

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Initiation of limited proceeding to restructure wastewater rates for Florida Water Service Corporation's Tropical Isles service area in St. Lucie County.

DOCKET NO. 970409-SU  
ORDER NO. PSC-00-0526-PAA-SU  
ISSUED: March 13, 2000

The following Commissioners participated in the disposition of this matter:

J. TERRY DEASON  
SUSAN F. CLARK  
E. LEON JACOBS, JR.

NOTICE OF PROPOSED AGENCY ACTION  
ORDER APPROVING RESTRUCTURING OF RATES

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein 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

On January 15, 1993, Florida Water Services Corporation, f/k/a Southern States Utilities, Inc. (FWSC or utility,) filed an application with this Commission for a certificate to provide wastewater service under grandfather rights pursuant to Section 367.171, Florida Statutes. Docket No. 930075-SU was opened to process that application. The system involved in the application was the Tropical Isles wastewater system. Tropical Isles' service territory is located between Ft. Pierce and Port St. Lucie in St. Lucie County.

FWSC purchased the Tropical Isles system from Messrs. Spizizen and Shacket in 1988 for a total purchase price of \$5.00. Messrs. Spizizen and Shacket retained ownership of the Tropical Isles modular housing park (the park). This 334-unit park and its

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associated clubhouse comprise the majority of the Tropical Isles service territory. At the time of the purchase, regulation over privately-owned water and wastewater systems in St. Lucie County was under the jurisdiction of St. Lucie County. However, effective October 1, 1992, St. Lucie County transferred jurisdiction over privately-owned water and wastewater utilities in St. Lucie County to this Commission.

By Order No. PSC-93-0621-FOF-SU, issued April 21, 1993, in Docket No. 930075-SU, we granted Southern States Utilities, Inc. (SSUI) Certificate No. 482-S to serve the Tropical Isles territory under grandfather rights. By that Order, we approved the flat, bi-monthly rate of \$25.18 that was being charged by SSUI at that time. (That rate was established and approved by the St. Lucie County Water and Sewer Authority in April 1990.) The Order also stated that, because the Tropical Isles system was built out, no service availability charges would be charged to the Tropical Isles system. At the time of the application, wastewater service was being provided to approximately 190 residential connections.

Currently, FWSC provides wastewater service to approximately 250 customers in the Tropical Isles service area. At a service hearing in FWSC's most recent rate case (Docket No. 950495-WS), the Tropical Isles customers questioned the validity of a flat rate for their wastewater service, since they receive metered water service from the City of Ft. Pierce (City). Therefore, by Order No. PSC-96-1320-FOF-WS (Final Order), issued October 30, 1996, in Docket No. 950495-WS, we ordered FWSC to investigate whether it could obtain meter information from the City and establish a metered rate structure for the Tropical Isles service area. FWSC was also ordered to investigate the possibility of establishing a vacation rate in the Tropical Isles service area, in the event a metered rate is not feasible. On April 1, 1997, we opened Docket No. 970409-SU to investigate the possibility of implementing a rate structure other than the flat monthly rate currently charged in the Tropical Isles service area, and, if feasible, to restructure the wastewater rates.

The purpose of the customer meeting for this case, held on November 19, 1997, was to hear and respond to customer comments on both metered versus flat rate wastewater service and the feasibility of a vacation rate for seasonal residents. The majority of customer comments at that meeting, however, focused on what the customers believe is an excessive rate being charged by FWSC for service.

The Tropical Isles' relevant rate history is as follows:

Rates Prior to Dkt. No. <u>950495-WS</u>	Commission Approved Rates in Dkt. No. <u>950495-WS</u>	Current Rates as of <u>02/20/00</u>
\$13.33	\$35.50	\$36.80

This shows that the Tropical Isles customers experienced a 166% increase in rates as a result of Docket No. 950495-WS. The customers are aware that FWSC paid only \$5 for the system, and they questioned how, based on a mere \$5 of investment, the rates could have increased so dramatically.

