

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for staff-
assisted rate case in Highlands
County by Damon Utilities, Inc.

DOCKET NO. 981198-WS
ORDER NO. PSC-99-1223-PAA-WS
ISSUED: June 21, 1999

The following Commissioners participated in the disposition of this matter:

JOE GARCIA, Chairman
J. TERRY DEASON
SUSAN F. CLARK
JULIA L. JOHNSON
E. LECN JACOBS, JR.

ORDER GRANTING TEMPORARY RATES IN THE EVENT OF A PROTEST AND
REQUIRING CONFORMANCE WITH NARUC SYSTEM OF ACCOUNTS
AND ORDER NO. 25789

AND

NOTICE OF PROPOSED AGENCY ACTION ORDER APPROVING
INCREASE IN 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 and decision not to initiate a show cause proceeding, 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

Damon Utilities, Inc. (Damon or utility) is a Class C water and wastewater utility located in Highlands County. The utility provides water service to approximately 218 customers (215 residential and three general service) and wastewater service to approximately seventy-seven customers (seventy-five residential and two general service).

DOCUMENT NUMBER-DATE

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FPSC-RECORDS/REPORTING

The utility was granted Water Certificate No. 499-W and Wastewater Certificate No. 433-S, pursuant to Order No. 19655, issued July 11, 1988, in Docket No. 871026-WS. By Order No. 25789, issued February 24, 1992, in Docket No. 910690-WS, rate base was established for the utility for the test period ended June 30, 1991.

On September 22, 1998, Damon applied for this staff-assisted rate case pursuant to Section 367.0814, Florida Statutes. By letter dated October 26, 1998, the utility was deemed eligible for a staff-assisted rate case. The utility paid its filing fee on November 23, 1998.

In its application, the utility requested an increase in water and wastewater rates. We audited the utility's records for compliance with our rules and orders and examined all components necessary for rate setting. Our staff engineer conducted a field investigation, which included a visual inspection of the water plant and distribution system, and wastewater plant and collection system, along with the service area. The utility's operating expenses, maps, files, and rate application were also reviewed to determine reasonableness of maintenance expenses, regulatory compliance, utility plant-in-service (UPIS) and quality of service.

A customer meeting was held on March 24, 1999, in the service territory to obtain information concerning quality of service and to allow customers an opportunity to speak directly with Commission staff regarding any complaints that they were experiencing. This meeting is discussed in greater detail below.

A historical test year ended June 30, 1998, was selected for this case. Adjusted test year revenues are \$36,230 for the water system and \$21,475 for the wastewater system. Adjusted operating expenses are \$34,092 for the water system and \$24,265 for the wastewater system. These amounts result in an adjusted net income of \$2,138 for the water system and net loss of \$2,790 for the wastewater system. This level of income for the water system allows the utility a 5.51% return on its investment.

QUALITY OF SERVICE

The overall quality of service provided by the utility is derived from the evaluation of three separate components of water

and wastewater utility operations:

- (1) Quality of the utility's product
- (2) Operational condition of the utility's plant or facilities
- (3) Customer satisfaction

Quality of Utility's Product

In Highlands County, the potable water program is regulated by the South Florida District of the Florida Department of Environmental Protection (DEP). According to the DEP, the utility is current with all chemical analysis and all test results are satisfactory. The utility provides water which meets or exceeds all standards for safe, potable water.

Jurisdiction over wastewater facilities is also regulated by the South Florida District of the DEP. The utility's operating permit expired on December 22, 1998. That permit was reissued on February 25, 1999, and is valid until February 24, 2004. There are no outstanding violations or citations, and the utility has complied with all testing/analysis. The quality of wastewater service meets or exceeds regulatory standards and should be considered satisfactory.

Operational Condition of the Utility's Plant or Facilities

The quality of the utility's plant-in-service is generally reflective of the quality of the utility's product. The water plant has recently been upgraded to include an auxiliary power generator in the event of emergency outages. Maintenance of the building which houses the primary well and pump at the water treatment plant is satisfactory. The building itself is showing signs of age and recently required roof reconstruction. The operator's work space inside the building is somewhat tidy, but it could use general cleaning and painting. We find that the quality of the water treatment plant-in-service is satisfactory.

The wastewater plant-in-service is also reflective of the product provided by the utility. The overall capacity of the wastewater plant is sufficient to process the typical flows of a customer base of Damon's size. The wastewater plant is located behind shrubs and hedges to obstruct its view from the public. Behind the shrubs, the plant appears well maintained with the exception of the grated cat walk over the sand filter reservoirs,

which is rusted and appears unable to support the weight of an average person. With this exception, appearances at the plant were satisfactory and no foul or obnoxious odors were detected during the engineering investigation. Based on the foregoing, we find that the quality of the wastewater plant-in-service is satisfactory.

Customer Satisfaction

Two customer meetings were held on March 23, 1999, in Damon's service territory at the River Greens Club House. The President of the homeowners association and two other customers attended the earlier meeting while there were about twenty customers from the service area present at the later meeting. The customers appeared to be satisfied with the water system. Dissatisfaction with quality of service of the wastewater system centered around excessive odors at the plant and the continuance of service during an emergency.

Odor at the wastewater treatment plant was a problem that the DEP cited during an inspection on April 16, 1998. After an analysis by McDonald Group International, Inc., consulting engineers for the utility, it was determined that the utility needed to increase the air flow capacity to the aeration tanks. The utility refurbished the air header pipes which improved the air supply and allows both blowers to be used during peak flow periods. This refurbishment was completed prior to our engineer's field investigation. The utility's operating permit was issued in February, 1999, which required evaluation during the winter of 1998 through 1999, the peak season for the utility. Since odor was a prior citation with the DEP, it had to be resolved before the permit could be issued. The odor problem appears to have been resolved.

Plant odors caused customers to be suspicious that a sludge truck coming and going at the plant was being used to dispose of sludge in lieu of proper treatment at the plant. However, for a utility Damon's size, the most economical way to dispose of its sludge is via a sludge hauling service. In the normal treatment of wastewater, the activated sludge process is a cultivation of zoogleal bacteria and other organisms in the presence of dissolved oxygen. When these organisms reach their life span, they become accumulated solids that are separated from wastewater during the treatment process. This is a normal by-product of the activated sludge process, and all wastewater plants must routinely eliminate

sludge as part of their regular maintenance program. According to the DEP rules, the operator can discharge sludge from the plant only under the most strict regulatory standards. Sludge hauling services are licensed and permitted to dispose of sludge in a manner that is safe and free of health hazards to the general public. It was noted that the utility was not disposing of its sludge at regular time intervals. A sufficient allowance for sludge hauling services has been included in this rate case which will allow the utility to dispose of sludge every three months.

One customer was extremely concerned that the water treatment plant had an auxiliary power generator, but the master lift station located at Casa Del Lago was not required to have emergency back-up. Because the water system serves more than 350 people, DEP rules require it to have an auxiliary power supply. However, the wastewater system is not required to have back-up power because it serves 79 connections, which is estimated to be 63 equivalent residential connections (ERCs), which is less than 350 persons. Geographic specifics of the service area is such that the elevation of the wastewater plant is higher than the elevation of the master lift station, and several homes are constructed near or equal to the same elevation as the master lift station. Because the probability of power outages due to tornados and hurricanes is high for this area of Florida, the customers requested that some protection be provided.

We investigated the possibility of having the utility obtain a portable generator specifically for providing back-up power for the lift stations. However, we find that the cost estimates of several thousand dollars (\$6,000 to \$7,000) for a three phase generator and associated wiring are excessive. The utility suggested two courses of action: 1) it can have the sludge hauling contractor pump out the lift stations as necessary during power outages; and 2) it can use the existing generator assigned to the water plant. The auxiliary power unit at the water treatment plant is a Kohler 20RZ LP gas generator mounted on a skid equipped with wheels. This will allow it to be relocated. The generator is attached to a 100 gallon capacity LP gas tank, but can easily be disconnected. The utility keeps a portable LP gas tank for emergencies that will allow the generator to be relocated and used at the lift stations and/or the wastewater plant. While the customers' concerns are valid, we find that the two above-mentioned solutions are more prudent ways of resolving the potential problem without the expense of two generators, especially when a second generator is not required by law.

All things considered, we find that the quality of service for the water and wastewater systems is satisfactory.

RATE BASE

Used and Useful

Water Treatment Plant

The water treatment plant is a closed system of operation that currently relies on two wells to meet instantaneous fluctuations in flow demands. The total capacity of the two wells is 200 gallons per month (gpm). During the last case, the used and useful percentage was evaluated to be 100%. This calculation was achieved by a comparison study of the minimum standard of 1.1 gpm in accordance with General Waterworks design criteria to the number of customer connections. The American Water Works Association (AWWA) backed standard is recommended to be met by the lowest capacity well. To evaluate this, the actual capacity of both wells (200 gpm) was compared to the minimum requirements for the number of customer connections. This same comparison is being used in this rate case to form the base data for the approved formula, which is used as an indicator of useful plant. Customer growth has occurred since the last rate case while changes/upgrades to the water plant did not alter the pumping capacity. By the formula, the water treatment plant is 100% used and useful without a margin reserve. This is shown in Attachment "A", Sheet 1 of 2.

Water Distribution System

During the last rate case, the distribution system was 60.22% used and useful. By formula, the distribution system is now 79.18% used and useful. This is shown in Attachment "A", Sheet 2 of 2.

One exception to this is Account No. 334, meters and meter installations. Account No. 334 is 100% used and useful.

