

State of Florida



Public Service Commission
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DATE : OCTOBER 9, 2003

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

FROM: DIVISION OF ECONOMIC REGULATION (FITZ, DAVIS, HUDSON, LINGO) (Fitz)
OFFICE OF THE GENERAL COUNSEL (FLEMING) (KEF) (Wait)

RE: DOCKET NO. 030250-WU - APPLICATION FOR STAFF-ASSISTED RATE CASE IN PASCO COUNTY, BY FLORALINO PROPERTIES, INC.

AGENDA: 10/21/03 - REGULAR AGENDA - PROPOSED AGENCY ACTION EXCEPT FOR ISSUE NOS. 12, 13, 14, AND 15 - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: 15-MONTH EFFECTIVE DATE: 08/12/04 (SARC)

SPECIAL INSTRUCTIONS: NONE

FILE NAME AND LOCATION: S:\PSC\ECR\WP\030250.RCM

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CASE BACKGROUND

Floralino Properties, Inc. is a Class C water utility, located in Pasco County. Pasco County became jurisdictional on July 11, 1972. The Commission granted the utility its operating certificate No. 153-W by Order No. 5846, issued September 11, 1973, In Re: Application for Water Certificate in Pasco County by Floralino Properties, Inc.

The Commission has granted the utility rate increases through the application of three prior rate cases, the last of which was approved by Order No. PSC-95-0142-FOF-WU, issued January 31, 1995, in Docket No. 940558-WU, In Re: Application for a staff-assisted rate case in Pasco County by Floralino Properties, Inc. Since the utility's last rate case, the utility has applied for and has been granted rate adjustments through the price index applications (annual adjustment for inflation).

On March 13, 2003, Floralino Properties, Inc. applied for this staff-assisted rate case. Staff has audited the utility's records for compliance with Commission rules and orders and determined those components necessary for setting rates. The staff engineer has also conducted a field investigation, which included an inspection of the water treatment facilities and certificated territory. Staff has selected a historical test year ended December 31, 2002. Water use in the utility's service area is under the jurisdiction of the Southwest Water Management District and is located in a water usage caution area.

The utility's service area consists of three subdivisions, Colonial Manor, Colonial Manor Annex, and Eastwood Acres. The utility has a contract with Pasco County for backup water service. Based on the staff audit, the utility provides service to approximately 701 residential customers and 7 general service customers for a total of 708 customers. The utility is built out and there appears to have been no customer growth since 1987.

Based on the staff's adjustments, the utility's adjusted test year revenues were \$136,075; its adjusted test year expenses were \$148,773 which resulted in a test year operating loss of \$12,698.

A customer meeting was held in the service area on September 10, 2003. Five customers attended the meeting and 4 customers chose to give comments. Customers raised concerns about frequent

line breaks and air in the water lines. These items will be addressed in Issue No. 1. Customers also raised concerns about billing errors and the utility's response to billing errors. This item will be addressed in Issue Nos. 1 and 10. Customers commented that the response time to the emergency phone number on the customer bill was inadequate and that there are no emergency numbers posted at the plant sites and well pumps. Emergency numbers will be addressed in Issue No. 1. Finally, customers inquired whether the utility was keeping **its** records on the accrual basis of accounting. The utilities books and records will be addressed in Issue No. 14.

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

COMPANY AND PARTY NAMES

DEP Department of Environmental Protection
FPSC Florida Public Service Commission
NARUC National Association of Regulatory Utility Commissioners
OPC Office of Public **Counsel**
SWFMD Southwest Florida Water Management District

GLOSSARY OF TECHNICAL TERMS

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

- CIAC Contributions In Aid Of Construction - Any amount or item of money, services, or property received by a utility, from any person or governmental agency, any portion of which is provided at no cost to the utility, and which is utilized to offset the acquisition, improvement, or construction costs of the utility's property, facilities, or equipment used to provide utility services to the public. The term includes, but is not limited to, system capacity charges, main extension charges, and customer connection charges.
- ERCs Equivalent Residential Connections - A statistic used to quantify the total number of water or wastewater connections that can be served by a plant of some specific capacity. The consumption of each connection is considered to be that of a single family residential connection, which is usually considered to be a unit comprised of 3.5 persons.
- GPD Gallons Per Day - The amount of liquid that can be delivered or actually measured during a 24-hour period.
- GPM Gallons Per Minute - The amount of liquid that can be delivered or actually measured during a one-minute time period.
- O&M Operations and Maintenance Expense
- 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.

ISSUE 1: Is the quality of service provided by Floralino Properties, Inc. considered satisfactory?

RECOMMENDATION: The determination for quality of service provided by Floralino Properties, Inc., should be considered "not satisfactory" until the utility replaces three of its hydro-pneumatic tanks, and installs signs at each plant with emergency phone numbers. The utility should be required to complete these items within twelve months from the date of the Consummating Order.
(DAVIS)

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

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

Staff's recommendation concerning the overall quality of service provided by the utility is derived from an evaluation of three separate components of water utility operations:

- (1) Quality of Utility's Product (compliance with drinking water standards),
- (2) Operational Conditions of Utility's Plant(s) or Facility(s),
- (3) Utility's Attempt to Address Customer Satisfaction.

Floralino Properties, Inc. is a Class C utility providing water service to 701 customers (estimated to be 701 ERCs), and seven general service customers (estimated to be 25 ERCs) in Pasco County. Those customers are located within and along the boundary

of three neighborhoods known as Colonial Manor, Eastwood Acres, and Colonial Manor Annex. All three developments have been "built-out" for several years. The general service customers are small businesses dispersed along highway frontage of Moog Road and U.S. Highway 19. The Holiday Mall (a customer during the last rate case) represented nine general service customers that are no longer a part of Floralino's service area.

QUALITY OF UTILITY'S PRODUCT

The quality of the utility's product is determined through the potable water testing program which is regulated by the Southwest District Office of the DEP. According to DEP records for the last three years, the utility had some bacteriological deficiencies that were corrected during the check sampling process. Since 2001, the utility has been on a quarterly monitoring program due to wells number one, two, three, and four registering a higher than expected content of Nitrate (average of 8± with an Maximum Contaminate Level of 10). The utility is currently up-to-date with all testing requirements for safe drinking water standards and the analysis results are considered satisfactory by the DEP.

Consumptive use in Pasco County is permitted by the Southwest Florida Water Management District. The utility obtained its Consumptive Use Permit (CUP) on January 7, 1999. This permit, which expires on January 7, 2009, allows a "Peak Monthly Average" not to exceed 293,000 gallons per day (gpd), and limits average daily flow to 195,000. In 2002, the utility's peak monthly average was 142,326 gpd with an average daily flow of 115,407 gpd. These flows were well within the permit limits for water resource extraction.

OPERATIONAL CONDITIONS AT THE PLANT

Floralino has five separate plants that are interconnected via distribution mains at various locations within the service territory. The quality of the utility's plant-in-service is determined by DEP inspections which have noted deficiencies over the last three years. Each deficiency was resolved within a reasonable deadline. The utility was last inspected by the DEP on March, 18, 2003. There were additional plant-in-service deficiencies noted during that inspection. The utility was required to (in accordance with Chapter 62-555, Florida Administrative Code) provide an updated cross-connection control

program, auxiliary power, bacteriological sampling plan, and keep water plants well maintained. The utility was also ordered to perform various repairs to valves and raw taps throughout the system.

The "keep water plants well maintained" citation is in direct reference to the condition of the hydro-pneumatic tanks, all of which were installed during the 1960's and have fulfilled their useful life. The inside of each tank is crusted with rust and the walls of the tanks are growing weaker due to expansion and contraction caused by pressure changes. The citation for a bacteriological sampling plan is also a direct result of the condition of the hydro-tanks and the propensity of bacteria to form in the crevices of rusted metal. During this rate **case**, the utility owner began contracted work to refurbish the hydro-pneumatic tanks. So far, two tanks have been refurbished.

At the time this recommendation was filed, the utility has complied with all the deficiencies except one concerning the hydro-tanks. The utility still has three tanks that require improvements according to DEP. In discussions with the owner of the contract service company, Mr. Deremer, it is the opinion of both staff and Mr. Deremer that the three remaining tanks should be replaced instead of repaired. The utility should be allowed twelve months to complete this project. The cost and its impact on the annual revenue requirement will be discussed in more detail in a later issue.

UTILITY'S ATTEMPT TO ADDRESS CUSTOMER SATISFACTION

An informal customer hearing was held on September 10, 2003. That meeting gave the 708 customers (estimated to be 726 ERCs) of Floralino Properties, Inc. an opportunity to make staff **aware** of specific concerns they have about the utility's responsiveness to quality of service issues. Five customers attended the customer meeting; four customers spoke. Mr. Ames, the first customer that spoke, questioned the way the utility did its accounting and asked if a rate increase was rewarding the utility for poor operations. Mr. Ames did not offer any specific examples of poor operations other than the utility was inefficient and poorly run., Mr. Brinly talked about numerous water outages that lasted over an hour or two. Ms. Kay Adkins told staff that her faucets sputtered and flowed discolored water. Ms. Adkins said the water was of terrible quality, questioned if the utility was up to date with its testing

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program, talked about an open hole where repairs had been made to a broken water line, and complained that there were no "hot line" phone numbers posted for emergencies. The last customer to speak was Mr. Mark Matta. Mr. Matta asked about the **depth** of the wells and told staff that the wells were pumping air, that the utility provided poor service, estimated billing, and had no emergency phone numbers posted.

Upon investigation, staff believes that the sputtering water that Ms. Adkins experienced and the air that Mr. Matta discussed are related to a single occurrence. During the refurbishment of one hydro-pneumatic tank, the workers discovered that a by-pass valve (while appearing to close) did not shut completely down. While cleaning the excess rust and conditioning the inside of the tank, debris and air leaked into the distribution system. Mr. Deremer is willing to testify that this was an unforeseen incident, that the lines were flushed to remove sediment, and a bacteriological sampling **was** performed in accordance with DEP standards to insure the integrity of the system. In addition, Mr. Deremer replaced the valve that was found to be faulty.