The customers also expressed concern regarding the level of operating expenses included in the rates. To substantiate their concerns, the customers, on their own initiative, obtained bids from several independent wastewater plant operators. These bids led the customers to believe that FWSC is charging an excessive amount to operate the system. Additionally, some customers expressed their belief that the Tropical Isles system is paying for certain overhead expenses that would not otherwise be incurred were Tropical Isles not owned by FWSC. As a result of the aforementioned concerns, customers who attended the November 1997 customer meeting overwhelmingly expressed their desire (and expectation) that we investigate the rate level of the Tropical Isles system.

Based on the customers' comments and information obtained subsequent to the customer meeting, the scope of this docket was expanded to investigate, in addition to the rate structure, the revenue requirement for this system. Our staff met with the customers on four occasions subsequent to the November 1997 customer meeting: 1) January 20-23, 1998; 2) March 4-5, 1998; 3) March 16-18, 1998; and 4) December 6, 1999. A timeline of the major events in this docket, including the details of each of staff's subsequent meetings with customers, is included on Attachment A.

In February 1998, our staff was notified of FWSC's offer to sell the Tropical Isles system to a "Tropical Isles entity" for a purchase price of approximately \$40,000 (representing the original \$5 purchase price plus additions made to the system since the purchase). At that time, it was contemplated by the Tropical Isles

Public Affairs Committee (TIPAC), which had been acting on behalf of all Tropical Isles customers during the course of these proceedings, that the customers would purchase the system and operate it as an entity exempt from Commission regulation.

Pursuant to Section 367.022(7), Florida Statutes, in order to operate as an exempt entity, 100% of the customers must belong to the Homeowners' Association. However, that is not the case in this situation; therefore, if the customers had purchased the system it would have been a regulated entity. Ultimately, no decision was reached regarding the purchase of the system.

On March 24, 1998, our staff was notified by TIPAC that the park owner was in the process of negotiating the purchase of the system from FWSC, and was asked to discontinue its rate investigation in the meantime. However, in August 1998, our staff learned that the park owner no longer wished to purchase the system from FWSC. The investigation was subsequently resumed, and a preliminary report was shared with the customers and FWSC during a December 6, 1999, Homeowners' Association meeting.

On February 9, 2000, the utility submitted via facsimile a response to our staff's preliminary report, in which FWSC objects to the expanded scope of the instant docket. The original copy of the response was filed on February 18, 2000. As stated by the utility in its letter, our staff was directed by this Commission's final order in Docket No. 950495-WS to examine the viability of restructuring Tropical Isles' rates and/or establish a vacation rate. Therefore, FWSC disagrees with any adjustments to the revenue requirement and resulting rates that were approved in Docket No. 950495-WS. We have included the relevant portions of FWSC's response in our discussion of corresponding adjustments.

The customers had expressed interest in acquiring alternative sources for wastewater treatment. It was pointed out that the City of Port St. Lucie was expanding its sewer system north towards Tropical Isles. Our staff looked into this possibility and found that the City of Port St. Lucie had recently extended a sewer trunk main to within one mile of the Tropical Isles service area. This is the closest alternative service provider. Since it is at the extent of its service territorial boundary, the City of Port St. Lucie has no plans to extend the line any closer.

REVENUE REQUIREMENT

The discussion of the revenue requirement in this docket was limited to errors either brought to our attention by the customers or those which we discovered in the test year data used in Docket No. 950495-WS.

Original Cost of Plant-in-Service

The customers questioned the original cost of plant-in-service of \$510,181 at December 31, 1996. FWSC provided copies of invoices to substantiate the original cost of the plant. Based upon our review of these invoices, the plant in service amount of \$510,181 is correctly stated and, therefore, an adjustment is not appropriate.

Used and Useful Adjustment

Tropical Isles' wastewater system is comprised of a 50,000 gallons per day (gpd) activated sludge treatment system with the effluent disposed of in a series of drain fields adjacent to the treatment plant. Based on information contained in FWSC's most recent rate case, the average daily flows at the plant during the 1996 projected test year were approximately 33,000 gpd, with 274 lots connected. The resulting used and useful percentages approved in Docket No. 950495-WS, including a margin reserve allowance, are 91% for the treatment and disposal plant, and 89% for the pumping and collection system. There was no excessive infiltration or inflow.