Wastewater Treatment Plant

The wastewater treatment plant was constructed to process 50,000 gallons per day (gpd). During the last rate case, the DEP gave the utility permission to reduce rated capacity of the plant to 20,000 gpd. However, it was deemed necessary for the used and useful to be based on the plant's full capacity due to the original investment for a 50,000 gpd plant. Since flows were low, this

resulted in a used and useful of 15.08%. Today, the constructed capacity of the wastewater treatment plant is still 50,000 gpd. Flows are measured by lapse-time meters in the master lift station which is not an accurate method of determining flows. Average daily flows during the months of November 1997, January 1998, March 1998, and April 1998 were recorded on the Monthly Operation Report with daily readings that exceeded the plant's capacity. Many factors (rags, toys, and other objects flushed into the system) will clog/restrict pumping capacity causing lapse-time meters to register false flows. The flows registered during the test year appear "out-of-line" with physical appearances at the plant, as well as the size of the customer base being served. A 50,000 gpd plant, by design is expected to service 178 ERCs (50,000/280 gpd per ERC). Currently, the utility provides wastewater service to 79 customers (63 ERCs) with an average of 62 ERCs during the test year. For calculation purposes, we find the average daily flow of 17,360 gpd (62 ERCs X 280 gpd/ERC) to be reasonable and prudent for the used and useful formula. The result of that calculation, used as an indicator of used and useful plant, is 38.1%. Therefore, we find that the wastewater treatment plant is 38.1% used and useful. This is shown in Attachment "B", Sheet 1 of 2.

Wastewater Collection System

The collection system was originally designed to service only the Casa Del Lago subdivision with a gravity system that fed one lift station. From that lift station, all raw wastewater was piped by a force main into the treatment plant. In 1991, a gravity system and a second lift station was added to accommodate a thirteen lot subdivision called Village Green. A force main transports the flows from Village Green directly to the first lift station at Casa Del Lago. In 1993, a new clubhouse was constructed, and a lift station was also constructed to transport wastewater from the clubhouse to the plant. This is accomplished by a force main from the clubhouse lift station to the Village Green lift station. The collection system appears adequately designed and constructed to serve the existing potential customer base. Each phase of development appears to have been constructed with the appropriate size gravity lines along with prudent placement of lift stations. The formula approach, used as an indicator, was used to calculate a 72.63% used and useful which was applied to the utility's collection accounts. The one exception is Account Number 363 (Services) which are installed upon request, and are considered 100% used and useful. Thus, we find that the collection system is 72.63% used and useful with the exception of

Account Number 363, which is 100% used and useful. This is shown in Attachment "B", Sheet 2 of 2.

Margin Reserve

Because this is a staff-assisted rate case, a request by the utility is not required for margin reserve to be calculated in the used and useful formula. Growth of water system customers over the last five years totaled fifty. By linear regression, it was calculated that next year's growth would be seven customers, estimated as six ERCs. The growth of six ERCs was used in the calculation of the water distribution system used and useful to obtain a margin reserve of nine ERCs.

Growth of the wastewater system customers over the last five years totaled thirty-eight, which is an average of eight ERCs. By linear regression, it was calculated that next year's growth would be three customers less than currently exist. Although actual customers have increased, growth for the wastewater system has been declining over the last three years. Due to the small potential customer base of ninety-five ERCs, the calculation was skewed into the negative. We do not find this to be a true picture of the system's future growth. There are sixteen remaining home sites, and growth in this area of Florida appears to be increasing. After careful consideration of the actual potential growth versus the projection by linear regression, we estimate that the actual growth will be four ERCs per year, which calculates to a margin reserve of six ERCs. Thus, the margin reserve for the wastewater system shall be six ERCs.

Test Year Rate Base

The appropriate rate base components for this utility include UPIS, non-used and useful plant, contributions-in-aid-of-construction (CIAC), accumulated depreciation, accumulated amortization of CIAC, and working capital allowance.

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.

As previously noted, we selected a test year ended June 30, 1998, for this rate case. The utility's rate base was last established by Order No. 25789, issued February 24, 1992, in Docket No. 910690-WS, using a test year ended June 30, 1991. According to the audit, Damon's general ledgers are maintained internally on a cash basis for income tax purposes and do not readily reconcile to the National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts "because of multiple differences in accounting methods and treatments." Therefore, this analysis reflects the utility's beginning balances for rate base components, which are \$0. Adjustments have been made to reconcile rate base component balances with Order No. 25789 and to update rate base through June 30, 1998. A summary of each component and the adjustments follows:

UPIS

The utility's books reflected a plant balance of \$0 at the beginning of the test year. We adjusted this balance in the amount of \$96,449 for the water system and \$179,562 for the wastewater system to reconcile the utility's books with Order No. 25789. We increased the UPIS accounts by \$13,596 for water and \$34,964 for wastewater to reflect additions that were made to plant since the utility's last rate case.

Further, adjustments were made to reflect test year additions to the water plant in the amount of \$12,460 and to the wastewater plant in the amount of \$850. We included in the test year as an addition an allowance in the amount of \$850 for each system to reflect a "Y2K ready" computer. The utility requested the computer allowance be included in this rate proceeding and submitted supporting documentation for the associated cost. We find it appropriate to include this amount in the utility's rate base as UPIS.

The above additions to plant result in total water and wastewater plant balances of \$122,505 and \$215,376, respectively. We reduced the plant balances to reflect an averaging adjustment in the amount of \$6,230 for the water system and \$425 for the wastewater system. The resulting UPIS is \$116,275 for water and \$214,951 for wastewater.

Non-Used and Useful Plant

As previously discussed, our engineer determined the used and useful percentage for all water and wastewater plant accounts. The non-used and useful percentages times the appropriate accounts reflect average non-used and useful plant of \$11,466 for water and \$94,518 for wastewater. The average accumulated non-used and useful depreciation on this plant is \$3,060 for water and \$52,645 for wastewater. The net non-used and useful plant is \$8,406 for water and \$41,873 for wastewater. Net non-used and useful plant has a negative impact on rate base. Therefore, water rate base was decreased by \$8,406 and wastewater rate base was decreased by \$41,873.

CIAC

Pursuant to Order No. 25789, the utility's water system was 78% contributed. Order No. 25789 required the utility to discontinue collecting the \$575 plant capacity charge for water; however, it required no change to the \$75 water meter installation charge or to the \$465 wastewater plant capacity charge.

The utility failed to abide by Order No. 25789 in regard to its service availability charges. This matter is discussed further in this Order. Despite the utility's actions, for rate base purposes, we calculated the appropriate CIAC balances as though the utility proceeded according to Order No. 25789.

While the utility recorded no CIAC on its books, detailed records exist which enabled us to determine the appropriate amount of CIAC (cash and lines). With a utility balance of \$0, we adjusted CIAC by \$46,250 for water and \$6,045 for wastewater to reflect the appropriate balances as stated in Order No. 25789 for the period ending June 30, 1991. We increased these amounts by \$5,850 for water to reflect the meter installation charges. We also increased CIAC by \$54,496 for wastewater to reflect plant capacity charges which should have been collected and additions to lines, both considered CIAC. The resulting total CIAC balances for the test period are \$52,100 for water and \$60,541 for wastewater.

We decreased the total amount of CIAC to reflect an averaging adjustment of \$413 for water and \$1,163 for wastewater. Further, we increased the total amount of CIAC to reflect margin reserve in the amount of \$1,395 for the wastewater system. Therefore, the

calculated average CIAC balances included in rate base are \$51,688 for water and \$60,774 for wastewater.

Accumulated Depreciation

According to the audit, the utility's accounting records did not specifically identify UPIS and the associated accumulated depreciation balances for water and wastewater operations. However, the utility provided sufficient historical records and supporting source documentation to enable us to establish UPIS and associated accumulated depreciation. We calculated the appropriate balances based on depreciation rates pursuant to Rule 25-30.140, Florida Administrative Code. The appropriate balance, including the effect of an averaging adjustment, is \$37,332 for water and \$101,259 for wastewater.

Amortization of CIAC

Amortization of CIAC was calculated consistent with our calculation of accumulated depreciation. The resulting accumulated amortization is \$17,247 and \$13,690 for water and wastewater, respectively. An averaging adjustment decreased these balances by \$990 for water and \$1,354 for wastewater. The margin reserve adjustment in the amount of \$32 for wastewater only increases this balance slightly. Therefore, the resulting average balance of amortization of CIAC through June 30, 1998 is \$16,257 for water and \$12,368 for wastewater.

Working Capital Allowance

Consistent with Rule 25-30.443, Florida Administrative Code, the one-eighth of Operation and Maintenance expense formula approach was used to calculate working capital allowance. Applying this formula, a working capital allowance of \$3,661 for water (based on water Operation and Maintenance (O&M) expense of \$29,289) and \$2,447 for wastewater (based on wastewater O&M expense of \$19,572) is appropriate. We increased working capital by \$3,661 for water and \$2,447 for wastewater to reflect one-eighth of the operation and maintenance expense.

Rate Base Summary

Based on the foregoing, we find that the above adjustments result in a year-end rate base of \$38,768 for the water system and \$25,861 for the wastewater system.

COST OF CAPITAL

Our calculation of the appropriate cost of capital, the return on equity, and overall rate of return, including our adjustments, is depicted on Schedule No. 2.

Return on Equity

The utility's capital structure includes long-term debt which consists of two separate notes payable in the amount of \$86,157 and \$10,926, for total capital of \$97,084.

This utility recorded no common equity. By Order No. PSC-98-0903-FOF-WS, issued July 6, 1998, in Docket No. 980006-WS, we capped the rate of return on equity at 9.85% for all water and wastewater utilities having equity ratios of less than 40%. Because the utility's equity ratio is zero, the appropriate return on equity is 9.85%. However, since equity has a \$0 balance, the 9.85% return on equity is not included in calculating the overall rate of return.

According to documentation presented in the audit, the utility's cost of debt is 9.50% for the \$86,157 loan and 7.00% for the \$10,926 loan. The utility's capital structure was reconciled with rate base. Applying the cost times the pro rata share of each capital component results in an overall rate of return of 9.21%.

NET OPERATING INCOME

As noted above, during the test year the utility provided water service to approximately 218 water customers (215 residential and three general service) and seventy-seven wastewater customers (seventy-five residential and two general service). The utility reported revenues for the test year ended June 30, 1998 in the amount of \$39,042 and \$19,328 for the water and wastewater systems, respectively. According to the audit, the utility recorded as water revenue service availability charges and meter installation charges totaling \$3,900. We removed the \$3,900 amount from the utility's recorded revenue resulting in a balance of \$35,142 for water and \$19,328 for wastewater.

