

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for staff-  
assisted rate case in Citrus  
County by RHV Utility, Inc.

DOCKET NO. 961220-SU  
ORDER NO. PSC-97-0854-FOF-SU  
ISSUED: July 16, 1997

The following Commissioners participated in the disposition of  
this matter:

JULIA L. JOHNSON, Chairman  
J. TERRY DEASON  
SUSAN F. CLARK  
DIANE K. KIESLING  
JOE GARCIA

ORDER TO SHOW CAUSE AND GRANTING TEMPORARY RATES  
IN THE EVENT OF A PROTEST AND  
NOTICE OF PROPOSED AGENCY ACTION  
ORDER APPROVING INCREASED WASTEWATER RATES AND  
REQUIRING CONFORMITY WITH NARUC SYSTEM OF ACCOUNTS

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service  
Commission that the actions discussed herein regarding granting  
increased rates and requiring conformity with NARUC system of  
accounts are 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

RHV Utility, Inc. (RHV or utility) is a Class C wastewater  
utility located near the City of Homosassa in Citrus County. The  
utility provides wastewater service to approximately 402  
residential customers and 4 general service customers (Riverside  
Villas/Yardarm Restaurant, a 32 unit condominium complex known as  
Sportsman's Lodge, K.C. Crumps restaurant, and a recreation club  
house). The Homosassa Association, a non-jurisdictional utility,  
provides water service to the utility's service area.

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This Commission first regulated the utility when it was owned by Marathon Realties, Inc. (Marathon), from October 1975 through February 1985, at which time it was sold to Citrus County for \$100,000. In June 1986, Marathon repurchased the utility from Citrus County for \$100,000, and we granted Marathon Certificate No. 429-S. By Order No. 20518, issued December 23, 1988, in Docket No. 880485-SU, we authorized the transfer of Certificate No. 429-S from Marathon to Homosassa Utilities, Inc. By Order No. PSC-94-1163-FOF-SU, issued September 22, 1994, in Docket No. 930763-SU, we approved the transfer of Certificate No. 429-S from Homosassa Utilities, Inc. to RHV, the current owner. RHV serves the Riverhaven subdivision, and the utility is owned by a group of shareholders who are property owners within the Riverhaven development.

The utility was granted a general rate increase by Order No. 24937, issued August 20, 1991, in Docket No. 900967-SU. In this rate case, the average bill was increased from \$16.29 per month to \$20.50 per month, an increase of 26% from the rates that had been in effect while under the jurisdiction of Citrus County. In this case, we approved \$161,855 in pro forma additions. The purpose of these additions was to meet Department of Environmental Protection (DEP) mandated repairs and to attempt to have the growth moratorium on the service territory lifted. To date, the DEP has not given the utility an operating permit, and the growth moratorium is still in effect.

On June 20, 1994, RHV applied for another staff-assisted rate proceeding. At this time, the utility stated that the major reason for applying for a rate increase was to recover some of the cost of plant improvements required by the DEP. A general rate increase was granted by Order PSC-95-0961-FOF-SU, issued August 7, 1995, in Docket No. 940655-SU. The increase did not include any provision for necessary improvements, as the utility failed to provide sufficient supporting evidence for planned additions of plant in service. In this rate case, we approved an increase in the average bill from \$19.58 to \$20.75, an increase of approximately 6%. Considering the fact that the utility has never filed for an index or pass-through increase, the result of this rate case was to merely true rates for inflationary increases in cost, and the problems of necessary plant improvements were not addressed. As with the previous rate case, the utility did not have a valid operating permit, and there was a growth moratorium in the service territory.

Citing the same reasons as those used in prior rate cases, that of recouping the costs of plant improvements required by the DEP, the utility filed the instant rate case on October 10, 1996. We have selected a historical test year ended October 31, 1996. During this fiscal year, the utility's books reflected unaudited operating revenue of \$115,366 for the wastewater system. The utility recorded unaudited net operating loss of \$72,797. At the present time, the utility is being sued by the DEP for noncompliance with regulatory directives and for the improper disposal of effluent.

#### QUALITY OF SERVICE

The customer meeting was held on April 9, 1997 at the Riverhaven Village Community Club in Homosassa, Florida. There were approximately 86 customers who attended the meeting. Of the eleven customers who spoke, the majority of comments made at the meeting dealt with concerns over the utility's ability to serve existing and potential customers.

The first customer who spoke commented on the utility's ineffective management and questioned its future viability to provide service. He presented a statement of comments concerning the utility's proposed rate increase by the board of directors of the Riverhaven Village Property Owners Association, Inc. That statement cited the utility as having a long history of compliance problems with the DEP, causing damage to the environment and degrading the quality of life for the members of the Association. In service related issues, the statement referred to past problems with the collection system and questioned the utility's ability to address future problems. Although improvements have been made, the statement noted ongoing problems with noxious odors and noise emanating from the wastewater treatment facility.

In general, the rest of the customers who spoke commented about the utility's inability to provide service for new connections, cited recent problems with a liftstation that caused a wastewater spill, odors, expressed frustration with the utility's excuses and promises, and the unsatisfactory quality of service provided by the utility. One customer said that the pro forma improvements are only band-aids that do not fully address the DEP compliance problems. However, there was one customer who believed the treatment plant was providing good service.

There were also comments about the possibility of Citrus County providing service to the area. The attorney for Citrus County addressed the customers about an upcoming one-cent sales tax option known as "The Clean Water Referendum." That referendum, which did not pass in an April 22, 1997 vote, would have created funds to accelerate the time frame for the construction of a County force main to serve the area.

This facility has had compliance problems with the DEP for quite some time. Under the previous ownership, as far back as 1990, the plant has suffered operational problems that have caused the treated effluent to consistently fail to meet water quality standards. Because of these problems, the facility's DEP operating permit expired in October, 1990, and a growth moratorium was placed on the service territory. Even though consent order agreements with DEP were made by the former and present owners to obtain an operating permit by specific dates, compliance has not been obtained. Although both the former and present owners entered into DEP consent orders agreeing to obtain an operating permit by a specific date, they failed to do so. As a result of the utility's failure to satisfy DEP requirements, it has been prohibited from connecting additional customers, except for several lots that were grandfathered prior to the moratorium, since 1990. This connection prohibition has severely hampered development in the area and has been a source of frustration with the property owners who are unable to build.

By Order No. 24937, issued August 20, 1991, in Docket No. 900967-SU, the quality of service was determined to be unsatisfactory. The same problems still exist. In that order, the utility was required to submit a comprehensive study of available connection capacity to the existing facility. The utility also was required to make necessary plant improvements in order to achieve the DEP operating permit as agreed to in a January, 1991 consent order agreement with DEP. The utility did not comply. Eventually, the utility was fined \$5,000 by this Commission. The fine was later suspended and then dropped as a result of the sale to the present ownership. Order No. PSC-94-1163-FOF-SU, issued September 22, 1994, in Docket No. 930763-SU, stated that the new owners had the financial ability to operate the system. In addition, because the owners would be serving themselves and had a vested interest in upgrading and properly operating the utility, we found it in the public interest at that time for the transfer to be approved.

By Order No. PSC-95-0961-FOF-SU, issued August 7, 1995, in Docket No. 940655-SU, we determined that the quality of service was satisfactory. Although the DEP compliance problems still existed, and a connection moratorium was still in place, we believed that the utility was making adequate progress towards compliance. At that time, the utility had recently signed a consent order agreement with DEP, and we determined that the health and welfare of the customers were not directly affected by the permitting problems. We concluded that as long as the utility was cooperating with DEP, our involvement was unnecessary.

At the time of the January 9, 1997 engineering investigation in the instant case, the treatment facility was not operating properly. Apparently, due to an inadequately operating diffused air system, there was basically no treatment occurring. The quality of the wastewater effluent leaving the facility at the time of that field visit appeared only slightly improved over the raw untreated wastewater entering the facility. The DEP effluent treatment standards were obviously not being met. Related problems with the aeration system were noted at the time of a DEP field inspection in mid-October, 1996. At that time, it was noted that one of the return activated sludge lines was leaking air, causing sludge blanket problems. In addition, there were inoperable diffusers on the blower system and insufficient blower capacity.

In addition to the above mentioned aeration system problem, DEP also cited the following problems with the treatment facility: (1) the lack of adequate freeboard and improperly installed overflow pipe with the percolation ponds. The berm to one of the three effluent disposal ponds has been leaking. Increased wetland vegetation encroaching on the pond beams has also been observed; (2) fence repair and installation at the plant and surrounding the percolation ponds is necessary; (3) the plant flow meter is inoperable; (4) sampling is not being done properly; (5) the facility's tanks are leaking at the seams; (6) safety railings are in need of being repaired; and (7) a reduced pressure zone backflow preventer was leaking.

Most of the treatment plant problems have been corrected. As a result, treatment at this facility has improved dramatically. The remaining required plant improvements yet to be addressed are a composite sampler needed for 24 hour testing and the installation of a second blower needed for backup reliability. Although

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operations at the plant have improved, the problems related to the percolation ponds and a subaqueous force main have not yet been solved.

