

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Application for a staff-) DOCKET NO. 940087-WU
assisted rate case in Hernando) ORDER NO. PSC-94-1050-FOF-WU
County by ROLLING HILLS WATER) ISSUED: August 29, 1994
INC.)
_____)

The following Commissioners participated in the disposition of this matter:

J. TERRY DEASON, Chairman
SUSAN F. CLARK
DIANE K. KIESLING

ORDER GRANTING TEMPORARY RATES IN THE EVENT OF PROTEST

AND

NOTICE OF PROPOSED AGENCY ACTION ORDER
GRANTING INCREASED 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 substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code.

BACKGROUND

By Order No. 5364, issued March 24, 1972, this Commission granted Certificate No. 71-W to Rolling Acres Water Company, which authorized it to provide water service in Hernando County. On March 24, 1981, by Order No. 9891, we approved the transfer of Certificate No. 71-W from Rolling Acres Water Company to Rolling Acres Enterprises, Inc. (Rolling Acres). By Order No. PSC-94-0083-FOF-WU, issued January 24, 1994, we approved the transfer of Certificate No. 71-W from Rolling Acres to Rolling Hills Water, Inc. (Rolling Hills), the current certificate holder.

On January 24, 1994, Rolling Hills, a Class C water utility, applied for a staff-assisted rate case. The test year for this proceeding is the historical year ended December 31, 1993.

DOCUMENT NUMBER-DATE

08865 AUG 29 94

FPC-REGISTRY/REPORTING

On April 5, 1994, the Board of County Commissioners for Hernando County passed a resolution rescinding this Commission's jurisdiction over privately owned water and wastewater utilities in Hernando County. However, pursuant to Section 367.171(5), Florida Statutes, this Commission retains jurisdiction over then-pending matters, such as this rate proceeding.

In processing this rate application, we audited Rolling Hill's books and records for compliance with the Commission rules and orders, and we analyzed the required components for rate setting. Based on our audit, during the test period, Rolling Hills collected revenue of \$20,985 and paid operating expense of \$21,921, which resulted in a loss of \$941.

In addition, we conducted a field inspection of the water treatment facilities and certificated territory. We also reviewed Rolling Hills' operating expenses, maps, files, and rate case application to assess the reasonableness of plant costs and maintenance expense as well as the quality of service.

Rolling Hills' service area includes the area known as Rolling Acres, a community of single family homes. During the test year, Rolling Hills provided service to 153 residential customers and 11 general service customers. Rolling Hills, located within the Southwest Florida Water Management District (SWWMD), operates under the Consumptive Use Permit Number 20 2887 02. SWWMD issued this permit on May 17, 1989, with an expiration date of May 17, 1999. Rolling Hills is not in a critical use or water caution area, and it is not subject to conservation rates. The permit restricts consumption to 49,000 average gallons per day (gpd) and/or 108,000 maximum gpd annually. These gallonage rates will remain constant for the term of the permit.

QUALITY OF SERVICE

We use the following factors to determine a utility's quality of service: quality of the utility's product; operational conditions of the utility's plant or facilities; and, customer satisfaction. We also consider the extent to which a utility complies with the Department of Environmental Protection's (DEP's) primary and secondary drinking water standards. DEP performed its last survey on July 20, 1993, and it listed no violations. Rolling Hills has no outstanding violations.

On June 23, 1994, we held a meeting to solicit customer input regarding the quality of service provided by Rolling Hills. Six customers attended the meeting. One customer asked questions about

water conservation. None of the customers complained about Rolling Hills' quality of service.

Upon consideration of the above, we find that the quality of service is satisfactory.

USED AND USEFUL

Water Treatment Plant - Rolling Hills' water treatment plant relies on one well to meet instantaneous fluctuations in flow demands. The well has a capacity of 130 gpm. Engineering data showed that the plant was originally designed to serve 130 customers, at a rate of 1.04 gpm. This falls below the general waterworks design criteria of a minimum 1.1 gpm per customer. Moreover, Rolling Hills currently serves 176 customers. Accordingly, we find that the water treatment plant is 100% used and useful.

Water Distribution System - Rolling Hills' network of water mains has been engineered and constructed to serve its existing customers. Based on the approved formula, used to determine a starting point for a used and useful percentage, we find the transmission and distribution system is 86.75% used and useful. Since meters have been installed as new customers have been added to the system, we find that Rolling Hills' investment in meters and meter installation is 100% used and useful.