During our staff's investigation in this case, it became apparent that the flow meter at the wastewater treatment plant may have provided faulty readings during the test year. Flows recorded after the plant flow meter was recalibrated indicate that the flows reported during the test year may have been overstated. After recalibration, the daily flows during 1997 averaged 19,000 gpd, or approximately 58% of the flows considered in the Final Order. Finally, the discovery of additional, unbilled customers (which will be discussed in greater detail later in this Order) would increase the used and useful of the collection system from 89% to 91%.

On February 9, 2000, the utility submitted via facsimile a letter addressing whether used and useful adjustments should be made, stating that "on the used and useful issue in particular,

staff would make adjustments based on information outside the test year utilized in the rate case."

The Commission "has the authority to determine whether there are mistakes . . . in its prior orders and has a duty to correct such orders." Sunshine Utilities v. Florida Public Serv. Comm'n, 577 So. 2d 663, 665 (Fla. 1st DCA 1991). In Sunshine, the Court held that the Commission had the authority to correct a prior order because the factual premise on which the order was based was in error. Id. at 666.

However, FWSC's records indicate that the meter was calibrated in July of 1994, prior to the reported flows in dispute, and was found to be within acceptable parameters. Based upon the facts presented, we are not persuaded that the flow meter readings in Docket No. 950495-WS were overstated. Therefore, we find that a used and useful adjustment is not appropriate in this instance.

#### Negative Acquisition Adjustment

An acquisition adjustment represents the difference between the purchase price and the net book value at the time of purchase. Absent any extraordinary circumstances, a subsequent purchase of a utility facility at a premium or discount does not affect the rate base calculation. FWSC purchased the Tropical Isles system in 1988 for \$5. At the time of purchase, the system was regulated by the St. Lucie County Water and Sewer Authority. In October 1992, however, St. Lucie County gave this Commission jurisdiction over its water and wastewater systems.

In Order No. PSC-93-0621-FOF-SU, issued April 21, 1993, in Docket No. 930075-SU, SSUI was granted a grandfather certificate to serve the Tropical Isles territory. Rate base was not set in that Order, as is standard practice in applications filed under Section 367.171, Florida Statutes. Generally, rate base is established in the utility's next rate case. Based on FWSC's own calculations, its purchase of the Tropical Isles system resulted in an unrecognized negative acquisition adjustment of \$341,788 (Docket No. 950495-WS; FWSC response to OPC DR 38-A).

In Docket No. 950495-WS, which was the next rate case subsequent to this Commission granting FWSC a certificate for the Tropical Isles system, there was neither an audit performed of the Tropical Isles system nor was there any discussion in the Final Order regarding whether a negative acquisition adjustment would be

appropriate for this system. In the Final Order, rate base for the Tropical Isles system was established at \$272,687.

Consistent with prior practice, the acquisition adjustment issue for the Tropical Isles system should have been addressed in Docket No. 950495-WS. Therefore, we find it appropriate to address the propriety of recognizing a negative acquisition adjustment for the Tropical Isles system in this proceeding.

There are three factors we typically consider regarding negative acquisition adjustments:

- a) The physical condition of the facilities. Based upon our review of the purchase records, subsequent expenditures made by FWSC and the current condition of the facility, the system was in good working condition at the time FWSC purchased the system.
- b) Whether the purchase was prudent. In this case, when SSUI purchased the Tropical Isles system, there were approximately 50 customers connected to the system, with a growth potential of up to 300 additional connections. With regard to operating costs, our analysis (which will be discussed in greater detail later in this Order) indicates that the operating costs for the Tropical Isles system is comparable to other like-sized wastewater systems. Therefore, there is nothing to indicate that the purchase of this system was imprudent.
- c) Impact on customers of both the acquired and acquiring systems. An important consideration with any acquisition is the impact on customers of both the acquired and the acquiring systems. The relevant factors to consider in this case are summarized in the table below.

