

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Application for a Staff-) DOCKET NO. 921049-WS
Assisted Rate Case in Lee County) ORDER NO. PSC-93-0930-FOF-WS
by USEPPA ISLAND UTILITY, INC.) ISSUED: 06/21/93
_____)

The following Commissioners participated in the disposition of this matter:

J. TERRY DEASON, Chairman
SUSAN F. CLARK
JULIA L. JOHNSON

ORDER GRANTING TEMPORARY RATES IN THE EVENT OF PROTEST

AND

NOTICE OF PROPOSED AGENCY ACTION ORDER GRANTING
RATES AND CHARGES

BY THE COMMISSION:

NOTICE IS HEREBY GIVEN by the Florida Public Service Commission that the action discussed herein, except for the granting of temporary rates, subject to refund, in the event of a protest, is preliminary in nature and will become final unless a person whose interests are adversely affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code.

Background

Useppa Island Utility, Inc. (Useppa or utility) is a class C water and wastewater utility located on Useppa Island in Lee County. Useppa Island is located off the coast of North Fort Myers. The island covers approximately 100 acres including over two miles of waterfront. The utility serves a membership of clients known as the Useppa Island Club. Members of the Useppa Island Club create a seasonal customer base that visits the island for holidays and special events. Only a limited number of the utility's customers are year-round residents. The utility is a 100% owned subsidiary of the Useppa Inn and Dock Company. The utility provides service to approximately 144 water customers and 137 wastewater customers.

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The utility was granted Water and Wastewater Certificates Nos. 354-W and 310-S by Order No. 10900, issued June 16, 1982. Order No. 16104, issued May 13, 1986, increased water and wastewater rates, reduced service availability charges, and approved miscellaneous service charges. Later in 1986, in compliance with Order No. 16104, the utility acquired title to the land upon which its treatment plant is located. Rate adjustments have also been granted through the application of a 1990 pass-through and a 1992 price index.

On October 10, 1992, the utility applied for this staff assisted rate case (SARC) and has paid the appropriate filing fee. All the necessary audit and engineering reviews in conjunction with rate setting have been performed. The test year for this case is the historical test year ended September 30, 1992. Based on our staff's audit, the utility recorded test year revenue of \$53,960 for the water system and \$26,971 for the wastewater system. Test year operating expenses were \$64,004 for water and \$28,949 for wastewater. This resulted in operating losses of \$10,004 and \$1,978, respectively.

Lee County is located in the South Florida Water Management District. The utility is located in a critical use county on environmentally sensitive land. Because it extracts and treats brackish water with a reverse osmosis treatment system, the utility is not required to obtain a consumptive use permit. Even though no water constraints are imposed on this utility, the utility utilizes the base facility/gallorage charge rate structure, which is considered a conservation rate structure.

The utility provides irrigation to a regulation croquet court. The utility is not permitted to irrigate the croquet court with gray water from the wastewater treatment plant because the utility does not qualify for the necessary permit from the Department of Environmental Regulation (DER). DER has confirmed that spray irrigation will not be approved for plants rated at less than 100,000 gallons per day of capacity. Therefore, a reuse charge for wastewater is not appropriate.

QUALITY OF SERVICE

A customer meeting was held during the morning of March 25, 1993, in the Tarpon Room of the Marina Side Club House, on the island proper. Fifteen persons attended the meeting. Two customers had comments concerning the utility's quality of service.

One customer stated that the utility's quality of service had improved since the new water plant had been installed. The other stated that the water at his house is "sometimes rusty" and he wanted the utility to flush the line near his home at regular intervals.

In Lee County, the potable water program is regulated by the Lee County Public Health Unit (LCPHU). Because of the nature of the raw water available to the island, the utility must treat its water resource by reverse osmosis (R/O). In 1990/1991, the utility constructed a new R/O filtration unit to increase plant capacity and improve the quality of the water. According to the LCPHU, the utility is currently up-to-date with all new plant construction and chemical analysis required to insure safe, potable water. At present, recheck sampling indicates the utility has overcome its difficulty in meeting standards for removing sodium, chlorides and radionuclides. No test results registered with the LCPHU indicated a high iron content, however, the utility was contacted about the customer's "rusty" water problem. The utility immediately began a flushing program that provides for flushing every other Monday on the south end of Useppa Island. With this program, the customer's rusty water problem is considered resolved.

Domestic wastewater utilities in Lee County continue to be under the direct supervision of DER. Until recently, Useppa Island Utility, Inc. was under a Consent Order (OGC File No. 91-1844) with the DER. All the conditions of the Consent Order have now been satisfied by the utility.

Based on the facts stated above, we find that the quality of service provided by Useppa is satisfactory.

RATE BASE

Our calculations of the appropriate rate base for the purpose of this proceeding are depicted on Schedules Nos. 1 and 1-A and our adjustments to rate base are itemized on Schedule No. 1-B. Those adjustments which are self-explanatory or essentially mechanical in nature are reflected on those schedules without further discussion in the body of this Order. The major adjustments are discussed below.

Used and Useful

Water Treatment Plant: The water treatment plant is an open system type of operation that currently relies on two high service pumps to meet instantaneous fluctuations in flow demands. The total rated capacity of the two high service pumps, located at the twin ground storage tanks is 130 gallons per minute (gpm). The utility serves approximately 135 active customers on any given weekend, holiday or special event. At this level of demand, each customer's potential share of the maximum distribution capacity is 0.96 gallons per minute. The General Waterworks Design Criteria set forth by the AWWA requires a minimum of 1.1 gpm per customer. Fire flow capacity from either the plant or distribution system is not sufficient to be included in the used and useful calculation. Based on the approved formula, the water plant is found to be 100% used and useful.

Water Distribution System: The used and useful formula is valuable as an indicator and yields a percentage that quantifies a representation of useful plant. Based on the approved formula, the distribution systems are found to be 89.53% used and useful with two exceptions; Services and Meter Installations Accounts are based on growth, therefore, they are found to be 100% used and useful.

Wastewater Treatment Plant: The capacity of the wastewater treatment plant is 15,000 gallons per day (gpd). During the test year, the high five-day average of daily flows occurred in October, 1991, at 14,000 gpd. After consideration of margin reserve, the used and useful formula indicates used and useful plant of 100%. Therefore, the wastewater treatment plant is found to be 100% used and useful.

Wastewater Collection System: The collection system on Useppa Island was constructed to employ numerous lift stations for the transport of raw effluent into the plant. Based on the formula approach, the collection system is found to be 89.53% useful with the exception of the Treatment and Disposal Account which is 100% used and useful.

Ownership of Land

Order No. 16104 set rate base for this utility as of March 31, 1985. The rate base established by that Order did not include land because at that time the utility's parent, Useppa Inn and Dock

Company (UIDC), owned the land on which the utility's assets were located.

Order No. 16104 directed the utility to submit within 60 days a document showing ownership or a long-term lease of the land on which the utility's assets are located. The utility's parent transferred title of the land to the utility on August 4, 1986. However, while the utility now owns the land on which the water and wastewater plants are located, it has provided no documentation that, at the time the parent company transferred title, the utility established a liability to pay the parent company for the land. A review of its 1991 tax return did not reflect a land value listed in the utility's assets. Based on these facts, we recognize the land as contributed plant.

