trying to be in compliance status with FDEP regulations. Also, after interconnection to the Lee County wastewater, the utility would not have any responsibility for its wastewater plant anymore. It is recommended that a local emergency phone number, which can be easily seen, be posted at each lift station. The emergency phone number should be posted at all locations no later than 90 days from the date of the Consummating Order for this rate case. The quality of the wastewater plant in service appears to be satisfactory.

UTILITY'S ATTEMPT TO ADDRESS CUSTOMER SATISFACTION

An informal customer meeting is scheduled to be held on July 24, 2003. This meeting will give the customers the opportunity to express their opinions, comments, and complaints. All valid quality of service complaints will be investigated and will be considered in staff's final recommendation to the Commissioners.

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

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

PRELIMINARY RECOMMENDATION: Yes, the Commission should approve a projected year end test year for EPS to allow it an opportunity to earn a fair return on the increase in plant-in-service and expenses caused by EPS's interconnection with PIRTS which is projected to occur in 2003, as well as to provide compensatory rates in this rate case. Therefore, a projected year end test year ending December 31, 2003, should be approved. (MERTA)

STAFF ANALYSIS: For audit purposes, staff selected a historical test year ending December 31, 2002. As discussed below, EPS has been notified by DEP that future operating permit renewals could be in jeopardy due to the plant's environmentally sensitive location. In addition, as stated in Issue No. 1, the plant is very old and in need of upgrades and improvements. Therefore, the utility plans to begin construction to interconnect with PIRTS following the resolution of its SARC in November 2003. A large percentage of the utility's staff recommended rate base is the projected items discussed in Issue No. 4 and the retirement of plant discussed in Issue No. 5. The utility has submitted estimates on the recommended projected plant of $834,704 or 99.95% of the year end rate base.

Further, the historical test year represents EPS's cost associated with operating a wastewater treatment plant. All of these costs must be adjusted to reflect the operation of a wastewater reseller. Staff must use projections for purchased wastewater and purchased power. Staff must eliminate expenses that will no longer exist, for example, chemicals, operator, and testing. Staff must also reduce expenses that will still exist but to a lesser degree than before, for example, management fees, sludge removal, RAF's, and insurance. Staff must also annualize revenues to reflect customers who are projected to be added in 2003

The Commission should only apply a year end rate base in extraordinary circumstances. Citizens of Florida v. Hawkins, 356 So. 2d 254, 257 (Fla. 1978). Staff believes that extraordinary circumstances exist in this docket because the utility's most cost effective option is to interconnect with PIRTS. The construction and interconnection will occur after November 2003. Costs to accomplish the interconnection include: $86,625 to construct a new

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.

USED AND USEFUL

ISSUE 3: What portions of the utility's plant and collection system are used and useful?

PRELIMINARY RECOMMENDATION: The utility wastewater treatment plant should be considered 41.7% used and useful. The wastewater collection system should be considered 98.3% used and useful. (MASSOUDI)

STAFF ANALYSIS: **Wastewater Treatment Plant**

The existing capacity of the wastewater treatment plant is permitted by FDEP as a 95,000 gpd annual average daily flow (AADF) plant that is operating in the extended aeration mode of treatment. During the peak month of the most current test year (March), the maximum daily flow for historical test year (Jan 02-Dec 02) was 67,000 gpd. The maximum daily flow for projected test year (Jan 03-Dec 03) was 67,955 gpd. The Annual Average Daily Flow (AADF) for historical test year for the plant was measured and calculated to be 36,500 gpd. The Annual Average Daily Flow (AADF) for the projected test year is 37,020 gpd. Growth in the used and useful calculation is limited to 6 ERCs per year which is determined by the statutory 5% per year cap for the growth calculation. It is estimated that the increase demand for the five year statutory growth period will be 2,619 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 1 of 2) indicates a used and useful of 41.7%.

Wastewater Collection System

The utility's potential customer base is 462 ERCs. The average number of customers in ERCs for the projected test year was 424. Using the statutory cap of 5% per year for the five year growth period (6 ERCs per year), future growth for the next five years is calculated to be 30 ERCs. In accordance with the formula method used on the calculation sheet (See Attachment "A", sheet 2 of 2), the used and useful is calculated to be 98.3%. By the formula method, it is recommended that the wastewater collection system should be considered 98.3% used and useful.