<u>RELEVANT FACTORS TO CONSIDER</u>	<u>IMPACT ON TROPICAL ISLES CUSTOMERS</u>	<u>IMPACT ON FWSC CUSTOMERS</u>
<p>1) The acquiring utility may be better able to obtain debt and equity at lower cost to customers.</p>	<p>Little if any impact. Tropical Isles' cost of capital is 9.94%, compared to the 9.85% average cost of capital of the other 11 systems analyzed.</p>	<p>No impact. Assuming for the sake of argument that adding Tropical Isles to FWSC caused an increase in the cost of FWSC's money, the increase would be small, and the effect of spreading the increase over FWSC's customer base would be negligible.</p>
<p>2) Promotion of both federal and state environmental policy for the integration of small plants into larger plants operated by utility companies with greater financial resources and operational experience.</p>	<p>Possible benefit, but is not yet realized, mainly because the Tropical Isles system has historically been a relatively trouble-free system to operate.</p>	<p>Relatively little if any impact. Even if the Tropical Isles system required major capital improvements or was operationally a high-cost system, the effect of spreading the extra costs over the customer base would probably be minimal.</p>

While it may be argued that the Tropical Isles customers received no benefit from the acquisition of the system, it may also be argued that the Tropical Isles customers were not harmed by the acquisition. The same statement holds true for the FWSC customers as well. Therefore, based upon our assessment of the three factors we typically consider, we find that no extraordinary circumstances exist that would warrant the recognition of a negative acquisition adjustment.

General Plant

As is customary for FWSC, it allocated its general plant to all of its systems (including Tropical Isles). This allocation to rate base for the Tropical Isles system (net of accumulated depreciation) was approximately \$18,000 as of December 31, 1996. The main types of items recorded as general plant are office furniture and equipment; these items would typically appear on the books for the majority of utilities. We have examined the balance in general plant, and do not find the amounts to be unreasonable.

COMPARISON OF TROPICAL ISLES TO  
OTHER LIKE-SIZED WASTEWATER SYSTEMS

To compare Tropical Isles to other wastewater systems, we reviewed all like-sized water and wastewater rate cases from 1993 through 1997. Ultimately, rate case data from 11 cases was obtained from the respective orders (five wastewater-only systems and six wastewater systems which had concomitant water rate cases). Analysis of this information was the basis of the comparison between those systems and Tropical Isles. The results are shown on Attachment B; pertinent comparisons are as follows.

Revenue Requirement from Docket No. 950495-WS

- 1) Tropical Isles' rate base of \$272,687 is significantly greater than the average rate base of \$116,287 for the 11 other systems examined.
- 2) Tropical Isles' Operation and Maintenance (O&M) expenses of \$51,043 is comparable to the 11-system average of \$54,017. (A review of the utility's MFRs from Docket No. 950495-WS indicates that approximately 2/3 of the O&M expenses were direct expenses, while 1/3 of the O&M expenses resulted from allocations from FWSC.)
- 3) Tropical Isles' revenue requirement of \$116,232 is approximately 47% greater than the 11-system average of \$79,167.

Comparative Ratios

- 4) Calculations of various ratios are also shown on Attachment B. Examples of comparisons of these ratios include:

- a) Tropical Isles' contribution level (21%) is low compared to the average of the other 11 systems (34%).
- b) The percentage of Tropical Isles' revenue requirement that represents O&M expenses is 44%, while the corresponding average of the other 11 systems is 68%.
- c) The percentage of Tropical Isles' revenue requirement that represents net operating income (23%) is significantly greater than the average of 15%. This is related to Tropical Isles' relatively high rate base as compared to the other 11 systems.
- d) Tropical Isles' O&M expenses expressed in terms of per 1,000 gallons of treatment plant capacity is \$1,021, while the corresponding value for the other 11 systems is \$1,017.
- e) Tropical Isles' O&M expenses expressed on a per customer basis is \$186, while the corresponding value for the other 11 systems is \$184.

Based upon our analysis of the Tropical Isles system versus 11 other like-sized wastewater utilities, the O&M expenses for Tropical Isles are not anomalous compared to the average of the other 11 systems. The actual level of O&M expenses for Tropical Isles is slightly less than the 11-system average, and the relative level of those O&M expenses when compared on a per plant capacity basis and a per customer basis, is virtually identical to the corresponding values of the other 11 systems. However, Tropical Isles' rate base is 134% greater than the average for the other 11 systems examined, which increases the revenue requirement of the Tropical Isles system relative to the other 11 systems.

We find that none of the adjustments discussed herein are appropriate, and hereby decline to change the revenue requirement. Therefore, we find that the appropriate revenue requirement for this system is \$116,232, as approved in Docket No. 950495-WS.