Contributions-in-Aid-of-Construction (CIAC)

In December 1992, an audit of the utility's books was completed for the test year ended September 30, 1992. Based on the audit, the utility's recorded CIAC balances at March 31, 1985, agreed with balances established by Order No. 16104 in the prior rate case. The utility did not record any additional CIAC for the period April 1985 through September 30, 1992.

At the customer meeting mentioned previously, the residential property owners raised the question as to whether they had already paid for the RO water plant. The customers alleged that these plant additions were paid for with the 1990 increase in annual assessment fees which were being paid to the utility's parent and that they would be paying for the improvements again were they allowed in rate base. The prior review of the utility's records had not disclosed any information regarding the annual assessment fees.

The customers and the utility were requested to provide more background information regarding the workings of Useppa Island Property Owners, UIDC, and the procedures used to determine the annual assessment fees and whether they funded plant additions. The information provided revealed that the Useppa Island Club was organized at the time the Useppa Island development began about 1977. The membership includes property owners, non-property owners and the UIDC. All property owners pay an annual assessment to the parent company consisting of two components: (a) a property owners' association assessment, and (b) Useppa Island Club membership dues. These fees fund services provided by the Useppa

Island Club and numerous projects on the island. In addition to utility improvements, the projects funded include improvements to common areas and facilities owned by the parent.

In accordance with deed restrictions, annual assessment fees may be increased annually by the increase in the Consumer Price Index (CPI). In the event that the UIDC requests an increase in the property owners' assessment and/or club membership dues which exceeds the CPI, any such increase is subject to (a) the prior review and recommendation of the Useppa Island Property Owners Association (Association) on behalf of the property owners, and (b) consent of not less than 51% of the property owners. The Association is autonomous and is not controlled by the parent or its principals.

In 1990, a majority of the property owners approved a substantial increase in their annual assessment fees. The fees were increased to fund numerous projects including specific utility plant improvements. The president of the Useppa Island Property Owners Association provided a financial schedule from the UIDC that showed budgeted and actual expenditures for improvement projects. This schedule showed utility plant additions being paid for with property owner assessment fees.

Based on this schedule, the other information received, and with concurrence from the utility, it was determined that the RO water plant and wastewater plant additions from 1990 through September 30, 1992, were paid for out of customer assessment funds. Therefore, the plant additions from 1990 through September 30, 1992, are recognized as CIAC. The appropriate amount of related CIAC is \$42,133 for the water system and \$7,185 for the wastewater system.

Order No. 16104 discontinued system capacity charges because the utility had exceeded the 75% maximum CIAC level. By having the utility rather than the ratepayers fund future plant additions, it was expected that the CIAC level would decline to acceptable levels. As discussed above, in the years following the rate case, the utility's parent thought it necessary to fund improvements by increasing the assessment fees. Although the property owners approved the increase in fees, this action constitutes an unauthorized collection of CIAC and violates the intent of Order No. 16104. It appears, however, that the utility and its parent did not knowingly and willfully violate Order No. 16104, but rather that the parent failed to recognize that any contributions or

assistance to the utility had to come from shareholders and lenders, not utility customers.

Because we recognize that there was no willful violation of Order No. 16104, we will not order the utility to show cause why it should not be fined for collecting unauthorized CIAC. However, the utility is hereby advised that it may not accept any funding from its parent company that is generated by property owner assessment fees. Such action could be considered a collection of unauthorized CIAC or an unauthorized collection of utility fees and, as such, will subject the utility to penalties pursuant to Section 367.161, Florida Statutes.

Utility Plant in Service

The utility's general ledger plant balance at March 31, 1985, agrees with the balances established by Order No. 16104 for water and wastewater. The utility's recorded plant additions from April 1985 through September 30, 1992, agree with audited totals and the appropriate amount of utility plant in service is \$300,283 for water and \$233,591 for wastewater. Test year plant totals for water remained constant from the beginning to year end. The utility's recorded test year plant total for wastewater agrees with our calculated average plant. Therefore, an averaging adjustment is not necessary.

Land

We have previously determined that the land transferred in 1986 to the utility should be recognized as contributed plant. The land value should be based on the original cost when first dedicated to public service in 1981. Because the utility does not have documentation regarding the original cost of the land, we have looked to the utility's property tax bill as an indicator. The assessed value is \$13,950 for approximately 2 acres. We find that \$13,950 is reasonable for 2 acres of property on Useppa Island if purchased in 1981.

The water plant is situated on approximately 1.6 acres and the wastewater plant is situated on approximately .45 of an acre. Therefore, \$10,463 is allocated for water land value, and \$3,487 for wastewater land value.

Plant Held for Future Use

The water distribution system is 89.53% used and useful and 10.47% non-used and useful for existing customers. However, this is also contributed plant. Therefore, the non-used and useful adjustment is offset by CIAC, and there is no plant held for future use for water.

The wastewater collection system is 89.53% used and useful and 10.47% non-used and useful for existing customers. Applying the non-used and useful percentage to the corresponding balances net of accumulated depreciation, CIAC and amortization of CIAC, we find plant held for future use is (\$6,876) for wastewater.

Contribution-in-Aid-of-Construction (CIAC)

The utility's recorded CIAC at March 31, 1985, agreed with totals established by Order No. 16104. We have adjusted CIAC by (\$10,463) for water and (\$3,487) for wastewater to recognize land as contributed plant, as previously discussed. CIAC has also been adjusted by (\$42,133) for water and (\$7,185) for wastewater to reflect contributed plant improvements from 1990 through September 30, 1992. No averaging adjustment is necessary for water; the averaging adjustment for wastewater is \$754. We find the appropriate balances for CIAC are (\$266,263) for water and (\$229,433) for wastewater.

Accumulated Depreciation

The utility recorded accumulated depreciation of (\$101,283) for water and (\$90,440) for wastewater. We have made adjustments of (\$5,641) for water and (\$4,954) for wastewater to reflect our calculated accumulated depreciation at September 30, 1992. An averaging adjustment has also been made of \$6,762 for water and \$5,007 for wastewater. We find this results in an average accumulated depreciation of (\$100,162) for water and (\$90,387) for wastewater.

Accumulated Amortization of CIAC

The utility recorded CIAC of \$86,460 for water and \$84,008 for wastewater. Adjustments have been made of \$2,657 for water and \$12,979 for wastewater to reflect our calculated amortization of CIAC. An averaging adjustment has also been made of (\$5,399) for water and (\$4,949) for wastewater. We find this results in an

average accumulated amortization of CIAC of \$83,718 for water and \$92,038 for wastewater.

Working Capital Allowance

Following our usual practice and consistent with Rule 25-30.443, Florida Administrative Code, we used the one-eighth of operation and maintenance expense formula approach for calculating working capital allowance. Applying that formula, we find a working capital allowance of \$6,928 ($\$55,421/8$) for water and \$4,210 ($\$33,681/8$) for wastewater is appropriate.

Test Year Rate Base

We find the appropriate test year rate base to be \$34,967 for the water system and \$6,630 for the wastewater system.

CAPITAL STRUCTURE

The utility's capital structure includes negative common equity of \$30,768. It is our practice to adjust negative common equity to zero. Order No. PSC-92-0686-FOF-WS, issued July 21, 1992, capped the return on common equity at 12.44% for all water and wastewater utilities having equity ratios of less than 40%. Based on the foregoing, the appropriate return on equity is 12.44%.