RATE BASE

Our audit of Rolling Hills' books and records shows that it did not maintain a general ledger or a plant ledger. Rolling Hills did not retain plant invoices, nor did it use the NARUC Uniform System of Accounts. By Order No. PSC-94-0083-FOF-WU, issued January 24, 1994, we ordered Rolling Hills to use the NARUC Uniform System of Accounts, retain plant invoices, and maintain plant accounting records. Rolling Hills has hired an accountant, and it has tried to satisfy our orders.

Also by Order No. PSC-94-0083-FOF-WU, we established rate base, for purposes of the transfer, to be \$22,065 as of February 1993. This amount represents only the net book value of plant, and does not include an acquisition adjustment allowed by this Commission. For purposes of this case, we have updated all rate base components to December 31, 1993.

Rolling Hills' rate base includes plant-in-service, land, plant held for future use, contributions-in-aid-construction,

accumulated depreciation, amortization of CIAC, and working capital allowance. A discussion of each component follows.

Utility Plant-in-Service - Rolling Hills' plant additions for the period February 1993 through December 1993 are based on its log of written checks, cancelled checks, and invoices. Based on these documents, we adjusted utility plant-in-service by \$2,563 to include plant additions from February, 1993, through December 1993. We also decreased this amount by \$1,268 to reflect the average test year balance, which results in a net increase of \$1,268. Based upon this adjustment, we find that the test year balance of utility plant-in-service is \$61,541.

Land - Rolling Hills owns the land where the water system is located. By Order No. PSC-94-0083-FOF-WU, we established the land value as \$3,505, as of February 1993. There have been no additions to land since February 1993. Accordingly, total land equals \$3,505.

Plant Held for Future Use - The water treatment plant is 100% used and useful. The distribution system is 86.75% used and useful, except for meters and meter installations, which are 100% used and useful. We calculated average plant held for future use using non-used and useful percentages times average plant and average accumulated depreciation. Net plant held for future use impacts negatively on rate base. The appropriate adjustment is (\$2,379).

Contributions-in-Aid-of-Construction (CIAC) - By Order No. PSC-94-0083-FOF-WU, we established CIAC as of February 1993. CIAC impacts negatively on rate base. We increased CIAC by \$2,738 to reflect CIAC as of December 31, 1993, and by \$900 to reflect the imputation of CIAC on margin reserve. We also decreased CIAC by \$1,369 to reflect the test-year average balance, for a total increase to CIAC of \$2,269.

Accumulated Depreciation - By Order No. PSC-94-0083-FOF-WU, we established accumulated depreciation as of February 1993. Pursuant to Rule 25-30.140, Florida Administrative Code, we increased accumulated depreciation by \$2,013 to reflect the appropriate balance as of December 31, 1993. We further decreased that amount by \$1,152 to reflect the test-year average balance, for a total increase of \$861.

Accumulated Amortization of CIAC - By Order No. PSC-94-0083-FOF-WU, we established accumulated amortization of CIAC as of February 1993. We have increased this amount by \$418 and \$34 to reflect the test-year end balance and amortization of CIAC imputed on the

margin reserve. We also decreased the balance by \$232 to reflect the average test-year amount, for a total increase of \$220.

Working Capital Allowance - Following Rule 25-30.443, Florida Administrative Code, we find that the appropriate working capital allowance for water is \$2,832.

Rate Base - Based upon the foregoing, the appropriate average test-year rate base for water is \$20,876. Our calculation of rate base is depicted on Schedule No. 1, with our adjustments itemized on Schedule No. 1-A.

CAPITAL STRUCTURE

Rolling Hills' capital structure includes 2.27% common equity, 94.66% long term debt, and 3.07% customer deposits. By Order No. PSC-94-1107-FOF-WS, issued July 29, 1993, we capped the return on common equity at 10.97% for all water and wastewater utilities having equity ratios of less than 40%. The appropriate return on equity is 10.97%, with a range of 9.97% to 11.97%. Rolling Hills' cost of debt is 8%, and the cost of its customer deposits is 8%. Applying the cost times the weight of each capital component results in an overall rate of return of 8.07%, with a range of 8.04% to 8.09%. Our calculations of cost of capital are shown on Schedule No. 2.