The selected test year for this rate case includes the twelve month period from July 1, 1997 through June 30, 1998. Annualized revenues were calculated using test year number of bills and gallons billed times the existing rates. Annualized revenue for

the water and wastewater system is \$36,230 and \$21,475, respectively.

Our calculation of net operating income is 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 on those schedules without further discussion in the body of this Order. The major adjustments are discussed below.

Test Year Operating Expenses

As previously stated, the utility did not maintain its books and records in conformance with the NARUC Uniform System of Accounts. According to the audit, "the utility's operating and maintenance expenses for the test year were undeterminable using the utility's general ledgers." However, the utility provided access to all invoices, canceled checks and other records, which were used to calculate expenses for the test year. Operating expenses for this utility include operation and maintenance expense, depreciation expense, amortization of CIAC, and taxes other than income. Adjustments have been made to reflect annual operating costs on a going forward basis.

Operation and Maintenance Expenses (O&M)

A summary of adjustments follows:

Salaries and Wages - Employees

The utility employs a maintenance person. The maintenance person oversees general matters related to utility operations; acts as liaison between the customers and the utility; signs invoices related to maintenance repairs; and performs general repairs of meters/lines which are not specified in the utility's agreement with the contract operator. Therefore, we find that an allowance in the amount of \$4,771 for water and \$2,045 for wastewater for maintenance personnel is appropriate.

The utility also employs a receptionist/bookkeeper. The duties for this position include answering phone calls related to utility matters; transcribing meter readings for billing; mailing bills to customers; receiving and posting payments; and general bookkeeping related to paying bills and posting disbursement and revenues. Thus, a salary allowance in the amount of \$5,045 for the

water system and \$2,162 for the wastewater system is appropriate for the duties that are performed by the receptionist/bookkeeper.

Therefore, the salary allowance for this utility totals \$9,816 for the water system and \$4,207 for the wastewater system.

Sludge Removal Expense

The utility must regularly pump out and dispose of excess sludge. According to the engineer, on three occasions during the test year, the utility called for sludge removal. The total cost for these services was \$1,275. An additional load of sludge was removed one month after the end of the test year. We find that four loads of sludge is reasonable for this utility given the wastewater treatment plant and the three lift stations. It is estimated that the utility will remove four loads of sludge each year; therefore, sludge hauling expense of \$1,660 (\$415/load x 4 loads) is appropriate.

Purchased Power

The utility provided electric bills for the test year. Based on these records, a purchased power allowance in the amount of \$2,361 for the water system and \$2,292 for the wastewater system is appropriate.

Fuel for Power Production

According to our engineer, the utility "filled the fuel tank for the auxiliary power generator" at a cost of \$89.98 during the test year. Due to "periodic start-ups and idling which are necessary for proper maintenance," additional fuel was purchased in the amount of \$32.95. An emergency would exhaust most, if not all, of this fuel. Therefore, we find that an additional 20% added to the actual \$123 expense for fuel purchases is appropriate, resulting in a total fuel for power production allowance for the test year of \$150.

Chemicals

The utility purchases gas chlorine in 150 pound cylinders for the disinfection of raw water, according to our engineer. For this plant, six cylinders each year are necessary for the water system. Therefore, an allowance of \$720 for the test year for chemicals is appropriate.

For the wastewater system, disinfection in the chlorine contact chamber is accomplished with the use of a hypo-mechanical chlorine pump along with a liquid chlorine concentrate. Additionally, lime is necessary for disinfection and "cleanup" at the wastewater plant site. Therefore, an allowance of \$777 for chemicals for the wastewater system is appropriate.

Materials and Supplies

Based on the audit, invoices were provided by the utility supporting materials and supplies expense in the amount of \$1,863 for the water system and \$315 for the wastewater system. We find that these amounts are appropriate.

Contractual Service - Operator/Billing

Based on the audit and engineering investigation, the utility employs a contract operator who specializes in operating and maintaining utility plants in accordance with federal, state and local regulatory standards. For this service, the utility pays \$200 per month for the water system and \$200 per month for the wastewater system. We find that the appropriate amount for this expense is \$2,400 for the water system and \$2,400 for the wastewater system.

Contractual Services - Professional

During the test year, the utility paid for accounting and tax services in the amount of \$525. According to the audit, the allocation between the water and wastewater system for accounting services is 90/10 based on the allocations approved in Order No. 25789. The resulting allocated accounting expense is \$473 for the water system and \$52 for the wastewater system.

The utility also incurred expenses associated with engineering services in the amount of \$3,744. These engineering costs were for the DEP required licenses and permits for the wastewater plant. We amortized these costs over three years. The resulting amortized engineering expense is \$1,248 for the wastewater system only.

We find the above expenses to be reasonable. Therefore, an allowance of \$473 for the water system and \$1,300 for the wastewater system is appropriate.

Contractual Services - Testing

State and local authorities require that testing results and laboratory analysis be submitted in accordance with Rule 62-550, Florida Administrative Code. A schedule of the required water and wastewater tests, frequency and costs follows:

---WATER---

<u>Description</u>	<u>Frequency</u>	<u>Annual Cost</u>
Microbiological	Monthly	\$ 720
Primary Inorganics	36 Months	122
Secondary Inorganics	36 Months	70
Asbestos	1/ 9 Years	35
Nitrate & Nitrite	12 Months	40
Volatile Organics	36 Months	\$ 350
Pesticides & PCB	36 Months	312
Radionuclides		
Group I	36 Months	42
Group II	36 Months	250
Unregulated Organics		
Group I	1/4ly/1st yr/9 yr	275
Group II	36 Months	50
Group III	36 Months	83
Lead & Copper	Biannually	475
	Total Amount	<u>\$ 2,824</u>

---WASTEWATER---

<u>Description</u>	<u>Frequency</u>	<u>Annual Cost</u>
Biochemical O2 Demand (includes Nitrate, fecal)	Monthly	\$ 510
Total Suspended Solids	Monthly	360
Fecal Coliform	Monthly	396
Sludge Analysis	Yearly	360
	TOTAL	<u>\$ 1,626</u>

Contractual Services - Other

The utility recorded a \$0 balance in this account. We increased this account by \$3,635 for the water system and \$1,624 for the wastewater system. These amounts include allowances for contracted mowing and groundskeeping in the amount of \$900 for the

water system and \$750 for the wastewater system. Also included in this account is an allowance for repairs and maintenance based on invoices which we reviewed. Repairs and maintenance expenses for the test year resulted in \$2,735 being allocated to the water system and \$874 being allocated to the wastewater system. We find that \$3,635 for water and \$1,624 for wastewater is appropriate for this expense.

Rents

According to Order No. 25789 and the audit, the utility leases the plant sites from River Greens Golf Course, Inc., and DDH Partnership. For the land lease, Order No. 25789 allowed an annual amount of \$1,200 for the water system and \$1,500 for the wastewater system. Also included in Order No. 25789 was an allowance for the rental of office space and equipment in the amount of \$1,296 for the water system and \$144 for the wastewater system. Therefore, we find that an allowance totaling \$2,496 for water and \$1,644 for wastewater for the land lease and the rental of office space and equipment is appropriate.

Transportation Expense

Utility personnel are required to travel within the service area and conduct utility business using personal vehicles. It is estimated that travel averaging 100 miles per week is necessary for utility purposes. Therefore, an allowance for this expense in the amount of \$905 for the water system and \$603 for the wastewater system (100 mi. X 52 wks x \$.29/mi) is appropriate. This expense is allocated with 60% to the water system and 40% to the wastewater system.

Insurance Expense

We find that an insurance allowance in the amount of \$851 for the water system and \$328 for the wastewater system is appropriate and reasonable. These amounts reflect the policy charges that the utility has for blanket liability insurance.

Regulatory Commission Expense

The utility paid a \$1,500 filing fee for this rate case in addition to accounting expenditures for preparation of this case in the amount of \$870. Pursuant to Section 367.0816, Florida Statutes, this expense has been amortized over 4 years, which

allows an annual expense of \$296 for the water system and \$296 for the wastewater system. The utility did not record any regulatory Commission expense. Therefore, this expense was increased by \$296 for the water system and \$296 for the wastewater system.

Miscellaneous Expense

The utility provided various records and invoices which should have been recorded as miscellaneous expense. We find that the appropriate balance for this account is \$500 for the water system and \$500 for the wastewater system.

Depreciation Expense

Test year depreciation expense was calculated using the rates prescribed by Rule 25-30.140, Florida Administrative Code. Test year depreciation is \$4,694 for the water system and \$9,817 for the wastewater system. Test year non-used and useful depreciation is \$303 for water and \$4,890 for wastewater. Net depreciation is \$4,391 for water and \$4,927 for wastewater. The utility recorded depreciation expense in the amount of \$0. Therefore, we find it appropriate to increase this expense by \$4,391 for water and \$4,927 for wastewater to reflect the calculated depreciation expense.

Amortization of CIAC

Amortization of CIAC has a negative impact on depreciation expense. The utility did not record an amortization expense. This expense has been adjusted by a negative \$1,980 for the water system and by a negative \$2,708 for the wastewater system to reflect the calculated test year amortization of CIAC expense.

Taxes Other Than Income

Based on the tax records provided by the utility, we find that the appropriate total amount of taxes other than income is \$2,392 for the water system and \$2,474 for the wastewater system. This total includes tangible personal property tax in the amount of \$366 for the water system and \$1,464 for the wastewater system. The total also includes regulatory assessment fees for test year revenues in the amount of \$1,630 for the water system and \$966 for the wastewater system. Allowances for other taxes in the amount of \$396 for water and \$44 for wastewater are included in the total tax amount. Therefore, the total adjustment to taxes other than income

is an increase of \$2,392 for the water system and \$2,474 for the wastewater system.

Increase in Operating Revenues and Expenses:

Operating Revenue

It is appropriate to increase revenue by \$1,501 for the water system and by \$5,415 for the wastewater system to reflect the increase required to allow the utility to recover its expenses and earn the authorized return on its investment.