In early February, 1996, it was discovered that the utility's subaqueous force main under the Homosassa River was leaking and spilling raw wastewater into the river. The health department immediately required the use of that line to cease until repairs were made. Riverside Inn is the only customer at this time that is serviced by this line. This active commercial customer is composed of 76 motel rooms and a restaurant. With the use of this line discontinued, there was an immediate service crisis. To accommodate the need of this customer, wastewater was removed by truck from the liftstation wetwell at the motel in order to prevent wastewater spills. Trucking continued from February 9, 1996 until the line was repaired on March 5, 1996, at a cost of approximately \$44,000. The owner of the Riverside Inn loaned the utility \$25,000 of the line repair costs under an agreement that the Inn would receive free service until the loan was repaid. This line lies exposed on the river bottom. Since the DEP requires the utility to permanently protect this line from future possible damage by the boating traffic, this project is not considered to be completed until the line is encased by protective materials. The subaqueous force main under the Homosassa River is in need of permanent repair. According to the DEP, plant permitting is contingent on its repair. The cost of the permanent repair is estimated to be in the range of \$100,000 to \$200,000.

RHV's most serious problems relate to effluent disposal. As late as the first week in May of this year, because of recent heavy rains, the percolation ponds became overloaded and flooded private and public lands. Hauling of the effluent to avert catastrophic failure of the ponds may be necessary. The problems related to effective and reliable effluent disposal are the main obstacle in obtaining DEP permitting. The utility is required to provide DEP with a plan that will assure adequate disposal to ensure that the freeboard in the ponds are maintained and to prevent lateral seepage. However, by all accounts, the ponds have failed, and it is improbable that they could ever be rehabilitated. Preliminary test results indicate that the ponds are polluting the ground water.

Alternative effluent disposal methods will have to be found. Possible options include interconnection with the County, spray irrigation, and reuse. Interconnection with the County does not appear to be a timely option because of the recent failure of the clean water referendum. Spray irrigation is unlikely because of the unavailability of suitable land. The utility submitted to DEP a possible reuse option with a \$800,000 to \$850,000 price tag. However, the utility's application for an operating permit for the treatment facility was denied in January, 1997. The permit denial notice cited multiple application deficiencies that the utility had failed to appropriately and timely address. The notice stated that:

The application and supporting information has been reviewed by the Department, and it has been determined that the applicant has not provided reasonable assurance that the construction of the proposed residential public access reclaimed water system and wastewater plant modifications to increase the permitted capacity and the operation of such a facility will be in accord with applicable laws or rules (Rule 62-4.070(2), Florida Administrative Code). Pursuant to these rules, the wastewater permit for the Riverhaven WWTP is hereby denied.

Frustrated over problems with working with the utility in order to achieve compliance, DEP has opted to seek enforcement through civil action. In an October, 1996 letter to the utility from DEP, the following was stated:

The Department has tried for more than three years to work with RHV to address the numerous chronic problems mentioned above. RHV has not adequately addressed any of these serious problems. In the past, RHV only acted to fix emergency situations when raw sewage was discharged into the river or neighboring lands. Now, RHV will not even take such basic action due to its financial problems. Each time RHV has failed to meet a deadline that RHV had previously agreed to, RHV has asked to meet with the Department to get additional time. After more than three years of trying

to work with RHV, the Department must take other action to protect the public and environment and prevent environmental disasters.

On April 24, 1997, a continuance order related to a final hearing over the DEP permitting problems was issued by the Division of Administrative Hearings. That order allowed the petitioner, RHV, more time for settlement negotiations with DEP. In any event, the parties are to report in writing the progress of the negotiations and the case status within 60 days and every 30 days thereafter. If the parties report that the case should be rescheduled for final hearing, the report will include a range of mutually agreeable dates for rescheduling the final hearing.

On May 1, 1997, our staff met in Tampa to discuss the RHV compliance situation with representatives from DEP and Citrus County. At that meeting, the DEP staff indicated that all avenues in working with the utility to gain compliance have been exhausted, and it is continuing its enforcement through legal channels. The Citrus County representative who attended the meeting indicated that because the County's clean water referendum failed at the polls, there are no immediate plans for the County to provide service to the RHV area.

Although there has been recent increased operation and maintenance activities with the hiring of a new plant operator, this facility has been subject to an extended period of deferred maintenance. Based on its track record, we have little confidence in the utility's ability to obtain compliance with DEP. For whatever reasons, the utility has chosen not to timely adhere to compliance deadlines. From all appearances, the utility is being uncooperative with DEP.

However, H2O Utility Services, Inc. (H2O), the utility's present management, has submitted cost estimates for pro forma treatment plant and collection system improvements in this rate case. For the wastewater facility, the utility proposes to spend \$34,891. These improvements include: (1) relocation of the bar screen; (2) repair and relocate the plant influent force main; (3) repair the air header system; (4) repair/replace rusty hand railing; (5) repipe the clarifier RAS piping; (6) install back-up blower and new duplex control panel; (7) repair existing and install new fencing at the plant and pond sites; (8) install a composite sampler; (9) relocate the electronic portion of the flow



meter; (10) install "No Trespassing" signs around plant site; (11) install facility lighting; and (12) repair leaks in concrete wall seams.

For the collection system, the utility proposes to spend \$138,392. These improvements include: (1) the performance of an inflow and infiltration study; (2) create "as built" drawings of the entire collection system; (3) manhole repairs; and (4) general repairs and improvements to the liftstations. They include replacement and improvement of electrical controls and wiring, pumps, piping, check valves, float controls, alarm systems, and security locks.

With the completion of the above pro forma items, we believe that the customers will at least benefit in the area of improved treatment. These improvements are expected to reduce biological hazards and obnoxious odors caused by inadequate treatment, and a reduction in noise should occur with the installation of a more efficient blower. In addition, the collection system should become more efficient. Possible infiltration should be reduced, and potential backups and wastewater spills should be less likely if the proposed improvements are completed. However, these proposed improvements only partially address the compliance needs. They do not address the effluent disposal problems, plant expansion to accommodate further growth, or the permanent repair of the force main under the Homosassa River. Although they do appear to be necessary to help insure reliable treatment, they fall short of the overall compliance needs of the utility. Based on the foregoing, we find that the quality of service is unsatisfactory.

Although the pro forma improvements do appear to be necessary to help insure reliable treatment, they fall short of the overall compliance needs of the utility. As a result, it appears that the utility's treatment plant will continue to operate without a DEP operating permit, and the growth moratorium will remain in place.

We believe that we have allowed the utility more than adequate time to get its affairs in order and that the time for tolerance has ended. Because we have determined that the quality of service is unsatisfactory, we find it appropriate to penalize the utility and require that corrective action be taken.

Based on the foregoing, we find it appropriate to require that a plan of action be undertaken by the utility to insure that the following objectives are met:

1. Utility completes pro forma plant additions within six months of the date of this Order.
2. Utility prepares a plan of action for the resolution of the effluent disposal and subaqueous pipe line problems.
3. Utility obtains an operating permit or consent agreement from the DEP within six months of the date of this Order.

Considering the multitude of problems this utility has encountered with the DEP, this Commission, and the POA's (Property Owner Associations), we have often wondered if the only solution for the plight of this utility would be if Citrus County became the operator of the system. This appears to be the only solution for an under-funded utility that has no economical solution for the current disposal problem. Because the utility's only options for resolving this problem are either cost prohibitive or non-viable, the only option or apparent solution is for Citrus County to interconnect with the utility and to build a regional plant to serve this rapidly growing region of the County.

However, as stated earlier, as a result of the failed sales tax referendum, Citrus County has no immediate plans for the County to provide service to the RHV area. In fact, staff from the County has indicated that construction of a force main and regional plant in this area is now five to ten years away from completion. Ten years ago in 1987, another sales tax referendum was put before the voters, and while it too was voted down, more citizens voted then for the increase than voted for it this year. Therefore, it appears that a solution to the pressing infrastructure problems of Citrus County will not be resolved in the immediate future. While all agree that the utility has grave problems when it comes to effluent disposal, no one seems to have an economical solution for these problems. We are empathetic to these intractable problems and realize that all parties associated with this utility must work together to find a solution. This having been said, we would be remiss if we did not require the utility to formulate a plan of action for dealing with these problems. Therefore, the utility shall address the following, in report form, within six months of the date of this Order:

1. Prepare a specific plan, including a time table of events, for resolving the problems associated with the subaqueous line serving the Riverside Inn. This plan shall address the concerns of both the DEP and the Army Corp of Engineers and include a description of proposed funding sources for these repairs.
2. Prepare a specific plan, including a time table of events, to bring the utility into compliance with DEP standards.
3. Prepare a report showing the date of completion of pro forma additions, to be completed within six months, along with a description of the vendor used and the amount spent. We discuss later in this Order the release of funds for pro forma additions.

Because the quality of service provided by the utility is unsatisfactory, the utility shall complete all pro forma additions, submit reports as detailed in our analysis, and obtain an operating permit or consent agreement with the DEP within six months of the date of this Order. In addition, we find it appropriate to have our staff meet with the utility every ninety days to check on the utility and to report the utility's status to us.