The utility's capital structure also includes long term debt of \$182,506. This debt includes a loan from the utility's parent company at a cost of 10.00% and a loan from Merchant National Bank at a cost of 12.50%. The loan from the parent company represents 84.65% of total debt and the loan from Merchant National Bank represents 15.35% of total debt. Applying the percentage of each loan to total debt times the costs results in a 10.39% cost of debt.

The utility's capital structure has been reconciled with the utility's average rate base established herein. Since common equity has been adjusted to zero, the utility's capital structure is 100% debt at a cost of 10.39%. Therefore, we find the overall rate of return is 10.39%. Capital structure is shown on Schedule No. 2.

NET OPERATING INCOME

Our calculations of net operating income are depicted on Schedules Nos. 3 and 3-A, and our adjustments are itemized on Schedule No. 3-B. Operation and maintenance expenses are shown on Schedule Nos. 3-C and 3-D. Those adjustments which are self-explanatory or which are essentially mechanical in nature are reflected on those schedules without further discussion in the body of this Order. The major adjustments are discussed below.

Test Year Operating Revenues

The utility recorded test year revenue of \$53,960 for water and \$26,971 for wastewater. A revenue check shows that the utility did not record all of the revenue due from its general service customers. The utility's general service customers are subsidiaries of the utility's parent. During the test year the utility offset revenue due from its general service customers with a liability the utility owes to the parent. We have adjusted test year revenue by \$5,758 for water and \$1,594 for wastewater to reflect this additional unrecorded revenue for general service customers.

In October 1992, after the test year, this Commission granted the utility a rate adjustment through its application for a 1992 price index. We annualized revenues based on the test year billing analysis and the existing rates and have adjusted test year revenue by \$1,874 for water and \$1,441 for wastewater to reflect annualized revenue based on existing rates.

The total adjustment for test year revenue is \$7,632 for water and \$3,035 for wastewater. Therefore, the appropriate test year revenue is \$61,592 for water and \$30,006 for water.

Operating Expenses

The utility's recorded test year operating expenses include operation and maintenance expense, depreciation expense, net of amortization of CIAC and taxes other than income. Test year expenses have been traced to invoices and tested for reasonableness. We find that the appropriate amount of operating expenses is \$62,070 for water and \$36,169 for wastewater. A summary of adjustments follows:

1) Salaries and wages - employees - The utility recorded employee salaries of \$4,715 for water and \$6,614 for wastewater. Three employees of the utility's parent company, UIDC, provide service for the utility. These employees include a billing/purchasing clerk, a maintenance person/meter reader and a service manager. The billing/purchasing clerk earns \$100 per month or \$1,200 annually. The maintenance person/meter reader spends 20 hours per week conducting utility business and earns \$6.75/hour or \$7,020 annually. The service manager earns \$34,134 annually and the utility allocates 20% of his salary or \$6,826 to the utility. The total salary for the three employees is \$15,046. We find these salaries to be reasonable and in line with salaries of employees performing like duties for a utility this size. Therefore, this expense has been adjusted by \$2,808 for water and \$909 for wastewater to reflect an annual salary for employees for both water and wastewater of \$7,523 each.

2) Salaries and wages - officers - The utility recorded an officer salary of \$2,578 for water and wastewater each. The utility's Vice President earns \$25 per hour. Four hours per week is the appropriate number of hours to be allowed for an officer's salary for those duties required of an officer of a utility this size. Four hours per week times \$25 per hour equates to \$5,200 annually. We have adjusted this expense by \$22 for water and wastewater each to reflect an annual salary of \$2,600 for water and wastewater respectively.

3) Sludge removal - The utility did not record a sludge removal expense. Because the utility is located on an island, a sludge truck will have to be transported to the island by barge. We have determined that a typical barge fee is \$400 round trip. The fee for sludge hauling is \$150 and is anticipated to occur once a year. Therefore, this expense has been adjusted by \$550 to reflect an annual sludge removal allowance.

4) Purchased Power - The utility recorded test year purchased power expense of \$14,744 for water and \$2,162 for wastewater. Since the water and wastewater plant are operated through one meter, the purchased power expense recorded for water includes expense for both water and wastewater. Based on actual purchased power bills for the test year, the appropriate expense is \$9,687 for water and \$8,151 for wastewater. Therefore, we have adjusted this expense by (\$5,057) for water and \$5,989 for wastewater.

5) Chemicals - The utility recorded chemical expense of \$4,814 for water and \$226 for wastewater. This expense has been adjusted by \$3,676 for water and \$844 for wastewater to reflect the appropriate annual allowance of \$8,490 for water and \$1,070 for wastewater to provide a sufficient allowance for chemicals.

6) Materials and Supplies - The utility did not record an expense for materials and supplies. We have adjusted this expense by \$637 for water and \$620 for wastewater to reflect a reclassification from miscellaneous expenses.

In a latter portion of this Order, we are requiring the utility to change from a quarterly billing cycle to a monthly billing cycle. Based on our Staff's audit, the additional cost associated with the change to a monthly billing cycle is \$840 for water and wastewater each. Therefore, we have adjusted this expense by \$840 for water and wastewater each. The total adjustment for this expense is \$1,477 for water and \$1,460 for wastewater.

7) Contractual Services - The utility recorded contractual service expense of \$19,355 for water and \$11,675 for wastewater. We have adjusted this expense by \$2,267 for wastewater to reflect the test year total as of the Staff audit. An expense for operating permits was included in this total of \$915 for water and \$1,115 for wastewater. These permits are required every five years. Therefore, we have adjusted this expense by (\$732) for water and (\$892) for wastewater. These adjustments result in an annual allowance of \$183 ($\$915/5$ yrs.) for water and \$223 ($\$1,115/5$ yrs.) for wastewater.

Envirotech Operating Services, Inc., (EOS) provides plant operation services for the utility for \$22,086 annually. The utility recorded \$11,043 for water and \$11,043 for wastewater. We adjusted this expense by \$4,972 for water and (\$4,972) for wastewater to reflect the appropriate allocation of \$16,015 for water and \$6,071 for wastewater.

This expense also included DER testing expense of \$5,435. We have adjusted this expense by (\$1,684) for water and \$1,684 for wastewater to reflect a reclassification of DER required wastewater test expense. This expense has also been adjusted by (\$705) for water to reflect the appropriate annual allowance for DER required water testing of \$3,046.

We have adjusted this expense by (\$300) for water and \$300 for wastewater to reflect the appropriate contractual annual accounting expense of \$405 for water and wastewater each.

Water contractual service has been adjusted by \$1,078 to reflect a reclassification of contractual repairs and maintenance.

The utility recorded plant improvements totaling \$1,508 in this expense. This plant is already included in plant totals in the utility's records. Therefore, we have adjusted this expense by (\$1,508). The total adjustment for contractual services expense is \$2,629 for water and (\$3,121) for wastewater.

8) Rents - The utility did not record a rent expense. The utility shares office space with its parent company and other subsidiaries of the parent. We believe that \$200 per month or \$2,400 annually is the appropriate rent allowance for the utility. We adjusted this expense by \$1,200 for water and wastewater each to reflect an annual rent allowance.