Taxes Other Than Income

This expense has been increased by \$68 and \$244 for water and wastewater, respectively, to reflect regulatory assessment fees of 4.5% on the required increase in revenue. The adjustments to the utility's recorded operating expenses result in total operating expenses of \$34,160 and \$24,509 for water and wastewater, respectively.

REVENUE REQUIREMENT

The utility shall be allowed an annual increase in revenue of \$1,501, which is 4.14%, for the water system and \$5,415, which is 25.22%, for the wastewater system. This increase will allow the utility the opportunity to recover its expenses and earn a 9.21% return on its investment. The revenue requirement is shown on Schedule No. 3.

RATES AND RATE STRUCTURE

Damon is located in a water use caution area (WUCA). The Southwest Florida Water Management District (SWFMD) declared portions of Highlands County a WUCA in 1989. Although Damon is located in the Highlands Ridge WUCA, it falls below the applicable conservation thresholds for a water use permit, and therefore, is not required to have a water conservation program.

The utility's current rate structure consists of a base facility and gallonage charge. Under the current rate structure, the total average consumption per bill is 3,965 gallons, which is below the 10,000 gallon threshold that determines whether a more aggressive conservation-oriented rate structure is appropriate. Although this utility has not implemented a conservation program,

it appears that its customers are voluntarily making efforts to conserve water because the water consumption for this utility is low. Based on the foregoing, we find that the base facility and gallonage charge rate structure shall continue for this utility.

REPRESSION ADJUSTMENT

Repression adjustments have been implemented in a limited number of cases to date. Therefore, in order to present a thorough analysis, a discussion of the merits of repression adjustments in general is warranted, as well as a discussion of the adjustment.

General Discussion Regarding Repression and Price Elasticity

The term "price elasticity" refers to the relationship between water use and water price. Price elasticity measures the percentage change in the quantity demanded resulting from a one percent change in price, all other factors held constant. For example, if a water price increase of one percent leads to a 0.2 percent reduction in water use, price elasticity would be -0.2. In other words, there is an inverse relationship between price and the quantity demanded. This is the first law of demand.

The term "repression" refers to the expected reduction in quantity demanded resulting from an increase in price. Conversely, the term "stimulation" refers to the expected increase in quantity demanded resulting from a decrease in price.

Consider the following example:

Assume: A 10% increase in price
Price elasticity = -0.3
Then: Resulting price = 110%
Reduction in demand = 3% (10% x -0.3)
Resulting demand = 97%
Resulting revenue increase = 6.7%
(110% price x 97% demand)

The above example illustrates that ignoring price elasticity in rate design analysis creates the potential for both revenue instability and revenue shortfalls. Furthermore, if rate structure is substantially modified or if a large rate increase is implemented, revenue shortfalls can be especially problematic. The preliminary increases in this case, before any adjustments for repression, are 4.14% for water and 25.22% for wastewater. We find

that when combined, these increases are significant enough to warrant consideration of a repression adjustment in this proceeding.

Repression Adjustment

In an attempt to quantify the relationship between revenue increases and consumption impacts, we created a database of all water utilities that were granted rate increases or decreases (excluding indexes and pass-throughs) between January 1, 1990 and December 31, 1995. This database contains utility-specific information from the applicable orders, tariff pages, and the utilities' annual reports for the years 1989 through 1995. A summary of the contents of the database is listed below:

Data Obtained from:

Orders

1. The dollar amount of the revenue requirement increase for the water system.
2. The utility's rate structure before and after the rate proceeding.

Annual Reports

1. The number of gallons sold for the years 1989 through 1995.
2. The number of meter equivalents for the years 1989 through 1995.

Tariff Pages

1. The effective date of the revised rates.

Resulting Calculations:

1. The revenue requirement percentage increase (decrease) for the water system.
2. The dollar amount of the revenue requirement increase (decrease) per meter equivalent.
3. The average monthly consumption per meter equivalent for the years 1989 through 1995.

4. The percentage change in the average monthly consumption per meter equivalent from the prior year for the years 1990 through 1995.

Several utilities were excluded from the analysis, typically due to the lack of or unreliability of consumption data. Data from the remaining sixty-seven utilities forms the basis for our analysis.

Our analysis in this case was performed using two different basis of comparison. The first basis of comparison used Damon's preliminary rate increase to the water system of 4.14%, before a repression adjustment. This preliminary rate increase was compared to other utilities in the database which, as in Damon's case, underwent no change in the base facility charge/gallorage water system rate structure. We then isolated five utilities in the database which had experienced similar percentage increases in the average monthly bills. The reduction in average monthly consumption per meter equivalent for these five isolated utilities was 12%, 9%, 8%, 8%, and 5%. Next, we compared Damon's average consumption per meter equivalent to the five utilities. The utilities which most closely matched Damon's average consumption exhibited 8% and 9% consumption reductions. Based on this analysis, we find a consumption reduction between 8% and 9% to be a conservative prediction of Damon's anticipated consumption reduction.

The second basis of comparison used Damon's annual revenue requirement increase for water, which was \$7/meter equivalent. The remaining steps using this basis of comparison follow those described in the preceding paragraph. The \$7/meter equivalent increase was compared to similar increases in annual revenue requirement per meter equivalent of other utilities in the database which underwent no change in the base facility charge/gallorage water rate structure. This comparison produced five utilities which experienced similar increases for water. The changes in average monthly consumption per meter equivalent for these five utilities were -9%, -7%, -3%, 2% and 2%. We find the two utilities with a 2% increase in average consumption to be anomalous, as it is illogical to conclude that a price increase would result in more usage. We then compared Damon's average consumption per meter equivalent to the remaining three utilities. The utility that exhibited a 7% reduction in consumption most closely matched Damon's average consumption. Using this basis of analysis, a 7% consumption reduction appears to be a conservative prediction of Damon's anticipated consumption reduction.

However, there are other factors that must be considered. As discussed above, the 4.14% water rate increase represents an average annual increase of approximately \$7/meter equivalent. This increase will result in significant repression from the water customers. Although the data seems to indicate that repression can occur with this level of rate increase, a closer review revealed that many of the utilities appearing in the above samples underwent a concomitant wastewater system rate increase. Consequently, an argument could be made that the resulting consumption reductions were influenced by the wastewater rate increases. Accordingly, we carried the analysis one step further and attempted to isolate the utilities which had similar levels of both water and wastewater increases.

As discussed above, Damon's annual revenue requirement increase is \$7/meter equivalent for water and \$71/meter equivalent for wastewater. The \$7/meter equivalent increase for water and \$71/meter equivalent increase for wastewater were compared to similar increases in annual revenue requirement per meter equivalent of other utilities in the database which underwent no change in the base facility charge/gallage water rate structure. This combined comparison produced seven utilities which experienced similar increases for water and wastewater. The changes in average monthly consumption per meter equivalent for these seven utilities were -27%, -11%, -10%, -9%, -7%, 1% and 2%. We find the utilities with the 1% and 2% increases in average consumption to be anomalous, as it is illogical to conclude that a price increase would result in more usage. We then compared Damon's average consumption per meter equivalent to the remaining five utilities. The utilities that exhibited the 10% and 11% reductions in consumption most closely matched Damon's average consumption. Using this basis of analysis, we find a consumption reduction between 10% and 11% to be a conservative prediction of Damon's anticipated consumption reduction.

Although the analysis could end at this point, there is another important factor which should be considered before making our final determination. Only one-third of Damon's customers receive both water and wastewater service. The remaining two-thirds receive only water service. Based upon our review, most, if not all, repression resulting from this rate increase will be exhibited by the one-third of Damon's customers which are impacted by both the water and wastewater rate increases. Consequently, it is appropriate to consider an alternative repression adjustment in this case.

As discussed above, we have made repression adjustments in a limited number of cases to date, and we have not established a set methodology to calculate an appropriate adjustment. Until we have approved methodologies in place, we find that it is appropriate to err on the side of caution when considering the magnitude of our adjustments. In most cases, we found that the repression adjustment should be applied to total residential gallons. However, because repression is more likely to occur in the group of customers that receive both water and wastewater service, applying the expected percentage reduction to total gallons in this case would result in an overstatement of the expected repression on a company-wide basis. Therefore, to achieve the correct mathematical result, we find it appropriate to calculate the repression adjustment for the portion of the total gallons that is associated with the customers who receive both water and wastewater service.

Based upon our analysis, a conservative prediction of Damon's anticipated consumption reduction for the customers receiving both water and wastewater service is 7%. The resulting adjustment to water gallons is 175,180 gallons. When incorporated into the total gallons used for ratemaking purposes, the adjustment results in an overall repression adjustment of 1.76% to total water consumption for the utility's residential water customers as a whole. Because the analysis indicates that some repression is possible even with a low rate increase, the resulting repression adjustment is reasonable in this case.

For informational purposes, it is noted that the repression adjustment was only applied to residential consumption. The utility currently serves three general service customers, one of which receives only water service. Little is known about how commercial/general service customers respond to water price. In addition, because these customers are such a heterogeneous group, it is difficult to quantify the group's price elasticity. In the instant case, consumption by general service customers represents a very small percentage (approximately six percent) of historical test period consumption, and the corresponding repression adjustment would not have a significant impact on revenue instability or revenue shortfall concerns. Therefore, we excluded the general service class from the repression adjustment calculation.

As discussed above, a repression adjustment of 175,180 gallons to water consumption is appropriate in this case. The anticipated consumption reduction will also affect the billed gallons for the

wastewater system. In this case, the ratio of billed wastewater gallons to billed water gallons is approximately 95.8% based on the implementation of the 8,000 gallon per month residential water gallonage cap, which is discussed further in this Order. Consequently, we find it reasonable to also adjust wastewater consumption to reflect the 95.8% gallon reduction for the water system. Therefore, we find that repression adjustments of 175,180 gallons to water consumption and 167,831 gallons to wastewater consumption is appropriate.