SHOW CAUSE

As discussed previously, by Order No. 24937, issued August 20, 1991, in Docket No. 900967-SU, we determined that the utility's quality of service was unsatisfactory, and the utility was required to make necessary plant improvements in order to reobtain the DEP operating permit as agreed to in a January, 1991 consent order agreement with DEP. The utility did not comply, and by Order No. PSC-92-0192-FOF-SU, issued April 13, 1992, in Docket No. 900967-SU, we ordered the utility to show cause. By Order No. PSC-92-0542-FOF-SU, issued June 23, 1992, in Docket No. 900967-SU, we imposed a fine of \$5,000; however, in that same order, the fine was suspended, in light of the potential transfer of ownership of the utility to homeowners in the area. On July 30, 1993, a transfer application was filed, requesting the transfer of the utility from Homosassa Utilities, Inc. to RHV, and by Order No. PSC-94-1163-FOF-SU, issued September 22, 1994, in Docket No. 930763-SU, the transfer was approved. By Order No. PSC-95-0961-FOF-SU, issued August 7, 1995, in Docket No. 940655-SU, we determined that the

quality of service was satisfactory, although the DEP compliance problems still existed and a connection moratorium was still in place. The utility had recently signed a consent order agreement with DEP, and we believed that the utility was making adequate progress towards compliance.

Since that time, however, as discussed earlier, the condition of the wastewater treatment plant continued to decline, the utility's subaqueous line under the Homosassa River leaked, spilling raw wastewater into the river, and the percolation ponds failed, sometimes spilling effluent onto private and public lands. Although most of the treatment plant problems have been corrected, the subaqueous line still remains exposed on the river bottom and is in need of permanent repair. Further, the utility has not satisfactorily addressed its effluent disposal problem. These problems, along with the utility's failure to fully cooperate with the DEP, have resulted in the inability of the utility to reobtain its DEP permit. The utility still has not developed an acceptable plan to achieve compliance with DEP. DEP's pursuit of enforcement of the consent order between the utility and the DEP through legal channels indicates that all reasonable avenues to achieve compliance have been exhausted.

Section 367.111(2), Florida Statutes, states:

Each utility shall provide to each person reasonably entitled thereto such safe, efficient, and sufficient service as is prescribed by part VI of chapter 403 and parts I and II of chapter 373, or rules adopted pursuant thereto; but such service shall not be less safe, less efficient, or less sufficient than is consistent with the approved engineering design of the system and the reasonable and proper operation of the utility in the public interest. If the commission finds that a utility has failed to provide its customers with water or wastewater service that meets the standards promulgated by the Department of Environmental Protection or the water management districts, the commission may reduce the utility's return on equity until the standards are met.

RHV's failure to provide satisfactory service which meets the standards promulgated by the DEP, as evidenced by its inability to reobtain its operating permit, is an apparent violation of Section 367.111(2), Florida Statutes. We believe that RHV's apparent violation rises, in these circumstances, to the level of warranting initiation of show cause proceedings.

Section 367.161(1), Florida Statutes, authorizes this Commission to assess a penalty of not more than \$5,000 for each offense, if a utility is found to have knowingly refused to comply with, or to have willfully violated, any provision of Chapter 367, Florida Statutes, or any lawful rule or order of the Commission.

Utilities are charged with the knowledge of the Commission's rules and statutes. Additionally, "[i]t is a common maxim, familiar to all minds that 'ignorance of the law' will not excuse any person, either civilly or criminally." Barlow v. United States, 32 U.S. 404, 411 (1833). Thus, any intentional act, such as the utility's failure to comply with Chapter 367, Florida Statutes, would meet the standard for a "willful violation." In Order No. 24306, issued April 1, 1991, in Docket No. 890216-TL titled In Re: Investigation Into The Proper Application of Rule 25-14.003, F.A.C., Relating To Tax Savings Refund for 1988 and 1989 For GTE Florida, Inc., the Commission, having found that the company had not intended to violate the rule, nevertheless found it appropriate to order it to show cause why it should not be fined, stating that "'willful' implies an intent to do an act, and this is distinct from an intent to violate a statute or rule." Id. at 6.

In light of the multitude of problems this utility has encountered, as discussed earlier, we have required the utility to propose some corrective action. Nevertheless, we find it appropriate to require the utility to show cause in writing within 20 days of this Order why it should not be fined \$5,000 for failing to comply with Section 367.111(2), Florida Statutes, by not providing satisfactory service which meets the standards promulgated by the DEP. We recognize that Section 367.111(2), Florida Statutes, grants us the authority to reduce the utility's return on equity until the DEP standards are met; however, we do not find it appropriate to reduce the utility's return on equity in this case because, in addition to the penalty authorized by Section 367.161(1), Florida Statutes, a reduction to its return on equity will further deteriorate the utility's already weakened financial condition.

RHV's response to the order to show cause shall contain specific allegations of fact and law. This opportunity to file a written response shall constitute RHV's opportunity to be heard prior to a final determination of noncompliance or assessment of penalty. A failure to file a timely written response shall constitute an admission of the facts herein alleged and a waiver of the right to a hearing. Should RHV file a timely written response that raises material questions of fact and request a hearing pursuant to Section 120.569, Florida Statutes, further proceedings will be scheduled before a final determination on this matter is made. If the utility fails to respond within 20 days of the issuance of this Order, the fine shall be imposed without further action of this Commission. If RHV fails to respond to reasonable collection efforts of the Commission, the fine shall be deemed uncollectible, and this matter shall be referred to the Comptroller's Office for further collection efforts based on the Commission's finding that, under the aforesaid circumstances, further collection efforts would not be cost effective. Reasonable collection efforts shall consist of two certified letters requesting payment. Any collection as a result of the action of the Office of the Comptroller shall be deposited in the State General Revenue Fund pursuant to Section 367.161, Florida Statutes. If, however, the utility responds to the show cause by remitting the fine imposed by this Commission, no further action is required.

#### RATE BASE

Our calculation of the appropriate rate base for the purpose of this proceeding is depicted on Schedule No. 1, and our adjustments are itemized on Schedule No. 1-A. 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.

#### Used and Useful

##### Wastewater Treatment Plant

The wastewater treatment plant has a design treatment capacity of 100,000 gallons per day. The plant flow readings during the test year are considered unreliable because the flow meter was more or less inoperative during that time. Connection growth over the years has stagnated due to a DEP moratorium placed on the plant. The moratorium was instituted because of plant compliance problems

that have existed for years. In Docket No. 940655-SU, the wastewater treatment plant was determined to be 67% used and useful. Since connection growth has not changed since the previous determination, we have assumed that flows have remained constant. Based on this information and the fact that the utility will not be growing in the immediate future due to the growth moratorium, we have removed the margin reserve used in the last case and find that the treatment plant is 64% used and useful. Although the treatment plant itself has available capacity, there is little indication that the facility's effluent disposal ponds are capable of handling additional flows. They appear to be at capacity, and the utility has been required by DEP to explore other effluent disposal possibilities. Therefore, we find that the effluent disposal ponds are 100% used and useful.

#### Wastewater Collection System

The wastewater collection system has a capacity of 861 ERCs. As discussed above, connection growth over the years has stagnated due to a DEP moratorium placed on the plant. Because connection growth has not changed since the previous staff assisted rate case, Docket No. 940655-SU, we find that the wastewater collection system is 58% used and useful.

#### Test Year Rate Base

The appropriate components of the utility rate base include depreciable plant in service, contributions in aid of construction (CIAC), accumulated depreciation, accumulated amortization of CIAC, and the working capital allowance. Plant, depreciation, and CIAC balances were determined through our staff's audit. Further adjustments are necessary to reflect test year changes and pro forma plant. A discussion of each component follows.

#### Utility Plant in Service (UPIS)

We have made audit adjustments to wastewater plant to reflect reconciliation of the utility records to the amount determined in the last rate case by Order No. PSC-95-0961-FOF-SU, and for additions and retirements since this case in the amount of \$740,286, an averaging adjustment of (\$6,119), and a pro forma adjustment of UPIS for equipment that is currently needed to bring the plant into partial compliance with DEP mandates of \$173,283. We have also reclassified \$16,206 of construction work in progress to plant in service for completed projects, and lastly, we made an

adjustment for the cost of installing a meter and related services at the liftstation located at the Riverside Inn of \$1,000. Currently the expense for this liftstation is being paid by the hotel owner, and it is the responsibility of the utility to make this payment. Accordingly, we find that the appropriate utility plant in service amount is \$1,105,352.

#### Land

Utility records indicated the value of land holdings to be \$10,000. We have adjusted this amount by \$75,967 to reconcile the figure for land value to the amount established in the last rate case of \$85,967. Accordingly, we find that the total land value is \$85,967.

#### Non-Used and Useful Plant

Based on our findings concerning the used and useful components of utility plant in service, we have made a net adjustment to non-used and useful plant of \$171,788. Accordingly, we find that the total non-used and useful plant balance is \$171,788.

#### CIAC

In its records, the utility reported unaudited CIAC levels of \$950. The CIAC level has been adjusted by \$734,634 to adjust the utility reported amount to the amount determined in the last rate case. Accordingly, we find that the appropriate CIAC balance is \$735,584.

#### Accumulated Depreciation

We have calculated accumulated depreciation using the prescribed rates contained in Rule 25-30.140, Florida Administrative Code. The accumulated depreciation balances have been adjusted to reflect rates approved by the National Association of Regulatory Utility Commissioners (NARUC) of \$453,205, to reflect an averaging adjustment of (\$16,240), and lastly, an adjustment of \$8,069 to account for depreciation related to the pro forma additions. Accordingly, we find that the appropriate accumulated depreciation balance is \$482,418.