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

generating excessive inflow/infiltration as determined by Lee County Utilities, be allowed to connect into the County's system." Source Inc. estimates that it will cost $23,771 to videotape the lines, inspect all manholes and prepare an engineering report to define areas of needed repairs. Staff has capitalized this cost with the connection fees discussed in Issue No. 6. Finally, Source Inc. has estimated $38,225 to update lift station No. 2 to meet current FDEP standards as well as replace old, outdated and worn out pumping units and controls. Staff included this cost in plant-in-service. The revenue requirement associated with this option is $221,015.

Source Inc. also submitted an estimate for the construction of a new wastewater treatment plant and disposal system in case the interconnection to Lee County does not occur. The cost to construct a master lift station, a pond, treatment facilities, road, electrical power supply, fencing and landscaping is estimated to be $1,684,043. The cost to update lift station No. 2 is $25,000. Ten acres of land for the new facility is estimated to cost $200,000. Costs for this option total $1,909,043. It should be noted that this cost does not include: preparation of a zoning application and submittal fees; preparation of a Lee County Development Order application and submittal fees; and FDEP Permit application fees. Source Inc. estimates land acquisition, zoning, design, permitting and facility construction for this option could take two to two and a half years. The revenue requirement associated with this option is $256,861.

Based on the above evaluation, staff believes that interconnection to the county facility is the most prudent and cost effective option for this utility. The following schedule compares the revenue requirements of the two options:

	Interconnection	New Plant
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	$221,015	$256,861
Adjusted Test Year Revenues	$70,829	$70,829
Percent Increase/(Decrease)	212.04%	262.65%

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

ISSUE 5: What is the appropriate treatment of the sale and early retirement of utility property?

PRELIMINARY RECOMMENDATION: The appropriate amount of the gain on the sale of land is $70,000. The appropriate amount of the early retirement loss associated with the utility's interconnection is $44,048. The gain on land should be netted with the loss on early retirement and the $25,952 net gain should be amortized above the line over a five year period. (MERTA)

STAFF ANALYSIS: In 2001, land that has been included in rate base since 1978 was sold to an affiliate company. In 2003, the utility will retire its treatment plant at a loss before it is fully depreciated. Staff is recommending that the gain on the sale and the early retirement loss be netted and amortized.

Gain on the Sale of Land

Order No. 8507, issued October 4, 1978, established the land value of $2,000 for the utility. In a subsequent rate case, by Order No. 13018, issued February 21, 1984, the Commission again included the land in rate base. However, at the time of the orders, EPS did not exist as a separate entity. Per Audit Exception No. 1, Cherry Estates owned land that was being sold for a manufactured home community, the utility and the land it occupies, and a RV park. In 1991, the company reorganized and Cherry Estates was separated into five entities. The land was left in the name of Cherry Estates and recorded in the books of that company. The utility signed a 99 year lease agreement with Cherry Estates for $10,000 per year. The utility paid the rent each year but left the land in its ledger and in its annual report. In April 2001, Cherry Estates sold the land to KRS Resort Development, Inc. (KRS), another affiliate company, for $72,000 and the lease was assigned to KRS.

Even though EPS does not own the land, it has been included in rate base and in rates since 1978 and the utility has been allowed to earn a return on it. Since previous rates charged to the utility's customers included a return on the land, staff believes that ratepayers should receive a benefit from the sale of the land. Staff calculated a gain on the sale of land to be $70,000 ($72,000 - $2,000). Normally, gains are amortized back to customers over an appropriate period as decided by the Commission, usually five years. Order No. PSC-96-1320-FOF-WS, issued October 30, 1996, in Docket No.

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	$0
Net Loss	$44,048

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

capacity charges collected from customers. Staff also included the projected removal cost associated with the retirement. The loss calculated above does not include retirement of the land associated with the treatment plant. Staff is recommending that the gain on the sale of the land be offset by the loss on retirement of plant.

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

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

Using the formula described in Rule 25-30.433(9), Florida Administrative Code, results in an amortization period of 10 years for the early retirement loss.

For the foregoing reasons, staff believes that the appropriate amount of the early retirement loss associated with the utility's interconnection with PIRTS is $44,048. According to the Rule, this loss should be recovered over a 10 year period, however, staff believes the specific circumstances surrounding the retirement demonstrate a more appropriate amortization period.