NET OPERATING INCOME

Our calculations of operating income are depicted on Schedule No. 3, and our adjustments are itemized on Schedule No. 3-A. Those adjustments which are self-explanatory or which are essentially mechanical in nature are reflected in the schedules without further discussion in the body of the this Order. The major adjustments are discussed below.

Test Year Operating Revenue

Rolling Hills' customer base includes 153 residential customers and 11 general service customers. Rolling Hills' books reflect test-year revenue of \$20,985. During our audit, we discovered that some revenues had been used for petty cash expenditures and had neither been deposited in Rolling Hills' checking account, nor recorded as revenue. Based on a revenue check, using test-year number of bills, and test-year consumption billed, we find that test-year revenue should be increased by \$338, for a total of \$21,323.

During the test year, Rolling Hills did not bill its former owners and their daughter. The prior owners also owned and operated Spring Lake Water Company (Spring Lake), which sells bottled water. Spring Lake was also not billed. We determined the prior owners' daughter's consumption by using the difference between the beginning and ending test-year consumption. The prior owners changed their meter during the test year, and we could not obtain the beginning and ending test-year consumption. Our engineer obtained the amount of bottled water Spring Lake sold, and we estimated that the prior owners used 350 gallons daily for their residence. The prior owners and their daughter have 5/8" x 3/4" meters, and Spring Lake has a 1" meter. Based upon the foregoing, we have increased test-year revenue by \$700 to include the non-assessed revenue. Based upon the foregoing adjustments, we find that annualized test-year revenue is \$22,023.

Test Year Operating Expenses

Test-year operating expenses include operation and maintenance expense, depreciation expense, amortization of CIAC, and taxes other than income. During the test year, Rolling Hills did not maintain a general ledger. We determined test-year operating expenses using Rolling Hills' log of written checks, cancelled checks, invoices, and the expenses for DEP testing, operator allowance, and management and maintenance service expense approved herein. We have also removed non-utility, non-recurring, and prior period expenses. A summary of our adjustments follows.

Purchased power expense (Account 615) - We decreased purchased power expense by \$851 and \$765 to remove non-utility and non-recurring expenses, respectively. We also increased the expense by \$226 to reflect the accrued test-year total.

Contractual Services (Account 630) - Rolling Hills' owners live out of state. The prior owners provide contractual management and maintenance services for \$6,000 annually. Rolling Hills paid \$4,000 for contractual services during the test year. We have increased the expense by \$2,000 to reflect an annual allowance of \$6,000. We also adjusted this expense by \$750 to reclassify contractual accounting expense, and by \$204 to reclassify DEP testing expenses. Pursuant to Chapter 17-22, Florida Administrative Code, state and local authorities require Rolling Hills to perform a number of analyses. The following schedule lists DEP required testing expenses and frequencies:

<u>Description</u>	<u>Frequency</u>	<u>Annual Costs</u>
Bacteria monitoring	monthly	\$ 72
Primary inorganics	36 months	85
Secondary inorganics	36 months	50
Nitrates and Nitrite	12 months	40
Volatile organics	quarterly first year - 36 months subsequently	270
Pesticides and PCB	36 months	217
Radionuclides	36 months	20
Unregulated organics	36 months	67
Lead and copper	bi-annually	280
	TOTAL	<u>\$1,101</u>

Accordingly, we have increased contractual services by \$897 to reflect annual DEP testing expenses of \$1,101.

Finally, one of the utility's former owners provides contractual operator service. Local operators charge between \$70 and \$110 weekly. We have, therefore, adjusted the annual contractual operator allowance by \$5,720 (\$110 x 52 weeks).

Rent (Account 640) - Rolling Hills' former owners conducted utility business out of their home. Accordingly, Rolling Hills' test-year expense did not include rent. The former owners estimated an expense of \$25 monthly and \$300 annually for rent, telephone, electricity, and a computer used for billing purposes. We have, therefore, adjusted the rent expense by \$300 annually.

Transportation Expense (Account 650) - The contractual manager uses his personal truck to run errands, pick up parts and supplies, and deliver water samples to the county laboratory. Rolling Hills is located in a remote area, which requires monthly business travel averaging 280 miles. We adjusted the annual transportation expense by \$840 (280 miles x 12 months x .25 per mile). This figure includes an adjustment of \$70 to reflect a miscellaneous expense reclassification.

Regulatory Commission Expense (Account 665) - We adjusted this expense by \$250 to reflect the rate case filing fee of \$1,000 amortized over four years.