#### Accumulated Amortization

We calculated accumulated amortization of CIAC using the prescribed rates contained in Rule 25-30.140, Florida Administrative Code. Based on these rates, we have adjusted the utility's filing by \$360,987 to reconcile accumulated amortization to the appropriate levels and have made an averaging adjustment of (\$15,594). Therefore, we find that the appropriate balance of accumulated amortization of CIAC is \$345,392.

#### Working Capital Allowance

Consistent with Rule 25-30.443, Florida Administrative Code, we used the one-eighth of operation and maintenance expense formula approach to calculate the working capital allowance. Applying this formula, and based on operation and maintenance expense of \$124,311, we find that the working capital allowance is \$15,539.

#### Rate Base Summary

Based on the foregoing, we find that the appropriate balance for test year rate base is \$162,460.

#### COST OF CAPITAL

Our calculation of the appropriate cost of capital, including our adjustments, is depicted on Schedule No. 2. Those adjustments which are self-explanatory or which are essentially mechanical in nature are reflected on that schedule without further discussion in the body of this Order. The major adjustments are discussed below.

#### Return on Equity

Based on our audit, the utility's capital structure includes long-term debt owed to shareholders, at an interest rate of 18%, equity, and customer deposits. Using the current leverage formula approved by Order No. PSC-96-0729-FOF-WS, issued May 31, 1996, in Docket No. 960006-WS, the rate of return on common equity is 10.52%. Applying the weighted average method to the total capital structure yields an overall rate of return of 10.77%. The utility's debt and equity have been adjusted to match our approved total allowance for rate base.

Customer deposits are included in the capital structure at 6%. While it is true that deposits from residential and non-residential customers carry different interest rates, 6% for residential and 7% for non-residential, the immaterial amount of total deposits for the utility, \$1,635, does not warrant the segregation of cost factors for the calculation of the capital structure. We have adjusted the approved rate of interest for the shareholder loan from 18% to the upper limit of the Commission approved leverage graph amount of 11.88%. As there are few, if any, options in securing long term financing for this company, we find this rate to be reasonable based on the financial plight of the utility.

#### NET OPERATING INCOME

Our calculation of net operating income is depicted on Schedule No. 3, and our adjustments are itemized on Schedules Nos. 3-A and 3-B. 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 wastewater system recorded revenues of \$115,366 during the test year. A review of the test year billing analysis indicates that an adjustment should be made to increase annual revenues by \$1,131 for unrecorded receipts. Accordingly, we find that the appropriate test year operating revenue is \$116,497.

#### Test Year Operating Expense

The utility recorded operating expense of \$188,163 in the test year. The components of this expense include operation and maintenance expense, depreciation expense (net of related amortization of CIAC), and taxes other than income taxes. The utility is considered by the Internal Revenue Service to be an "S" corporation; therefore, federal income tax does not apply.

The utility's test year operating expenses have been traced by our staff auditor to supporting invoices. Adjustments have been made to reflect unrecorded test year expenses and to reflect approved allowances for pro forma additions.

Operation and Maintenance (O&M) Expenses

The utility charged \$155,292 of O&M expense to the wastewater system during the test year. Explanations of the utility's recorded expenses and our allowances are as follows:

Salaries and Wages - Employees

There are no specific expenditures for in-house personnel, as the utility is charged a management fee for all services.

Salaries and Wages - Officers

The utility recorded \$11,600 for this expense. We find it appropriate to eliminate this amount in favor of including an allowance for a contract operator in contractual services. Accordingly, the appropriate balance in this account is \$0, an adjustment of (\$11,600). We have adjusted the contractual services account to reflect the appropriate allowance for salaries and wages to operate the utility.

Sludge Removal Expense

Our audit details that \$6,250 was spent for sludge hauling during the test period. In its proposed operating budget, H20, the new contract operator, estimates that an annual expense for sludge removal should be \$17,850. This figure is based on hauling 3,000 gallons of sludge three times per month for a year. We agree with this estimate and have made an adjustment of \$11,600. Accordingly, we find that total sludge removal expense is \$17,850.

Purchased Power

The utility included \$8,468 in purchased power expense in its application. Currently, the owner of the Riverside Inn is paying for the electricity that is being consumed at the utility liftstation. We find it appropriate to include this expense in utility purchase power expense and have, therefore, included a provision of \$500. As a related adjustment, we have included \$1,000 in plant in service for the estimated costs of installing a new meter, with associated services, at the liftstation. Accordingly, we find that purchased power expense is \$8,968.

### Chemicals

The utility recorded chemical expense of \$3,775. For disinfection purposes, the utility uses sodium hypochlorite (chlorine bleach) at its wastewater treatment facility. The proposed budget accepts the historical usage, but includes an additional \$5,814 for other chemicals needed to increase treatment control. This increased amount includes \$4,014 for polymer (settling aid), \$1,200 for liquid degreaser and \$600 for deodorant blocks. We are of the opinion that increased attention must be paid toward treatment, and therefore, we agree that additional chemical purchases should be made. Therefore, we have increased chemical expense by \$5,814. Accordingly, we find that total chemical expense is \$9,589.

### Materials and Supplies

The utility recorded materials and supplies expense of \$2,965 for the test year. This amount represents the fee paid to the engineering firm of Berryman & Henniger for professional services rendered to expand the effluent disposal system. While we could reclassify this amount to contractual services, we find it appropriate that this non-recurring amount be left in the expense category as it represents a fair estimate of the materials and supplies expense that a utility of this size can expect to incur in an average year. We find this amount to be reasonable and, therefore, no adjustment has been made. Accordingly, we find that total materials and supplies expense is \$2,965.

### Contractual Services

The utility recorded contractual service expense of \$90,172. We have made adjustments to reflect the audited amount in the test year, a decrease of \$17,844, a decrease to amortize certain engineering and legal costs associated with plant improvements and legal action with the DEP of \$30,861 (\$38,576/5 year amortization = \$7,715; \$30,861 deferred to future periods), reclassification of UPIS of (\$17,694), a decrease to amortize pipeline repairs of \$4,265 (\$5,331/5 year amortization = \$1,066; \$4,265 deferred to future periods), an increase to reclassify UPIS as expense for certain pipeline repairs of \$7,892 (\$39,460/5 year amortization = \$7,892; \$31,568 deferred to future periods), an increase for contract operator expense of \$40,872, an increase to testing

expense by \$5,519 to reflect the amount that should be spent on an annual basis, and finally, an increase of \$317 to account for necessary water purchases to be used in the maintenance of the plant.

We find it appropriate that the \$44,791 cost of repair to the subaqueous force main serving the Riverside Inn be amortized over a five year period. Customers have raised concerns that they should not be forced to pay for a repair that benefits a single commercial customer, nor should this amount be amortized over such a short period of time. History indicates that this commercial customer was the first customer of the utility when the system was initially constructed in 1970. As an "anchor development," this customer has always been integral to the overall development of the area. We do not believe that a separate rate for this commercial customer, other than the rates delineated in the general service tariff, is necessary. We are of the opinion that a cost of service study is neither practical for this utility nor cost effective. In addition, plans indicate that the liftstation at the hotel will be utilized for the Cherokee Trace development, thereby indicating the need for networked facilities in this region of the service territory. As for the period of time that we are approving for this expense to be amortized, the underlying asset, which is underlying several feet of brackish water, is 27 years old. These repairs have essentially revived a dead asset and cannot be expected to enhance the overall life of the pipe, thus permitting a longer amortization period. Currently, the Army Corp of Engineers is requesting that this subaqueous pipe be more suitably anchored to the bottom of the river. This will require substantial costs, costs that will likely not be incurred for an asset with no remaining depreciable life. At some point in the near future, this pipe will probably be replaced. While it could be argued that this expense should be amortized totally in the test year, we are cognizant that this is not a recurring expense and that it would be unfair to amortize the amount in just one year. However, extending this period of time beyond the estimate of five years would be equally unjust as the underlying asset has come to the end of its depreciable life. While the line is still being used, we are uncertain as to how long it will be operable and whether or not it will be replaced. Therefore, we find it appropriate to allow this amount to be amortized over a five year period, resulting in an annual expense of \$8,958.

Based on these audit adjustments, a total of (\$16,064), wastewater contractual services totals \$74,108. A breakdown of our approved expense for this category is as follows:

<u>Expense</u>	<u>Amount</u>
Contract Operator & Management	\$40,872
Amortized Pipeline Repairs	8,958
Testing Expense	8,624
Amortized Professional Fees	7,715
Accounting Fees	5,000
Insurance	500
Purchased Water	1,000
Repairs & Miscellaneous	1439
Total	\$74,108

#### Rents

A provision for rental expense has been included in contractual services. Therefore, this expense category has no balance, and no adjustment is deemed necessary.

#### Transportation Expenses

The audited amount for transportation expense is \$1,612. We believe this amount to be reasonable, and, therefore, no adjustment has been made. Accordingly, we find that total transportation expense is \$1,612.

#### Insurance Expense

The utility included \$500 of insurance expense for the test period. Our audit determined that there are currently no policies in force for the utility. We believe a liability policy should be purchased and have included a \$500 allowance in the contractual services account.