Staff believes that the gain on sale should offset the loss on retirement and that the net gain should be amortized over five years. To amortize the gain over five years would result in a decrease to expenses of $14,000 annually; to amortize the loss over ten years would result in an annual increase to expenses of $4,405. Staff believes it is fairer to net the gain and the loss. The land has been in rate base for 25 years and the rate of return authorized

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.

ISSUE 6: What is the appropriate test year rate base for the utility?

PRELIMINARY RECOMMENDATION: The appropriate test year rate base for the utility is $835,082. On a prospective basis, the utility should use the depreciation rates prescribed in Rule 25-30.140, F.A.C. The utility should be required to complete the construction and interconnection within nine months of the issuance date of the Consummating Order. (MERTA)

STAFF ANALYSIS: The utility's rate base was last established by Order No. 13018, issued February 21, 1984, in Docket No. 830325-S. Staff has selected a projected year end test year ended December 31, 2003, for this rate case. Rate base components, established in Order No. 13018, have been updated through December 31, 2003, using information obtained from staff's audit and engineering reports. A discussion of each rate base component follows:

Utility Plant in Service (UPIS): The utility recorded UPIS of $307,442 for the test year ended December 31, 2002.

Per Audit Exception No. 2, in 1985, Cherry Estates laid lines in Island V. These costs were included as part of the total cost of the development and expensed. They were never transferred to the utility. Since the lines were expensed by Cherry Estates, they should be considered contributed. Therefore, staff has increased UPIS and CIAC by $8,837.

Per Audit Exception No. 3, the utility paid for a new control panel in 2002. The cost was recorded in Account 736, Contractural Services - Other, an expense account. The $5,746 was for a major renovation of the lift station and the parts purchased will be used in the new master lift station that will be constructed. These costs should be capitalized. Therefore, staff has increased UPIS by $5,746 and decreased Account 736 by the same amount to reclassify this item.

Per Audit Exception No. 4., the utility classifed its plant incorrectly and recorded prior Commission adjustments of $81,371 in Account 398, Other Intangible Plant, instead of to the appropriate plant accounts. It also capitalized several items related to a new plant the utility had considered building but abandoned when the land it was going to be built on was sold to Lee County. Per Audit

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 reclassifed plant into the appropriate plant accounts. The reclassification has a zero effect on rate base. The schedule below shows the reclassification.

ACCOUNT	DEBIT	CREDIT
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	$189,067	
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		$189,067

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

and engineering fees for work done over the past three years in preparing the agreement with the county. Additionally, the utility is required by Lee County Utilities to inspect and test its collection system prior to connection to PIRTS to assure compliance with Lee County standards. In no case shall substandard private systems generating excessive inflow/infiltration be allowed to connect into the County's system. EPS obtained an estimate of $23,771 to videotape the lines, inspect all manholes and prepare an engineering report to define areas of needed repairs. Staff believes the accrued legal and engineering fees and the videotaping and inspection costs should be capitalized with the connection fees since these costs were incurred to secure the interconnection with the county. The connection costs are shown below:

COUNTY CONNECTION FEES

	Lots	Fee
Occupied home sites	441	$612,108
Developed RV sites	65	45,110
Capitalize legal & engineering fees		28,865
Capitalize videotaping & inspection		23,771
Subtotal		$709,854
Vacant developed homesites owned by individuals	47	32,618
Vacant developed lots owned by Cherry Estates	7	4,858
Undeveloped lots on Island VIII	45	31,230
Undeveloped lots on Island IX	61	42,334
Undeveloped RV lots	66	22,902
Subtotal		$133,942
TOTAL		$843,796

Staff believes that the costs for developed lots that are connected to the EPS system should be recovered in rates from the current ratepayers because the utility must pay the connection fees

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.

Staff's net adjustment to UPIS is an increase of $860,515. Staff recommends UPIS of $1,167,957.

Land and Land Rights: The utility recorded $2,000 in land. Per Audit Exception No. 1, this account has been reduced by $2,000 because EPS is retiring this land. Staff recommends a zero balance for this account.

Non-used and Useful Plant: Staff has determined the used and useful percentages for the utility's plant accounts. The wastewater treatment plant should be considered 41.7% used and useful, and the wastewater collection system should be considered 98.3% used and useful. Applying the non-used and useful percentages to the wastewater system results in non-used and useful plant of $4,659. The non-used and useful accumulated depreciation is $1,806. In addition, as discussed above, a non-used and useful adjustment of $133,942 was made to connection fees to remove fees for future connections. This results in net non-used and useful UPIS of $136,795.