The utility has five plants that are alternated on a daily basis in the duty of providing water to its customers. Scheduled work on any one of the plants should not require an interruption of service. However, interruptions were Mr. Brinly's greatest concern. The utility and Mr. Deremer assert that the valves in this system have caused numerous difficulties, primarily due to their age and over-all condition. Staff believes that when a system this old is undergoing work, the utility should notify the immediate area residents that work is being performed and a break in service may occur over the next few hours or days. The utility should be placed on notice that Rule 25-30.250(1), (2), & (3), Florida Administrative Code, specifies:

(1) Each utility shall make all reasonable efforts to provide continuous service. Should interruption in service occur, however, each utility shall reestablish service with the shortest delay consistent with the safety of its customers and the general public.

(2) Each utility shall schedule any necessary interruption in service at a time anticipated to cause the least inconvenience to its customers. Each utility shall notify its customers prior to scheduled interruptions.

The open hole that was discussed by Ms. Adkins was investigated the next morning. Staff observed a repair in the paved parking lot next to a community **hall**. This observation occurred just as the children were waiting for the school bus. The school bus stops at the corner of Moog Road and Cantrel Street. Parents and children utilize the entire parking lot while waiting on the bus which means children are playing and parents are standing where the repair was made in the pavement. **When** the repair was made, a run-off depression was made in the pavement to divert rain-water from flooding the narrow porch of the meeting hall. This created an area about eight feet long and about three feet wide where water can puddle an inch or so deep. Several parents were upset that this situation existed and believe it to be unsanitary for the children. The investigating **staff** member gave his business card to several parents and instructed the parents that this was out of the Commission's jurisdiction. **If** the Pasco County Health Department issued a citation concerning the matter then action could be taken during this rate case. No customer or the County Health Dept. has called regarding this matter.

Regarding the emergency phone numbers being posted, the customer is correct because there are no such signs posted. It is recommended that the utility post a sign at each plant with an emergency phone number that will insure someone will respond to emergencies within a reasonable and prudent period of time. It is also recommended that the utility should be considered "not satisfactory" until the utility replaces three of its hydro-pneumatic tanks, and installs signs at each plant with emergency phone numbers. The utility should be required to complete these projects within twelve months from the date of the Consummating Order.

USED AND USEFUL

ISSUE 2: What portions of Floralino Properties, Inc. are used and useful?

RECOMMENDATION: The water treatment plant at Floralino Properties, Inc., should be considered 100% used and useful. The water distribution system should be 100% used and useful. (T. DAVIS)

STAFF ANALYSIS :

Water Treatment Plant

During the last two rate cases, the water treatment plants were found to be 100% used and useful. Each of the five plants are closed water systems which access the groundwater from a single well at each plant-site. The water treatment plants serve as pumping stations along various locations within the distribution system. Well numbers one through four are eight-inch cased wells and are drilled to approximately 120 feet. Well number five is a twelve-inch cased well that is drilled to approximately 180 feet. Each of the five wells are rated to yield 300 gallons per minute. In accordance with American Waterworks Association Manual of Water Supply Practices, one or more of the highest capacity wells are removed from consideration to determine the plant's reliability. Therefore, with one of the well capacities withdrawn, the reliable capacity is 1,200 gpm.

The utility alternates pumping times at each plant in random cycles for different days of the week/month to promote groundwater recovery time. The maximum day is 179,800 gpd ($179,800/1440 \text{ min} \times 2 = 249 \text{ gpm}$) which is a composite of all plants active during the peak day of the peak month ('May, 2002). The service area has been "built-out" since the late 1970's. Any customer count that falls below the potential capacity of the system is due to vacant houses that are **up** for sale. Potential growth for this system is zero.

Metered water sold to customers (40,432,000 gallons for the test year) was totaled along with estimated losses (1,349,400 gallons reported in the 2002 Annual Report) due to line breaks/flushing/etc., and was compared to treated water leaving the plants (42,123,400 gallons). This comparison indicated that the utility was within its allowable 10% for unaccounted for water.

Therefore, no adjustment is recommended for excessive unaccounted for water.

By the formula used as an indicator of useful plant, and found on sheet 1 of Attachment A, the utility appears to be 62.42% used and useful. However, after consideration that the service area is "built-out", and this Commission ordered a reduction of service territory pursuant to Order No. PSC-01-1302-FOF-WU, issued June 15, 2001, in Docket No. 991486-WU, In Re: Investigation into retention of certificated area of Ellis & Company, Ltd. (Holiday Mall) by Floralino Properties, Inc. in Pasco County, it is recommended that the water treatment plants be considered 100% used and useful.

Water Distribution System

During the last two rate cases the water distribution system was found to be 100% used and useful. The distribution system has the potential of serving 708 customers (estimated to be 726 ERCs) and is "land-locked," which prevents the construction of additional distribution mains. The utility is "built-out" with the number of customers remaining consistent throughout the test year. Growth over the past five years has been stationary with no average growth rate. By the formula approach which is used as an indicator of useful plant, (See Attachment "C", Page 2 of 2), the distribution system is considered to be 100% used and useful. It is recommended that the water distribution system be considered 100% used and useful.

ISSUE 3: What is the appropriate average test year rate base for the utility?

RECOMMENDATION: The appropriate average test year rate base for the utility is \$147,591. (FITCH)

STAFF ANALYSIS: Order No. PSC-95-0142-FOF-WU, issued January 31, 1995, issued in Docket No. 940558-WU, established rate base at April 30, 1994, for this utility. Staff has selected a historical test year ended December 30, 2002, for this rate case.

An audit of the utility's books shows that the utility did not reconcile its books to the balances approved by Order No. PSC-95-0142-FOF-WU. Adjustments have been made to reconcile the utility's balances to those approved in the above order. In addition, all rate base components have been updated from April 30, 1994, through December 31, 2002. A discussion of each component follows:

Utility Plant-in-Service (UPIS) - The utility recorded UPIS of \$326,635. UPIS has been decreased by \$3,253 to reconcile the utility's balance that was approved by Order No. PSC-95-0142-FOF-WU.

Since the prior rate case, the utility has replaced a number of its meters. However, it failed to capitalize the costs associated with the meters. The utility provided staff with documents to support \$5,473 in meter costs. Staff has increased Account No. 334 by \$5,473. The total costs by year are listed below:

Year of Replacement	Annual cost
1996	\$1,439
1997	\$1,869
1999	\$1,377
2001	<u>\$788</u>
Total	<u>\$5,473</u>

Based on the above, staff has increased UPIS by \$5,473 for the meters (Account No. 334). Because these meters were installed to

replace existing meters, the replaced meters should be retired. staff was unable to identify the original cost of the meters retired. In Order No. PSC-01-1574-PAA-WS, issued **July 30, 2001**, in Docket No. **000584-WS**, In Re: Application for a staff-assisted rate case in Martin County by Laniger Enterprises of America, Inc., p. 10, the Commission found, where original cost is not available for a retirement, that 75% of the replacement cost is a reasonable estimate of original cost. Therefore, staff has decreased UPIS by \$4,105 (**\$5,473 x 75%**) to retire the old meters.

Staff has also increased UPIS by \$5,442. This amount includes the following adjustments for invoiced items provided to staff which were not recorded by the utility:

<u>Year</u>	<u>Account No.</u>	<u>Description</u>	<u>Amount</u>
1996	320	Chemical Feeder	\$561
1997	311	Pump	\$744
1999	320	Pump	\$721
2001	320	Chemical Feeder	\$384
2002	320	Pump	<u>\$3,032</u>
Total			<u>\$5,442</u>

According to the Audit Exception No. 2, the utility could not provide supporting documentation for some of its plant additions. However, after the completion of the audit, the utility provided staff with support for a number of its plant additions that were disallowed in the audit report. After reviewing the information provided by the utility, staff determined that the utility provided support for all but \$1,494 which was recorded in Office Furniture and Equipment (Account No. 341). Therefore, staff **has** decreased Account No. 341 by **\$1,494** to remove the unsupported plant additions.

The utility installed a new pump during 2000, but did not retire the old pump. According to Audit Exception **No. 2**, the old pump should be retired at a cost equal to 75% of the new pump, since the original cost of the old pump could not be determined.

Therefore, staff has removed \$1,991 (\$2,655 x 75%) from Account No. 311 for the retirement of the old pump.

Staff has reduced UPIS by \$1,516 to reflect an averaging adjustment.

Pro Forma - DEP is requiring the utility to bring five of its hydro-pneumatic tanks up to code. As of the date of the customer meeting, the utility incurred \$10,400 to repair two of the five hydro-pneumatic tanks. At the customer meeting, staff spoke with Mr. Gary Deremer about the tank refurbishment. Mr. Deremer was hired by the utility to complete the tank repairs. Mr. Deremer indicated to staff that he was going to recommend to the utility owner to replace the remaining three tanks rather than refurbish them. The utility submitted an estimate of \$45,816 to replace the remaining three tanks. Staff conducted a rate impact comparison between replacing the tank versus refurbishing it. Assuming a five year amortization period for a non-recurring expense, replacing the tanks would cost approximately \$500 more per tank in annual revenue requirement than repairing the tanks. Although replacing the tanks instead of repairing them appears to be more cost effective, staff does not believe cost alone should be the sole determining factor in this case because there are safety and quality of services concerns that should also be considered.

Even with the repairs, the possibility for tank failure is greater with a repair than a replacement. When you consider that these tanks are pressurized, failure could come in the form of the tank exploding. Further, if the tank does fail, customers will suffer pressure problems which could impact their plumbing. All five of these tanks are fully depreciated and therefore have lived their useful life. When staff considers that this cost will be spread over approximately 700 customers, staff does not believe that the difference in cost is unreasonable (approximately \$0.17 per month per customer). Therefore, staff believes that replacing the remaining three hydro-tanks is prudent and reasonable and staff has accordingly increased UPIS by \$45,816. Staff has decreased UPIS by \$9,070 to remove the original cost of the tanks being replaced.