Regulatory Commission Expense

The utility recorded \$22,293 of regulatory commission expense during the test year. We find it reasonable to allow \$267, to include an amortized portion of the instant rate case filing fee (\$1,068 amortized over four years), and \$4,770 for rate case expense (\$19,082/4 year amortization = \$4,770; \$14,311 deferred to future periods). Therefore, based on an allowance of \$5,037 for the test year, we have reduced the utility filing by \$17,256 for amounts to be deferred to future periods. Accordingly, regulatory commission expense totals \$5,037.

Miscellaneous Expense

The utility recorded \$7,657 of miscellaneous expense in the test year. The composition of this expense account is as follows:

<u>Expense</u>	<u>Amount</u>
Director Fees	\$ 3,975
Postage	1,550
Printing	933
Phone Charges	501
Bank Charges	340
Miscellaneous	358
Total	\$ 7,657

We have removed the allowance for director's fees as unreasonable based on our belief that management of this utility has been remiss in its duty to properly operate the utility. This belief is founded in the long-term problems the management has had dealing with the DEP (compliance problems, lack of operating permit, current court proceedings), this Commission (late submittal of regulatory assessment fees, annual reports, evidence to support rate case filings) and Citrus County (sale-resale of utility to county and claims of misrepresentation, County required to respond to emergency operation of plant following problems with system operator). Considering our finding that the quality of service for this utility is unsatisfactory, we believe it would be inappropriate to allow director's fees for a utility which has for

some time had little or no direction. While strides have been made of late to return the operation of the treatment plant to a satisfactory level, due in large part to the work of the independent operating company (H2O), we cannot ignore the long history of noncompliance and neglect. Therefore, we have reduced miscellaneous expense by \$3,975 to reflect the disallowance of director's fees. Accordingly, we find that total miscellaneous expense is \$3,682.

#### O&M Summary

Total O&M adjustments are (\$30,981). Based on these adjustments, we find that the O&M expenses total \$124,311.

#### Depreciation Expense

We have made an adjustment of \$6,971 to agree the utility expense level with the NARUC approved rates for depreciation, adjusted depreciation for amounts associated with non-used and useful plant of (\$6,658), and lastly, adjusted depreciation expense for the period by \$8,069 to reflect pro forma additions to plant in service. Accordingly, depreciation expense totals \$40,480.

#### Amortization of CIAC

In its application, the utility made no provision for the amortization of CIAC. We have made an adjustment of (\$31,229) to agree the utility expense level with the NARUC approved rates for the amortization of CIAC. Accordingly, amortization expense totals (\$31,229).

#### Taxes Other Than Income Tax

The utility recorded \$773 of taxes other than income in the test year. We have adjusted this expense account by \$5,242 to reflect actual test year regulatory assessment fees, by \$716 to adjust property taxes to that actually spent during the test year, by \$4,620 to adjust tangible property taxes, and lastly, by (\$375) to eliminate a fine paid by the utility for a corporate reinstatement penalty. Accordingly, the appropriate test year taxes other than income taxes amount is \$10,976, prior to any adjustment for a rate increase.



Operating Revenue

Revenues have been adjusted by \$47,683 to reflect the increase in revenue required to cover utility expense and allow the appropriate rate of return on investment.

Taxes Other Than Income Tax

This expense has been increased by \$2,146 to reflect the regulatory assessment fee of 4.5% on the increase in revenue.

Operating Expenses Summary

The application of our adjustments to the utility's test year operating expenses results in total operating expenses of \$146,684.

REVENUE REQUIREMENT

Based on the foregoing, we find it appropriate to allow RHV an annual increase in revenue of \$47,683 (41%) for the wastewater system. This will allow the utility an opportunity to recover its expenses and earn a 10.77% return on its investment. The revenue requirement and resulting annual increase are shown on Schedule No. 3-A.

RATES AND CHARGES

Rates and Rate Structure

The Commission has a memorandum of understanding with the Florida Water Management Districts. This memorandum recognizes that a joint cooperative effort is necessary to implement an effective, state-wide conservation policy. We believe that rates determined by meter size and usage with no allowance for gallonage in the base facility charge will continue to encourage continued conservation by utility customers.

During the test year, RHV provided wastewater service to approximately 402 customers. We have calculated a base facility/gallonage charge for these wastewater customers based on test year data. The base facility/gallonage charge rate structure is the preferred rate structure because it is designed to provide for the equitable sharing by the rate payers 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 rate payers pay their share of the costs of providing service through the consumption or gallonage charge and also pay their share of the fixed costs of providing service through the base facility charge.

We have reviewed the billing analysis of the utility and the composition of the customer base and determined that the cap for gallonage for the wastewater system should be reduced from 10,000 gallons to 6,000 gallons. The reason for this change is two-fold. The primary reason is the fact that the customer base is primarily comprised of retired couples for whom the 6,000 gallon cap more fully approximates home usage. Secondly, our analysis indicates that by using the 6,000 cap, the utility will experience a 48% return of purchased water to the wastewater plant. We believe this is a more accurate approximation of wastewater gallonage considering the makeup of the community and the degree of landscape irrigation in the area.

Approximately 48% (or \$78,232) of the wastewater revenue requirement is associated with the fixed costs of providing service. Fixed costs are recovered through the base facility charge based on the number of factored ERCs. The remaining 52% (or \$85,948) of the wastewater revenue requirement represents the consumption charge based on the estimated number of gallons consumed during the test period.

Schedules of the utility's existing rates and the new rates and rate structure are as follows:

<u>MONTHLY WASTEWATER RATES</u>		
<u>General Service and Residential Service</u>		
<u>Meter Size</u>	<u>Base Facility Charge</u>	
	<u>Existing Rate</u>	<u>Approved Rate</u>
5/8" x 3/4"	\$ 10.46	\$ 14.98
3/4"	15.69	22.47
1"	26.15	37.45
1-1/2"	52.30	74.89
2"	83.68	119.83
3"	167.36	239.66
4"	261.50	374.46
6"	523.00	748.92
Gallonage Charge		
General Service (No Maximum)	\$ 1.77	\$ 3.12

MONTHLY WASTEWATER RATES

<u>Meter Size</u>	<u>Residential Service</u>	
	<u>Existing Rate</u>	<u>Base Facility Charge Approved Rate</u>
All Meter Sizes	\$ 10.46	\$ 14.98
Gallage Charge		
Per 1,000 gallons (6K Max) Res.	\$ 1.47	\$ 2.60

Using the 402 test year residential wastewater customers with an average wastewater use of 4,730 gallons per month, an average residential wastewater bill comparison would be as follows:

	<u>Average Bill Using Existing Rates</u>	<u>Average Bill Using Approved Rates</u>	<u>Percent Increase</u>
Base Facility Charge	\$10.46	\$14.98	
Gallage Charge	<u>8.89</u>	<u>12.31</u>	
Total	\$19.35	\$27.29	41%

The rates shall be effective for service rendered as of the stamped approval date on the tariff sheets provided the customers have received notice. The tariff sheets will be approved upon staff's verification that the tariffs are consistent with our decision, that the customer notice is adequate, and that any required security has been provided. The utility shall provide proof of the date notice was given within 10 days after the date of the notice.

If the effective date of the new rates falls within a regular billing cycle, the initial bills at the new rate may be prorated. The old charge shall be prorated based on the number of days in the billing cycle before the effective date of the new rates. The new charge shall be prorated based on the number of days in the billing cycle on or after the effective date of the new rates.

In no event shall the rates be effective for service rendered prior to the stamped approval date on the tariffs.

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 the rate case expense previously included in the rates. The reduction will reflect the removal of revenues associated with the amortization of rate case expense and the gross-up for regulatory assessment fees. This amount is \$5,264. The reduction in revenues will result in the rate decreases as shown on Schedule No. 4-A.

The utility shall file revised tariff sheets no later than one month prior to the actual date of the required rate reduction. The utility also shall 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 increase or decrease and the reduction in the rates due to the amortized rate case expense.

#### TEMPORARY RATES IN THE EVENT OF PROTEST

This Order proposes an increase in wastewater rates. A timely protest might delay what may be a justified rate increase resulting in an unrecoverable loss of revenue to the utility. Therefore, 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. The rates collected by the utility shall be subject to the refund provisions discussed below.

The utility shall be authorized to collect the temporary rates upon staff's approval of security for both the potential refund and a copy of the proposed customer notice. The security shall be in the form of a bond or letter of credit in the amount of \$32,929. Alternatively, the utility may establish an escrow agreement with an independent financial institution.

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

- 1) The Commission approves the rate increase; or
- 2) If the Commission denies the increase, the utility shall refund the amount collected that is attributable to the increase.

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

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

If security is provided through an escrow agreement, the following conditions 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 escrow account shall revert to the utility.
- 5) All information on the escrow account shall be available from the holder of the escrow account to a Commission representative at all times.
- 6) The amount of revenue subject to refund shall be deposited in the escrow account within seven days of receipt.
- 7) This escrow account is established by the direction of the Florida Public Service Commission for the purpose(s) set forth in its order requiring such account. Pursuant to Cosentino v. Elson, 263 So.2d 253 (Fla. 3d DCA 1972), escrow accounts are not subject to garnishments.
- 8) The Director of Records and Reporting must be a signatory to the escrow agreement.

In no instance shall the maintenance and administrative 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 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 shall 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.