Contribution in Aid of Construction (CIAC): The utility recorded CIAC of $116,669 for the test year ended December 31, 2002.

As discussed above, staff increased CIAC by $8,837 to include lines laid in 1985 by Cherry Estates and expensed. Since the lines were expensed, they should be considered contributed.

EPS's wastewater tariff provides a plant capacity charge of $110 per customer connection. Per Audit Exception No. 5, since the capacity charges were first approved in 1983, the utility has recorded its connection fees as revenue instead of CIAC. Staff multiplied the $110 fee by the new connections each year since 1983 for a total of $10,560. Therefore, staff increased this account by $10,560 to reflect the unrecorded connection fees.

In addition, staff has increased CIAC to reflect six additional customers for the projected test year. This adjustment results in a $660 increase to this account. Staff calculated projected CIAC based on projected customers to be added over the projection period and the service availability charges anticipated to be in effect during that period.

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.

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, staff recommends that the one-eighth of the O&M expense formula approach be used for calculating working capital allowance. Applying that formula, staff recommends a working capital allowance of $15,405 (based on O&M of $123,238) The utility did not record a working capital allowance. Working capital has been increased by $15,405 to reflect one-eighth of staff's recommended O&M expenses.

Rate Base Summary: Based on the foregoing, staff recommends that the appropriate test year rate base is $835,082.

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

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.

NET OPERATING INCOME

ISSUE 8: What is the appropriate projected test year revenue?

PRELIMINARY RECOMMENDATION: The appropriate projected test year revenue for this utility is $70,829 for wastewater. (MERTA)

STAFF ANALYSIS: The utility recorded revenues for the 12-month period ended December 31, 2002, of $67,181 for wastewater.

The utility's current residential tariff authorizes a $12.79 per month flat rate. The general service tariff authorizes a base facility charge of $46.76 and a gallonage charge of $3.26 per thousand gallons.

Staff has annualized revenues for the historical test period ended December 31, 2002, using the current rates times the number of bills and consumption provided in the billing analysis. Staff has increased historic test year revenues by $2,727 to reflect annualized revenues.

Because staff is using a projected test year, revenues must be adjusted to reflect the increase in revenues associated with an increase in customer base. Therefore, staff has increased historic test year revenues by $921 to reflect revenues based on the projected test year. Projected year end test year revenues are based on six additional customers and the average use for those customers. Staff recommends projected test year revenues of $70,829.

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

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

unreasonable. After reviewing prior rate cases and a history of salary amounts approved for utility managers, staff is recommending a rate of $22.43 per hour for Mr. Cherry for a total annual amount of $17,495 ($22.43 per hour x 15 hours x 52 weeks). Staff determined this amount by evaluating the American Water Works Association 1998 Water Utility Compensation Survey. Staff took the average salary of the management function with the most responsibilities and adjusted for inflation.

Ms. Sue Hopper, the Secretary, is currently paid $21.17 per hour and estimates she will spend 30 hours per week on utility business. Her duties include: preparing rate filings, the PSC annual report, regulatory assessment fees, and payroll reports; arranging disconnects; billing; accounts receivable and payable; investigating delinquent accounts; obtaining water meter readings; responding to customer inquiries; collection of receipts; bank deposits; monthly meetings with the CPA; and general correspondence. Ms. Hopper is currently performing additional duties in preparation for the interconnection and changing to a monthly billing system. Staff believes these additional duties will disappear after the interconnection and change to the new system.

While Ms. Hopper's job also requires a variety of skills, staff believes that $21.17 per hour is unreasonable. Staff is recommending a rate of $19.26 per hour for Ms. Hopper for an annual amount of $30,046 ($19.26 per hour x 30 hours x 52 weeks). Staff determined this amount by evaluating the American Water Works Association 1998 Water Utility Compensation Survey. Staff took the average salary of the office/management function and adjusted for inflation.

Staff is recommending total salaries of $47,541. Therefore, staff has increased this account by $23,219 to reflect the recommended annual salary allowance ($47,541 - $24,322). Staff will further evaluate the reasonableness of the time spent, and the rates allowed for the staff recommendation.

Employee Pensions and Benefits - (704) - The utility recorded employee pensions and benefits of $503 for the test year ended December 31, 2002.

The utility requested $38,689 in pensions and benefits. This amount includes $11,000 plus taxes in pensions for Mr. Cherry and also for Ms. Hopper plus $7,831 in health insurance for Mr. Cherry.