The total adjustment for UPIS is an increase of \$35,302.

Accumulated Depreciation - The utility recorded an accumulated depreciation balance of \$287,992 for the test year. Staff has

recalculated accumulated depreciation, beginning with the balance approved in Order No. PSC-95-0142-FOF-WU, using the prescribed rates in Rule 25-30.140, Florida Administrative Code. Staff's calculated accumulated depreciation on December 31, 2002, is \$260,995. Staff has decreased this account by \$26,997 to reflect staff calculated accumulated depreciation. Staff has decreased this account by \$6,135 to reflect an averaging adjustment. Staff has increased this account by \$763 to reflect depreciation on the pro forma hydro-tanks. Staff has also decreased this account by \$9,070 to remove depreciation associated with the hydro-tank retirements. The total accumulated depreciation adjustment is a decrease of \$41,439.

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, Florida Administrative Code, staff recommends that the one-eighth of operation and maintenance (O&M) expense formula approach be used for calculating working capital allowance. Applying that formula, staff recommends a working capital allowance of \$15,935 (based on O&M of \$127,481). Working capital has been increased by \$15,935 to reflect one-eighth of staff's recommended O&M expenses.

Rate Base Summary - Based on the foregoing, staff recommends that the appropriate average test year rate base is \$147,591 for this utility.

Rate Base is shown on Schedule No. 1-A and the adjustments to rate base are shown on Schedule No. 1-B.

COST OF CAPITAL

ISSUE 4: What is the appropriate rate of return on equity and the appropriate overall rate of return for this utility?

RECOMMENDATION: The appropriate rate of return on equity is 11.96% with a range of 10.96% - 12.96%. The appropriate **overall** rate of return for the utility is 6.64%. (FITCH)

STAFF ANALYSIS: The utility recorded the following items in capital structure for the test year: common stock of \$600, retained earnings of \$8,668, paid-in-capital of \$12,400, treasury stock of \$15,996, long-term debt of \$29,232, and customer deposits of \$15,777. Equity represents 11.19% of the utility's capital structure.

The long term debt is made up of two loans with an interest rate of 6.0% and 5.9%. The long term debt represents 57.68% of the utility's capital structure. The interest cost of customer deposits is a minimum of 6.0% pursuant to Rule 25-30.311 (4)(a), Florida Administrative Code. Customer deposits represent 31.13% of the utility's capital structure.

Using the current leverage formula approved by Order No. PSC-03-0707-PAA-WS, **issued** June 13, 2003, in Docket No. 030006-WS, In Re: Water and Wastewater industry annual reestablishment of authorized range of return on common equity for water and wastewater utilities pursuant to section 367.081(4)(f), Florida Statutes, p. 2, the appropriate rate of return on equity for utilities with an equity ratio of 40% or less is 11.96%.

The utility's capital structure has been reconciled with staff's recommended rate base. Staff's recommended return on equity is 11.96% with a range of 10.96% - 12.96% and an overall rate of return of 6.64%. The return on equity and overall rate of return are shown on Schedule No. 2.

NET OPERATING INCOME

ISSUE 5: What is the appropriate test year revenue?

RECOMMENDATION: The appropriate test **year** revenue for **this** utility is \$136,075. (**FITCH**)

STAFF ANALYSIS: The utility booked revenues during the test year of \$133,873, of which \$1,483 is related to miscellaneous service charges.

Staff has calculated annualized revenue for the historical test period using the current rates times the number of bills and consumption provided in the billing analysis. Staff calculated total test year revenues (including the \$1,483 of miscellaneous service charges) to be \$136,075. Therefore, test **year** revenues have been increased by \$2,202 to reflect **annualized** revenues. Accordingly, staff's recommended test year revenue is \$136,075.

Test year revenues are shown on Schedule Nos. 3-A and the related adjustments are shown on Schedule No. 3-B.

ISSUE 6: What is the appropriate amount of operating expense?

RECOMMENDATION: The appropriate amount for operating expense for this utility is **\$149,833**. (FITCH)

STAFF ANALYSIS: The utility recorded **\$129,935** of operating expenses during the test year. The utility provided the auditor with access to all invoices, canceled checks, and other utility records to verify its O&M and taxes other than income expense for the twelve month period ending December 31, 2002. Using documents provided by the utility, the staff auditor determined the appropriate operating expenses for the test year and a breakdown of expenses by account. The utility recorded several expenses in accounts which are not defined by the NARUC USOA. Staff identified the types of expenses in these accounts and reclassified these amounts to the appropriate NARUC accounts as follows: Utility account No. 870 and 895 to Account No. 620 Materials and Supplies, Utility Account No. 892 to Account No. 615 Purchased Power, Utility Account No. 863 to Account No. 631 Contractual Services Professional, Utility Account No. 878 to Account No. 636 Contractual Services Other, Utility Account No. 845 to Account No. 655 Insurance Expense, Utility Account Nos. 680, 810, 815, 825, 835, 855, and 872 to Account No. 675 Miscellaneous Expense, and Utility Account Nos. 872, 885, and 886 to Taxes Other than Income. 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 (603)- The utility recorded \$6,836 in this account for the test year. This amount is associated with an employee who no longer works for the utility. Therefore, pursuant to Audit Exception No. 5, Adjustment No. 1, staff has decreased this account by \$6,836 to remove the salary associated with the former utility employee. The new employee is contracted; contracted employees will be discussed further in the Contractual Services-Other account.

Purchased Water- (610) - The utility recorded **\$2,949** in this account for the test year. The utility is interconnected with the Pasco Water Authority as an emergency water source. The charges in this account represent base facility charges as the emergency source was not utilized during the test year. Staff decreased this account by \$455 to remove an out of period bill pursuant to Audit Exception

No. 5, Adjustment No. 2. Staff recommends a purchased water expense of \$2,494.

Chemicals-(618) - The utility recorded \$1,660 in this account for the test year. Pursuant to Audit Exception No. 5, Adjustment No. 4, staff has increased this account by \$672 to reclassify chemical expense from Account No. 636, Contractual Services-Other. Staff recommends chemical expense of \$2,332.

Materials and Supplies-(620) - The utility recorded \$9,541 in this account for the test year. Pursuant to Audit Exception No. 5, Adjustment No. 5, staff has decreased this account by \$716 to remove unsupported expenses. This account has further been decreased by \$1,059 to remove the cost associated with meters. The purchase of meters is not an expense, rather it is an asset which **is** recovered through depreciation once it is installed. Staff recommends materials and supplies expense of \$7,746.

Contractual Services-Billing-(630)- The utility recorded \$24,553 in this account for the test year. This amount consists of payments for management fees during the test year. Staff has decreased this account by \$24,553 to reclassify management fees to the Contractual Services-Other account.

Contractual Services-Professional-(631)- The utility recorded \$4,649 in this account for the test year. Staff has increased this account by \$2,453 to annualize the amount for the contracted operator during the test year of \$464.10 per month. Pursuant to Audit Exception No. 5, Adjustment No. 11, staff has decreased this account by \$150 to reclassify taxes to Taxes Other than Income. Pursuant to Audit Exception No. 5, Adjustment No. 6, staff has also decreased this account by \$678 to amortize a nonrecurring legal expense associated **with** a former utility customer over five years. Staff has increased this account by \$3,052 to reclassify repairs made by the operator that were recorded in the contractual services-testing account. Staff recommends contractual services-professional expense of \$9,326.

Contractual Service-Testing - (635)- The utility recorded \$10,915 in this account for the test year. Staff has decreased this account by \$3,052 to reclassify repairs made by the operator to **the** Contractual Services-Professional account.

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Each utility must adhere to specific testing conditions prescribed within its operating permit. These testing requirements are tailored to each utility as required by Chapters 62-550 and 62-551, Florida Administrative Code, which are enforced by the DEP. The tests and the frequency at which those tests must be repeated for this utility are:

WATER-DEP REQUIRED TESTING

<u>Test</u>	<u>Frequency</u>	<u>Annual Amount</u>
Microbiological (Coliforms)	6/Monthly	\$1,152
Chloride, Sulfate & TDS	2/Monthly	\$1,584
Primary Inorganics	36 mos. x 5	\$610
Secondary Inorganics	36 mos. x 5	\$350
Asbestos	1/9 Years x 5	\$160
Volatile Organics	qtrly year 1 36 mos. x 5 after	\$1,750
Pesticides & PCB	36 mos. x 5	\$1,325
Nitrates & Nitrites	12 mos. x 5	\$520
Radionuclides I	36 mos. x 5	\$190
Radionuclides II	36 mos. x 5	\$850
Unregulated Organics I	qty 1 st yr 9 yrs. x 5	\$1,275
Unregulated Organics II	36 mos. x 5	\$250
Unregulated Organics III	36 mos. x 5	\$383
Lead & Copper	Biannual x 5	\$910
Total		<u>\$11,309</u>

staff has increased this account by \$3,446 (\$11,309 - \$10,915 - \$3,052) to reflect the DEP required testing.

Contractual Services Other-(636) - The utility recorded \$17,895 in this account for the test year. Staff has increased this account by \$24,553 to reclassify management payments recorded in the

Contractual Services-Billing account. Staff has decreased this account by \$672 to reclassify chemicals to the Chemical expense account pursuant to Audit Exception No. 5, Adjustment No. 4. Staff has decreased this account by **\$1,468** to remove undocumented expenses and testing included above pursuant to Audit Exception No. 5, Adjustment Nos. 7 and 8.