#### BOOKS AND RECORDS

The Commission has very specific rules regarding utilities' books and records and provisions regarding the burden of proof for audit purposes. Rule 25-30.115, Florida Administrative Code, states that water and wastewater utilities shall maintain their accounts and records in conformity with the 1984 NARUC Uniform Systems of Accounts adopted by the National Association of Regulatory Utility Commissioners. Rule 25-30.450, Florida Administrative Code, requires that the utility must be able to support any schedule submitted, as well as any adjustments or allocations relied on by the utility. This rule further indicates that documents supporting a rate filing must be organized in a systematic and rational manner so as to enable Commission personnel to verify the schedules in an expedient manner and minimal amount of time.

Through the course of the field audit, our staff auditor concluded that RHV's books and records are not in compliance with the above mentioned rules. The staff auditor revealed, in Audit Exception No. 2 of the Audit Report, that the books and records of this utility did not enable Commission personnel to verify the schedules in an expedient manner and with a minimal amount of time. Therefore, we find it appropriate to require RHV to bring its books and records into compliance with the NARUC Uniform System of Accounts within six months from the date of this Order.

CUSTOMER DEPOSITS

As a result of our review of the utility's customer deposits, we have determined that the utility has a substantially high level of customer deposits for a utility that has experienced zero growth for several years. This raised a concern about the utility's refund policies regarding deposits. Pursuant to Rule 25-30.311(5), Florida Administrative Code,

After a customer has established a satisfactory payment record and has had continuous service for a period of 23 months, the utility shall refund the residential customer's deposits . . . .

The utility's tariff authorizes it to collect a deposit for wastewater service. We believe that a large portion of this deposit total is being held in violation of the 23-month maximum period under the provision of Rule 25-30.311, Florida Administrative Code. Therefore, we find it appropriate to require the utility to make the appropriate refunds with interest by granting credits to the customers within 90 days of the date of this Order. By the end of this 90 day period, the utility shall file a refund report similar to that required in Rule 25-30.360(7), Florida Administrative Code.

Although Rule 25-30.360(1), Florida Administrative Code, excludes deposit refunds from its purview, we find that the Commission has both the statutory and rule authority to require the utility to submit customer deposit refund reports to the Commission. The information we are requiring is similar to that required by Rule 25-30.360(7). Section 367.171, Florida Statutes, grants the Commission exclusive jurisdiction over regulated utilities' authority, service, and rates. Because customer deposits and the refunds thereof relate to a utility's rates and service, the Commission has the power to require proof that a utility is properly handling and refunding those deposits. In addition, pursuant to Section 367.121(1)(c), Florida Statutes, the Commission has the authority to require any report from a regulated utility. Furthermore, Rule 25-30.311(3), Florida Administrative Code, requires a utility to keep records of customer deposits and a record of each transaction concerning such deposits, which includes any refund transaction. These records and reports are to be provided to the Commission, upon request, pursuant to Rule 25-30.110, Florida Administrative Code. Therefore, the utility shall

refund deposits for all customers that have established a satisfactory payment record and have had continuous service for a period of 23 months. In addition, the utility shall submit refund reports regarding customer deposits for our review. These reports shall specify the amount of money to be refunded and how that amount was computed, the amount of money actually refunded, the amount of any unclaimed refunds, the status of any unclaimed amounts, and this shall be completed within six months of the date of this Order.

ESCROW OF INCREASED REVENUES RELATED TO PRO FORMA ADDITIONS

The history of this utility details repeated assurances that improvements would be made and that utility maintenance would be improved. However, these promises have not been kept, and the service provided by this utility, as well as its customers, has suffered as a result. Therefore, we find that the increased revenue associated with the completion of pro forma additions shall be escrowed and that our staff will have a role in the disbursement of funds from this account. Accordingly, the utility shall deposit in the escrow account, each month, the amount of \$1,704, as calculated below:

Pro Forma Additions	\$174,283
Rate of Return	<u>10.77%</u>
Revenue Associated With Pro Forma	\$18,770
Depreciation Associated With Pro Forma	\$796
Regulatory Assessment Fees Associated With Pro Forma	\$880
Income Associated With Pro Forma	\$20,446
Months In Year	<u>12</u>
Amount To Be Escrowed Monthly	<u>\$1,704</u>



In addition, the escrow agreement shall only allow for withdrawals by the utility for payments for pro forma improvements contained in the body of this Order and with the acquiescence of our staff. Under no circumstances shall the utility be allowed to withdraw any of these funds without prior approval of staff who will have confirmed the completion of approved pro forma additions.

Pursuant to Rule 25-30.360(6), Florida Administrative Code, the utility shall provide a report by the 20th day of each month indicating in detail the total amount collected from its wastewater customers on a monthly and total basis. The escrow agreement shall be established between the utility, the Commission, and an independent financial institution pursuant to a written escrow agreement. The Commission shall be a party to the written escrow agreement and a signatory to the escrow account. The written escrow agreement shall state the following: That the account is established at the direction of this Commission for the purpose set forth above; that withdrawals of funds to pay for approved pro forma additions to plant in service shall only occur with prior approval of the Commission; that the account shall be interest bearing; that the Director of Records and Reporting must be a signatory to the escrow agreement; that all information concerning the escrow account shall be available from the institution to the Commission or its representative at all times; and that pursuant to Cosentino v. Elson, 263 So. 2d 253 (Fla. 3d. DCA 1972), escrow accounts are not subject to garnishments.

If a refund to the customers is required, all interest earned by the escrow account shall be distributed to the customers and undertaken in accordance with Rule 25-30.360, Florida Administrative Code. If a refund to the customers is not required, the interest earned by the escrow account shall revert to the utility.

In no instance shall maintenance and administrative costs associated with any refund be borne by the customers. The costs are the responsibility of, and should be borne by, the utility.

#### CLOSING OF DOCKET

If the utility timely responds to the show cause portion of this Order, we will address the disposition of the show cause proceeding at a later time, and this docket shall remain open. However, in the event the utility remits the fine or if this matter

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is referred to the Comptroller's office, this docket shall be closed upon the completion of the construction of the approved pro forma adjustments.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that RHV Utility, Inc.'s application for increased wastewater rates is hereby 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 incorporated herein by reference. It is further

ORDERED that the provisions of this Order regarding our granting increased rates 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, Division of Records and Reporting, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings or Judicial Review" attached hereto. It is further

ORDERED that RHV Utility, Inc. shall bring its books and records in compliance with the 1984 NARUC Uniform System of Accounts within six months from the date of this Order. It is further

ORDERED that RHV Utility, Inc. is hereby authorized to charge the new rates as set forth in the body of this Order. It is further

ORDERED that RHV Utility, Inc.'s rates shall be effective for service rendered on or after the stamped approval date on the tariff sheet pursuant to Rule 25-30.475(1), Florida Administrative Code, provided that the customers have received proper notice. It is further

ORDERED that RHV Utility, Inc. shall provide proof that the customers have received notice within ten days of the date of the notice. It is further

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ORDERED that in the event of a protest by any substantially affected person other than the utility, RHV Utility, Inc. is authorized to collect the rates approved on a temporary basis, subject to refund in accordance with Rule 25-30.360, Florida Administrative Code, provided that RHV Utility, Inc. first furnishes and has approved by Commission staff, adequate security for any potential refund and a proposed customer notice. It is further

ORDERED that, prior to its implementation of the rates approved herein, RHV Utility, Inc. shall submit and have approved revised tariff pages. The revised tariff pages will be approved upon our staff's verification that the pages are consistent with our decision herein, that the protest period has expired, and that the customer notice is adequate and that any required security has been provided. It is further

ORDERED that the rates shall be reduced at the end of the four-year rate case expense amortization period, consistent with our decision herein. The utility shall file revised tariff sheets no later than one month prior to the actual date of the reduction and shall file a customer notice. It is further

ORDERED that prior to its implementation of the rates approved herein, RHV Utility, Inc. shall submit and have approved a bond or letter of credit in the amount of \$32,929 as a guarantee of any potential refund of revenues collected on a temporary basis. Alternatively, the utility may establish an escrow account with an independent financial institution. It is further

ORDERED that RHV Utility, Inc. shall submit monthly reports no later than 20 days after each monthly billing which shall indicate the amount of revenue collected on a temporary basis subject to refund. It is further

ORDERED that RHV Utility, Inc. shall complete all pro forma additions, submit reports as detailed in the body of this Order, and obtain an operating permit or consent agreement with the Florida Department of Environmental Protection within six months from the date of this Order. It is further

ORDERED that Commission staff shall meet with RHV Utility, Inc. every ninety days to monitor the utility and report the status. It is further

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ORDERED that pursuant to Rule 25-30.311, Florida Administrative Code, RHV Utility, Inc. shall refund with interest the deposits for all customers that have established a satisfactory payment record and have had continuous service for a period of twenty-three months within ninety days of the date of this Order. It is further

ORDERED that RHV Utility, Inc. shall submit refund reports regarding customer deposits similar to that required in Rule 25-30.360(7), Florida Administrative Code, and as more fully set forth in the body of this Order, within six months of the date of this Order. It is further

ORDERED that RHV Utility, Inc. shall escrow the increased revenues associated with the completion of pro forma additions contained in the body of this Order. The escrow agreement shall only allow for withdrawals by RHV Utility, Inc. for payments for pro forma improvements contained in the body of this Order and only upon Commission staff's approval who will have confirmed the completion of the pro forma additions. It is further