9) Regulatory Commission Expense - This expense has been adjusted by \$38 for water and wastewater each to reflect the rate case filing fee of \$150 for each system amortized over four years.

10) Miscellaneous Expense - The utility recorded miscellaneous expense of \$12,964 for water and \$4,448 for wastewater.

This expense has been adjusted by (\$2,735) for water and \$256 for wastewater to remove a below-the-line interest expense.

Reclassification has also been made of (\$414) for water and (\$1,037) for wastewater to taxes other than income, of (\$637) for water and (\$620) for wastewater to materials and supplies, and (\$1,078) for water to contractual services.

This expense has also been adjusted by (\$5,678) to reflect the appropriate annual in-house repair and maintenance expense to provide a sufficient allowance for maintenance and repairs. The total adjustment for Miscellaneous Expense is (\$10,542) for water and (\$1,913) for wastewater.

Depreciation Expense (Net of Amortization of CIAC)

The utility recorded a test year depreciation expense net of CIAC of \$4,437 for water and \$1,246 for wastewater. We have

calculated test year depreciation expense using the prescribed depreciation rates. This expense has been adjusted by (\$1,712) for water and (\$1,246) for wastewater, to reflect test year depreciation expense net of non-used and useful depreciation expense, amortization of CIAC, and non-used and useful amortization of CIAC. The wastewater depreciation expense resulted in a negative balance because amortization of CIAC net of non-used and useful amortization of CIAC exceeds net used and useful depreciation expense. Accordingly, as in cases where negative rate base is adjusted to zero, we have adjusted test year depreciation expense for wastewater to zero.

Taxes Other Than Income

The utility recorded taxes other than income of \$397 for water. There was no expense recorded for wastewater. This expense has been adjusted by \$414 for water and \$1,037 for wastewater to reflect a reclassification from Miscellaneous Expense.

This expense has also been adjusted by \$298 for water and (\$263) for wastewater to reflect payroll taxes on the salaries as approved herein. An adjustment has been made of (\$86) to adjust property taxes to the earliest discount amount. An additional adjustment has been made of (\$56) for water and \$56 for wastewater to reflect the appropriate allocation of property tax expense.

The utility did not record regulatory assessment fees for the test year. Regulatory assessment fees have been calculated based on test year revenue times 4.5% and we have accordingly adjusted this expense by \$2,772 for water and \$1,350 for wastewater. The total adjustment for Taxes Other Than Income is \$3,342 for water and \$2,180 for wastewater.

Increase in Operating Revenues and Expenses for Ratesetting Purposes

Operating Revenue - Revenue has been adjusted by \$4,111 for water and \$6,852 for wastewater to reflect the increase in revenue required to cover expenses and to allow the appropriate rate of return on investment.

Taxes Other Than Income - This expense has been adjusted by \$185 for water and \$308 for wastewater to reflect the regulatory assessment at 4.5% on the increase in revenue.

Based on the foregoing, the appropriate amounts of operating expenses are \$62,070 for water and \$36,169 for wastewater.

Test Year Operating Loss

The test year operating revenue is \$61,592 for water and \$30,006 for wastewater. The corresponding test year operating expenses are \$61,885 for water and \$35,861 for wastewater (exclusive of the approved revenue increase and corresponding taxes). This results in a test year operating loss of \$293 for water and \$5,855 for wastewater.

Net Operating Income

Based on our previous adjustments, we find the appropriate adjusted operating income to be \$3,633 for the water system and \$689 for the wastewater system.

REVENUE REQUIREMENT

Based upon our review of the utility's books and records and the adjustments made herein, we find that the appropriate annual revenue requirement is \$65,703 for water and \$36,858 for wastewater. Accordingly, we find it appropriate to approve an annual increase in revenue of \$4,111 (6.67%) for water and \$6,852 (22.84%) for wastewater. This will allow the utility the opportunity to recover its expenses and earn a 10.39% return on its investment.

RATES AND RATE STRUCTURE

The utility currently bills its customers quarterly, although it reads its meters and updates its accounts receivables monthly. However, the utility is billed for goods and services at 30 day intervals, but receives revenue to meet these obligations at approximately 105 day intervals. Accordingly, we are ordering the utility to change to a monthly billing cycle to allow it to meet its monthly obligations in a more timely manner.

We have made the necessary adjustment to operation and maintenance expense to allow for the additional cost associated with billing.

Monthly Service Rates

We find that the rates set forth below are fair, just, reasonable, and not unfairly discriminatory. These rates have been designed to allow the utility to recover its expenses and the opportunity to earn 10.39% return on its investment.

The base facility/gallongage charge rate structure is designed to provide for the equitable sharing by ratepayers of both the fixed and variable costs of providing service. The base facility charge is based upon the concept of readiness to serve all customers connected to the system. This ensures that ratepayers pay their share of the costs of providing service through the consumption or gallongage charge and also pay their share of the fixed costs of providing service through the base facility charge.

As mentioned earlier, the utility employs the base/facility gallongage charge rate structure which is a conservation rate structure that will be retained. Since we have confirmed that a DER permit for spray irrigation will not be approved for plants rated at less than 100,000 gallons per day, there will be no reuse charge for wastewater.

Rates have been calculated based on test year customers and consumption. The utility's existing rates and those approved herein are set forth below for comparison.

WATER

RESIDENTIAL AND GENERAL SERVICE

<u>Base Facility Charge Meter Size:</u>	<u>Current Quarterly Rates</u>	<u>Current Monthly Rates</u>	<u>Approved Monthly Rates</u>
5/8" x 3/4"	\$ 30.12 ÷ 3 =	\$10.04	\$ 14.18
3/4"	N/A	N/A	21.27
1"	75.33 ÷ 3 =	25.11	35.45
1 1/2"	150.61 ÷ 3 =	50.20	70.90
2"	240.98 ÷ 3 =	80.33	113.44
3"	N/A	N/A	226.88
4"	N/A	N/A	354.50
6"	N/A	N/A	709.00

Gallonge Charge
 per 1,000 gallons \$ 5.31 \$ 4.64

WASTEWATER

RESIDENTIAL

<u>Base Facility Charge</u> <u>Meter Size:</u>	<u>Current</u> <u>Quarterly</u> <u>Rates</u>	<u>Current</u> <u>Monthly</u> <u>Rates</u>	<u>Approved</u> <u>Monthly</u> <u>Rates</u>
All Sizes	\$31.88 ÷ 3 =	\$10.63	\$11.12
<u>Gallonge Charge</u> per 1,000 gallons (6,000 gallons maximum)	\$ 2.09		\$ 3.25

GENERAL SERVICE

<u>Base Facility Charge</u> <u>Meter Size:</u>	<u>Current</u> <u>Quarterly</u> <u>Rates</u>	<u>Current</u> <u>Monthly</u> <u>Rates</u>	<u>Approved</u> <u>Monthly</u> <u>Rates</u>
5/8" x 3/4"	\$ 31.87 ÷ 3 =	\$10.62	\$ 11.12
3/4"	N/A	N/A	16.68
1"	75.80 ÷ 3 =	25.27	27.80
1 1/2"	159.40 ÷ 3 =	53.13	55.60
2"	255.05 ÷ 3 =	85.02	88.96
3"	N/A	N/A	177.92
4"	N/A	N/A	278.00
6"	N/A	N/A	556.00
<u>Gallonge Charge</u> per 1,000 gallons	\$ 2.51		\$ 3.90

These rates shall be effective for meter readings taken on or after 30 days after the stamped approval date on the revised tariff sheets. The revised tariff sheets will be approved upon staff's verification that the tariffs are consistent with the Commission's decision and that the proposed customer notice is adequate.