Miscellaneous Expenses (Account 675) - We have decreased this expense by the following: \$410 to remove a prior period expense; \$215 to remove a non-utility expense; \$2,185 to remove a non-utility legal expenses; \$786 to remove a non-utility insurance expense; \$1,510 to remove a non-recurring expense; \$146 to remove customer deposits; \$750 to reclassify contractual accounting service expense; \$204 to reclassify DEP testing expenses; and \$70 to reclassify transportation expense. In addition, Rolling Hills' current owners personally paid various miscellaneous expenses. We have, therefore, increased miscellaneous expenses by \$579 to account for these out-of-pocket expenses.

Depreciation Expense - Rolling Hills did not record depreciation expense during the test period. Accordingly, we have increased depreciation expense by \$2,356 using the rates prescribed by Rule 25-30.140, Florida Administrative Code. We have decreased the expense by \$123 to remove non-used and useful depreciation expense.

Amortization of CIAC - Rolling Hills also failed to record test-year amortization of CIAC. We have, therefore, increased amortization of CIAC by \$519.

Taxes Other Than Income - Taxes other than income totaled \$3,147. We have decreased the expense by \$1,310 to remove a prior period expense, and \$150 to remove a non-recurring expense. We have also increased the expense by \$269 to reflect regulatory expense at 4.5% on the revenue increase discussed below.

Operating Expenses - Based upon Rolling Hills' records and our adjustments detailed above, operating expenses total \$26,323.

REVENUE REQUIREMENT

The appropriate annual revenue increase is \$5,985 (27.18%). The increase results in a revenue requirement of \$28,008. This revenue requirement will give Rolling Hills the opportunity to recover its operating expenses and earn an 8.07% return on its investment. Our calculations of the revenue requirement are as follows:

Adjusted rate base	\$20,876
Rate of Return	x .0807

Return on Investment	1,685
Adjusted O & M Expense	\$22,653
Depreciation Expense (NET)	1,714
Taxes Other Than Income	<u>1,956</u>
Revenue Requirement	<u>\$28,008</u>

RATES AND CHARGES

During the test year, Rolling Hills provided water service to 153 residential customers and 11 general service customers. The utility did not bill its former owners or their daughter. Therefore, in designing rates, we used the number of bills and billed consumption for the test year, plus an additional 36 bills for the former owners, their daughter, and their business, using estimated consumption for the former owners and their business, and their daughter's actual consumption. The following schedule depicts the existing rates and the rates approved herein:

Monthly Rates - Water

Residential and General Service

Base Facility Charge

<u>Meter Size</u>	<u>Current Rates</u>	<u>Commission Approved Rates</u>
5/8" x 3/4"	\$ 2.88	\$ 5.86
3/4"	N/A	8.79
1"	7.21	14.65
1-1/2"	N/A	29.29
2"	23.04	46.87
3"	N/A	93.74
4"	N/A	146.47
6"	N/A	292.94

Gallonge Charge

Per 1,000 gallons	\$ 1.12	\$ 1.08
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According to the test-year billing analysis, the average residential customer, with a 5/8" x 3/4" meter, used 6,000 gallons monthly. The average monthly bill was \$9.60. Using our approved

rates, the average monthly bill is \$12.34. The adjustment to the existing rates is 28.54% ($\$12.34 - \$9.60 = \$2.74/\9.60).

The approved rates have been designed to produce revenue of \$28,008. These rates will be effective for service rendered on or after the stamped approval date on the tariff pages pursuant to 25-30.475(1), Florida Administrative Code. The tariff pages will be approved upon Staff's verification that they are consistent with our decision herein and upon Staff's approval of a proposed notice to Rolling Hills' customers of the rate increase and the reasons therefor. Rolling Hills shall provide proof of the date notice has given no more than 10 days after the date of the notice.

Customer Deposits

Rolling Hills' existing tariff authorizes it to collect the following customer deposits:

Water

Residential and General Service

<u>Meter Size</u>	<u>Existing</u>
5/8" x 3/4"	\$25
Over 5/8" x 3/4"	2 x average monthly bill

Using our approved rates for a 5/8" x 3/4" meter, an average bill for two months is \$24.68. This amount conforms to Rolling Hills' existing customer deposits. Rolling Hills' existing Commission approved deposits conform to Rule 25-30.311(7), Florida Administrative Code.