ORDERED that RHV Utility, Inc. shall provide a report by the 20th day of each month indicating in detail the total amount of increased revenues associated with the completion of pro forma additions collected from its wastewater customers on a monthly and total basis. It is further

ORDERED that RHV Utility, Inc. shall show cause in writing within twenty days of the issuance of this Order why it should not be fined \$5,000 for failing to comply with Section 367.111(2), Florida Statutes, by not providing satisfactory service which meets the standards promulgated by the Florida Department of Environmental Protection. It is further

ORDERED that RHV Utility, Inc.'s written response must contain specific allegations of fact and law. It is further

ORDERED that RHV Utility, Inc.'s opportunity to file a written response shall constitute its opportunity to be heard prior to a final determination of noncompliance and assessment of penalty by this Commission. It is further

ORDERED that failure to file a timely written response shall constitute an admission of the facts alleged in the body of this order and a waiver of the right to a hearing. It is further

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ORDERED that, in the event that RHV Utility, Inc. files a written response that raises material questions of fact and requests a hearing pursuant to Section 120.569, Florida Statutes, further proceedings will be scheduled before a final determination on this matter is made. It is further

ORDERED that if the utility fails to respond within 20 days of the issuance of this Order, the fine of \$5,000 shall be imposed without further action of this Commission. It is further

ORDERED that if RHV Utility, Inc. fails to respond to reasonable collection efforts by this Commission, the fine shall be deemed uncollectible and shall be referred to the Comptroller's Office for further collection efforts. It is further

ORDERED that if RHV Utility, Inc. timely responds to the show cause portion of this Order, this docket shall remain open pending disposition of the show cause proceeding. However, in the event the utility remits the fine or if this matter is referred to the Comptroller's office, this docket shall be closed upon the completion of the construction of the approved pro forma adjustments provided a timely protest is not received from a substantially affected person within twenty-one days of the issuance of this Order.

By ORDER of the Florida Public Service Commission, this 16th day of July, 1997.

BLANCA S. BAYÓ, Director  
Division of Records and Reporting

By: Kay Flynn  
Kay Flynn, Chief  
Bureau of Records

( S E A L )

BLR

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), 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.

Mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing.

The actions proposed herein regarding granting increased rates and requiring conformity with NARUC system of accounts 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, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on August 6, 1997.

In the absence of such a petition, this order shall become effective on the day 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 proposed agency action portion of this order becomes final and effective on the date described above, any party substantially 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

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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.

The show cause portion of this order is preliminary, procedural or intermediate in nature. 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 25-22.037(1), 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, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on August 5, 1997.

Failure to respond within the time set forth above shall constitute an admission of all facts and a waiver of the right to a hearing pursuant to Rule 25-22.037(3), Florida Administrative Code, and a default pursuant to Rule 25-22.037(4), Florida Administrative Code. Such default shall be effective on the day subsequent to the above date.

If an adversely affected person fails to respond to the show cause portion of this order within the time prescribed above, that party may request judicial review by the Florida Supreme Court in the case of any 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.

RHV UTILITY, INC.  
 TEST YEAR ENDING OCTOBER 31, 1996  
 SCHEDULE OF WASTEWATER RATE BASE

SCHEDULE NO. 1  
 DOCKET NO. 961220-SU

	<u>BALANCE PER UTILITY 10/31/1996</u>	<u>COMM. ADJUST. TO UTIL. BAL.</u>		<u>BALANCE PER COMM.</u>
UTILITY PLANT IN SERVICE	\$180,875	\$924,477	A	\$1,105,352
LAND/NON-DEPRECIABLE ASSETS	10,000	75,967	B	85,967
PLANT HELD FOR FUTURE USE	0	0		0
NON-USED AND USEFUL PLANT	0	(171,788)	C	(171,788)
CWIP	16,026	(16,026)		0
CIAC	(950)	(734,634)	D	(735,584)
ACCUMULATED DEPRECIATION	(37,384)	(445,034)	E	(482,418)
AMORTIZATION OF ACQUISITION ADJUSTMENT	0	0		0
AMORTIZATION OF CIAC	0	345,392	F	345,392
WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>15,539</u>	G	<u>15,539</u>
WASTEWATER RATE BASE	\$168,567	(\$6,107)		<span style="border: 1px solid black; padding: 2px;">\$162,460</span>



RHV UTILITY, INC.  
TEST YEAR ENDING OCTOBER 31, 1996  
ADJUSTMENTS TO RATE BASE

SCHEDULE NO 1-A  
DOCKET NO. 961220-SU

	WATER	WASTE- WATER
<b>A. UTILITY PLANT IN SERVICE</b>		
1. Agree utility balances with previous Orders, additions & retirements	\$ 0	\$ 740,286
2. Reflect averaging adjustment	0	(6,119)
3. Pro forma additions of pis	0	173,283
4. Reclassification from construction work in progress to plant in service	0	16,026
5. Pro forma additions of meter and electrical equip. at hotel lift station	0	1,000
6.	0	0
7.	0	0
8.	0	0
9.	0	0
	<u>\$ 0</u>	<u>\$ 924,477</u>
<b>B. LAND</b>		
1. Agree utility balances with Order 950961	\$ 0	\$ 75,967
2.	0	0
	<u>\$ 0</u>	<u>\$ 75,967</u>
<b>C. NON-USED AND USEFUL PLANT</b>		
1. Net adjustment for non used and useful plant	\$ 0	\$ (171,788)
<b>D. CIAC</b>		
1. Agree utility bal. with Order 950961 and NARUC rates	\$ 0	\$ (734,634)
2.	0	0
3.	0	0
4.	0	0
	<u>\$ 0</u>	<u>\$ (734,634)</u>
<b>E. ACCUMULATED DEPRECIATION</b>		
1. Agree utility balances with previous Orders, additions & retirements	\$ 0	\$ (453,205)
2. To reflect averaging adjustment	0	16,240
3. Adjust acc. depr. related to pro forma additons of pis	0	(8,069)
4.	0	0
5.	0	0
6.	0	0
7.	0	0
	<u>\$ 0</u>	<u>\$ (445,034)</u>
<b>F. AMORTIZATION OF CIAC</b>		
1. Agree utility bal. with previous Orders and NARUC approved levels	\$ 0	\$ 360,987
2. To reflect averaging adjustment	0	(15,594)
3.	0	0
4.	0	0
	<u>\$ 0</u>	<u>\$ 345,392</u>
<b>G. WORKING CAPITAL ALLOWANCE</b>		
1. To reflect 1/8 of test year O & M expenses	\$ 0	\$ 15,539

RHV UTILITY, INC.  
 TEST YEAR ENDING OCTOBER 31, 1996  
 SCHEDULE OF CAPITAL STRUCTURE

SCHEDULE NO. 2  
 DOCKET NO. 961220-SU

	<u>PER UTL.</u> <u>10/31/1996</u>	<u>COMM.</u> <u>ADJ. TO</u> <u>UTIL. BAL.</u>	<u>BALANCE</u> <u>PER</u> <u>COMM.</u>	<u>PERCENT</u> <u>OF TOTAL</u>	<u>COST</u>	<u>WEIGHTED</u> <u>COST</u>
LONG-TERM DEBT	\$ 30,000	\$ 5,543	\$ 35,543	21.88%	11.88%	2.60%
LONG-TERM DEBT	0	0	0	0.00%	0.00%	0.00%
LONG-TERM DEBT	0	0	0	0.00%	0.00%	0.00%
LONG-TERM DEBT	0	0	0	0.00%	0.00%	0.00%
LONG-TERM DEBT	0	0	0	0.00%	0.00%	0.00%
LONG-TERM DEBT	0	0	0	0.00%	0.00%	0.00%
LONG-TERM DEBT	0	0	0	0.00%	0.00%	0.00%
LONG-TERM DEBT	0	0	0	0.00%	0.00%	0.00%
EQUITY	105,744	19,538	125,282	77.12%	10.52%	8.11%
PREFERRED STOCK	0	0	0	0.00%	0.00%	0.00%
CUSTOMER DEPOSITS	<u>1,635</u>	<u>0</u>	<u>1,635</u>	<u>1.01%</u>	6.00%	<u>0.06%</u>
TOTAL	\$ 137,379	\$ 25,081	\$ 162,460	100.00%		<span style="border: 1px solid black;">10.77%</span>
RATE BASE			162,460			

RANGE OF REASONABLENESS

LOW                      HIGH

RETURN ON EQUITY	9.52%	11.52%
OVERALL RATE OF RETURN -- --	10.00%	11.54%

RHV UTILITY, INC.  
 TEST YEAR ENDING OCTOBER 31, 1996  
 SCHEDULE OF WASTEWATER OPERATING INCOME

SCHEDULE NO. 3-A  
 DOCKET NO. 961220-SU

	TEST YEAR PER UTILITY 10/31/1996	COMM. ADJ. TO UTILITY	COMM. ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	TOTAL PER COMM.
OPERATING REVENUES	\$ 115,366	\$ 1,131	\$ 116,497	\$ 47,683 E 40.93%	\$ 164,180
OPERATING EXPENSES					
OPERATION AND MAINTENANCE	155,292	(30,981) A	124,311	0	124,311
DEPRECIATION	32,098	8,382 B	40,480	0	40,480
AMORTIZATION	0	(31,229) C	(31,229)	0	(31,229)
TAXES OTHER THAN INCOME	773	10,203 D	10,976	2,146 F	13,122
INCOME TAXES-N/A "S" Corp.	0	0	0	0	0
TOTAL OPERATING EXPENSES	\$ 188,163	\$ (43,625)	\$ 144,538	\$ 2,146	\$ 146,684
OPERATING INCOME / (LOSS)	\$ (72,797)		\$ (28,041)		\$ 17,496
WASTEWATER RATE BASE	\$ 168,567		\$ 162,460		\$ 162,460
RATE OF RETURN	<u>-43.19%</u>		<u>-17.26%</u>		<u>10.77%</u>