On January 18, 2000, our staff received a letter from Mr. William Concannon, President of the Tropical Isles Homeowners' Association, which was filed in the docket on February 18, 2000. In that letter, Mr. Concannon states that the rates proposed in our staff's preliminary report should be decreased by an additional \$8.75 per month for the negative acquisition adjustment. (Staff

was asked during the December 1999 meeting with the customers to calculate the additional rate reduction that would enure to the customers if the negative acquisition adjustment was approved; the rough approximation was \$8.75.) In addition, Mr. Concannon requested that the rate reduction be applied retroactively to the date of the initial rate increase.

We find that a refund would constitute retroactive ratemaking because the revenue collected by the utility in this case was not held subject to refund. In Sunshine, we corrected errors in our prior order, which resulted in refunds. See 577 So. 2d at 664 n.2. However, we only issued refunds for the period that funds were held subject to refund. Id. In the instant case, the revenue collected by the utility was not held subject to refund, and thus no refunds can be issued. Further, the "Commission ha[s] no authority to make retroactive ratemaking orders." City of Miami v. Florida Public Serv. Comm'n, 208 So. 2d 249, 259 (Fla. 1968).

#### RATE STRUCTURE AND RATES

FWSC provides wastewater-only service in the Tropical Isles service area. Water service is provided by the City. Since FWSC does not have water consumption data for these customers, the utility has charged a flat wastewater rate since it purchased the system. At a customer hearing in the utility's last rate case, some of the customers questioned the validity of a flat rate for wastewater service since their water consumption was metered. In addition, they questioned why the utility could not charge a vacation rate during the time they were not in residence since they were not using the wastewater system during this time. According to the customer testimony at this customer meeting, the customer base of this utility system is highly seasonal and they believe they should not have to pay the same rate year round whether or not they are in residence.

It has long been our policy to charge wastewater service based on water usage utilizing the base facility/gallonage charge rate structure. Under this rate structure, the base facility charge is designed to recover the pro rata share of the fixed costs necessary to provide service and the gallonage charge recovers the variable costs. In addition, customers are responsible only for the base facility charge during the time they are not in residence. While the wastewater bill is based on water, it is usually capped at some level of consumption to recognize that a portion of residential water usage does not return to the wastewater system. For the FWSC

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systems, the residential wastewater gallonage cap is 6,000 gallons per month.

In the past, we have approved the use of a flat rate for wastewater service in situations where metered water consumption is not available. This is usually in cases where the wastewater customers are served by unmetered private wells. Since the Tropical Isles customers receive metered water service from another utility, we attempted to explore the feasibility of a metered wastewater rate in the utility's last rate case. To that end, our staff prepared discovery to obtain the necessary information to evaluate the rate structure. However, during the pendency of the rate case, the company was not able to provide the billing information or confirm whether it could readily obtain the information on a consistent basis in order to bill based on water consumption. Therefore, by Order No. PSC-96-1320-FOF-WS, issued October 30, 1996, in Docket No. 950495-WS, we directed FWSC to investigate whether it could obtain water consumption data from the City in order to establish a metered rate structure. In addition, the utility was ordered to investigate the feasibility of a vacation rate.

On February 28, 1997, FWSC filed a response to the Final Order and Docket No. 970409-SU was opened to investigate the matter of a rate structure for the Tropical Isles system. In its response to the Order, FWSC stated that it had been unable to obtain information from the City but was continuing to attempt to do so. The utility also stated that it could do no more on the subject of a vacation rate until it received data from the City regarding historical records of the number of customers on vacation and the amount of time they are gone. FWSC filed a supplement to the initial report on April 9, 1997, in which it indicates that the cost of obtaining a monthly report of meter readings and customer activity would be \$25 per month.

The utility obtained a billing analysis of the water consumption for the Tropical Isles customers from the City for calendar year 1996. We adjusted this analysis to include customers not billed by the utility. These unbilled customers include six unbilled residential customers (RS) and two unbilled general service (GS) customers. The unbilled RS customers all have 5/8" x 3/4" meters, while the unbilled GS customers (a car dealership and the Tropical Isles clubhouse) have 1 1/2" and 1" meters, respectively.