Miscellaneous Service Charges

Order No. 16104 authorized the utility to collect its existing miscellaneous service charges. We have modified the utility's existing charges to reflect reasonable charges that more accurately reflect their cost. A schedule of the utility's existing charges and the approved charges follows:

	<u>WATER</u>		
	<u>Current</u>		<u>Approved</u>
	<u>Normal</u>	<u>After</u>	<u>Charges</u>
	<u>Hours</u>	<u>Hours</u>	
Initial Connection	\$10.00	\$15.00	\$ 15.00
Normal Connection	15.00	20.00	15.00
Violation Reconnection	20.00	25.00	15.00
Premises Visit (in lieu of disconnection)	10.00	15.00	10.00

	<u>WASTEWATER</u>		
	<u>Current</u>		<u>Approved</u>
	<u>Normal</u>	<u>After</u>	<u>Charges</u>
	<u>Hours</u>	<u>Hours</u>	
Initial Connection	\$10.00	\$15.00	\$ 15.00
Normal Connection	15.00	20.00	15.00
Violation Reconnection Cost	20.00	25.00	Actual
Premises Visit (in lieu of disconnection)	10.00	15.00	10.00

When both water and wastewater services are provided, only a single charge is appropriate unless circumstances beyond the control of the utility require multiple actions. Following is a description of each service:

- 1) Initial Connection: This charge is to be levied for service initiation at a location where service did not exist previously.

- 2) Normal Reconnection: This charge is to be levied for transfer of service to a new customer account at previously served location, or reconnection of service subsequent to a customer requested disconnection.
- 3) Violation Reconnection: This charge is to be levied prior to reconnection of an existing customer after disconnection of service for cause according to Rule 25-30.320(2), Florida Administrative Code, including a delinquency in bill payment.
- 4) Premises Visit Charge (in lieu of disconnection): This charge is to be levied when a service representative visits a premises for the purpose of discontinuing service for nonpayment of a due and collectible bill, but does not discontinue service because the customer pays the service representative or otherwise makes satisfactory arrangements to pay the bill.

The miscellaneous service charges are approved herein shall be effective for service rendered on or after the stamped approval date in the revised tariff sheet. The revised tariff sheets will be approved upon staff's verification that the tariff sheets are consistent with the Commission's decision and that the proposed customer notice is adequate.

Service Availability Charges

The appropriate service availability charges for each system is the existing Commission approved charges. However, Order No. 16104 discontinued the utility's previously approved system capacity charge because the water and wastewater system exceeded the 75% maximum contribution level. The utility's current level of CIAC is 86.91% for water and 93.51% for wastewater. Therefore, the approved charges as stated in Order 16104 remain in effect.

Statutory Rate Reduction and Recovery Period

The statutory recovery period for rate case expenses is four years. The appropriate annual reduction for each system at the end of that period is \$40.

Section 367.0816, Florida Statutes entitled "Recovery of Rate Case Expense" states that:

The amount of rate case expense determined by the Commission pursuant to the provisions of this chapter to be recovered through a public utilities rate shall be apportioned for recovery over a period of four years. At the conclusion of the recovery period, the rate of the public utility shall be reduced immediately by the amount of rate case expense previously included in rates.

The only rate case expense incurred by the utility for this case was the \$150 filing fee for each system. The four-year recovery period for this fee allows the utility to recover approximately \$38 per system per year through its rates. Once the annual rate case expense recovery is grossed up to reflect regulatory assessment fees, the annual recovery increases to \$40 for each system.

At the end of four years, the Useppa Island Utility, Inc.'s rates should be reduced by \$40 annually for each system. Using the utility's current revenues, expenses, capital structure and customer base, the rate reduction in the base facility charge for a 5/8 x 3/4" meter should be \$.01 for water and wastewater respectively.

The utility shall file revised tariff sheets no later than one month prior to the actual date of the required rate reduction. The utility shall also file a proposed customer notice setting forth the lower rates and the reason for the reduction. If the utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data shall be filed for the price index and/or pass-through rate increase or decrease and the reduction in the rates due to the amortized rate case expense.

Rate reductions after the recovery of rate case expense are shown on Schedules Nos. 4 and 4-A.

Temporary Rates in the Event of Protest

This Order proposes an increase in water and wastewater rates. A timely protest might delay what may be a justified rate increase resulting in an unrecoverable loss of revenue to the utility. Therefore, in the event of a protest filed by a party other than the utility, we hereby authorize the utility to collect the rates approved herein, on a temporary basis, subject to refund provided that the utility first furnish and have approved by Commission staff, adequate security for a potential refund through a bond or

letter of credit in the amount of \$7,470 or an escrow account, a proposed customer notice, and revised tariff sheets.

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 approved 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 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 the 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 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 Consenting v. Elson, 263 So. 2d 253 (Fla. 3d DCA 1972), escrow accounts are not subject to garnishments.
- 8) The Director of Records and Reporting must be a signatory to the escrow agreement.

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 a result of the rate increase shall be maintained by the utility. This account must specify by whom and on whose behalf such monies were paid. If a refund is ultimately required, it shall be paid with interest calculated pursuant to Rule 25-30.360(4), Florida Administrative Code.

The utility shall maintain a record of the amount of the bond, and the amount of revenues that are subject to refund. In addition, after the increased rates are in effect, the utility should file reports with the Division of Water and Wastewater no later than 20 days after each monthly billing. These reports shall indicate the amount of revenue collected under the increased rates.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the application of the Useppa Island Utility, Inc., for an increase in its water and wastewater rates in Lee County is approved as set forth in the body of this Order. It is further

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

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

ORDERED that all of the provisions of this Order, except for the granting of temporary rates in the event of protest, subject to refund, are issued as proposed agency action and shall become final, unless an appropriate petition in the form provided by Rule 25-22.029, Florida Administrative Code, is received by the Director of Records and Reporting at his office at 101 East Gaines Street, Tallahassee, Florida 32399-0870, by the date set forth in the Notice of Further Proceedings below. It is further

ORDERED that Useppa Island Utility, Inc. is authorized to charge the new rates and charges as set forth in the body of this Order. It is further

ORDERED that the metered rates approved herein shall be effective for meter readings taken on or after 30 days after the stamped approval date on the revised tariff pages. It is further

ORDERED that the miscellaneous service charges approved herein shall be effective for service rendered on or after the stamped approval date on the revised tariff sheets. It is further

ORDERED that prior to its implementation of the rates and charges approved herein, Useppa Island Utility, Inc. shall submit and have approved a proposed notice to its customers of the increased rates and charges and the reasons therefor. The notice will be approved upon our Staff's verification that it is consistent with our decision herein. It is further

ORDERED that prior to its implementation of the rates and charges approved herein, Useppa Island Utility, Inc. shall submit and have approved revised tariff pages. The revised tariff pages will be approved upon our Staff's verification that they are consistent with our decision herein and that the protest period has expired. It is further

ORDERED that in the event of a protest by any substantially affected person other than the utility, Useppa Island Utility, Inc. is authorized to collect the rates approved herein on a temporary basis, subject to refund in accordance with Rule 25-30.360, Florida Administrative Code, provided that Useppa has furnished satisfactory security for any potential refund and provided that it has submitted and our Staff has approved revised tariff pages and a proposed customer notice. It is further

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DOCKET NO. 921049-WS
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ORDERED that this docket shall be closed if no timely protest is received from a substantially affected person by the expiration of the protest period.