Further, it will be beneficial in future cases to monitor the effects of this rate increase on consumption. Therefore, the utility shall file, on a quarterly basis, reports for both water and wastewater detailing the number of bills rendered, the number of gallons billed and the total revenues billed during the quarter, with the totals shown separately for the residential and general service classes of service. These reports shall be required for a period of two years, beginning the first quarter after the revised rates go into effect.

MONTHLY WATER AND WASTEWATER RATES

As previously noted, the utility provided water service to approximately 215 residential customers and three general service customers and wastewater service to approximately seventy-five residential customers and two general service customers during the test year. Rates were calculated using the number of bills and the number of gallons of water and wastewater billed during the test year adjusted for repression. A schedule of the utility's existing rates and approved rates follows:

WATER
Monthly Rates

Residential and General Service BASE FACILITY CHARGE	Existing Rates	Approved Rates
<u>Meter Size</u>		
5/8 x 3/4"	\$ 8.08	\$ 8.40
3/4"	12.15	12.59
1"	20.24	20.99
1 1/2"	40.46	41.98
2"	64.75	67.16
3"	129.50	134.33
4"	202.34	209.89
6"	405.47	419.78

	<u>Existing Rates</u>	<u>Approved Rates</u>
GALLONAGE CHARGE	\$ 1.38	\$ 1.47

WASTEWATER
Monthly Rates

<u>Residential</u>	<u>Existing Rates</u>	<u>Approved Rates</u>
BASE FACILITY CHARGE All Meter Sizes	\$ 14.92	\$ 15.93
GALLONAGE CHARGE (8,000 gallon cap)	\$ 2.82	\$ 4.95

General Service

BASE FACILITY CHARGE		
Meter Size		
5/8 x 3/4"	\$ 14.92	\$ 15.93
3/4"	22.37	23.89
1"	37.29	39.82
1 1/2"	74.60	79.64
2"	119.36	127.42
3"	238.72	254.85
4"	372.98	398.20
6"	745.97	796.40
GALLONAGE CHARGE	\$ 2.82	\$ 5.94

The average number of residential gallons of water billed for the test year is approximately 3,965 gallons per month/customer. The average number of residential gallons of wastewater billed for the test year is approximately 2,809 gallons per month/customer. A schedule of an average bill based on existing rates and approved rates follows:

<u>Residential</u>	<u>Water</u>	<u>Wastewater</u>
Average bill using approved rates	\$ 14.23	\$ 29.83
Average bill using existing rates	<u>(13.55)</u>	<u>(23.47)</u>
Increase in bill	\$.68	\$ 6.36.
Percentage increase in bill	5.00%	27.10%

Included in the wastewater rate structure is a gallonage cap of 8,000 gallons. Our goal in setting a wastewater cap is to recognize the general usage level of the utility's customers. Water used beyond that general level is likely used for irrigation purposes, and will not be returned to the wastewater system.

The approved rates are designed to produce revenue of \$37,731 for the water system and \$26,890 for the wastewater system. The approved rates shall be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), Florida Administrative Code, provided the customers have received notice. The rates shall not be implemented until proper notice has been received by the customers. The utility shall provide proof of the date notice was given within ten days after the date of the notice.

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 the revenues associated with the amortization of rate expense and the gross-up for regulatory assessment fees, which is \$310 for each system. The reduction in revenues will result in the rates as illustrated in Schedule No. 4.

The utility shall file revised tariffs 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 for 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 water and wastewater rates. A timely protest might delay what may be a justified rate increase resulting in an unrecoverable loss of revenue to the utility. Therefore, in the event of a timely protest filed by a party other

than the utility, we hereby authorize the utility to collect the rates approved herein as temporary rates. The rates approved herein shall be collected by the utility subject to the refund provisions discussed below.

The utility shall be authorized to collect the temporary rates upon our staff's approval of the security for 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 \$4,759 (\$1,033 for the water system and \$3,726 for the wastewater system). 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 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 funds 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, pursuant to Rule 25-30.360(6), Florida Administrative Code, the utility shall file reports with the Division of Water and Wastewater no later than twenty days after each monthly billing. These reports shall indicate the amount of revenue collected under the increased rates.

INCORRECT COLLECTION OF SERVICE AVAILABILITY CHARGES

Pursuant to Order No. 25789, issued February 24, 1992, the utility's water system was 78% contributed. We ordered the utility to discontinue the collection of the \$575 plant capacity charge for water. However, we ordered no change to the \$75 water meter

installation charge and the \$465 wastewater plant capacity charge. Also, by Order No. 25789, we encouraged the utility to request re-examination of its water service availability policy "if it adds to its water plant at a later date."

The utility failed to comply with Order No. 25789 in regard to its service availability policy and charges. According to the audit, the utility added seventy-eight water customers and forty-eight wastewater customers since its last rate proceeding. The utility collected \$19,150 in service availability charges from thirty-one new water customers since the last rate proceeding. The utility did not collect any service availability charges for wastewater connections.

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

Although Damon's collection of water service availability charges and failure to collect wastewater service availability charges are apparent violations of Order No. 25789, we find that a show cause proceeding is not warranted and shall not be initiated. According to a letter from the utility dated April 14, 1999, the manager of the utility was on leave at the time the last staff-assisted rate case occurred and continued to be out of the office for one and one-half years afterwards. The letter further states that the person who was keeping track of the tariffs was a part-time employee who failed to understand the importance of the

tariff. The utility states that "we have never been through this process before and didn't see the page that referred to adjusting the water connection fees." As for the sewer connection charges, the letter states that fees were not charged because "the three men who own the utility also own the development where the sewage customers are located" and that the developers "thought that they could make a decision not to charge the customers of their development."

CIAC is a component of rate base. Pursuant to Rule 25-30.570(1), Florida Administrative Code, if CIAC has not been recorded on the utility's books and the utility does not submit competent substantial evidence as to the amount of CIAC, the amount of CIAC is imputed. Thus, even if the utility makes a mistake in recording CIAC, we impute CIAC and the amount of CIAC used to determine rate base is correct. For this staff-assisted rate case, we calculated CIAC based on the approved charges in Order No. 25789.

We do not find that, in these circumstances, the apparent violation of Order No. 25789 rises to the level which warrants the initiation of a show cause proceeding. Therefore, Damon shall not be required to show cause for continuing to collect water service availability charges and failing to collect wastewater service availability charges at this time. However, we do have a concern that the utility was ordered, by Order No. 25789, to discontinue the collection of water service availability charges and to continue collection of wastewater service availability charges, but did not do so. Thus, the utility shall maintain its water and wastewater service availability charges in accordance with Order No. 25789 and is hereby on notice that Commission staff shall review the utility's collection of water and wastewater service availability charges in six months. If the utility is still in violation of Order No. 25789, we shall initiate show cause proceedings at that time. A refund of the unauthorized service availability charges which the utility collected is addressed below.

REFUND

As discussed above, the utility failed to comply with Order No. 25789 in regard to its service availability policy and charges. According to the audit, the utility added seventy-eight water customers and forty-eight wastewater customers since its last rate proceeding. The utility collected \$19,150 in service availability

charges from thirty-one (of the seventy-eight) water customers since the last rate proceeding. The utility did not collect any service availability charges for wastewater connections. Of this amount, \$2,790 was authorized. The remaining \$16,360 was not authorized.

From conversations with the utility and based on the audit findings, the utility did not charge service availability charges to the developer, DDH Partnership, a related party. However, the utility did charge water service availability charges to the non-developer customers. It is appropriate to refund to non-developer customers the difference in the amount of service availability charges that were paid to the utility and the amount of service availability charges that should have been paid to the utility. For most of the thirty-one non-developer water customers, the refund is \$575. However, based on our calculations, five customers require a refund of \$375 and one customer requires a refund of \$110. The total refund amount is \$16,360.

The utility shall refund the proper amount to each customer who was charged the unauthorized service availability charges subsequent to the issuance of Order No. 25789. Further, the utility shall submit the proper refund reports pursuant to Rule 25-30.360(7), Florida Administrative Code.

METER INSTALLATION CHARGE

The utility's tariff presently reflects a meter installation charge in the amount of \$75.00. The utility submitted invoices which reflect updated costs for meter installation in the amount of \$155.00. We reviewed the costs submitted by the utility. We find that the meter installation charge shall be increased for this utility based on our review of the utility's costs.

Therefore, the appropriate meter installation charge is \$155.00 and shall be included as part of this utility's tariff. If the utility files revised tariff sheets within thirty days of the effective date of the Order, Commission staff shall have administrative authority to approve the revised tariff sheets upon our staff's verification that the tariffs are consistent with this Order. If revised tariff sheets are filed and approved, the meter installation charge shall be effective for connections made on or after the stamped approval date of the revised tariff sheets, if no protest is filed.

BOOKS AND RECORDS

According to the audit, the utility's accounts were not maintained in conformance with the NARUC USOA during the test year. Rule 25-30.115, Florida Administrative Code, entitled "Uniform System of Accounts for Water and Wastewater Utilities," states:

Water and wastewater utilities shall, effective January 1, 1998, maintain their accounts and records in conformity with the 1996 NARUC Uniform System of Accounts adopted by the National Association of Regulatory Utility Commissioners.

Furthermore, Order No. 25789, issued February 24, 1992, required the utility to maintain its books and records in conformance with the 1984 NARUC system of accounts.

Although Damon's failure to keep its books and records in conformance with the NARUC USOA is an apparent violation of Rule 25-30.115, Florida Administrative Code, and Order No. 25789, we find that a show cause proceeding is not warranted and shall not be initiated at this time. According to a letter from the utility dated April 14, 1999, the utility's goal was to keep costs down by doing the accounting work itself. The letter states that the utility attempted to understand the NARUC USOA and received an accounting book on the topic; however, the utility states that "the book was not easy to understand." Moreover, the letter states that the utility tried to find software packages that would demonstrate the NARUC system; however, the utility asserts that the available software was designed for larger utilities with a large number of customers and it was unable to afford these software packages. The utility also states that it attempted to contact local private utility companies for help; however, the utility contends that it could not find any other local utilities that were using the NARUC system. The letter further states that the utility is now getting concrete help to resolve its problem and has contacted a local firm to discuss the possibility of contracting their services.