We believe that FWSC knew or should have known about all the unbilled customers discovered during our investigation. In an addendum to the purchase agreement between Messrs. Spizizen and Shacket and SSUI, SSUI agreed to provide wastewater service to no more than six rental units at the mobile home park. This arrangement was predicated upon an agreement between those six customers (RS) and the prior developer/owner of the mobile home park that they would not be charged for any utility service. Furthermore, one of the unbilled GS customers (a car dealership) is located at the only entrance to the Tropical Isles subdivision and is within the Tropical Isles certificated area, while the other unbilled GS customer is the Tropical Isles clubhouse. Therefore, we find it appropriate to include billing determinants to reflect the six unbilled residential customers and two unbilled general service customers.

Using this billing information (adjusted for the unbilled customers) and the same methodology that was utilized in calculating the wastewater rates for all the other FWSC systems, we calculated the following monthly metered wastewater rates:

Base Facility Charge:	
5/8" x 3/4"	\$ 13.52
3/4"	20.28
1"	33.80
1 1/2"	67.60
2"	108.16
Gallage Charge:	
Residential (up to a maximum of 6,000 gallons)	\$ 5.95
General Service	\$ 7.14

These rates, which also appear on Schedule No. 1, reflect adjustments for changes since the Final Order, which include price index increases, a rate case expense reduction, a return on equity adjustment, and the effects of the DCA appeal and the final settlement. These rates produce an annual revenue requirement of \$120,488. The above wastewater rates produce residential customer bills ranging from \$13.52 for zero water usage up to a maximum bill of \$49.22 for 6,000 gallons or more consumption per month.

Under a metered rate structure, the customers who are seasonal and not in residence for a number of months during the year will pay only the base facility charge during the months they are away, assuming that no water usage is recorded. Of course, if water is

consumed, the wastewater gallonage rate will apply. Such a rate structure has been found to be a fair method of billing for wastewater service and is consistent with our longstanding practice. Further, based on information received from the utility, it appears that the customer usage data is readily available to FWSC on an ongoing basis at a reasonable cost. Therefore, a metered wastewater rate structure shall be initiated for the Tropical Isles system.

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

If no timely protest is received upon the expiration of the protest period, the Order shall become final and effective upon the issuance of a Consummating Order and this docket shall be closed.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Florida Water Service Corporation shall implement the rate structure as set forth in the body of this Order. It is further

ORDERED that Florida Water Service Corporation shall bill all customers in accordance with the charges contained in its approved tariff. 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 herein, whether set forth in the body of this Order or in the attachments and schedules attached hereto, are incorporated herein by reference. It is further

ORDERED that the rates and charges approved herein shall be effective for service rendered on or after the stamped approval date on the revised tariff sheets, pursuant to Rule 25-30.475(1),

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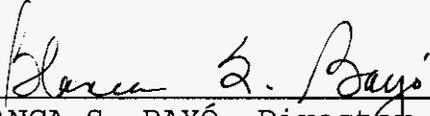
Florida Administrative Code, provided customers have received notice. It is further

ORDERED that Florida Water Service Corporation shall provide proof of the date notice was given within ten days after the date of the notice. It is further

ORDERED that this Order 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" attached hereto. It is further

ORDERED that if no timely protest is received to the proposed agency action, no further action will be necessary and, upon the expiration of the protest period, this Order shall become final and effective upon the issuance of a Consummating Order and the docket shall be closed.

By ORDER of the Florida Public Service Commission this 13th day of March, 2000.

  
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BLANCA S. BAYÓ, Director  
Division of Records and Reporting

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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 that is available under Section 120.57, 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 will be granted or result in the relief sought.

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

The action proposed herein 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, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on April 3, 2000.

In the absence of such a petition, this order shall become final and effective 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.