By ORDER of the Florida Public Service Commission, this 21st day of June, 1993.

STEVE TRIBBLE, Director
Division of Records and Reporting

(S E A L)

SLE

by: Kay Helton
Chief, Bureau of Records

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.59(4), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

As identified in the body of this order, our action herein, except for the granting of temporary rates subject to refund in the event of a protest, is preliminary in nature and will not become effective or final, except as provided by Rule 25-22.029, Florida Administrative Code. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, as provided by Rule 25-22.029(4), Florida Administrative Code, in the form provided by Rule 25-22.036(7)(a) and (f), Florida Administrative Code. This petition must be received by the Director, Division of Records and Reporting at his office at 101 East Gaines Street, Tallahassee, Florida 32399-0870, by the close of business on July 12, 1993. In the absence of such a petition, this order shall become effective on the date subsequent to the above date as provided by Rule 25-22.029(6), Florida Administrative Code.

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

If the relevant portion of this order becomes final and effective on the date described above, any party adversely affected may request judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or by the First District Court of Appeal in the case of a water or wastewater utility by filing a notice of appeal with the Director, Division of Records and Reporting and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days of the effective date of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.

Any party adversely affected by the Commission's final action in this matter may request: (1) reconsideration of the decision by filing a motion for reconsideration with the Director, Division of Records and Reporting within fifteen (15) days of the issuance of this order in the form prescribed by Rule 25-22.060, Florida Administrative Code; or (2) judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or the First District Court of Appeal in the case of a water or wastewater utility by filing a notice of appeal with the Director, Division of Records and Reporting and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days after the issuance of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.

USEPPA ISLAND UTILITY, INC.
 SCHEDULE OF WATER RATE BASE
 TEST YEAR ENDED SEPTEMBER 30, 1992

SCHEDULE NO. 1
 DOCKET NO. 921049-WS

	TEST YEAR PER UTILITY	COMM. ADJUST. TO UTIL. BAL.	BALANCE PER COMM.
	-----	-----	-----
UTILITY PLANT IN SERVICE	\$ 300,283	0	\$ 300,283
LAND/NON-DEPRECIABLE ASSETS	0 A	10,463	10,463
PLANT HELD FOR FUTURE USE	0 B	0	0
ACQUISITION ADJUSTMENT	0	0	0
C.W.I.P.	0	0	0
C.I.A.C.	(213,667)C	(52,396)	(266,263)
ACCUMULATED DEPRECIATION	(101,283)D	1,121	(100,162)
AMORTIZATION OF ACQUISITION ADJUSTMENT	0	0	0
AMORTIZATION OF C.I.A.C.	86,460 E	(2,742)	83,718
WORKING CAPITAL ALLOWANCE	7,396 F	(468)	6,928
	-----	-----	-----
WATER RATE BASE	\$ 79,189	\$ (44,222)	\$ 34,967
	=====	=====	=====

USEPPA ISLAND UTILITY, INC.
 SCHEDULE OF WASTEWATER RATE BASE
 TEST YEAR ENDED SEPTEMBER 30, 1992

SCHEDULE NO. 1-A
 DOCKET NO. 921049-WS

	TEST YEAR PER UTILITY	COMM. ADJUST TO UTIL. BAL.	BALANCE PER COMM.
	-----	-----	-----
UTILITY PLANT IN SERVICE	\$ 233,591	0 \$	233,591
LAND/NON-DEPRECIABLE ASSETS	0 A	3,487	3,487
PLANT HELD FOR FUTURE USE	0 B	(6,876)	(6,876)
ACQUISITION ADJUSTMENT	0	0	0
C.W.I.P.	0	0	0
C.I.A.C.	(219,515)C	(9,918)	(229,433)
ACCUMULATED DEPRECIATION	(90,440)D	53	(90,387)
AMORTIZATION OF ACQUISITION ADJUSTMENT	0	0	0
AMORTIZATION OF C.I.A.C.	84,008 E	8,030	92,038
WORKING CAPITAL ALLOWANCE	3,463 F	0	4,210
	-----	-----	-----
SEWER RATE BASE	\$ 11,107 \$	(4,477) \$	6,630
	=====	=====	=====

USEPPA ISLAND UTILITY, INC.
SCHEDULE OF ADJUSTMENTS TO RATE BASE

	<u>WATER</u>	<u>WASTEWATER</u>
A. <u>LAND/NON-DEPRECIABLE ASSETS</u>		
1. To reflect Commission approved land value.	\$ <u>10,463</u>	\$ <u>3,487</u>
B. <u>PLANT HELD FOR FUTURE USE</u>		
1. To reflect plant held for future based on non-used and useful plant.	- 0 -	(18,848)
2. To reflect non-used and useful accumulated depreciation.	- 0 -	6,377
3. To reflect CIAC associated with non-used and useful plant.	- 0 -	9,262
4. To reflect amortization of CIAC associated with non-used and useful plant.	<u>- 0 -</u>	<u>(3,667)</u>
Total Adjustment	<u>- 0 -</u>	<u>\$ (6,876)</u>
C. <u>CONTRIBUTIONS IN AID OF CONSTRUCTION (CIAC)</u>		
1. To reflect land value as CIAC.	\$ (10,463)	\$ (3,487)
2. To reflect contributed plant improvement from 1990 through September 30, 1992. (7,185)	(42,133)	
3. To reflect averaging adjustment.	<u>-0-</u>	<u>754</u>
	\$ <u>(52,596)</u>	<u>(9,918)</u>

USEPPA ISLAND UTILITY, INC.
SCHEDULE OF ADJUSTMENTS TO RATE BASE

	<u>WATER</u>	<u>WASTEWATER</u>
D. <u>ACCUMULATED DEPRECIATION</u>		
1. To reflect Commission approved accumulated depreciation at September 30, 1992.	\$ (5,641)	\$ (4,954)
2. To reflect test year averaging adjustment.	<u>6,762</u>	<u>5,007</u>
	<u>\$ 1,121</u>	<u>\$ 53</u>
E. <u>AMORTIZATION OF CIAC</u>		
1. To reflect Commission approved amortization of CIAC at September 30, 1992.	\$ 2,657	\$ 12,979
2. To reflect test year averaging adjustment.	<u>(5,399)</u>	<u>(4,949)</u>
	<u>\$ (2,742)</u>	<u>\$ 8,030</u>
F. <u>WORKING CAPITAL ALLOWANCE</u>		
To reflect one-eighth of operation and maintenance expense.	<u>\$ (468)</u>	<u>\$ 747</u>