Based on the foregoing, we do not find that the apparent violation of Rule 25-30.115, Florida Administrative Code, and Order No. 25789 in these circumstances rises to the level which warrants the initiation of a show cause proceeding. Therefore, Damon shall not be required to show cause for failing to keep its books and records in conformance with the NARUC USOA. However, we do have a concern that the utility was ordered, by Order No. 25789, to

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maintain its books and records in conformance with NARUC USOA, but failed to do so. Thus, the utility shall maintain its books and records in conformance with the 1996 NARUC USOA and is hereby on notice that Commission staff shall review the utility's books and records in six months. If Damon's books and records are not in conformance with the 1996 NARUC USOA, we shall initiate show cause proceedings at that time.

Upon expiration of the protest period, this docket shall remain open to allow Commission staff to verify that the utility's books and records are in compliance with the NARUC Uniform System of Accounts; that the appropriate service availability charges are being charged to new customers; and that proper refunds have been made. Once this information is verified, this docket shall be closed administratively.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Damon Utilities, Inc.'s application for increased water and wastewater rates and charges 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 Damon Utilities, Inc., is authorized to charge the new rates and charges as set forth in the body of this Order. It is further

ORDERED that Damon Utilities, Inc.'s rates and charges shall be effective for services rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), Florida Administrative Code, provided that the customers have received notice. It is further

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

ORDERED that in the event of a protest by a substantially affected person other than the utility, Damon Utilities, Inc., is

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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 Damon Utilities, 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 and charges approved herein, Damon Utilities, Inc., shall submit and have approved revised tariff pages. The revised tariff pages shall be approved upon Commission staff's verification that the pages are consistent with our decision herein, that the protest period has expired, that the customer notice is adequate, and that any required security has been provided. It is further

ORDERED that prior to the implementation of the rates and charges approved herein, Damon Utilities, Inc., shall submit and have approved a bond or letter of credit in the amount of \$4,759 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 Damon Utilities, Inc., shall submit monthly reports no later than twenty 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 the rates shall be reduced at the end of the four-year rate case 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 Damon Utilities, Inc.'s margin reserve shall be nine equivalent residential connections for the water distribution system and six equivalent residential connections for the wastewater treatment plant and collection system. It is further

ORDERED that Damon Utilities, Inc., shall continue to use the base facility and gallonage charge rate structure. It is further

ORDERED that Damon Utilities, Inc., shall file on a quarterly basis, reports for both water and wastewater detailing the number of bills rendered, the number of gallons billed and the total

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revenues billed during the quarter, with totals shown separately for the residential and general service classes of service. These reports shall be required for a period of two years, beginning the first quarter after the revised rates go into effect. It is further

ORDERED that Damon Utilities, Inc., shall not be required to show cause at this time for its apparent failure to comply with Order No. 25789 in regard to the collection of water and wastewater service availability charges. It is further

ORDERED that Damon Utilities, Inc., shall maintain its water and wastewater service availability charges in accordance with Order No. 25789. It is further

ORDERED that Damon Utilities, Inc., is hereby on notice that Commission staff shall review the utility's collection of water and wastewater service availability charges in six months. If Damon Utilities, Inc., is still in violation of Order No. 25789, the Commission shall initiate show cause proceedings at that time. It is further

ORDERED that Damon Utilities, Inc., shall refund a total of \$16,360 in unauthorized service availability charges, which were collected subsequent to the issuance of Order No. 25789, and submit the proper refund reports pursuant to Rule 25-30.360(7), Florida Administrative Code. It is further

ORDERED that the appropriate meter installation charge is \$155 and shall be included in Damon Utilities, Inc.'s tariff. It is further

ORDERED that, if the revised tariff sheets are filed within thirty days of the issuance date of a Consummating Order declaring this Order to be final, Commission staff shall have administrative authority to approve the revised tariff sheets upon Commission staff's verification that the tariffs are consistent with this Order. It is further

ORDERED that if revised tariff sheets are filed and approved, the meter installation charge shall become effective for connections made on or after the stamped approval date of the revised tariff sheets, if no protest is filed. It is further

ORDER NO. PSC-99-1223-PAA-WS
DOCKET NO. 981198-WS
PAGE 37

ORDERED that Damon Utilities, Inc., shall not be ordered to show cause at this time for its apparent violation of Rule 25-30.115, Florida Administrative Code, and Order No. 25789. It is further

ORDERED that Damon Utilities, Inc., shall maintain its books and records in conformance with the 1996 NARUC Uniform System of Accounts. It is further

ORDERED that Damon Utilities, Inc., is hereby on notice that Commission staff shall review the utility's books and records in six months. If Damon Utilities, Inc.'s books and records are not in conformance with the 1996 NARUC Uniform System of Accounts, the Commission shall initiate show cause proceedings at that time. It is further

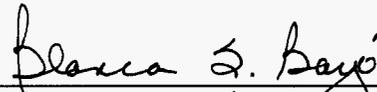
ORDERED that the provisions of this Order, issued as proposed agency action, shall become final and effective upon the issuance of a Consummating Order unless an appropriate petition, in the form provided by Rule 28-106.201, Florida Administrative Code, is received by the Director, Division of Records 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 if no timely protest is received from a substantially affected person within the twenty-one day protest period, this docket shall remain open to allow Commission staff to verify that Damon Utilities, Inc.'s books and records are in compliance with the NARUC Uniform System of Accounts; that the appropriate service availability charges are being charged to new customers; and that the proper refunds have been made. It is further

ORDERED that once Commission staff has verified that Damon Utilities, Inc.'s books and records are in compliance with the NARUC Uniform System of Accounts, that the appropriate service availability charges are being charged to new customers, and that the proper refunds have been made, this docket shall be closed administratively.

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DOCKET NO. 981198-WS
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By ORDER of the Florida Public Service Commission this 21st
day of June, 1999.



BLANCA S. BAYÓ, Director
Division of Records and Reporting

(S E A L)

SMC

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.

As identified in the body of this order, our action discussed herein, except for the granting of temporary rates, subject to refund, in the event of a protest and decision not to initiate a show cause proceeding, is preliminary in nature. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Director, Division of Records and Reporting, at 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on July 12, 1999. If such a petition is filed, 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. In the absence of such a petition, this order shall become effective and final upon the issuance of a Consummating Order.

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.

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

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DOCKET NO. 981198-WS
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notice of appeal must be in the form specified in Rule 9.900(a),
Florida Rules of Appellate Procedure.

DAMON UTILITIES, INC.
 SCHEDULE OF WATER RATE BASE
 TEST YEAR ENDED JUNE 30, 1998

SCHEDULE NO. 1
 DOCKET NO. 981198-WS
 PAGE 1 OF 2

	<u>BALANCE PER UTILITY</u>	<u>COMMISSION ADJUSTMENT TO UTILITY BALANCE</u>	<u>BALANCE PER COMMISSION</u>
UTILITY PLANT IN SERVICE	\$ 0	\$ 116,275 A	\$ 116,275
LAND/NON-DEPRECIABLE ASSETS	0	0	0
NON-USED AND USEFUL PLANT	0	(8,406) B	(8,406)
ACQUISITION ADJUSTMENT	0	0	0
CWIP	0	0	0
CIAC	0	(51,688) C	(51,688)
ACCUMULATED DEPRECIATION	0	(37,332) D	(37,332)
AMORTIZATION OF ACQUISITION ADJUSTMENT	0	0	0
AMORTIZATION OF CIAC	0	16,257 E	16,257
WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>3,661 F</u>	<u>3,661</u>
WATER RATE BASE	\$ 0	\$ 38,768	\$ 38,768

DAMON UTILITIES, INC.
 SCHEDULE OF WASTEWATER RATE BASE
 TEST YEAR ENDED JUNE 30, 1998

SCHEDULE NO. 1
 DOCKET NO. 981198-WS
 PAGE 2 OF 2

	<u>BALANCE PER UTILITY</u>	<u>COMMISSION ADJUSTMENT TO UTILITY BALANCE</u>	<u>BALANCE PER COMMISSION</u>
UTILITY PLANT IN SERVICE	\$ 0	\$ 214,951 A	\$ 214,951
LAND/NON-DEPRECIABLE ASSETS	0	0	0
NON-USED AND USEFUL PLANT	0	(41,873) B	(41,873)
ACQUISITION ADJUSTMENT	0	0	0
CWIP	0	0	0
CIAC	0	(60,774) C	(60,774)
ACCUMULATED DEPRECIATION	0	(101,259) D	(101,259)
AMORTIZATION OF ACQUISITION ADJUSTMENT	0	0	0
AMORTIZATION OF CIAC	0	12,368 E	12,368
WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>2,447 F</u>	<u>2,447</u>
WASTEWATER RATE BASE	\$ 0	\$ 25,861	\$ 25,861

DAMON UTILITIES, INC.
 ADJUSTMENTS TO RATE BASE
 TEST YEAR ENDED JUNE 30, 1998

	<u>WATER</u>	<u>WASTEWATER</u>
A. <u>UTILITY PLANT IN SERVICE</u>		
1. To record plant per Order No. 25789	\$ 96,449	\$ 179,562
2. To record additions to plant through beginning of test year	13,596	34,964
3. To record test year additions to plant	12,460	850
4. To reduce plant by averaging adjustment	<u>(6,230)</u>	<u>(425)</u>
	<u>\$ 116,275</u>	<u>\$ 214,951</u>
B. <u>NON-USED AND USEFUL PLANT</u>		
1. To reflect non-used and useful average plant	\$ (11,466)	\$ (94,518)
2. To reflect non-used and useful average accumulated depreciation	3,060	52,645
	<u>\$ (8,406)</u>	<u>\$ (41,873)</u>
C. <u>CONTRIBUTIONS IN AID OF CONSTRUCTION(CIAC)</u>		
1. To record CIAC per Order No. 25789	\$ (46,250)	\$ (6,045)
2. To record additions to CIAC through 06/30/98	(5,850)	(54,496)
3. To reflect averaging adjustment	413	1,163
4. To reflect CIAC on the margin reserve	0	(1,395)
	<u>\$ (51,688)</u>	<u>\$ (60,774)</u>
D. <u>ACCUMULATED DEPRECIATION</u>		
1. To reflect accumulated depreciation at 06/30/98	\$ (39,679)	\$ (106,167)
2. To reflect averaging adjustment	2,347	4,909
	<u>\$ (37,332)</u>	<u>\$ (101,259)</u>
E. <u>AMORTIZATION OF CIAC</u>		
1. Amortization of CIAC at 06/30/98	\$ 17,247	\$ 13,690
2. To reflect averaging adjustment	(990)	(1,354)
3. To reflect average margin reserve	0	32
	<u>\$ 16,257</u>	<u>\$ 12,368</u>
F. <u>WORKING CAPITAL ALLOWANCE</u>		
1. To reflect 1/8 of operation and maintenance expense	<u>\$ 3,661</u>	<u>\$ 2,447</u>