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.

Contractual Services - Professional - (731) - The utility recorded $5,308 in this account during the test year: $350 associated with engineering for a permit; $158 for legal fees; and $4,800 for accounting.

Staff has decreased this account by $350 to remove the engineering costs related to the permit. These costs were included in the $28,865 deferred engineering and legal costs and capitalized with the connection fees as discussed in Issue No. 6.

The utility's accountant prepares the federal "S" corporation income tax return and the Florida intangible tax return, assists in the preparation of the PSC Annual Report, and meets monthly with the utility staff to assist with the monthly financial statements. The fee for these services is $4,800 annually. Staff believes this amount is reasonable.

Staff recommends Contractural Services - Professional expense of $4,958.

Contractual Services - Testing - (735) - The utility recorded $1,227 in this account during the test year. Per Audit Disclosure No. 9, after the interconnection, all testing and analysis will be the responsibility of PIRTS. Therefore, staff has decreased this account by $1,227 to remove testing expenses.

Contractual Services - Other - (736) - The utility recorded $24,237 in this account during the test year: $6,240 for an operator; $17,013 for repairs and maintenance; and $984 for operator repairs.

Staff has reclassified $5,746 from this account to Account No. 370, Receiving Wells, for a control panel for the lift station. This was a major renovation to the lift station and should have been capitalized. Therefore, staff has decreased this account by $5,746.

Although the utility will no longer operate a treatment plant, it has requested operator services to maintain and inspect the lift stations regularly. It should be mentioned that FDEP does not have operation and maintenance time requirements for the collection systems and lift stations. EPS received a bid for $3,120 (1.5 hours per week at $40 per hour). Staff believes that this amount is excessive because the new operator's responsibilities would be approximately one-third of the previous operator's responsibilities. Staff estimates that $2,080 ($6,240/ 3) annually should be allowed

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 reclassed - $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.

Staff recommends insurance expense of $1,285.

Regulatory Commission Expense - (765) - The utility did not record an amount in this account during the test year. Pursuant to Rule 25-30.020, F.A.C., the utility paid a rate case filing fee of $1,000. Staff amortized this amount over four years which resulted in a $250 increase to this account. In addition, the utility is required by Rule 25-30.475(1)(a), Florida Administrative Code, to mail notices of any rate increase to its customers. Staff believes that $428 is a reasonable amount to be recovered, based on the number of customers, for additional mailing and copying expenses associated with this rate case. Staff amortized this amount over four years which resulted in a $107 increase to this account.

Staff recommends regulatory commission expense of $357.

Bad Debt Expense - (770) - The utility did not record an amount in this account during the test year. On December 31, 2002, the utility had $3,496 in receivables that were more than 90 days past due. According to the Mr. Cherry, delinquency and collection losses are a continuing problem; several customers have not paid in three years. Staff believes that a bad debt expense may be warranted for this utility. However, staff is recommending tariff remedies such as late fees, miscellaneous service charges, and customer deposits that may reduce the need for the utility to incur bad debt expense. Therefore, staff has increased this account by one-third of $3,496 or $1,165. Staff will further evaluate the reasonableness of this amount for the staff recommendation.

Miscellaneous Expense - (775) - The utility recorded $1,353 in this account for the test year: $75 related to bank charges; $115 to check charges; $877 to office costs; $283 to telephone; and $3 for water.

The utility has been billing flat rates twice a year. Staff is recommending in Issue No. 11, that the utility bill usage rates monthly. Per Audit Disclosure No. 4, EPS has estimated it will incur $4,664 annually to bill monthly. These costs include the charge from the Association for meter readings, billing cards, envelopes and postage. Therefore, staff has increased this account by $4,664 for the cost of billing monthly. Staff will further evaluate the reasonableness of these costs for the staff recommendation.

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.

Staff has increased depreciation expense by $38,278 to reflect staff's calculated depreciation of $46,401. Staff has decreased this account by $160 to reflect non-used and useful depreciation. Staff has calculated amortization of CIAC based on composite rates. Staff has increased amortization of CIAC by $2,234 to reflect staff's calculated amortization of $5,588. Non-used and useful depreciation, and amortization of CIAC have a negative impact on depreciation expense. Net depreciation expense is $40,653.