In Order No. PSC-95-0142-FOF-WU, issued January 31, 1995, in Docket No. **940558-WU**, the Commission approved an annual management expense of \$52,000 (40 hrs. a week at \$25 an hour). In that order, management services were defined to include administrative duties, billing and collection, grounds keeping service, meter reading, repairs and maintenance, and accounting. The utility believes that this amount, adjusted for inflation, is no longer sufficient to perform the management duties described in the above referenced order. Staff evaluated the expenses incurred during the year and requested by the utility as follows:

Test Year Repairs (Including day labor)	\$13,209
Less Meter Installations (Capitalize)	(\$1,246)
Test Year: meter reading	\$2,082
Estimated increase for monthly meter reading (bi-monthly to monthly)	\$2,160
Requested Secretary (30 hrs. week x \$9 an hour)	\$14,040
Maintenance Person (\$275 a week)	\$14,300
Staff estimated management (20 hrs. a week x \$25 an hour)	<u>\$26,000</u>
Total	\$70,545

staff believes that the above test year and pro forma expenses are reasonable. Staff adjusted the test year figures to reflect monthly meter reading which would be required for monthly metered rates. Currently, the utility bills residential customers bi-monthly. Staff also included an allowance for management duties of 20 hours a week. In the prior rate case, the Commission approved **40 hours a week** for these services; however, since that time the utility has hired additional employees to perform the management duties as defined in that case. The secretary is responsible for answering phone calls, filing, bookkeeping, billing, and

collections and the maintenance person is responsible for general repairs and maintenance of the plant. Therefore, the duties the utility manager performs are reduced. Staff believes that 20 hours a week is reasonable for a utility of this size based on past Commission practice.

Staff acknowledges that this expense is approximately \$11,000 more a year than the amount approved in the last rate case adjusted for inflation. However, staff believes the reason for this is the increased maintenance and repairs required of an aging plant and the increased frequency in billing. Based on the above analysis, staff has increased this account by \$30,237 to reflect a total Contractual Services-Other expense of \$70,545 annually.

As discussed previously, the utility has refurbished two of its hydro-pneumatic tanks at an approximate cost of \$10,400. Staff believes that this repair is non-recurring and that allowing the full unamortized amount of the repair in test year rates may cause the utility to overearn in future periods. Therefore, staff recommends that the total repair cost should be amortized over 5 years pursuant to Rule 25-30.433(8), Florida Administrative Code. Therefore, staff has increased this account by \$2,080 to reflect one fifth of the tank repair cost.

Staff recommends a total Contractual Services-Other expense of \$72,625.

Transportation Expense-(650) - The utility recorded \$10,374 in this account for the test year. Staff has decreased this account by \$198 to remove unsupported and out of period expenses pursuant to Audit Exception No. 5, Adjustment No. 9. Adjustment No. 9, also included a reduction to this account to reclassify \$233 to Insurance expense and that adjustment has been made.

Included in the total amount above is a truck lease for \$6,000 annually with ITM Investments, a related party company. In Order No. PSC-02-0593-WU, issued April 30, 2002, in Docket No. 010503-WU, In Re: Application for increase in water rates for Seven Springs System in Pasco County by Aloha Utilities, Inc., p. 64, the Commission found that:

By their very nature, related-party transactions require closer scrutiny. Although a transaction between related parties is not per se unreasonable, it is the utility's

burden to prove that its costs are reasonable. Florida Power Corp. v. Cresse, 413 So. 2d 1187, 1191 (Fla. 1982). This burden is even greater when the transaction is between related parties. In GTE Florida, Inc. v. Deason, 642 So. 2d 545 (Fla. 1994), the Florida Supreme Court established that the standard to use in evaluating affiliate transactions is whether those transactions exceed the going market rate or are otherwise inherently unfair.

In order to evaluate the reasonableness of this transaction, staff determined the rate impact of purchasing versus leasing the truck. According to the utility the truck cost \$19,638 in 1998. Using the cost of capital amount recommended in Issue No. 4, of 6.64%, staff has determined the original rate impact would have been \$4,577 annually (current lease is \$6,000 per year). Based on this analysis, staff believes that it would have been prudent to purchase the vehicle rather than lease from the related party. Because staff believes that it would have been prudent to purchase the vehicle rather than lease, and that only prudent expenses should be passed on to customers, staff has made an adjustment to decrease this account by \$2,183 (\$6,000 - \$3,817). Staff determined this adjustment using the same analysis above and included 3.5 years of accumulated depreciation pursuant to Rule 25-30.140, Florida Administrative Code, which resulted in a test year rate impact of purchasing the vehicle of \$3,817.

Staff recommends test year transportation expense of \$7,760.

Insurance Expense (655) - The utility recorded \$4,656 in this account for the test year. Staff has increased this account by \$233 to reclassify insurance expense from the Transportation expense account (Audit Exception No. 5, Exception No. 9). Staff has also decreased this account by \$2,610 to remove health insurance cost associated with a contracted employee (Audit Exception No. 5, Adjustment No. 10). Because the employee is contracted and there is no exception in the contract for health insurance, this expense should not be included. Staff recommends Insurance expense of \$2,279.

Regulatory Commission Expense (665) - The utility did not record an amount in this account. The utility paid a rate case filing fee of \$1,000. Therefore, staff increased this account by \$1,000.

The utility hired an attorney for assistance in this case. The main purpose of the staff assisted rate case is to help minimize rate case expense and its effect on ratepayers. However, Rule 25-30.455(1), Florida Administrative Code, allows reasonable and prudent expenses associated with reviewing and compiling information from staff.

It is the utility's burden to justify the necessity of any rate case expense and the reasonableness of its cost. In order to justify its requested rate case expense, the utility has provided staff with actual invoices to date as well as an estimate of rate case expense to be incurred up through and including the agenda in the amount of \$6,417. Of this amount, staff identified \$338 of post Agenda items (Reviewing the PAA order, preparing tariffs and customer notice) that staff believes should be excluded.

Staff removed the amount associated with reviewing the PAA order since pursuant to Section 367.0814(6), Florida Statutes, the utility cannot protest a PAA order that results in an increase in rates in a SARC. Further, if the customers protest this case, the utility could recover additional rate case expense in the final disposition of the SARC. Staff removed the cost associated with preparing the customer notice and tariffs since this is a service that is performed by staff in a SARC. Staff however did not remove the cost of copying and distributing the customer notice since staff believes this is a legitimate business expense. Based on the above, staff believes the appropriate amount of rate case expense related to legal and administrative service is \$6,079.

Staff has decreased regulatory commission expense by \$5,309 (\$7,079-\$7,079/4 years) to amortize rate case expense over four years pursuant to Section 367.0816, Florida Statutes. Staff recommends regulatory commission expense of \$1,770.

Miscellaneous Expense (675) - The utility recorded \$8,402 in this account for the test year. Pursuant to Audit Exception No. 5, Adjustment No. 5, staff has decreased this account by \$1,004 to remove personal use of the utility cell phone. The utility paid a related party company \$3,096 for reimbursement of electrical expense for street lights. This expense was disallowed in Order No. PSC-95-0142-FOF-WU, issued January 31, 1995, in Docket No. 940558-WU. Therefore, pursuant to Audit Exception No. 5, Adjustment No. 11, and consistent with the utility's prior rate case order, staff has decreased this account by \$3,096 to remove

the non-utility street light reimbursement. Staff has further reduced this account by \$150 to remove a \$100 donation pursuant to Audit Exception No. 5, Adjustment No. 12 and a \$50 customer deposit refund pursuant to Audit Exception No. 5, Adjustment No. 14.

Pursuant to Audit Exception No. 5, Adjustment No. 14, staff has decreased this account by \$3,007 to reclassified interest expense to Account No. 237. Staff recommends test year Miscellaneous expense of **\$1,145**.

Operation and Maintenance Expense (O&M Summary) - The total O&M adjustment is an increase of \$16,376. Staff's recommended O&M expense is \$127,481. O&M expenses are shown on Schedule 3-B.

Depreciation Expense - The utility recorded depreciation expense of \$10,367 during the test year. Depreciation expense has been recalculated using the prescribed rates in Rule 25-30.140, Florida Administrative Code. Staff's calculated depreciation is \$11,167; therefore, staff has increased this account by \$800 to reflect staff's calculated depreciation expense. CIAC amortization and non-used and useful depreciation have a negative impact on depreciation expense; however, since the water treatment and distribution system are considered 100% used and useful and the utility's CIAC balance is fully amortized, an adjustment has not been made for non-used and useful or CIAC amortization. Staff has increased this account by **\$1,526** to reflect depreciation associated with the pro forma tanks. Staff's net depreciation expense is **\$12,693**.

Amortization - The utility has requested that a lawnmower that was purchased and stolen in 1999 be recovered through amortization of an early retirement loss. The utility provided staff with a written statement that the utility was not reimbursed by any insurance policy for this loss. The original cost of the lawnmower was \$9,063, applying one half year of depreciation expense to the original cost of the lawnmower results in a net loss of \$8,836. Staff calculated the amortization period of the early retirement loss pursuant to the formula in Rule 25-30.433(9), Florida Administrative Code, which results in an amortization period of 8.5 years. Therefore, staff has increased operating expenses by \$1,040 to reflect the annual amortization of the loss.

Taxes Other Than Income - The utility recorded taxes other than income of \$8,313. Staff has increased this account by \$150 to

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reclassify taxes from the contractual services professional account (Audit Exception No. 5, Adj. 11). Staff has decreased this account by \$557 to remove payroll taxes associated with the former salaried employee (Audit Exception No. 6). Staff has **increased** this account by \$99 to reflect RAFs based on annualized revenues. Pursuant to Audit Exception No. 6, staff has decreased this account **by** \$981 to remove out of period real estate tax and has increased this account by \$535 to recognize unrecorded property tax. Staff recommends test **year** taxes other **than** income expense **of** \$7,559.

Income Tax - Floralino is a Sub-chapter S corporation; therefore, consistent with Rule 25-30.433 (7), Florida Administrative Code, an **allowance** for income tax has not been made.

Operating Revenues - Revenues have been increased **by** \$23,558 to reflect the increase in revenue required to cover **expenses** and **allow** the recommended return on investment.

Taxes Other Than Income - This expense has been increased by \$1,060 to reflect RAFs of 4.5% on the increase in revenues.

Operating Expenses Summary - The application of staff's recommended adjustments to the audited test year operating expenses results in a \$149,833 operating expenses.