USEPPA ISLAND UTILITY, INC.
SCHEDULE OF CAPITAL STRUCTURE
TEST YEAR ENDED SEPTEMBER 30, 1992

SCHEDULE NO. 2
DOCKET NO. 921049-WS

	PER UTILITY	COMM. ADJUST. TO UTIL. BAL.	BALANCE PER COMM.	PERCENT OF TOTAL	COST	WEIGHTED COST
	-----	-----	-----	-----	-----	-----
LONG-TERM DEBT	\$ 182,506	\$ (140,909)	\$ 41,597	100.00%	10.39%	10.39
SHORT-TERM DEBT	0	0	0	0.00%	0.00%	0.00
PREFERRED EQUITY	0	0	0	0.00%	0.00%	0.00
CUSTOMER DEPOSITS	0	0	0	0.00%	0.00%	0.00
COMMON EQUITY	(30,768)	30,768	0	0.00%	12.44%	0.00
INVESTMENT TAX CREDITS	0	0	0	0.00%	0.00%	0.00
DEFERRED TAXES	0	0	0	0.00%	0.00%	0.00
OTHER	0	0	0	0.00%	0.00%	0.00
TOTAL	\$ 151,738	\$ (110,141)	\$ 41,597	100.00%		10.39

RANGE OF REASONABLENESS	LOW	HIGH
-----	-----	-----
RETURN ON EQUITY	11.44%	13.44%
OVERALL RATE OF RETURN	10.39%	10.39%

USEPPA ISLAND UTILITY, INC.
SCHEDULE OF WATER OPERATING INCOME
TEST YEAR ENDED SEPTEMBER 30, 1992

SCHEDULE NO. 3
DOCKET NO. 921049-WS

	TEST YEAR PER UTILITY	COMM. ADJUST. TO UTIL. BAL.	COMM. ADJUST. TEST YEAR	COMM. ADJUST. FOR INCREASE	BALANCE PER COMM.
OPERATING REVENUES	\$ 53,960 A	\$ 7,632	\$ 61,592 E	\$ 4,111	\$ 65,703
OPERATING EXPENSES:					
OPERATION AND MAINTENANCE	59,170 B	(3,749)	55,421	0	55,421
DEPRECIATION (NET)	4,437 C	(1,712)	2,725	0	2,725
AMORTIZATION	0	0	0	0	0
TAXES OTHER THAN INCOME TAXES	397 D	3,342	3,739 F	185	3,924
INCOME TAXES	0	0	0	0	0
TOTAL OPERATING EXPENSES	\$ 64,004	\$ (2,119)	\$ 61,885	\$ 185	\$ 62,070
OPERATING INCOME/(LOSS)	\$ (10,044)	\$ 9,751	\$ (293)	\$ 3,926	\$ 3,633
WATER RATE BASE	\$ 79,189		\$ 34,967		\$ 34,967
RATE OF RETURN	-12.68%		-0.84%		10.35%

USEPPA ISLAND UTILITY, INC.
 SCHEDULE OF WASTEWATER OPERATING INCOME
 TEST YEAR ENDED SEPTEMBER 30, 1992

SCHEDULE NO. 3-A
 DOCKET NO. 921049-WS

	TEST YEAR PER UTILITY	COMM. ADJUST. TO UTIL. BAL.	COMM. ADJUST. TEST YEAR	COMM. ADJUST. FOR INCREASE	BALANCE PER COMM.
	-----	-----	-----	-----	-----
OPERATING REVENUES	\$ 26,971 A	\$ 3,035	\$ 30,006 E	\$ 6,852	\$ 36,858
	-----	-----	-----	-----	-----
OPERATING EXPENSES:					
OPERATION AND MAINTENANCE	27,703 B	5,978	33,681	0	33,681
DEPRECIATION (NET)	1,246 C	(1,246)	0	0	0
AMORTIZATION	0	0	0	0	0
TAXES OTHER THAN INCOME	0 D	2,180	2,180 F	308	2,488
INCOME TAXES	0	0	0	0	0
	-----	-----	-----	-----	-----
TOTAL OPERATING EXPENSES	\$ 28,949	\$ 6,912	\$ 35,861	\$ 308	\$ 36,169
	-----	-----	-----	-----	-----
OPERATING INCOME/(LOSS)	\$ (1,978)	\$ (3,877)	\$ (5,855)	\$ 6,544	\$ 689
	-----	-----	-----	-----	-----
SEWER RATE BASE	\$ 11,107		\$ 6,630		\$ 6,630
	=====		=====		=====
RATE OF RETURN	-17.81%		-88.31%		10.39%
	=====		=====		=====

SCHEDULE NO. 3-B

USEPPA ISLAND UTILITY, INC.
SCHEDULE OF ADJUSTMENTS TO THE
OPERATING STATEMENTS

	<u>WATER</u>	<u>WASTEWATER</u>
A. <u>OPERATING REVENUE</u>		
1. To reflect test year revenue based on test year billing analysis and rates in effect during the test year.	\$ 5,758	\$ 1,594
2. To reflect annualized revenues based on existing rates.	<u>1,874</u>	<u>1,441</u>
Total Revenue Adjustment	<u>\$ 7,632</u>	<u>\$ 3,035</u>
B. <u>OPERATIONS AND MAINTENANCE EXPENSE</u>		
1. Salaries and Wages - Employees		
A. To reflect Commission approved salary allowance.	<u>\$ 2,808</u>	<u>\$ 909</u>
2. Salaries and Wages - Officers		
A. To reflect Commission approved salary allowances.	<u>\$ 22</u>	<u>\$ 22</u>
3. Sludge Removal		
A. To reflect Commission approved annual allowance for wastewater.	- 0 -	<u>\$ 550</u>
4. Purchase Power		
A. To reflect test year amount per actual bills.	<u>\$ (5,057)</u>	<u>\$ 5,989</u>
5. Chemicals		
A. To reflect Commission approved annual allowance.	<u>\$ 3,676</u>	<u>\$ 844</u>

SCHEDULE NO. 3-B

USEPPA ISLAND UTILITY, INC.
SCHEDULE OF ADJUSTMENTS TO THE
OPERATING STATEMENTS

	<u>WATER</u>	<u>WASTEWATER</u>
6. Materials and Supplies		
A. To reflect reclassification from miscellaneous expense.	\$ 637	\$ 620
B. To reflect additional cost associated with Commission approved change to a monthly billing cycle.	\$ <u>840</u>	\$ <u>840</u>
	<u>\$ 1,477</u>	<u>\$ 1,460</u>
7. Contractual Services		
A. To adjust the utility's recorded wastewater total to test year total per audit.	\$ - 0 -	\$ 2,267
B. To reflect operating permit expense amortized over five years.	(732)	(892)
C. To reflect Commission approved annual contractual allowance.	4,972	(4,972)
D. To reflect reclassification of DER required wastewater testing.	(1,684)	1,684
E. To reflect annual DER required water testing.	(705)	- 0 -
F. To reflect Commission approved allocation for contractual accounting allowance.	(300)	300
G. To reflect reclassification of contractual repairs and maintenance expense.	1,078	- 0 -