Amortization of Early Retirement Loss/Gain on Sale of Land - As discussed in Issue No. 5, staff has determined the amount of the early retirement loss to be $44,048 and the gain on the sale of land to be $70,000. Staff also recommended in that issue to net the loss and gain and amortize the net gain over 5 years. The gain has a negative impact on operating expenses. Therefore, staff has decreased this account by $5,190 ($25,952 ÷ 5 years) to reflect the annual amortization of the net gain.

Taxes Other Than Income - The utility recorded $3,232 in this account for the test year: $3,023 related to RAFs, $59 to intangible tax, and $150 to corporation tax. Staff has increased this account by $164 to reflect RAFs on projected test year revenues ($3,187 - $3,023). Staff has also increased this account by $551 per Audit Disclosure No. 4, to include tangible property tax.

The total adjustment to this account is an increase of $715.

Income Taxes - EPS is a Subchapter S Corporation; therefore, pursuant to Rule 25-30.433(7), F.A.C., the utility has no income tax liability.

Operating Revenues - Revenues have been increased by $150,185 to reflect the change in revenue required to cover expenses and allow the recommended return on investment.

Taxes Other Than Income - This expense has been increased by $6,758 to reflect regulatory assessment fees of 4.5% on the change in revenues.

Operating Expenses Summary - The application of staff's recommended adjustments to the audited test year operating expenses results in staff's calculated operating expenses of $169,407.

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

REVENUE REQUIREMENT

ISSUE 10: What is the appropriate revenue requirement?

PRELIMINARY RECOMMENDATION: The appropriate revenue requirement is $221,015 for wastewater. (MERTA)

STAFF ANALYSIS: The utility should be allowed an annual increase of $150,185 (212.04%) for wastewater. This will allow the utility the opportunity to recover its expenses and earn a 6.18% return on its investment. The calculations are as follows:

	Wastewater
Adjusted Rate Base	$835,082
Rate of Return	x .0618
Return on Rate of Return	$51,608
Adjusted O & M expense	$123,238
Depreciation expense (Net)	$40,653
Amortization of Net Gain	($5,190)
Taxes Other Than Income	$10,706
Income Taxes	$0
Revenue Requirement	$221,015
Adjusted Test Year Revenues	$70,829
Percent Increase/(Decrease)	212.04%

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

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/gallonage 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 gallonage 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 gallonage 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 as discussed in Issue No. 9. Therefore, staff recommends that the utility's rate structure should be changed to the traditional base facility charge/gallonage charge rate structure.

Monthly Rates Versus Semi-Annual Rates

The utility is currently billing its customers biannually in accordance with its tariff. Under this system, many of the customers are slow to pay and several have not paid for three years. Billing monthly could serve as a reminder to these customers to keep their accounts current. In addition, when the utility interconnects with PIRTS, EPS will be billed monthly for its purchased wastewater treatment. A monthly billing cycle for the utility's customers will provide the necessary cash flow to enable EPS to pay the County monthly. Therefore, staff recommends that a monthly billing cycle be approved for EPS.

During the test year the utility provided service to approximately 441 residential customers and one general service customer. As discussed in Issue No. 10, the appropriate revenue requirement, is $221,015. Staff has calculated rates using projected test year number of bills and consumption. Staff's calculated rates for wastewater have been calculated based on 80% of the water used by residential customers and actual usage for the general service customers. Schedules of the utility's current rates and staff's preliminary recommended rates is as follows:

Monthly Rates - Wastewater

RESIDENTIAL

	Existing Rates	Staff's Preliminary Rates
Base Facility Charge		
Meter Size:		
All meter sizes	$12.79	$22.96
Gallonage Charge		
Per 1,000 Gallons	N/A	$8.21

Monthly Rates - Wastewater

GENERAL SERVICE

	Existing Rates	Staff's Preliminary Rates
Base Facility Charge		
Meter Sizes		
5/8" x 3/4	N/A	$22.96
3/4"	N/A	$34.44
1"	N/A	$57.40
1 ½"	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
Gallonage Charge		
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

the tariffs are consistent with the Commission's decision and the customer notice is adequate.

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

ISSUE 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.

ISSUE 13: Should the utility's service availability charges be revised?