DAMON UTILITIES, INC.
 SCHEDULE OF CAPITAL STRUCTURE
 TEST YEAR ENDED JUNE 30, 1998

SCHEDULE NO. 2
 DOCKET NO. 981198-WS

	<u>PER UTILITY</u>	<u>COMMISSION ADJUSTMENT TO UTIL. BAL.</u>	<u>ADJUSTED BALANCE PER COMMISSION</u>	<u>PRO RATA ADJUSTMENT PER COMMISSION</u>	<u>RECONCILIATION TO RATE BASE</u>	<u>PERCENT OF TOTAL</u>	<u>COST</u>	<u>WEIGHTED COST</u>
COMMON EQUITY	\$ 0	\$ 0	\$ 0	\$ 0	0	0.00%	9.85%	0.00%
LONG-TERM DEBT	0	86,157	86,157	(28,803)	57,355	88.74%	9.50%	8.43%
LONG-TERM DEBT	0	10,926	10,926	(3,652)	7,274	11.26%	7.00%	0.79%
PREFERRED EQUITY	0	0	0	0	0	0.00%	0.00%	0.00%
CUSTOMER DEPOSITS	0	0	0	0	0	0.00%	6.00%	0.00%
OTHER	0	0	0	0	0	0.00%	0.00%	0.00%
TOTAL	\$ 0	\$ 97,084	97,084	\$ (32,454)	64,629	100.00%		9.21%

RANGE OF REASONABLENESS

LOW

HIGH

RETURN ON EQUITY

8.85%

10.85%

OVERALL RATE OF RETURN

9.21%

9.21%

DAMON UTILITIES, INC.
 SCHEDULE OF WATER OPERATING INCOME
 TEST YEAR ENDED JUNE 30, 1998

SCHEDULE NO. 3
 DOCKET NO. 981198-WS
 PAGE 1 OF 2

	<u>TEST YEAR PER UTILITY</u>	<u>COMM. ADJ. TO UTILITY</u>	<u>COMM. ADJUSTED TEST YEAR</u>	<u>ADJUST. FOR INCREASE</u>	<u>TOTAL PER COMM.</u>
OPERATING REVENUES	\$ 0	\$ 36,230 A	\$ 36,230	\$ 1,501 E	\$ 37,732
				4.14%	
OPERATING EXPENSES:					
OPERATION AND MAINTENANCE	\$ 0	\$ 29,289 B	\$ 29,289	\$ 0	29,289
DEPRECIATION (NET)	0	4,391 C	4,391	0	4,391
AMORTIZATION (CIAC)	0	(1,980)	(1,980)	0	(1,980)
TAXES OTHER THAN INCOME	0	2,392 D	2,392	68 F	2,460
INCOME TAXES	0	0	0	0	0
TOTAL OPERATING EXPENSES	\$ 0	\$ 34,092	\$ 34,092	\$ 68	\$ 34,160
OPERATING INCOME/(LOSS)	\$ 0		\$ 2,138		\$ 3,572
WATER RATE BASE			\$ 38,768		\$ 38,768
RATE OF RETURN			5.51%		9.21%

DAMON UTILITIES, INC.
 SCHEDULE OF WASTEWATER OPERATING INCOME
 TEST YEAR ENDED JUNE 30, 1998

SCHEDULE NO. 3
 DOCKET NO. 981198-WS
 PAGE 2 OF 2

	<u>TEST YEAR PER UTILITY</u>	<u>COMM. ADJ. TO UTILITY</u>	<u>COMM. ADJUSTED TEST YEAR</u>	<u>ADJUST. FOR INCREASE</u>	<u>TOTAL PER COMM.</u>
OPERATING REVENUES	\$ 0	\$ 21,475 A	\$ 21,475	\$ 5,415 E	\$ 26,890
				25.22%	
OPERATING EXPENSES:					
OPERATION AND MAINTENANCE	\$ 0	\$ 19,572 B	\$ 19,572	\$ 0	19,572
DEPRECIATION (NET)	0	4,927 C	4,927	0	4,927
AMORTIZATION (CIAC)	0	(2,708)	(2,708)	0	(2,708)
TAXES OTHER THAN INCOME	0	2,474 D	2,474	244 F	2,718
INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL OPERATING EXPENSES	\$ 0	\$ 24,265	\$ 24,265	\$ 244	\$ 24,509
OPERATING INCOME/(LOSS)	<u>\$ 0</u>		<u>\$ (2,790)</u>		<u>\$ 2,382</u>
WASTEWATER RATE BASE			<u>\$ 25,861</u>		<u>\$ 25,861</u>
RATE OF RETURN			<u>-10.79%</u>		<u>9.21%</u>

DAMON UTILITIES, INC.
 ADJUSTMENTS TO OPERATING INCOME
 TEST YEAR ENDED JUNE 30, 1998

SCHEDULE NO. 3A
 PAGE 1 OF 2
 DOCKET NO. 981198-WS

	<u>WATER</u>	<u>WASTEWATER</u>
A. OPERATING REVENUES		
1. To record utility's reported revenues per the audit	\$ 39,042	\$ 19,328
2. To remove misclassified service availability charges	(3,900)	0
3. To reflect appropriate annualized test year revenues	1,088	2,147
	<u>\$ 36,230</u>	<u>\$ 21,475</u>
B. OPERATION AND MAINTENANCE EXPENSES		
1. Salaries and Wages - Employees		
a. To reflect salaries and wages associated with bookkeeper and maintenance personnel	<u>\$ 9,816</u>	<u>\$ 4,207</u>
2. Sludge Removal Expense		
a. To record sludge expense for the test year per the audit	\$ 0	\$ 1,275
b. To increase expense to reflect 4 loads @ \$415/load as recommended by the engineer		385
	<u>\$ 0</u>	<u>\$ 1,660</u>
3. Purchased Power		
a. To reflect purchased power for the test year	<u>\$ 2,361</u>	<u>\$ 2,292</u>
4. Fuel for Power Production		
a. To reflect fuel expense	<u>\$ 150</u>	<u>\$ 0</u>
5. Chemicals		
a. To reflect recommended chemicals expense per the engineer	<u>\$ 720</u>	<u>\$ 777</u>
6. Material and Supplies		
a. To record materials and supplies expense per the audit	<u>\$ 1,863</u>	<u>\$ 315</u>
7. Contractual Services (Operator)		
a. To record operator expense (\$200/month each system)	<u>\$ 2,400</u>	<u>\$ 2,400</u>
8. Contractual Services (Professional)		
a. To record accounting expense	<u>\$ 473</u>	<u>\$ 1,300</u>
9. Contractual Services (Testing)		
a. To record recommended testing expense per the engineer	<u>\$ 2,824</u>	<u>\$ 1,626</u>
10. Contractual Services (Other)		
a. To record groundskeeping and mowing expense	\$ 900	\$ 750
b. To record various repairs and maintenance expense per the audit	2,735	874
	<u>\$ 3,635</u>	<u>\$ 1,624</u>
11. Rents		
a. To reflect land and office space rent	<u>\$ 2,496</u>	<u>\$ 1,644</u>
12. Transportation Expense		
a. To reflect test year transportation expense as recommended per the engineer	<u>\$ 905</u>	<u>\$ 603</u>
13. Insurance Expense		
a. To reflect test year insurance expense (two policies)	<u>\$ 851</u>	<u>\$ 328</u>
14. Regulatory Commission Expense		
a. To reflect rate case expense amortized over 4 years	<u>\$ 296</u>	<u>\$ 296</u>
15. Miscellaneous Expense		
a. To reflect miscellaneous expense included in audit	<u>\$ 500</u>	<u>\$ 500</u>
TOTAL O & M ADJUSTMENTS:	<u>\$ 29,290</u>	<u>\$ 19,572</u>

DAMON UTILITIES, INC.
ADJUSTMENTS TO OPERATING INCOME
TEST YEAR ENDED JUNE 30, 1998

SCHEDULE NO. 3A
PAGE 2 OF 2
DOCKET NO. 981198-WS

C. DEPRECIATION EXPENSE

1. To reflect appropriate test year depreciation expense	\$ 4,694	\$ 9,817
2. To reflect non-used and useful depreciation expense	(303)	(4,890)
	<u>\$ 4,391</u>	<u>\$ 4,927</u>

D. TAXES OTHER THAN INCOME

1. To reflect tangible personal property tax	\$ 366	\$ 1,464
2. To reflect appropriate amount of regulatory assessment fees @ 4.5% of test year revenues	1,630	966
3. To reflect other taxes	396	44
	<u>\$ 2,392</u>	<u>\$ 2,474</u>

E. OPERATING REVENUES

1. To reflect increase in revenue required to cover expenses and allow recommended rate of return	<u>\$ 1,501</u>	<u>\$ 5,415</u>
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F. TAXES OTHER THAN INCOME

1. To reflect regulatory assessment fee at 4.5% on increase in revenue	<u>\$ 68</u>	<u>\$ 244</u>
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DAMON UTILITIES, INC.
 ANALYSIS OF WATER OPERATION AND
 MAINTENANCE EXPENSE
 TEST YEAR ENDED JUNE 30, 1998