Service Availability Charges

Rolling Hills' current tariff authorizes a meter installation charge and a system capacity charge. Rolling Hills' certificated area is not "built-out". Based on Rolling Hills' historical growth, the existing system will be built-out in seven years. The water treatment plant, however, requires some expansion to match its distribution system. Rolling Hills has not said if it will expand its plants.

Rolling Hills' CIAC level is 34.30%. We calculated a system capacity charge using the existing plant and historical growth of

seven annual connections. Our calculations will not cause Rolling Hills' contribution level to exceed the maximum level of 75%. The following schedule lists Rolling Hills' existing service availability charges and our approved charges:

WATER

Meter Installation

	<u>Current Charges</u>	<u>Commission Approved Charges</u>
<u>Meter Size</u>		
5/8" x 3/4"	\$ 86	\$100
Larger than 5/8" x 3/4"	Actual cost	Actual cost
System Capacity Charge	\$159	\$100

The Service Availability Charges shall be effective for connections made on or after the stamped approval date on the revised tariff sheets. The revised tariff sheets will be approved upon staff's verification that the tariff sheets are consistent with the Commission's decision.

STATUTORY RATE REDUCTION AND RECOVERY PERIOD

Section 367.0816, Florida Statutes, requires that the rates be reduced immediately following the expiration of the four-year period by the amount of rate case expense previously included in the rates. Revenues shall be reduced by \$262 to reflect the removal of rate case expense, grossed-up for regulatory assessment fees, as amortized over a four-year period. The effect of the revenue reduction results in rate decreases as shown on Schedule No. 4. The utility shall 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 Rolling Hills files this reduction in conjunction with a price index or pass-through rate adjustment, separate data shall be filed for the price index and/or pass-through increase or decrease, and for the reduction in the rates due to the amortized rate case expense.

TEMPORARY RATES IN EVENT OF PROTEST

This Order 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 Rolling Hills. Therefore, in the event of a protest filed by a party other than Rolling Hills, we find it appropriate to permit Rolling Hills to charge the rates approved herein as temporary rates. The increased rates collected by Rolling Hills shall be subject to the refund provision discussed below.

Rolling Hills shall be authorized to collect the temporary rates for service rendered on or after the stamped approval date on Rolling Hill's revised tariff pages. The revised tariff pages will be approved upon Staff's verification that they are consistent with our decision herein, and only after Staff has approved the security for any potential refund and Rolling Hills' notice to its customers of the increased rates and the reasons therefor. The security shall be in the form of a bond or letter of credit in the amount of \$4,100. Alternatively, Rolling Hills may establish an escrow agreement with an independent financial institution.

If Rolling Hills chooses a bond as security, the bond must expressly state that it will be terminated only under the following conditions:

- 1) Upon the Commission's final approval of 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 Rolling Hills chooses a letter of credit as security, it shall contain the following conditions:

- 1) The letter of credit is irrevocable for the period it is in effect; and
- 2) The letter of credit shall remain 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 shall 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 regarding the escrow account shall be available 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; and
- 8) The Director of the Division of Records and Reporting must be a signatory to the escrow agreement.

In no instance shall the maintenance and administration costs associated with the refund be borne by the customers. These costs are the responsibility of, and shall be borne by, the utility. Irrespective of the form of security chosen by the utility, an account of all monies received as a result of the rate increase shall be maintained by the utility. This account must specify by whom, and on whose behalf, such monies are paid. If a refund is ultimately required, it shall include interest, calculated pursuant to Rule 25-30.360(4), Florida Administrative Code.

Rolling Hills shall maintain a record of the amount of the appropriate security and the amount of revenues that are subject to refund. In addition, during the time that temporary rates are in effect, Rolling Hills shall file reports with the Division of Water and Wastewater no later than 20 days after each monthly billing. These reports shall indicate the monthly and total amounts of revenues collected pursuant to the temporary rates.