PRELIMINARY RECOMMENDATION: Yes, the utility's service availability charges should be revised to include a Customer Connection Charge (paid to PIRTS) of $1,388 for home sites and $694 for RV sites. The Plant Capacity Charge should be removed. One half of the charges should be credited to CIAC when they are collected from the customer. 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 service availability charges should become effective for connections made on or after the stamped approval date of the revised tariff sheets, if no protest is filed. (MERTA)

STAFF ANALYSIS: The utility's existing tariff authorizes a plant capacity charge of $110 per residential ERC and $0.64 per gallon for all others. Staff recommends that this charge be discontinued and a customer connection charge be instituted in its place.

Per the utility's agreement with Lee County Utilities, EPS must pay a capacity charge to the County of $1,388 for each home site and $694 for each RV site that is connected to the EPS system. For the home and RV sites that will be developed and connected in the future, EPS must pay $694 for each home site and $347 for each RV site. The capacity charges for the home and RV sites that are connected to the EPS system are included in rates. However, the capacity charges for the future connections are not. In order to recover the costs for the future connections, staff is recommending a customer connection charge to match the capacity charge by the County. As the sites are developed and connected to the EPS system, the utility will collect the County capacity charges from the customers. Therefore, staff recommends a customer connection charge of $1,388 for home sites and $694 for RV sites. When these charges are collected from customers, CIAC should be credited for one half of the amount collected because the utility paid one half of the fee for these sites at the time of interconnection.

The utility's current contribution level is 5.79%. The utility's wastewater facilities can accommodate additional connections.

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:

	Wastewater	
Customer Connection Charge	Existing Charge	Preliminary Recommended Charge
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.

ISSUE 14: Should the utility be authorized to collect late payment fees, and if so what are the appropriate charges?

PRELIMINARY RECOMMENDATION: Yes. The utility should be authorized to collect a $5.00 late fee. 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 fee should become effective for connections made on or after the stamped approval date of the revised tariff sheets, if no protest is filed. (MERTA)

STAFF ANALYSIS: EPS is not currently authorized to collect late payment charges. The utility requested to implement a late payment charge.

Staff believes that the purpose of a late payment 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.

In the past, late payment fee requests have been handled on a case-by-case basis. The Commission has approved late fees in the amount of $5 in the following Orders: Order No. PSC-98-1585-FOF-WU, issued November 25, 1998, in Docket No. 980445-WU; Order No. PSC-01-2093-TRF-WS, issued October 22, 2001, in Docket No. 011034-WS; Order No. PSC-01-2468-TRF-WU, issued December 18, 2001, in Docket No. 011482-WU; and Order No. PSC-02-1168-PAA-WS, issued August 26, 2002, in Docket No. 010869-WS.

Presently, Commission rules provide that late payers may be required by the utility to provide an additional deposit. However, the Commission 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, the Commission 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 rate payers.

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.

ISSUE 15: Should the utility be authorized to collect miscellaneous service charges, and if so, what are the appropriate charges?

PRELIMINARY RECOMMENDATION: Yes, the utility should be authorized to collect miscellaneous service charges as recommended in the staff analysis. 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 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. (MERTA)

STAFF ANALYSIS: The utility's existing tariff does not provide Commission approved miscellaneous service charges. Staff recommends that the utility be authorized to collect charges consistent with Rule 25-30.460, Florida Administrative Code, and past Commission practice. The recommended charges are designed to defray the costs associated with each service and place the responsibility of the cost on the person creating it rather than on the rate paying body as a whole. No expenses incurred for miscellaneous service charges were included in the calculation of test year operating expenses. A schedule of staff's recommended charges follows:

Wastewater

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

Definition of each charge 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 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.

ISSUE 16: What are the appropriate customer deposits for this utility?

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

STAFF ANALYSIS: The purpose of customer deposits is to establish credit with the utility. Deposits are to be paid by new utility customers. However, pursuant to Rule 25-30.311(7), F.A.C., an additional deposit may be required for late paying customers. Rule 25-30.311, Florida Administrative Code, provides guidelines for collecting, administering and refunding customer deposits. It also authorizes customer deposits to be calculated using an average monthly bill for a 2-month period. Staff has calculated customer deposits using recommended rates and an average monthly bill for a 2-month period. A schedule of the utility's existing and staff's recommended deposits follows:

Wastewater

Residential

Meter Size	Existing Deposit	Staff's Preliminary Deposit
All meter sizes	N/A	$80.00

Wastewater

General Service

Meter Size	Existing Deposit	Staff's Preliminary Deposit
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.

ISSUE 17: Should the recommended rates be approved for the utility on a temporary basis, subject to refund, in the event of a protest filed by a party other than the utility?