RHV UTILITY, INC.  
 TEST YEAR ENDING OCTOBER 31, 1996.  
 ADJUSTMENTS TO OPERATING INCOME

SCHEDULE NO. 3-B (Sheet 1 of 2)  
 DOCKET NO. 961220-SU

<u>REVENUE</u>	<u>WATER</u>	<u>WASTE- WATER</u>
a. To adjust income to the billing analysis	\$ 0	\$ 1,131
b.	0	0
	<u>\$ 0</u>	<u>\$ 1,131</u>
<b>A. <u>OPERATION AND MAINTENANCE EXPENSES</u></b>		
<b>1. Salaries and Wages (Employees)</b>		
a. N/A-cost included in contractual expense	<u>\$ 0</u>	<u>\$ 0</u>
<b>2. Salaries and Wages (Officers)</b>		
a. To reclassify to contractual svcs.	<u>\$ 0</u>	<u>\$ (11,600)</u>
<b>3. Sludge Removal Expense</b>		
a. To adjust to appropriate level	\$ 0	\$ 11,600
b.	0	0
	<u>\$ 0</u>	<u>\$ 11,600</u>
<b>4. Purchased Water</b>		
a. No adjustment deemed necessary	\$ 0	\$ 0
b.	0	0
	<u>\$ 0</u>	<u>\$ 0</u>
<b>5. Purchased Power</b>		
a. To include the purchase power expense for the hotel lift station	\$ 0	\$ 500
b.	0	0
c.	0	0
d.	0	0
	<u>\$ 0</u>	<u>\$ 500</u>
<b>6. Chemicals</b>		
a. To adjust to appropriate level	\$ 0	\$ 5,814
b.	0	0
	<u>\$ 0</u>	<u>\$ 5,814</u>
<b>7. Materials and Supplies</b>		
a. No adjustment deemed necessary	0	0
	<u>\$ 0</u>	<u>\$ 0</u>
<b>8. Contractual Services</b>		
a. To adjust to audited levels	\$ 0	\$ (17,844)
b. To amort. eng. & legal costs (\$38,576/5yr=\$7,715; defer \$30,861)	0	(30,861)
c. To reclass plant in service	0	(17,694)
d. To amortize repair of sub-aqueous line (\$5,331/5yr=\$1,066; defer \$4,265)	0	(4,265)
e. To amortize pipeline repair (\$39,460/5=\$7,892; defer \$31,568)	0	7,892
f. To adjust for H2O contract operator expense	0	40,872
g. To adjust testing expense	0	5,519
h. To adjust for water used for cleaning	0	317
i.	0	0
j.	0	0
	<u>\$ 0</u>	<u>\$ (16,064)</u>
<b>9. Rents</b>		
a. No adjustment deemed necessary	\$ 0	\$ 0
b.	0	0
c.	0	0
	<u>\$ 0</u>	<u>\$ 0</u>
<b>10. Transportation Expenses</b>		
a. No adjustment deemed necessary	\$ 0	\$ 0
b.	0	0
c.	0	0
	<u>\$ 0</u>	<u>\$ 0</u>
<b>11. Insurance Expense</b>		
a. No adjustment deemed necessary	\$ 0	\$ 0
b.	0	0
c.	0	0
d.	0	0
e.	0	0
	<u>\$ 0</u>	<u>\$ 0</u>

(Continued on Sheet 2)

RHV UTILITY, INC.  
 TEST YEAR ENDING OCTOBER 31, 1996  
 ADJUSTMENTS TO OPERATING INCOME

SCHEDULE NO. 3-B (Sheet 2 of 2)  
 DOCKET NO. 961220-SU

	<u>WATER</u>	<u>WASTE- WATER</u>
12. Regulatory Expense		
a. To include filing fee exp. amortized over 4 years	\$ 0	\$ 267
b. To defer rate case expense (\$19,082/4=\$4,771;\$19,082-4,771=\$14,311)	0	(17,523)
c.	0	0
	<u>\$ 0</u>	<u>\$ (17,256)</u>
13. Miscellaneous Expenses		
a. To remove the allowance for Director's fees	\$ 0	\$ (3,975)
b.	0	0
c.	0	0
d.	0	0
e.	0	0
f.	0	0
g.	0	0
h.	0	0
i.	0	0
j.	0	0
k.	0	0
	<u>\$ 0</u>	<u>\$ (3,975)</u>
14. Unclassified disbursements		
a. No adjustment deemed necessary	\$ 0	\$ 0
b.	0	0
c.	0	0
d.	0	0
	<u>\$ 0</u>	<u>\$ 0</u>
	<u>\$ 0</u>	<u>\$ (30,981)</u>
<b>B. DEPRECIATION EXPENSE</b>		
1. To adj. depr. expense per NARUC rates	\$ 0	\$ 6,971
2. To adj. depr. expense related to nuu pis adjustment	0	(6,658)
3. To adj. depr. expense for pro forma additions	0	7,347
4. To adj. depr. expense for transfer of work in progress to plant in service	0	680
5. To adj. depr. expense for pro forma meter at lift station	0	42
	<u>\$ 0</u>	<u>\$ 8,382</u>
<b>C. AMORTIZATION EXPENSE</b>		
1. To adj. CIAC amort. per NARUC rates	\$ 0	\$ (31,229)
<b>D. TAXES OTHER THAN INCOME TAX</b>		
1. To adj. rafs to test year level	\$ 0	\$ 5,242
2. To adj. property tax to test year level	0	716
3. To adj. county tangible tax to test year level	0	4,620
4. Eliminate corporate reinstatement penalty	0	(375)
5.	0	0
6.	0	0
7.	0	0
	<u>\$ 0</u>	<u>\$ 10,203</u>
<b>E. OPERATING REVENUES</b>		
1. To reflect increase in revenue	\$ 0	\$ 47,683
<b>F. TAXES OTHER THAN INCOME</b>		
1. To reflect additional regulatory assessment fee associated with the revenue requirement	\$ 0	\$ 2,146

RHV UTILITY, INC.  
 TEST YEAR ENDING OCTOBER 31, 1996  
 ANALYSIS OF WASTEWATER OPERATION AND  
 MAINTENANCE EXPENSE

SCHEDULE NO. 3-C  
 DOCKET NO. 961220-SU

	<u>TOTAL PER UTIL.</u>	<u>COMM. ADJUST.</u>		<u>TOTAL PER COMM.</u>
(701) SALARIES AND WAGES - EMPLOYEES	\$ 0	\$ 0	[1]	0
(703) SALARIES AND WAGES - OFFICERS	11,600	(11,600)	[2]	0
(704) EMPLOYEE PENSIONS AND BENEFITS	0	0		0
(710) PURCHASED SEWAGE TREATMENT SLUDGE REMOVAL	0 6,250	0 11,600	[3]	0 17,850
(715) PURCHASED POWER	8,468	500	[4]	8,968
(716) FUEL FOR POWER PRODUCTION	0	0		0
(718) CHEMICALS	3,775	5,814	[5]	9,589
(720) MATERIALS AND SUPPLIES	2,965	0	[6]	2,965
(730) CONTRACTUAL SERVICES	90,172	(16,064)	[7]	74,108
(740) RENTS	0	0	[8]	0
(750) TRANSPORTATION EXPENSE	1,612	0	[9]	1,612
(755) INSURANCE EXPENSE	500	0	[10]	500
(765) REGULATORY EXPENSES	22,293	(17,256)	[11]	5,037
(770) BAD DEBT EXPENSE	0	0		0
(775) MISCELLANEOUS EXPENSES	7,657	(3,975)	[12]	3,682
UNCLASSIFIED DISBURSEMENTS	0	0	[13]	0
	<u>\$ 155,292</u>	<u>\$ (30,981)</u>		<u>\$ 124,311</u>

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RECOMMENDED RATE REDUCTION SCHEDULE

RHV UTILITY, INC.  
TEST YEAR ENDING OCTOBER 31, 1996  
CALCULATION OF RATE REDUCTION AMOUNT

SCHEDULE NO. 4-A  
DOCKET NO. 961220-SU

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

MONTHLY WASTEWATER RATES

<u>RESIDENTIAL AND GENERAL SERVICE</u>	<u>RATES</u>	<u>RATE DECREASE</u>
BASE FACILITY CHARGE:		
Meter Size:		
5/8"X3/4"	\$ 14.98	0.48
1"	22.47	0.72
1-1/4"	37.45	1.20
1-1/2"	74.89	2.41
2"	119.83	3.85
3"	239.66	7.70
4"	374.46	12.03
6"	748.92	24.06
RESIDENTIAL GALLONAGE CHARGE PER 1,000 GALLONS	\$ 2.60	0.08