If a timely protest is not filed, nothing is left to be done in this case. Accordingly, this docket shall be closed administratively.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the application of Rolling Hills Water, Inc., for increased water rates in Hernando County is approved as set forth in the body of this Order. It is further

ORDERED that prior to the implementation of the rates and charges approved herein, Rolling Hills Water, Inc., shall submit, for Staff's approval, revised tariff sheets. It is further

ORDERED that prior to the implementation of the rates and charges approved herein, Rolling Hills Water, Inc., shall submit, for Staff's approval, a proposed notice to its customers of the increased rates and charges and the reasons therefor. It is further

ORDERED that the monthly service rates approved herein shall become effective for service rendered on or after the stamped approval date on the revised tariff pages. It is further

ORDERED that the service availability charges approved herein shall be effective for connections made on or after the stamped approval date on the revised tariff pages. It is further

ORDERED that the customer deposits approved herein shall be effective for deposits collected on or after the stamped approval date on the revised tariff pages. It is further

ORDERED that the revised tariff pages will be approved upon Staff's verification that the tariff sheets are consistent with our decision, that the proposed customer notice is adequate, and that any required security is provided. 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, pursuant to Section 367.0816, Florida Statutes, the revenue requirement approved herein shall be reduced by \$262 to reflect the removal of rate case expense grossed up for regulatory assessment fees amortized over a four-year period, immediately upon expiration of the four-year period. Rolling Hills Water, Inc., shall file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later

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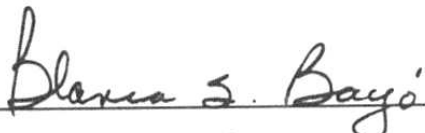
than one month prior to the actual date of the required rate reduction. It is further

ORDERED that all 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 her office at 101 East Gaines Street, Tallahassee, Florida 32399-0807, by the date set forth in the Notice of Further Proceedings or Judicial Review. It is further

ORDERED that in the event of a protest by any substantially affected person other than the utility, Rolling Hills Water, Inc., is authorized to collect the approved rates on a temporary basis, subject to refund in accordance with Rule 25-30.360, Florida Administrative Code, provided that Rolling Hills Water, Inc., furnishes satisfactory security for any potential refund, and provided that it submits and our Staff approves revised tariff sheets and a proposed customer notice. It is further

ORDERED that this docket shall be closed administratively, unless we receive a timely protest from one whose interests have been substantially affected.

By ORDER of the Florida Public Service Commission, this 29th day of August, 1994.



BLANCA S. BAYÓ, Director
Division of Records and Reporting

(S E A L)

ELS

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, except for the granting of temporary rates in event of a protest, our actions are 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 her office at 101 East Gaines Street, Tallahassee, Florida 32399-0870, by the close of business on September 19, 1994. 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

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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.

ROLLING HILLS WATER, INC.
SCHEDULE OF WATER RATE BASE
TEST YEAR ENDED DECEMBER 31, 1993

SCHEDULE NO. 1
DOCKET NO. 940087-WU

	<u>BALANCE PER ORDER NO. 94-0083</u>	<u>STAFF ADJUST. TO COMM. ORDER</u>	<u>BALANCE PER COMM.</u>
UTILITY PLANT IN SERVICE	60,273	1,268 A	61,541
LAND/NON-DEPRECIABLE ASSETS	3,505	0	3,505
PLANT HELD FOR FUTURE USE	0	(2,379) B	(2,379)
ACQUISITION ADJUSTMENT	0	0	0
CWIP	0	0	0
CIAC	(9,934)	(2,269) C	(12,203)
ACCUMULATED DEPRECIATION	(33,454)	(861) D	(34,315)
AMORTIZATION OF ACQUISITION ADJUSTMENT	0	0	0
AMORTIZATION OF CIAC	1,675	220 E	1,895
WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>2,832 F</u>	<u>2,832</u>
WATER RATE BASE	22,065	(1,189)	20,876