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

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7: What is the appropriate revenue requirement?

RECOMMENDATION: The appropriate revenue requirement is \$159,633.
(FITCH)

STAFF ANALYSIS: The utility should be allowed an annual increase of \$23,558 (17.31%). This will allow the utility the opportunity to recover its expenses and earn a 6.64% return on its investment. The calculations are as follows:

	<u>Water</u>
Adjusted rate base	\$147,591
Rate of Return	x .0664
Return on investment	\$9,800
Adjusted O & M expense	\$149,833
Depreciation expense (Net)	\$12,693
Amortization	\$1,040
Taxes Other Than Income	\$8,619
Revenue Requirement	<u>\$159,633</u>
Adjusted Test Year Revenues	<u>\$136,075</u>
Percent Increase/Decrease	<u>17.31%</u>

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

ISSUE 8: Is a continuation of the utility's current bi-monthly billing appropriate?

RECOMMENDATION: No. The utility's billing should be changed to monthly billing. Monthly customer billing should be implemented consistent with Rule 25-30.335, Florida Administrative Code.
(HUDSON, FITCH)

STAFF ANALYSIS: The utility currently bills its customers on a bi-monthly basis. Pursuant to Audit Exception No. 4, the audit staff reviewed the billing records and found numerous inconsistencies. The audit staff noticed that there are some meter readings that are not billed for a month or more. With a bi-monthly billing practice, some customers may not be billed for three or four months after consumption begins. This practice does not promote conservation. Monthly billing sends customers water usage signals in a more timely manner. As discussed previously, the estimated cost for additional meter reading is approximately \$2,000. Based on the number of monthly bills, the increased cost is approximately \$0.24 per bill. Thus, the nominal additional cost for monthly billing would allow a customer the opportunity to adjust his/her consumption patterns in a more timely manner, thereby resulting in potential monthly savings of \$2.12 per kgal or more. Our recommendation to convert to monthly billing was discussed at the customer meeting, with no customers speaking out against the recommended change.

In addition to the billing irregularity discussed above, staff is aware of an open customer billing complaint currently being handled by the Division of Consumer Affairs. Staff also heard additional complaints expressed at the customer meeting including estimated bills and delinquent bill dates. To remedy the irregularities, staff recommends that the utility be required to bill in accordance with Rule 25-30.335, Florida Administrative Code, which sets out the billing procedures a utility must follow.

Concerning the test year billing irregularities, the utility should follow subsection (1) of the rule which specifies that:

[A] utility shall render bills to customers at regular intervals, and each bill shall indicate: the billing period covered; the applicable rate schedule; beginning and ending meter reading; the amount of the bill; the

delinquent date or the date after which the bill becomes past due; and any authorized late payment charge.

Concerning estimated bills, the utility should follow subsection (2) of the rule which specifies that:

If the utility estimates the bill, the utility shall indicate on the bill that the amount owed is an estimated amount.

Concerning the length of time in **which a bill** may be considered delinquent, the utility should follow subsection (4) of the rule which specifies that:

A utility may not consider a customer delinquent in paying his or her bill until the 21st day after the utility has mailed or presented the bill for payment.

Based on the above, staff believes that the utility's current billing is not appropriate. The utility's billing should be changed to monthly and monthly customer billing should be implemented consistent with Rule 25-30.335, Florida Administrative Code.

ISSUE 9: Is a continuation of the utility's current rate structure for its water system appropriate in this case, and, if not, what is the appropriate rate structure?

RECOMMENDATION: No, a continuation of the utility's current rate structure for its water system is not appropriate in this case. A conservation adjustment of 10% should be implemented. In addition, the rate structure should be changed to a two-tier inclining-block rate structure with recommended usage blocks of 0-10,000 gallons (10 kgal) and over 10 kgal. The recommended usage block rate factor for the second block is 1.25. (HUDSON)

STAFF ANALYSIS: The utility's current water system rate structure consists of a bi-monthly base facility charge (BFC)/gallonge charge rate structure, in which the BFC is \$16.02, and all gallons used are charged \$1.61 per kgal. The BFC/gallonge charge, rate structure is the Commission's preferred rate structure, because it is a usage sensitive rate structure which allows customers to reduce their total bill by reducing their water consumption.

Floralino is located in Pasco County, within the Southwest Florida Water Management District (SWFWMD or District) in the Northern Tampa Bay water use caution area. The District has asked that, whenever possible, the Commission implement inclining-block rate structures for water utilities located within the District, especially those utilities located in water use caution areas.

The goal of an inclining-block rate structure is to reduce average demand. Under this rate structure, it is anticipated that demand in the higher usage block(s) will be more elastic (responsive to price) than demand in the first block. Water users with low monthly usage will benefit, while water users with higher monthly use will pay increasingly higher rates, thereby creating a greater incentive to conserve. Several factors to consider when designing inclining-block rates include, but are not limited to, the selection of the appropriate: a) conservation adjustment; b) usage blocks; and c) usage block rate factors.

Conservation Adjustment

Staff believes an important rate design goal is to minimize, to the extent possible, the price increases at monthly consumption levels of 5 kgal or less. This goal is consistent with Commission practice. We believe this is an appropriate goal because a high

percentage of consumption at or below 5 kgal represents nondiscretionary, essential consumption. We believe another rate design goal, also consistent with Commission practice, is to recover no more than 40% of the overall revenue requirement through the BFC. This rate structure guideline was developed by the SWFWMD and has been generally adopted by the remaining four Water Management Districts (WMDs).

Based upon initial accounting allocations, the utility recovers approximately 49% of the revenue requirement from the BFC, and the remaining 51% from the gallonage charge. Staff ran several iterations of the conservation adjustment calculation and determined that a 10% conservation adjustment is appropriate for the utility. The 10% conservation adjustment results in a BFC recovery rate of 44%. This recovery rate is four percentage points greater than the 40% guideline for the BFC.

The 20% conservation adjustment results in a BFC recovery rate of 39%. However, staff is recommending two changes to the utility's rate structure. One is a change from bi-monthly to monthly billing, as discussed in Issue 10. The other is a change from a BFC/uniform gallonage charge rate structure to a BFC/inclining block rate structure. As shown on the chart later in this analysis, conservation adjustments of 20% or greater results in price decreases for lower levels of consumption; therefore, these conservation adjustments were removed from consideration. Based on the foregoing, staff is recommending a 10% conservation adjustment.

Usage Blocks and Usage Block Rate Factors

It is Commission practice to consider revenue stability as the primary criteria when designing the first usage block. Based on Commission practice, the first usage block should capture at least 50 percent of total bills and gallons sold, thereby helping to mitigate revenue stability concerns. Based on consumption patterns of other utilities which have been subject to an inclining-block rate structure, this has resulted in the first usage block typically being set at or near the 10 kgal consumption level.

Although staff's analysis of customers' consumption patterns revealed that approximately 65 percent of customers have bills at monthly usage of 5 kgal or below, staff believes that a usage block capped at 10 kgal is more appropriate. Approximately 90% of

customers' bills and consumption is captured in this block, with the corresponding average consumption per customer a low 3.5 kgal per month,. These usage patterns indicate very little, if any, excessive use. When considering how many additional usage blocks are necessary, staff considered the following consumption patterns of the utility's customers:

<u>Kgal per Month</u>	<u>% Cum Bills</u>	<u>% Consol Factor</u>
10	90%	07%
15	97%	93%
20	99%	98%

Because so few bills and gallons (approximately 10%) are captured at usage above 10 kgal, we believe it is **unnecessary** to create more than one additional usage block. Therefore, we recommend that the first usage block be for monthly usage of 0-10 kgal, and the second block be for monthly usage in **excess of 10 kgal**. Since the utility has a small percentage **of gallons over 10 kgal** and a low system-wide average consumption per customer, staff is recommending a nominal usage block rate factor for the second usage block of 1.25. As stated previously, the **utility's** overall system-wide average consumption is approximately 5 kgal. Although the current traditional BFC/uniform gallonage **charge rate structure** achieves staff's desired rate design goals as discussed **above**, the inclining block rate structure with usage blocks of 0 - 10 kgal and excess of 10 kgal and usage block rate factors of 1/1.25 **achieves** better results.

The results of staff's analysis in regards to the appropriate conservation adjustment and rate structure is shown in the following table:

PRICE INCREASES AT VARIOUS CONSERVATION ADJUSTMENTS				
Cons. per Month	Conservation Adjustment Percentages (CA) and Resulting Base Facility Charge (BFC) Allocation			
	CA=0% BFC=49%	CA=10% BFC=44%	CA=20% BFC=39%	CA=30% BFC=34%
	<u>0-10/10+</u> <u>1.25</u>	<u>0-10/10+</u> <u>1.25</u>	<u>0-10/10+</u> <u>1.25</u>	<u>0-10/10+</u> <u>1.25</u>
0 kgal	11.3%	0.2%	-11.0%	-22.1%
1 kgal	12.7%	5.4%	-2.0%	-9.3%
2 kgal	13.7%	9.2%	4.5%	-0.1%
3 kgal	14.5%	12.0%	9.3%	6.8%
4 kgal	15.1%	14.2%	13.0%	12.1%
5 kgal	15.6%	16.0%	16.0%	16.4%
10 kgal	17.0%	21.2%	25.0%	29.2%
15 kgal	25.2%	32.1%	38.4%	45.2%
20 kgal	30.2%	38.6%	46.4%	54.8%
25 kgal	33.4%	42.9%	51.8%	61.3%

As shown above, the 10% conservation adjustment (in relation to a 0% adjustment) accomplishes several rate design goals: a) it minimizes the price increases for monthly consumption at less than 4 kgal; b) the percentage increase at the overall **residential** average monthly consumption level of almost 5 kgal is approximately equal to the overall revenue requirement percentage increase; and c) it maximizes the price increases for monthly usage at levels greater than the system-wide average monthly consumption level.