SCHEDULE NO. 3B
 DOCKET NO. 981198-WS
 Page 1 of 2

	<u>TOTAL PER UTILITY</u>	<u>COMMISSION APPROVED ADJUSTMENT</u>	<u>TOTAL PER COMMISSION</u>
#601 SALARIES AND WAGES - EMPLOYEES	\$ 0	\$ 9,816 [1]	\$ 9,816
#603 SALARIES AND WAGES - OFFICERS	0	0	0
#604 PENSIONS AND BENEFITS	0	0	0
#610 PURCHASED WATER	0	0	0
#615 PURCHASED POWER	0	2,361 [3]	2,361
#616 FUEL FOR POWER PRODUCTION	0	150 [4]	150
#618 CHEMICALS	0	720 [5]	720
#620 MATERIALS AND SUPPLIES	0	1,863 [6]	1,863
#630 CONTRACTUAL SERVICES (BILLING/OPERATOR)	0	2,400 [7]	2,400
#631 CONTRACTUAL SERVICES (PROFESSIONAL)	0	473 [8]	473
#635 CONTRACTUAL SERVICES (TESTING)	0	2,824 [9]	2,824
#636 CONTRACTUAL SERVICES (OTHER)	0	3,635 [10]	3,635
#640 RENTS	0	2,496 [11]	2,496
#650 TRANSPORTATION EXPENSE	0	905 [12]	905
#655 INSURANCE EXPENSE	0	851 [13]	851
#665 REGULATORY COMMISSION EXPENSE	0	296 [14]	296
#670 BAD DEBT EXPENSE	0	0	0
#675 MISCELLANEOUS EXPENSES	0	500 [15]	500
	<u>\$ 0</u>	<u>\$ 29,289</u>	<u>\$ 29,289</u>

DAMON UTILITIES, INC.
 ANALYSIS OF WASTEWATER OPERATION AND
 MAINTENANCE EXPENSE
 TEST YEAR ENDED JUNE 30, 1998

SCHEDULE NO. 3B
 DOCKET NO. 981198-WS
 Page 2 of 2

	<u>TOTAL PER UTILITY</u>	<u>COMMISSION APPROVED ADJUSTMENT</u>	<u>TOTAL PER COMMISSION</u>
#701 SALARIES AND WAGES - EMPLOYEES	\$ 0	\$ 4,207 [1]	\$ 4,207
#703 SALARIES AND WAGES - OFFICERS	0	0	0
#704 PENSIONS AND BENEFITS	0	0	0
#710 PURCHASED WASTEWATER TREATMENT	0	0	0
#711 SLUDGE REMOVAL EXPENSE	0	1,660 [2]	1,660
#715 PURCHASED POWER	0	2,292 [3]	2,292
#716 FUEL FOR POWER PRODUCTION	0	0	0
#718 CHEMICALS	0	777 [5]	777
#720 MATERIALS AND SUPPLIES	0	315 [6]	315
#730 CONTRACTUAL SERVICES (BILLING/OPERATO	0	2,400 [7]	2,400
#xxx CONTRACTUAL SERVICES (professional)	0	1,300 [8]	1,300
#xxx CONTRACTUAL SERVICES (testing)	0	1,626 [9]	1,626
#xxx CONTRACTUAL SERVICES (other)	0	1,624 [10]	1,624
#740 RENTS	0	1,644 [11]	1,644
#750 TRANSPORTATION EXPENSE	0	603 [12]	603
#755 INSURANCE EXPENSE	0	328 [13]	328
#765 REGULATORY COMMISSION EXPENSE	0	296 [14]	296
#770 BAD DEBT EXPENSE	0	0	0
#775 MISCELLANEOUS EXPENSES	0	500 [15]	500
	<u>\$ 0</u>	<u>\$ 19,572</u>	<u>\$ 19,572</u>

DAMON UTILITIES, INC.
 SCHEDULE OF RATE CASE EXPENSE RATE
 REDUCTION AFTER FOUR YEARS
 TEST YEAR ENDED JUNE 30, 1998

SCHEDULE NO. 4
 DOCKET NO. 981198-WS
 PAGE 1 OF 2

MONTHLY RATES

WATER SERVICE

COMMISSION
 APPROVED
 RATES

COMMISSION
 APPROVED
 DECREASE

RESIDENTIAL AND GENERAL SERVICE

BASE FACILITY CHARGE:

Meter Size:

5/8" x 3/4"	\$	8.40	\$	0.07
3/4"		12.59		0.10
1"		20.99		0.17
1 1/2"		41.98		0.34
2"		67.16		0.55
3"		134.33		1.10
4"		209.89		1.72
6"		419.78		3.45

GALLONAGE CHARGE
 PER 1,000 GALLONS

\$	1.47	\$	0.01
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DAMON UTILITIES, INC.
 SCHEDULE OF RATE CASE EXPENSE RATE
 REDUCTION AFTER FOUR YEARS
 TEST YEAR ENDED JUNE 30, 1998

SCHEDULE NO. 4
 DOCKET NO. 981198-WS
 PAGE 2 OF 2

MONTHLY RATES

<u>RESIDENTIAL WASTEWATER SERVICE</u>	<u>COMMISSION APPROVED RATES</u>	<u>COMMISSION APPROVED DECREASE</u>
BASE FACILITY CHARGE:		
Meter Size:		
All Meter Sizes	\$ 15.93	\$ 0.18
RESIDENTIAL GALLONAGE CHARGE PER 1,000 GALLONS (8,000 gallon cap)		
	\$ 4.95	\$ 0.06
 <u>GENERAL WASTEWATER SERVICE</u>		
BASE FACILITY CHARGE:		
Meter Size:		
5/8" x 3/4"	\$ 15.93	\$ 0.18
3/4"	23.89	0.28
1"	39.82	0.46
1 1/2"	79.64	0.92
2"	127.42	1.47
3"	254.85	2.94
4"	398.20	4.59
6"	796.40	9.18
 GENERAL SERVICE GALLONAGE CHARGE PER 1,000 GALLONS		
	\$ 5.94	\$ 0.07

WATER TREATMENT PLANT

USED AND USEFUL DATA

Docket No. 981198-WS

Utility: Damon Utilities Inc.

Date 01/04/99

- 1) Capacity of Plant = 200 GPM *
- 2) Maximum Daily Flow = 492 GPM *
 (1.1 X 2 X 224 customers)
- 3) Average Daily Flow = 246 GPM *
 (1.1 X 224 customers)
- 4) Fire Flow Capacity = -0- GPM *

5) Margin Reserve (not to exceed 20% of Average GPM):

- a) Average number of customers = 224
- b) Average Customer Growth in ERCs
 for most Recent 5 Years = 6
- c) Construction Time for
 Additional Capacity = 1.5 Years

$$\text{Margin Reserve} = 5b \times 5c \times \frac{2}{5a} = \underline{20} \text{ GPM} *$$

6) Excessive Unaccounted for Water = none GPM *

- a) Total Amount -0- GPM = N/A % of Av. GPM Flow
- b) Reasonable Amount -0- GPM = N/A % of Av. GPM Flow

PERCENT USED AND USEFUL FORMULA

$$\left[\frac{2 + 4 + 5 - 6}{1} \right] = \underline{100} \% \text{ Used and Useful}$$

* This is a closed system. To evaluate its readiness to serve on a gallon per minute (GPM) basis is more appropriate.

Robert T. Davis - Engineer

WATER DISTRIBUTION SYSTEM

USED AND USEFUL DATA

Docket No. 981198-WS

Utility: Damon utilities, Inc.

Date 01/04/99

- 1) Capacity 269 ERCs (Number of potential customers without expansion)
- 2) Average number of TEST YEAR Connections 204 ERCs
- 3) Margin Reserve (Not to exceed 20% of present ERCs)
 - a) Average yearly customer growth in ERCs for most recent 5 Years 6 ERCs
 - b) Construction Time for Additional Capacity 1.5 Years

$$(3a) \times (3b) = \underline{9} \text{ ERCs Margin Reserve}$$

PERCENT USED AND USEFUL FORMULA

$$\frac{(2 + 3)}{1} = \underline{79.18} \% \text{ Used and Useful}$$

Robert T. Davis - Engineer

WASTEWATER TREATMENT PLANT

USED AND USEFUL DATA

Docket No. 981198-WS

Utility: Damon Utilities, Inc. Date 01/04/99

- 1) Capacity of Plant 50,000 gallons per day
- 2) Average Daily Flow 17,360 gallons per day
- 3) Margin Reserve (Not to exceed 20% of present customers)
 - a) Average number of customers in ERCs 62 ERCs
 - b) Customer yearly customer growth in ERCs
for Most Recent 5 Years Including Test Year 4 ERCs
 - c) Construction Time for Additional Capacity 1.5 Years

$$(3b) \times (3c) \times \left[\frac{2}{(3a)} \right] = \underline{1,680} \text{ gallons per day}$$

- 4) Excessive Infiltration N/A gallons per day
 - a) Total Amount N/A gallons per day N/A % of Av. Daily Flow
 - b) Reasonable Amount N/A gallons per day N/A % of Av. Daily Flow
 - c) Excessive Amount N/A gallons per day N/A % of Av. Daily Flow

PERCENT USED AND USEFUL FORMULA

$$\frac{[(2) + (3)] - 4}{1} = \underline{38.1} \% \text{ Used and Useful}$$

Robert T. Davis Engineer

WASTEWATER COLLECTION SYSTEM

USED AND USEFUL DATA

Docket No. 981198-WS

Utility: Damon Utilities, Inc

Date 01/04/99

- 1) Capacity of present collection system 95 ERCs
- 2) Average number of connections for the Test Year 63 ERCs
- 3) Margin Reserve (not to exceed 20% of present ERCs):
 - a) Average Yearly Customer Growth in ERCs for Most Recent 5 4
 - c) Construction Time for Additional Capacity 1.5 Years

(a) x (b) = 6 ERCs Margin Reserve

PERCENT USED AND USEFUL FORMULA

$$\frac{(2 + 3)}{1} = \underline{72.63} \% \text{ Used and Useful}$$

Robert T. Davis Engineer