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

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

The utility should be authorized to collect the temporary rates upon the staff's approval of an appropriate security for both the potential refund and a copy of the proposed customer notice. The security should be in the form of a bond or letter of credit in the amount of $100,925. Alternatively, the utility could establish an escrow agreement with an independent financial institution.

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

1) The Commission approves the rate increase; or

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

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

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

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.

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

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

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

Attachment A, page 1 of 2

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% Used and Useful

WASTEWATER COLLECTION SYSTEM - USED AND USEFUL DATA

Docket No. 030106-SU;

ENVIRONMENTAL PROTECTION SYSTEMS OF PINE ISLAND

1)	Capacity of System (Number of potential ERCs)	462	ERCs
2)	Test year connections		
	a) Beginning of Test Year - Jan. 03	421	ERCs
	b) End of Test Year - Dec. 03	427	ERCs
	c) Average Test Year	424	ERCs
3)	Growth	30	ERCs
	a) customer growth in connections for last 5 years including Test Year using Regression Analysis	6	ERC
	b) Statutory Growth Period	5	Years

(a)x(b) = (6)x(5)= 30 ERCs allowed for growth

USED AND USEFUL FORMULA

[(2)+(3)]/(1) = 98.3% 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	0	15,405	15 405
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)	(121,496)
9.	
Total	$860,515
LAND AND LAND RIGHTS	
1. Remove land owned by KRS Resorts	($2,000)
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	($136,795)
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	12,200
5.	
Total	($7,857)
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	(46,401)
4.	
Total	$28,675
AMORTIZATION OF CIAC	
1. To adjust Amortization of CIAC based on composite rates	$8,671
2. Retired Amortization of CIAC	(6,302)
3.	
Total	$2,369
WORKING CAPITAL ALLOWANCE	
1. To reflect 1/8 of test year O & M expenses.	$15,405

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	$189,138	$934,531	$1,123,669	($288,587)	$835,082	100.00%		6.18%

RANGE OF REASONABLENESS	LOW	HIGH
RETURN ON EQUITY	10.10%	12.10%
OVERALL RATE OF RETURN	6.11%	6.26%

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**	$67,181	$3,648	$70,829	$150,185 212.04%	$221,015
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**	$93,200	$69,448	$162,648	$6,758	$169,407
8. **OPERATING INCOME/(LOSS)**	($26,019)		($91,819)		$51,608
9. **WASTEWATER RATE BASE**	$74,770		$835,082		$835,082
10. **RATE OF RETURN**	-34.80%		-11.00%		6.18%

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	$3,648
OPERATION AND MAINTENANCE EXPENSES	
1. Salaries and Wages - Officers (703)	$23,219
2. Employee Pensions and Benefits (704)	
a. Include allocated pensions and benefits	$13,792
3. Purchased Wastewater Treatment (710)	
a. Annualize purchased wastewater treatment	$38,809
4. Sludge Removal Expense (711)	
a. Remove sludge removal	($3,585)
5. Purchased Power (715)	
a. Reduce purchased power since interconnection	($5,457)
6. Chemicals (718)	
a. Reduce chemicals since interconnection	($5,106)
7. Contractual Services - Professional (731)	
a. Remove deferred engineering costs capitalized with connection fees	($350)
8. Contractural Services - Testing (735)	
a. Remove testing since interconnection	($1,227)
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	($21,346)
10. Rents (740)	
a. Remove rent	($10,000)
11. Insurance Expenses (755)	
a. Increase insurance for office to allocated amount	$568
b. Decrease insurance for retired plant	(1,877)
Subtotal	($1,309)
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	$357
13. Bad Debt Expense (770)	
a. Include bad debt expense	$1,165

(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	$9,077
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	($2,234)
Total	$35,884
AMORTIZATION	
1. Amortization of Net Early Retirement Loss/Gain on Sale of Land over 5 yrs	($5,190)
TAXES OTHER THAN INCOME	
1. Adjust RAF's to Projected Revenue	$164
2. Include Tangible Propertly Tax	551
Total	$715

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	1,353	9,077	[8]	$10,430
	85,199	38,039		123,238

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

		MONTHLY RECOMMENDED RATES	MONTHLY RATE REDUCTION
RESIDENTIAL SERVICE			
BASE FACILITY CHARGE:			
Meter Size:			
All Meter Sizes	$	22.96	0.04
GENERAL SERVICE			
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