There were two customers who had questions about inclining-block rate structures at the customer meeting, but neither customer voiced opposition to our recommended rate structure change. Therefore, a continuation of the utility's current rate structure is not appropriate in this case. A conservation adjustment of 10% should be implemented. In addition, the rate structure should be changed to a two-tier inclining-block rate structure, with

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recommended usage blocks of 0-10 kgal and over 10 kgal. The recommended usage block rate factor for the second block is '1.25.

ISSUE 10: Is an adjustment to reflect repression of residential consumption appropriate due to the change in rate structure and price increase in this case, and, if so, what is the appropriate repression adjustment?

RECOMMENDATION: No, a repression adjustment is not appropriate in this case. However, in order to monitor the effects of both the change in rate structure and the recommended revenue increase, the utility should be ordered to prepare monthly reports detailing the number of bills rendered, the consumption billed and the revenue billed. These reports should be provided, by customer class and meter size, on a quarterly basis for a period of two years, beginning with the first billing period after the increased rates go into effect. (LINGO)

STAFF ANALYSIS: Typically, staff's repression analysis involves an examination of our database of utilities receiving rate increases and decreases. We look for utilities with comparable parameters to the utility being examined, and ultimately base our recommended repression adjustment on the past behavior of these like utilities. However, on an overall basis, an examination of our database revealed no sufficiently similar utilities upon which staff could base a recommended repression adjustment. Therefore, staff extrapolated from available information to develop the anticipated reduction of consumption. The Commission has found this methodology to be an acceptable alternative in numerous prior water cases. (See Order No. PSC-03-0647-PAA-WS, issued May 28, 2003, In Re: Application for rate increase in Polk County by Cypress Lakes Utilities, Inc., pp. 33-36; Order No. PSC-01-2511-PAA-WS, issued December 24, 2001, In Re: Application for staff-assisted rate case in Brevard County by Burkim Enterprises, Inc., pp. 50-52.)

We examined the range of preliminary percentage increases within each usage block. Based upon our analysis of the anticipated repression in each of the two recommended usage blocks, staff would ordinarily recommend an overall water repression adjustment of 3.3%, or an anticipated 1,282 kgal reduction in water consumption. However, staff does not believe a repression adjustment is appropriate in this instance. Our analysis and explanation of our recommendation follows.

with regard to the customers' consumption patterns, the vast majority of the utility's customers (approximately 90% of the bills) fall within the 0-10 kgal usage block (block one). Our

calculation of an anticipated consumption reduction in block one was approximately 2.7%. Based on the average consumption **per** customer in block one of 3.433 kgal, a 2.7% reduction would result in less than a 100 gallon per customer per month decrease in consumption [$((3.433 \text{ kgal} \times .973) - 3.433 \text{ kgal}) = (93) \text{ gallons}$]. Based on the small magnitude of possible repression in **block one**, staff does not believe an adjustment in block one is warranted. Average consumption at this level represents virtually all nondiscretionary, indoor consumption, making a sustained reduction in consumption unlikely. In addition, based upon our detailed review of the service area, staff found that the residential area is inhabited by not only retirees but a significant number of families as well. The greater the number of families in the customer base, the greater the percentage of nondiscretionary, indoor consumption that is less responsive to changes in price.

The remaining 10% of the utility's customers fall within the 10+ kgal usage **block** (block two). Our calculation of an anticipated consumption reduction in block two was approximately **7.2%**. Based on **the** average consumption per customer in block two of 16.453 kgal, a 7.2% reduction would result in an approximate **1.2** kgal per customer per month decrease in consumption [$((16.453 \text{ kgal} \times .928) - 16.453 \text{ kgal}) = (1.2) \text{ kgal}$].

Typically, average consumption per customer of 16.453 kgal would represent a high degree of discretionary, outdoor consumption that is very responsive to changes in price. However, as discussed above, there is a greater percentage of nondiscretionary consumption in the average use of Floralino's customers **because** of the number of families located in the service areas. Furthermore, the houses and associated lots in all three subdivisions are modestly sized, with little evidence of outdoor water **use**. The turf for the majority of homes is not of a water-intensive variety. In fact, slightly greater than 10% of the homes have virtually no watering requirements in the front yards, as these yards have been replaced by either gravel, concrete pavement, or a combination of the two. Finally, the estimated repression in block two of approximately 345 kgals represents less than 1% of total residential consumption.

Based on the foregoing, a repression adjustment is not appropriate in this case. However, in order to monitor the effects of both the change in rate structure and the recommended revenue increase, the utility should be ordered to prepare monthly reports

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detailing the number of bills rendered, the consumption billed and the revenue billed. These reports should be provided, by customer class and meter size, on a quarterly basis for a period of two years, beginning with the first billing period after the increased rates go into effect.

ISSUE 11: What are the appropriate monthly rates for service?

RECOMMENDATION: The appropriate monthly rates should be designed to produce revenues of \$158,150, excluding miscellaneous service charge revenues. The utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(1), Florida Administrative Code. The rates should not be implemented until staff has approved the proposed customer notice, and the notice has been received *by* the customers. The utility should provide proof of the date notice was given no less than 10 days after the date of the notice. (HUDSON, FITCH)

STAFF ANALYSIS: As discussed in Issue No. 7, *the* appropriate revenue requirement is \$159,633. The utility had other revenues totaling \$1,483 during the test year. Other revenues should be used to reduce the revenue requirement recovered through rates. Therefore, staff has designed rates to produce revenues of \$158,150 (\$159,633 - \$1,483).

As discussed previously, the water system rate structure should be changed to a two-tier inclining-block rate structure, with monthly usage blocks of 0-10 kgal and over 10 kgal. Also discussed previously, the rate factor for the second usage block should be 1.25, and a 10% conservation adjustment should be implemented. Therefore, the resulting monthly rates for service are those shown below. The rates below reflect monthly rates, staff has converted the utility's bi-monthly rate to a monthly rate for comparison purposes.

MONTHLY RESIDENTIAL (RS) AND GENERAL (GS)
SERVICE RATES - WATER

<u>Base Facility Charge</u>	<u>Existing Rates</u>	<u>Staff's Recommended Rates</u>
<u>Meter Sizes</u>		
5/8" x 3/41'	\$8.02	\$8.02
3/4"	\$12.00	\$12.03
1"	\$20.03	\$20.06
1 1/2"	\$40.07	\$40.11
2"	\$64.10	\$64.18
3"	\$128.20	\$128.36
4"	\$200.33	\$200.56
6"	\$391.09	\$401.12
<u>Residential Gallonage Charge (per 1,000 gallons)</u>		
0 - 10,000 gallons	\$1.61	\$2.12
Above 10,000 gallons	\$1.61	\$2 .65
<u>General Service Gallonage Charge</u>		
Per 1,000 gallons	\$1.61	\$2.19

Staff's recommended increase in rates is \$23,558 or approximately 17.31%. The rates approved for the utility should be designed to produce revenues of \$158,150.

Approximately 44% (\$69,602) of the service revenues are recovered through the recommended base facility charge. The fixed costs are recovered through the BFC based on the number of factored ERCs. The remaining 56% (\$88,548) of the service revenues represents revenues collected through the consumption charge based on the number of gallons. The following is a comparison of bills at 3,000, 5,000, and 10,000 gallons:

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<u>GALLONS</u>	<u>EXISTING RATE</u>	<u>RECOMMENDED RATE</u>
3,000	\$12.85	\$14.38
5,000	\$16.07	\$18.62
10,000	\$24.12	\$29.22

The utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(1), Florida Administrative Code. The rates should not be implemented until staff has approved the proposed customer notice, and the notice has been received by the customers. The utility should provide proof of the date notice was given no less than 10 days after the date of the notice.

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?

RECOMMENDATION: The water rates should be reduced as shown on Schedule 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. (FITCH)

STAFF ANALYSIS: Section 367.0816, Florida Statutes, requires that the rates be reduced immediately following the expiration of the four year period by the amount of the rate case expense previously included in the rates. The reduction will reflect the removal of revenues associated with the amortization of rate case **expense** and the **gross-up** for regulatory assessment fees which is \$1,853 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 recommended rates be approved for the utility on a temporary basis, subject to refund, in the event of a protest filed by a party other than the utility?

RECOMMENDATION: Yes. Pursuant to **Section 367.0814(7)**, Florida Statutes, 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 shall 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 (6), Florida Administrative Code, the utility should file reports with the Commission's Division of Economic Regulation no later than the 20th of each month indicating the monthly and total amount of money subject to refund at the end of the preceding month. The report filed should also indicate the status of the security being used to guarantee repayment of any potential refund.
(K. FLEMING, FITCH)

STAFF ANALYSIS: This recommendation proposes an increase in water 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 appropriate security for the potential refund and the proposed customer notice. Security should be in the form of a bond or letter of credit in the amount of \$15,816. 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 the 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(6), Florida Administrative Code, the utility should file reports with the Commission Division of Economic Regulation no later than the 20th of each month indicating the monthly and total amount of money subject to refund at the end of the preceding month. The report filed should also indicate **the** status of the security being used to guarantee repayment of any potential refund.

ISSUE 14: Should the utility be required to show cause, in writing within 21 days, why it should not be fined up to \$5,000 per day for its apparent violation of Rule 25-30.115, Florida Administrative Code, for its failure to maintain its books and records in conformance with the NARUC Uniform System of Accounts (USOA)?

RECOMMENDATION: No. A show cause proceeding should not be initiated. However, the utility should be ordered to maintain its books and records in conformance with the 1996 NARUC USOA and submit a statement from its accountant by March 31, 2004, along with its 2003 annual report, stating that its books are in conformance with the NARUC USOA and have been reconciled with the Commission Order. (K. FLEMING, FITCH)

STAFF ANALYSIS: During the staff audit, the auditors discovered that the utility did not maintain its accounts and records in conformance with the NARUC USOA. Audit Exception No. 1 lists the following items that are in apparent violation of NARUC USOA Water and Wastewater Class "C" Accounting Instruction 2.A. and 2.3.:

- The utility does not maintain continuing property records for its plant-in-service showing when plant is placed in service, retirements, salvage values, cost of removal, location, **etc**;
- Supporting documentation for some of its plant-in-service could not be provided by the utility;
- a Reconciliation of plant-in-service and accumulated depreciation to the prior Commission Order No. PSC-95-0142-FOF-WU, issued January 31, 1995, was not performed **by** the utility;
- Supporting documentation for some of its operation and maintenance expenses could not be provided by the utility; and
- Revenues are recorded on the cash basis rather than the accrual basis as required.