ROLLING HILLS WATER, INC.
ADJUSTMENTS TO RATE BASE
TEST YEAR ENDED DECEMBER 31, 1993

SCHEDULE NO 1A
DOCKET NO. 940087-WU

<u>A. UTILITY PLANT IN SERVICE</u>	<u>WATER</u>
1. To include plant additions for the period 2/93 to 12/93	2,536
2. To reflect averaging adjustment	(1,268)
	<u>1,268</u>
<u>B. PLANT HELD FOR FUTURE USE</u>	
1. To reflect average non-used and useful plant	(4,574)
2. To reflect average non-used and useful accumulated depreciation	2,195
	<u>(2,379)</u>
<u>C. CONTRIBUTIONS IN AID OF CONSTRUCTION</u>	
1. To reflect year end CIAC at 12/31/93	(2,738)
2. To reflect CIAC for margin reserve	(900)
3. To reflect averaging adjustment	1,369
	<u>(2,269)</u>
<u>D. ACCUMULATED DEPRECIATION</u>	
1. To reflect year end accumulated depreciation at 12/31/93	(2,013)
2. To reflect averaging adjustment	1,152
	<u>(861)</u>
<u>E. AMORTIZATION OF CIAC</u>	
1. To reflect year end amortization of CIAC at 12/31/93	418
2. To reflect amortization of CIAC associated with margin reserve	34
3. To reflect averaging adjustment	(232)
	<u>220</u>
<u>F. WORKING CAPITAL ALLOWANCE</u>	
1. To reflect 1/8 of operation and maintenance expenses	<u>2,832</u>

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ROLLING HILLS WATER, INC.
 SCHEDULE OF CAPITAL STRUCTURE
 TEST YEAR ENDED DECEMBER 31, 1993

SCHEDULE NO. 2
 DOCKET NO. 940087-WU

	<u>PER UTILITY</u>	<u>COMM. ADJUST. TO UTIL. BAL.</u>	<u>BALANCE PER COMM.</u>	<u>PERCENT OF TOTAL</u>	<u>COST</u>	<u>WEIGHTED COST</u>
COMMON EQUITY	\$ 500	(26)	474	2.27%	10.97%	0.25%
LONG-TERM DEBT	20,824	(1,062)	19,762	94.66%	8.00%	7.57%
PREFERRED EQUITY	0	0	0	0.00%	0.00%	0.00%
CUSTOMER DEPOSITS	640	0	640	3.07%	8.00%	0.25%
RETAINED EARNINGS	0	0	0	0.00%	0.00%	0.00%
CAPITAL STOCK	0	0	0	0.00%	0.00%	0.00%
PAID IN CAPITAL	0	0	0	0.00%	0.00%	0.00%
OTHER	0	0	0	0.00%	0.00%	0.00%
TOTAL	\$ 21,964	(1,088)	20,876	100.00%		8.07%

<u>RANGE OF REASONABLENESS</u>	<u>LOW</u>	<u>HIGH</u>
RETURN ON EQUITY	9.97%	11.97%
OVERALL RATE OF RETURN	8.04%	8.09%

ROLLING HILLS WATER, INC.
 SCHEDULE OF WATER OPERATING INCOME
 TEST YEAR ENDED DECEMBER 31, 1993

SCHEDULE NO. 3
 DOCKET NO. 940087-WU

	TEST YEAR PER UTILITY	COMM. ADJ. TO UTILITY	COMM. ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	TOTAL PER COMM.
OPERATING REVENUES	<u>20,985</u>	<u>1,038</u> A	<u>22,023</u>	<u>5,985</u> F	<u>28,008</u>
OPERATING EXPENSES:					
OPERATION AND MAINTENANCE	18,779	3,874 B	22,653	0	22,653
DEPRECIATION (NET)	0	2,233 C	2,233	0	2,233
AMORTIZATION (CIAC)	0	(519) D	(519)	0	(519)
TAXES OTHER THAN INCOME	3,147	(1,460) E	1,687	269 G	1,956
INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL OPERATING EXPENSES	<u>21,926</u>	<u>4,128</u>	<u>26,054</u>	<u>269</u>	<u>26,323</u>
OPERATING INCOME/(LOSS)	<u>(941)</u>		<u>(4,031)</u>		<u>1,685</u>
WATER RATE BASE	<u>22,065</u>		<u>20,876</u>		<u>20,876</u>
RATE OF RETURN	<u>-4.26%</u>		<u>-19.31%</u>		<u>8.07%</u>