SCHEDULE NO. 3-B

USEPPA ISLAND UTILITY, INC.
 SCHEDULE OF ADJUSTMENTS TO THE
 OPERATING STATEMENTS

	<u>WATER</u>	<u>WASTEWATER</u>
H. To remove capital expense from wastewater.	\$ <u>- 0 -</u>	\$ <u>(1,508)</u>
	\$ <u>2,629</u>	\$ <u>(3,121)</u>
8. Rents		
A. To reflect Commission approved annual rent allowance.	\$ <u>1,200</u>	\$ <u>1,200</u>
9. Regulatory Commission Expense		
A. To reflect rate case filing fee of \$150, for each system, amortized over four years.	<u>38</u>	<u>38</u>
10. Miscellaneous Expense		
A. To remove a below the line interest expense.	\$ (2,735)	\$ (256)
B. To reflect reclassification to taxes other than income.	(414)	(1,037)
C. To reflect reclassification to materials and supplies.	(637)	(620)
D. To reflect reclassification to contractual services.	(1,078)	- 0 -
E. To reflect Commission approved in-house repair and maintenance annual allowance.	<u>(5,678)</u>	<u>- 0 -</u>
	\$ <u>(10,542)</u>	\$ <u>(1,913)</u>
Total O & M Adjustments	\$ <u>(3,749)</u>	\$ <u>5,978</u>

SCHEDULE NO. 3-B

USEPPA ISLAND UTILITY, INC.
 SCHEDULE OF ADJUSTMENTS TO THE
 OPERATING STATEMENTS

	<u>WATER</u>	<u>WASTEWATER</u>
C. <u>DEPRECIATION EXPENSE</u>		
1. To reflect Commission approved test year depreciation expense net of non-used and useful depreciation expense, amortization of CIAC, and non-used and useful amortization of CIAC	\$ <u>(1,712)</u>	\$ <u>(1,246)</u>
D. <u>TAXES OTHER THAN INCOME</u>		
1. To reflect reclassification from miscellaneous expense.	414	1,037
2. To reflect payroll taxes on Commission approved salaries.	298	(263)
3. To reflect property tax at the earliest discount amount.	(86)	-0-
4. To reflect Commission approved allocation for property taxes.	(56)	56
5. To reflect regulatory assessment fee at 4.5% on test year revenue.	<u>2,772</u>	<u>1,350</u>
	\$ <u>3,342</u>	\$ <u>2,180</u>
E. <u>OPERATING REVENUE</u>		
1. To reflect Commission approved increase in revenue.	\$ <u>4,111</u>	\$ <u>6,852</u>
F. <u>TAXES OTHER THAN INCOME</u>		
1. To reflect regulatory assessment fee at 4.5% of Commission approved revenue increase.	\$ <u>185</u>	\$ <u>308</u>

USEPPA ISLAND UTILITY, INC.
 ANALYSIS OF WATER O & M EXPENSES
 TEST YEAR ENDED SEPTEMBER 30, 1992

ACCOUNT TITLE	BALANCE PER UTIL.	COMM. ADJUST.	COMM. BALANCE
SALARIES AND WAGES - EMPLOYEES \$	4,715 \$	2,808 \$	7,523
SALARIES AND WAGES - OFFICERS	2,578	22	2,600
PENSIONS AND BENEFITS	0	0	0
PURCHASED WATER	0	0	0
PURCHASED POWER	14,744	(5,057)	9,687
FUEL FOR POWER PRODUCTION	0	0	0
CHEMICALS	4,814	3,676	8,490
MATERIALS AND SUPPLIES	0	1,477	1,477
CONTRACTUAL SERVICES	19,355	2,629	21,984
RENTS	0	1,200	1,200
TRANSPORTATION EXPENSES	0	0	0
INSURANCE EXPENSE	0	0	0
REGULATORY COMMISSION EXPENSES	0	38	38
BAD DEBT EXPENSE	0	0	0
MISCELLANEOUS EXPENSES	12,964	(10,542)	2,422
TOTAL	\$ 59,170 \$	(3,749) \$	55,421

USEPPA ISLAND UTILITY, INC.
 ANALYSIS OF WASTEWATER O & M EXPENSES
 TEST YEAR ENDED SEPTEMBER 30, 1992

ACCOUNT TITLE	BALANCE PER UTIL.	COMM. ADJUST.	COMM. BALANCE
SALARIES AND WAGES - EMPLOYEES \$	6,614 \$	909 \$	7,523
SALARIES AND WAGES - OFFICERS	2,578	22	2,600
PENSIONS AND BENEFITS	0	0	0
PURCHASED SEWAGE TREATMENT	0	0	0
SLUDGE REMOVAL	0	550	550
PURCHASED POWER	2,162	5,989	8,151
FUEL FOR POWER PRODUCTION	0	0	0
CHEMICALS	226	844	1,070
MATERIALS AND SUPPLIES	0	1,460	1,460
CONTRACTUAL SERVICES	11,675	(3,121)	8,554
RENTS	0	1,200	1,200
TRANSPORTATION EXPENSE	0	0	0
INSURANCE EXPENSE	0	0	0
REGULATORY COMMISSION EXPENSES	0	38	38
BAD DEBT EXPENSE	0	0	0
MISCELLANEOUS EXPENSES	4,448	(1,913)	2,535
TOTAL	\$ 27,703 \$	5,978 \$	33,681

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SCHEDULE NO. 4
RATE REDUCTION AFTER RECOVERY
OF RATE CASE EXPENSE

USEPPA ISLAND UTILITY, INC.
TEST YEAR ENDED SEPTEMBER 30, 1992

WATER
Monthly Rates
Residential and General Service

<u>BASE FACILITY CHARGE</u> <u>METER SIZE</u>	<u>Commission</u> <u>Approved</u> <u>Rates</u>	<u>Commission</u> <u>Approved Rate</u> <u>Decrease</u>
5/8" x 3/4"	\$ 14.18	\$ 0.01
3/4"	21.27	0.01
1"	35.45	0.02
1 1/2"	70.90	0.04
2"	113.44	0.07
3"	226.88	0.14
4"	354.50	0.22
6"	709.00	0.43
 <u>Gallonage Charge</u> per 1,000 gallons	 \$ 4.64	 \$ 0.00

SCHEDULE NO. 4-A
 RATE REDUCTION AFTER RECOVERY
 OF RATE CASE EXPENSE

USEPPA ISLAND UTILITY, INC.
 TEST YEAR ENDED SEPTEMBER 30, 1992

WASTEWATER
Monthly Rates
Residential

<u>BASE FACILITY CHARGE</u> <u>METER SIZE</u>	<u>Commission</u> <u>Approved</u> <u>Rates</u>	<u>Commission</u> <u>Approved Rate</u> <u>Decrease</u>
All Sizes	\$ 11.12	\$ 0.01
<u>Gallage Charge</u> per 1,000 gallons	\$ 3.25	\$ 0.00

General Service

<u>BASE FACILITY CHARGE</u> <u>METER SIZE</u>	<u>Commission</u> <u>Approved</u> <u>Rates</u>	<u>Commission</u> <u>Approved Rate</u> <u>Decrease</u>
5/8" x 3/4"	\$ 11.12	\$ 0.01
3/4"	16.68	0.02
1"	27.80	0.03
1 1/2"	55.60	0.06
2"	88.96	0.10
3"	177.92	0.19
4"	278.00	0.30
6"	556.00	0.60
<u>Gallage Charge</u> per 1,000 gallons	\$ 3.90	\$ 0.00