The utility also used expense accounts in addition to the NARUC USOA Account titles. These accounting irregularities are an apparent violation of Rule 25-30.115, Florida Administrative Code, "Uniform System of Accounts for Water and Wastewater Utilities," which provides that "Water and Wastewater Utilities shall, effective January 1, 1998, maintain their accounts and records in conformity with the 1996 NARUC Uniform System of Accounts adopted by the National Association of Regulatory Utility Commissioners."

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Section 367.161, Florida Statutes, authorizes the Commission to assess a penalty of not more than \$5,000 for each offense, if a utility is found to have knowingly refused to comply with, or have willfully violated any Commission rule, order, or provision of Chapter 367, Florida Statutes. In failing to **maintain** its books and records in conformance with the USOA, the utility's act was **'willful'** in the sense intended by Section 367.161, Florida Statutes. In Order No. 24306, issued April 1, 1991, in **Docket No. 890216-TL, In Re: Investigation Into The Proper Application of Rule 25-14.003, Florida Administrative Code, Relating To Tax Savings Refund For 1988 and 1989 For GTE Florida, Inc.,** the Commission having found that the company had not intended to violate the rule, nevertheless found it appropriate to order it to show **cause** why it should not be fined, stating that "[i]n our view, 'willful' implies an intent to do an act, and this is distinct from an intent to violate a statute or rule." Additionally, "[i]t is a common maxim, familiar to all minds that 'ignorance of the **law**' will not excuse any person, either civilly or criminally." Barlow v. United States, 32 U.S. 404, 411 (1833).

Although the utility's failure to keep its books and records in conformance with the NARUC USOA is an apparent violation of Rule 25-30.115, Florida Administrative Code, staff believes that a show cause proceeding is not warranted and should not be initiated at this time. The majority of the utility's apparent violations involved lack of record keeping. The utility was able to locate some of the missing supporting records after staff completed its audit. The supporting documents were provided to staff and have been included in this rate case. For those items that the utility could not provide support for, staff did not include costs for those items. Therefore, customers will not bear the cost of unsupported plant.

Although the utility did not maintain its revenues on an accrual basis, it did maintain expenses on an accrual basis. Staff believes that moving from a bi-monthly to a monthly billing cycle will make recording revenues on an accrual basis easier for the utility. Also, staff believes that the utility can easily remove the non-NARUC expense accounts by either recording these expenses in the appropriate NARUC account or by making these accounts a subset of the appropriate NARUC account.

Staff does not believe that a show cause proceeding should be initiated at this time. Although the utility appears to have

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violated Rule 25-30.115, Florida Administrative Code, staff believes that these violations can be easily remedied by the utility. With the exception of the lack of support for some expense and plant items, staff believes the apparent violations are minor in nature. With respect to the support documentation, it is in the utility's best interest to maintain supporting documentation. As stated above, staff did not include any expenses or plant items that were not supported by the utility. Staff believes this is a reasonable approach and would likely exclude such undocumented plant and expenses in future recommendations.

Based on the foregoing, staff **does** not believe that the apparent violation of Rule 25-30.115, Florida Administrative Code, under these circumstances rises to the level that warrants the initiation of a show cause proceeding. Therefore, staff recommends that the Commission not **order** the utility to show **cause** for failing to keep **its** books and records in conformance with the NARUC USOA. However, the utility should be ordered to maintain its books and records in conformance with the 1996 NARUC USOA and submit a statement from **its** accountant by March 31, 2004, along with its 2003 annual report, stating that its books are in conformance with the NARUC USOA and have **been** reconciled with the Commission Order.

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ISSUE 15: Should the docket be closed?

RECOMMENDATION: No. If no timely protest is received upon expiration of the protest period, the PAA Order will become final upon the issuance of a Consummating Order. However, this docket should **remain open** for twelve months **after the Consummating Order** to allow staff time to verify the utility has completed the pro forma **hydro-tank** replacements. Upon verification of the **above** by staff, the docket may be **administratively** closed. (FITCH, K. FLEMING)

STAFF ANALYSIS: If no timely protest is received upon expiration of the protest period, the PAA Order will become final upon the issuance of a Consummating Order. However, this **docket** should remain open for twelve **months** after the Consummating Order to allow staff time to verify **the** utility has completed the pro forma hydro-tank **replacements**. Upon verification **of** the above by **staff**, the docket may be administratively closed.

WATER TREATMENT PLANT - USED AND USEFUL DATA

Docket No. 030250-WU - Floralino Properties, inc.

- | | | |
|--|---------|---------------------------|
| 1) Capacity of Plant | 900 | gallons per minute |
| 2) Maximum Day (179,800gal/1440*2) | 249 | gallons per minute |
| 3) Fire Flow Capacity | 500 | gallons per minute |
| a) Required Fire Flow: 500 gallons per minute for 4 hours | | |
| | | |
| 4) Growth | 0 | gallons per minute |
| | | |
| a) Test year Customers in ERCs: | Begin | 726 |
| | End | 726 |
| | Average | 726 |
| (Use average number of customers) | | |
| b) Customer Growth in ERCs using Regression Analysis for most recent 5 years including Test Year | 0 | ERC |
| c) Statutory Growth Period | | 5 Years |
| (b)x(c)x(2/a) = 0 gallons per minute for growth | | |
| 5) Excessive Unaccounted for Water | 0 | gallons per minute |
| a) Total Unaccounted for Water | 7 | gallons per minute |
| Percent of Average Daily Flow | 0.008% | |
| b) Reasonable Amount | 7 | gallons per minute |
| (10% of average Daily Flow) | | |
| c) Excessive Amount | 0 | gallons per minute |

USED AND USEFUL FORMULA

$$[(2)+(3)+(4) - (5)] / (1) = **83.2\% \text{ Used and Useful}$$

** The utility is "built-out" and should be considered 100% used and useful.

WATER DISTRIBUTION SYSTEM - USED AND USEFUL DATA

Docket No. 030250-WU - Floralino Properties, Inc.

1) Capacity of System (Number of ERCs)	726	ERCs
2) Test year connections		
a) Beginning of Test Year	726	ERCs
b) End of Test Year	726	ERCs
c) Average Test Year	726	ERCs
3) Growth	0	ERCs
a) customer growth in connections for	0	ERCs
last 5 years including Test Year using		
Regression Analysis		
b) Statutory Growth Period	5	Years
(a)x(b) = 0 connections allowed for growth		

USED AND USEFUL FORMULA

$$[2+3]/(1) = 100\% \text{ Used and Useful}$$

FLORALINO PROPERTIES, INC. TEST YEAR ENDING 12/31/02 SCHEDULE OF WATER RATE BASE		SCHEDULE NO. I-A DOCKET NO. 030250-WU	
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	\$326,635	\$35,302	\$361,937
2. LAND & LAND RIGHTS	16,272	\$0	\$16,272
3. NON-USED AND USEFUL COMPONENTS	0	\$0	\$0
4. CIAC	(173,559)	\$0	(\$173,559)
5. ACCUMULATED DEPRECIATION	(287,992)	\$41,439	(\$246,553)
6. AMORTIZATION OF CIAC	173,559	\$0	\$173,559
7. WORKING CAPITAL ALLOWANCE	0	<u>\$15,935</u>	<u>\$15,935</u>
8. WATER RATE BASE	<u>\$54,915</u>	<u>\$92,676</u>	<u>\$147,591</u>

FLORALINO PROPERTIES, INC. TEST YEAR ENDING 12/31/02 ADJUSTMENTS TO RATE BASE	SCHEDULE NO. 1-5 DOCKET NO. 030250-WU
	<u>WATER</u>
<u>UTILITY PLANT IN SERVICE</u>	
1. Adjust utility balance pursuant to Order No. PSC-95-0142-FOF-WU	(\$3,253)
2. Capitalize Meter costs per company support (Acct 334)	5,473
3. Retire Old Meters (Acct 334)	(4,105)
4. Remove unsupported costs for Office Furniture (Acct 341 AE 2)	(1,494)
2002	
5. Retire old pump (Acct 311 AE 2) 2000	(1,991)
6. Capitalize Costs for Chemical Feeder Pump(Acct 320) (AE 2)1996	561
7. Capitalize Costs for Pump per company support(Acct 311) 1997	744
8. Capitalize Costs related to new pump(Acct 320) (AE 2)1999	721
9. Capitalize Costs for Chemical Feeder Pump(Acct 320) 2001	384
10. Capitalize Costs related to new pump(Acct 320) (A€2) 2002	3,032
11. Averaging Adjustment	(1,516)
12. Pro forma Hydro Tank Replacements	45,816
13. Retire Old Hydro Tanks	(9,070)
Total	<u>\$35,302</u>
<u>ACCUMULATED DEPRECIATION</u>	
1. Depreciation adjustment per Rule 25-30.140 FAC	\$26,997
2. Averaging Adjustment	6,135
3. Pro Forma Depreciation	(763)
4. Retire Dep. on Old Hydro Tanks	9,070
Total	<u>\$41,439</u>
<u>WORKING CAPITAL ALLOWANCE</u>	
1. To reflect 1/8 of test year O & M expenses.	<u>\$15,935</u>

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FLORALINO PROPERTIES, INC.
 TEST YEAR ENDING 12/31/02
 SCHEDULE OF CAPITAL STRUCTURE