FLORIDA WATER SERVICES CORPORATION  
TROPICAL ISLES WASTEWATER SYSTEM

**SEQUENCE OF MAJOR EVENTS**

<u>Dates</u>	<u>Event and Purpose</u>
Nov. 1997	Staff conducted a customer meeting in the Tropical Isles service area.
Jan 1998	Staff traveled to the Tropical Isles service area to meet with members of the Tropical Isles Public Affairs Committee (TIPAC) and staff of Florida Water Services Corporation (FWSC). Staff also reviewed relevant documents and initiated document requests of FWSC.
Feb. 1998	Staff telephone conference with Robert Simpson, who notified Staff of FWSC's offer to sell the Tropical Isles system to "a Tropical Isles entity" for a purchase price of approximately \$40,000 (representing the original \$5 purchase price plus additions made to the system since the purchase).
Mar. 1998	Staff traveled to the Tropical Isles service area to answer questions at a residents meeting regarding the customers' potential purchase of the system to be operated as an exempt entity. No decision was reached regarding the purchase of the system.
Mar. 1998	Staff traveled to the Tropical Isles service area to answer more questions at another residents meeting regarding their possible purchase of the system. Again, no decision was reached regarding the purchase of the system. Staff subsequently met with a small customer group regarding their possible purchase of the system.
Mar. 1998	Facsimile letter received from Robert Simpson to the Office of Public Counsel (OPC) with a copy to Staff requesting that: 1) OPC hold any further actions against FWSC until further notice; and 2) Staff discontinue its rate investigation while a purchase agreement is negotiated.
Summer 1998	Staff met with an attorney retained by the park owners regarding the purchase of the system.
Summer 1998	Staff learned that the park owners no longer wish to purchase the system. Staff revived its investigation; began review of materials obtained from FWSC.
Fall 1998 - Spring 1999	Staff continued its investigation and revised the case schedule several times.
Mar. 1999	Staff requested additional information from FWSC.
May 1999	Staff received a letter from Tropical Isles Board of Directors, expressing displeasure about the case being scheduled to be heard by the Commissioners at the July 6th, 1999 Agenda Conference. (The letter explained that more than one-half of the customers are up north at that time.)
Summer 1999	Staff revised the case schedule to: 1) allow for all customers to return from up north; and 2) to ensure that the maximum number of customers would be in the service area for both Staff's informal meeting and the case being heard by the Commissioners at the Feb. 29, 2000 Agenda Conference.
Dec. 1999	Staff completed its preliminary analysis and made an informal presentation to the customers. FWSC also attended the meeting.