ROLLING HILLS WATER, INC.
 ADJUSTMENTS TO OPERATING INCOME
 TEST YEAR ENDED DECEMBER 31, 1993

SCHEDULE NO. 3A
 DOCKET NO. 940087-WU

A. OPERATING REVENUES	WATER
1. To reflect unbilled revenue	\$ 700
2. To reflect accrued test year revenue based on number of bills and consumption	338
	1038
B. OPERATION AND MAINTENANCE EXPENSES	
1. Purchased Power	
a. To remove a non-utility expense	(851)
b. To increase expense to accrued total	226
c. To remove a non-recurring expense	(765)
	(1,390)
2. Contractual Services	
a. To adjust contractual management and maintenance service expense to \$6,000 annually	2,000
b. To reclassify contractual accounting service expense from account #675	750
c. To reclassify DEP required testing expense from account #675	204
d. To adjust DEP required testing expense to the appropriate annual amount	897
e. To reflect a contractual operator service annual allowance	5,720
	9,571
3. Rents	
a. To reflect annual rent allowance	300
4. Transportation Expense	
a. To reclassify transportation expense from account #675	70
b. To reflect an annual transportation allowance of \$840	770
	840
5. Regulatory Commission Expense	
a. To reflect rate case filing fee amortized over 4 years	250
6. Miscellaneous Expenses	
a. To remove a prior period repair and maintenance expense	(410)
b. To remove a non-utility expense	(215)
c. To remove a non-utility attorney fee	(2,185)
d. To remove a non-utility insurance expense	(786)
e. To remove non-recurring expenses	(1,510)
f. To remove customer deposits	(146)
g. To add out of pocket miscellaneous expenses	579
h. To reclassify contractual accounting service expense to account #630	(750)
i. To reclassify DEP required testing expense to account #630	(204)
j. To reclassify transportation expense to account #650	(70)
	(5,697)
TOTAL O & M ADJUSTMENTS	
	\$ 3,874
C. DEPRECIATION EXPENSE	
1. To reflect test year depreciation expense	2,356
2. To reflect non-used and useful depreciation expense	(123)
	2,233
D. AMORTIZATION EXPENSE (CIAC)	
1. To reflect test year amortization of CIAC	(519)
E. TAXES OTHER THAN INCOME	
1. To remove a prior period expense	(1,310)
2. To remove a non-recurring expense	(150)
	(1,460)
F. OPERATING REVENUES	
1. To reflect increase in revenue required to cover expenses and allow recommended rate of return	5,985
G. TAXES OTHER THAN INCOME	
1. To reflect regulatory assessment fee at 4.5% on increase in revenue	269

ROLLING HILLS WATER, INC.
 ANALYSIS OF WATER OPERATION AND
 MAINTENANCE EXPENSE
 TEST YEAR ENDED DECEMBER 31, 1993

SCHEDULE NO. 3B
 DOCKET NO. 940087-WU

	<u>TOTAL PER UTIL</u>	<u>COMM. ADJUST.</u>	<u>TOTAL PER COMM</u>
#601 SALARIES AND WAGES – EMPLOYEES	\$ 0	\$ 0	0
#603 SALARIES AND WAGES – OFFICERS	0	0	0
#604 PENSIONS AND BENEFITS	0	0	0
#610 PURCHASED WATER	0	0	0
#615 PURCHASED POWER	4,288	(1,390)[1]	2,898
#616 FUEL FOR POWER PRODUCTION	0	0	0
#618 CHEMICALS	235	0	235
#620 MATERIALS AND SUPPLIES	193	0	193
#630 CONTRACTUAL SERVICES	4,900	9,571 [2]	14,471
#640 RENTS	0	300 [3]	300
#650 TRANSPORTATION EXPENSE	0	840 [4]	840
#655 INSURANCE EXPENSE	0	0	0
#665 REGULATORY COMMISSION EXPENSE	0	250 [5]	250
#670 BAD DEBT EXPENSE	0	0	0
#675 MISCELLANEOUS EXPENSES	9,163	(5,697)[6]	3,466
	<u>\$ 18,779</u>	<u>\$ 3,874</u>	<u>\$ 22,653</u>

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ROLLING HILLS WATER, INC.
SCHEDULE OF RATE CASE EXPENSE RATE
REDUCTION AFTER FOUR YEARS
TEST YEAR ENDED DECEMBER 31, 1993

SCHEDULE NO. 4
DOCKET NO. 940087-WU

MONTHLY RATES

<u>RESIDENTIAL AND GENERAL SERVICE</u>	<u>COMM. APPROVED</u> <u>RATES</u>	<u>RATE</u> <u>DECREASE</u>
BASE FACILITY CHARGE:		
Meter Size:		
5/8"X3/4"	\$ 5.86	0.05
1"	8.79	0.08
1-1/4"	14.65	0.14
1-1/2"	29.29	0.27
2"	46.87	0.44
3"	93.74	0.88
4"	146.47	1.37
6"	292.94	2.74
RESIDENTIAL GALLONAGE CHARGE PER 1,000 GALLONS	\$ 1.08	0.01