SCHEDULE NO. 2
 DOCKET NO. 030250-WU

CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUST- MENTS	BALANCE		BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST	
			BEFORE PRO RATA ADJUSTMENTS	PRORATA ADJUST- MENTS					
1. COMMON STOCK	\$600	\$0	\$600						
2. RETAINED EARNINGS	8,668	0	\$8,668						
3. PAID IN CAPITAL	12,400	0	\$12,400						
4. TREASURY STOCK	(15,996)	0	(\$15,996)						
5. TOTAL COMMON EQUITY	\$5,672	\$0	5,672	10,846	16,518	11.19%	11.96%	1.34%	
6. LONG TERM DEBT		0	0	0	0	0.00%	0.00%	0.00%	
NOTE FOR 242	13,740	0	13,740	26,273	40,013	27.11%	6.00%	1.63%	
NOTE FOR PRO-FORMA	15,492	0	15,492	29,623	45,115	30.57%	5.90%	1.80%	
TOTAL LONG TERM DEBT	29,232	0	29,232	55,896	85,128	57.68%			
7. CUSTOMER DEPOSITS	15,777	0	15,777	30,168	45,945	31.13%	6.00%	1.87%	
8. TOTAL	\$50,681	\$0	\$50,681	\$96,910	\$147,591	160.00%		6.64%	
			RANGE OF REASONABLENESS				LOW	HIGH	
			RETURN ON EQUITY				10.96%	12.96%	
			OVERALL RATE OF RETURN				6.52%	6.75%	

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FLORALINO PROPERTIES, INC. TEST YEAR ENDING 12/31/02 SCHEDULE OF WATER OPERATING INCOME		SCHEDULE NO. 3-A DOCKET NO. 030250-WU			
	TEST YEAR PER UTILITY	STAFF ADJ. PER UTILITY	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$133,873</u>	<u>\$2,202</u>	<u>\$136,075</u>	<u>\$23,558</u> 17.31%	<u>\$159,633</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	111,105	16,376	127,481	0	127,481
3. DEPRECIATION (NET)	10,367	2,326	12,693	0	12,693
4. AMORTIZATION	0	1,040	1,040	0	1,040
5. TAXES OTHER THAN INCOME	8,313	(754)	7,559	1,060	8,619
6. INCOME TAXES	0	0	0	0	0
7. TOTAL OPERATING EXPENSES	<u>\$129,785</u>	<u>\$18,988</u>	<u>\$148,773</u>	<u>\$1,060</u>	<u>\$149,833</u>
8. OPERATING INCOME/(LOSS)	<u>\$4,088</u>		<u>(\$12,698)</u>		<u>\$9,800</u>
9. WATER RATE BASE	<u>\$54,915</u>		<u>\$147,591</u>		<u>\$147,591</u>
10. RATE OF RETURN	<u>7.44%</u>		<u>-8.60%</u>		<u>6.64%</u>

FLORALINO PROPERTIES, INC.
 TEST YEAR ENDING 12/31/02
 ADJUSTMENTS TO OPERATING INCOME

WATER

OPERATING REVENUES	
To adjust utility revenues to audited test year amount.	<u>\$2,202</u>
OPERATION AND MAINTENANCE EXPENSES	
1 Salaries and Wages - Employees (601)	
a. To remove employees included in CSO (AE5 adj1)	<u>(\$6,836)</u>
2 Purchased Water (610)	
a. To remove out of period bill (AE5 adj2)	<u>(\$455)</u>
3 Chemicals (618)	
a. Reclassify from CSO (AE5 adj4)	<u>\$672</u>
4 Materials and Supplies (620)	
a. Remove Unsupported Expense (AE5 adj5)	(\$716)
b. Remove meters which should be capitalized	<u>(1,059)</u>
Sub Total	<u>(\$1,775)</u>
5 Contractual Services - Billing (630)	
a. Reclassify Management Fees to CSO	<u>(\$24,553)</u>
6 Contractual Services - Professional (631)	
a. Annualize Operator Expense	\$2,453
b. Reclassify to TOTI (AE5 adj 11)	(150)
c. Amortize non-recurring legal fees over 5 years (AE5 adj6)	(678)
d. Reclassify repairs made by operator	<u>3,052</u>
Sub Total	<u>\$4,677</u>
7 Contractual Services - Testing (635)	
a. Reclassify repairs made by operator	(\$3,052)
b. Annualize DEP required testing	<u>3,446</u>
Sub Total	<u>\$394</u>
8 Contractual Services - Other (636)	
a. Reclassify Management Contract Payments from CSB	\$24,553
b. Reclassify Chemicals (AE5 adj4)	(672)
c. Adjust Prior Contract Amount for Inflation \$70,545	30,237
d. Amortize Tank Refurbishment over 5 years	<u>2,080</u>
e. Remove undocumented expense testing incl. above (AE5 adj7/8)	<u>(1,468)</u>
Total	<u>\$54,730</u>
9 Transportation Expense (650)	
a. Remove expenses pursuant to (AE5 adj9)	(\$198)
b. Reclassify to insurance (AE5 adj9)	(233)
c. Adjust for purchase vs. Lease (\$6,000 - \$3,817)	<u>(2,183)</u>
Sub Total	<u>(\$2,614)</u>

FLORALINO PROPERTIES, INC. TEST YEAR ENDING 12/31/02 ADJUSTMENTS TO OPERATING INCOME	SCHEDULE NO. 3-B DOCKET NU. 030250-WU PAGE 2 OF 2
	<u>WATER</u>
10. Insurance Expenses (655)	
a. Reclassify auto insurance from above (AE5 adj9)	\$233
b. Remove Health Insurance for contracted employee (AE5 adj10)	<u>(2,610)</u>
Sub Total	<u>(\$2,377)</u>
11. Regulatory Commission Expense (665)	
a. Include SARC filing fee	\$1,000
b. Include estimated allowance for Rate Case Expense	6,079
c. Amortize Rate Case Expense over 5 years	<u>(5,309)</u>
Sub Total	<u>\$7,770</u>
12. Miscellaneous Expense (675)	
a. Remove Personal use of cell phone (AE5 adj5)	<u>(\$1,004)</u>
b. Remove reimbursement cost for street lights (AE5 adj11)	<u>(3,096)</u>
c. Remove Denotation (AE5 adj12)	(100)
d. Remove a customer deposit refund recorded as an expense (AE5 adj14)	<u>(50)</u>
e. Reclassify accrued interest to Acct#237 (AE5 adj14)	<u>(3,007)</u>
Total	<u>(\$7,257)</u>
 TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	 <u>\$16,376</u>
 DEPRECIATION EXPENSE	
1. To reflect test year depreciation calculated per 25-30.140, F.A.C.	<u>\$800</u>
2. Proforma Dep. Expense (Hydro Tanks)	<u>1,526</u>
	<u>\$2,326</u>
 AMORTIZATION	
1. Amortize early loss on lawn mower	<u>\$1,040</u>
 TAXES OTHER THAN INCOME	
1. Remove Payroll Taxes included in contract amount (AE6)	<u>(\$557)</u>
2. Reclassify from Contractual Services Professional (AE5 adj 11)	150
3. Adjust RAFs to reflect annualized revenue	99
4. Remove out of period real estate tax (AE6)	(981)
5. Include unrecorded tangible property tax	<u>535</u>
Total	<u>(\$754)</u>

FLORALINO PROPERTIES, INC. TEST YEAR ENDING 12/31/02 ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE		SCHEDULE NO. 3-C DOCKET NO. 030250-WU		
	TOTAL PER UTILITY	STAFF PER ADJUST.		TOTAL PER STAFF
(601) SALARIES AND WAGES - EMPLOYEES	6,836	(6,836)	[1]	0
(603) SALARIES AND WAGES - OFFICERS	0	0		0
(604) EMPLOYEE PENSION & BENEFITS	0	0		0
(610) PURCHASED WATER	2,949	(455)	[2]	2,494
(615) PURCHASED POWER	5,950	0		5,950
(616) FUEL FOR POWER PRODUCTION	0	0		0
(618) CHEMICALS	1,660	672	[3]	2,332
(620) MATERIALS AND SUPPLIES	9,541	(1,775)	[4]	7,766
(630) CONTRACTUAL SERVICES - BILLING	24,553	(24,553)	[5]	0
(631) CONTRACTUAL SERVICES - PROFESSIONAL	4,649	4,677	[6]	9,326
(635) CONTRACTUAL SERVICES - TESTING	10,915	394	[7]	11,309
(636) CONTRACTUAL SERVICES - OTHER	17,895	54,730	[8]	72,625
(640) RENTS	2,725	0		2,725
(650) TRANSPORTATION EXPENSE	10,374	(2,614)	[9]	7,760
(655) INSURANCE EXPENSE	4,656	(2,377)	[10]	2,279
(665) REGULATORY COMMISSION EXPENSE	0	1,770	[11]	1,770
(670) BAD DEBT EXPENSE	0	0		0
(675) MISCELLANEOUS EXPENSES	8,402	(7,257)	[12]	1,145
	11,105	16,376		127,481

RECOMMENDED RATE REDUCTION SCHEDULE

FLORALINO PROPERTIES, INC.
 TEST YEAR ENDING 12/31/02

SCHEDULE NO. 4
 DOCKET NO. 030250-WU

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

MONTHLY WATER RATES

<u>RESIDENTIAL, MULTI-RESIDENTIAL, AND GENERAL SERVICE</u>	<u>MONTHLY RECOMMENDED RATES</u>	<u>MONTHLY RATE REDUCTION</u>
BASE FACILITY CHARGE:		
Meter Size:		
5/8"X3/4"	\$ 8.02	0.09
3/4"	12.03	0.14
1"	20.06	0.23
1-1/2"	40.11	0.47
2"	64.18	0.75
3"	128.36	1.49
4"	200.56	2.33
6"	401.12	4.66
RESIDENTIAL GALLONAGE CHARGE (Per 1,000 gallons)		
0 - 10,000 gallons	\$ 2.12	0.02
Above 10,000 gallons	2.65	0.03
GENERAL SERVICE GALLONAGE CHARGE		
Per 1,000 gallons	2.19	0.03