FLORIDA WATER SERVICES CORPORATION  
TROPICAL ISLES WASTEWATER SYSTEM

ATTACHMENT B

	Tropical Isles	Greola	Fairmount 2nd	Colony Park	Indian Springs	Kirby D. Morgan	J. Swiderski Kings Cove	Fisherman's Cove of Stuart	Terra Mar Village	J & J	Lake Suzy	Useppa Island	TOTALS/ AVGS	% Trop Isles > Avg
<b>RATE BASE</b>														
Net U&U Plant+Land in Svc	356,674	269,502	106,246	125,353	81,908	160,808	160,326	308,566	93,517	56,943	916,783	116,988	217,904	
Net CIAC+Advances+Oth	(90,342)	(166,966)	(1,613)	(9,422)	(59,283)	(117,043)	(72,416)	(62,344)	(80,437)	(35,810)	(486,782)	(99,941)	(108,369)	
Working Capital	6,355	11,589	9,484	4,846	7,286	3,482	4,158	13,025	5,009	2,077	5,782	7,536	6,752	
<b>TOTAL</b>	<b>272,687</b>	<b>114,125</b>	<b>114,117</b>	<b>120,777</b>	<b>29,911</b>	<b>47,247</b>	<b>92,068</b>	<b>259,247</b>	<b>18,089</b>	<b>23,210</b>	<b>435,783</b>	<b>24,583</b>	<b>116,287</b>	<b>134%</b>
<b>OPERATING STATEMENT</b>														
Revenues	116,232	121,737	109,214	59,130	74,205	36,743	51,615	161,727	48,191	24,107	114,410	69,760	79,167	47%
Total O & M Exp	51,043	92,711	75,874	38,764	58,288	27,852	33,267	104,199	40,072	16,619	46,254	60,288	54,017	-6%
Total Oper Exp	89,140	112,304	97,917	46,835	68,376	31,933	43,476	134,117	46,338	21,635	71,965	67,364	67,478	32%
Net Oper Income	27,092	9,433	11,298	12,295	5,829	4,810	8,139	27,610	1,853	2,473	42,445	2,397	11,689	132%
Cost of Capital	9.94%	8.27%	9.90%	10.18%	10.00%	10.18%	8.84%	10.65%	10.24%	10.65%	9.74%	9.75%	9.85%	
<b>MISC INFO</b>														
Plant Capacity (kgal/day)	50	87	40	70	50	25	55	100	45	10	87	15	53	
Customers - RS	274	684	426	301	129	140	521	521	247	51	41	134	290	
Customers - GS		8	3	0	2	0	0	0	0	1	13	3	3	
BFC @ 5/8"		\$7.34	\$14.92	\$6.18	\$18.45		\$12.63	\$12.63	\$9.94	\$17.95	\$28.98	\$23.29		
Gal Chg - RS		\$3.11	\$3.11	\$1.81	\$2.99		\$2.81	\$2.81	\$4.14	\$4.13	\$8.58	\$6.42		
Gal Chg - MS & GS		\$3.68	\$3.73	\$2.17	\$3.59				\$4.97	\$4.95	\$10.30	\$7.70		
Flat Rate	\$35.50	\$13.38				\$22.42			\$15.96					
<b>RS @ 3,500 gpm</b>	<b>\$35.50</b>	<b>\$13.38</b>	<b>\$25.81</b>	<b>\$12.52</b>	<b>\$28.92</b>	<b>\$22.42</b>	<b>\$22.47</b>	<b>\$22.47</b>	<b>\$24.43</b>	<b>\$32.41</b>	<b>\$59.01</b>	<b>\$45.76</b>	<b>\$28.14</b>	<b>26%</b>
<b>CIAC CONTRIB %</b>														
	20.6%	62.0%	1.5%	7.5%	57.0%	60.5%	87.2%	20.2%	77.0%	62.9%	44.1%	82.2%	33.9%	-39%
<b>\$ PER KGAL CAPACITY</b>														
Rate base	5,454	1,312	2,853	1,725	598	1,890	1,674	2,592	402	2,321	5,009	1,639	2,190	149%
Revenues	2,325	1,399	2,730	845	1,484	1,470	938	1,617	1,071	2,411	1,315	4,651	1,491	56%
O & M	1,021	1,066	1,897	554	1,166	1,114	605	1,042	890	1,662	532	4,019	1,017	0%
Total operating exps	1,783	1,291	2,448	669	1,368	1,277	790	1,341	1,030	2,164	827	4,491	1,271	40%
NOI	542	108	282	176	117	192	148	276	41	247	488	160	220	146%
<b>AS A % OF REVENUES</b>														
O & M	44%	76%	69%	66%	79%	76%	64%	64%	83%	69%	40%	86%	68%	-36%
Total operating exps	77%	92%	90%	79%	92%	87%	84%	83%	96%	90%	63%	97%	85%	-10%
NOI	23%	8%	10%	21%	8%	13%	16%	17%	4%	10%	37%	3%	15%	58%
<b>\$ PER CUSTOMER</b>														
Rate base	995	165	266	401	228	337	177	498	73	446	8,070	179	397	151%
Revenues	424	176	255	196	566	262	99	310	195	464	2,119	509	270	57%
O & M	186	134	177	129	445	199	64	200	162	320	857	440	184	1%
Total operating exps	325	162	228	156	522	228	83	257	188	416	1,333	492	230	41%
NOI	99	14	26	41	44	34	16	53	8	48	786	17	40	148%

**FLORIDA WATER SERVICES CORPORATION  
TROPICAL ISLES WASTEWATER SYSTEM**

**WASTEWATER MONTHLY SERVICE RATES**

	Current Rates @ 2/20/00	Commission- Approved Metered Rates
<u>Residential</u>		
Flat Rate	\$ 36.80	
BFC (all sizes)		\$ 13.52
Gal Chg (capped at 6,000 gals)		5.95
<u>General Service</u>		
Flat Rate 5/8" x 3/4"	N/A	
3/4"	N/A	
1"	N/A	
1 1/2"	N/A	
2"	N/A	
BFC 5/8" x 3/4"	N/A	\$ 13.52
3/4"	N/A	20.28
1"	N/A	33.80
1 1/2"	N/A	67.60
2"	N/A	108.16
Gal Chg (all gals)		\$ 7.14
<u>Typical Bills</u>		
Residential 0 gals	\$ 36.80	\$ 13.52
3,000 gals	36.80	31.37
6,000 gals	36.80	49.22