

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

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

DOCKET NO. 010403-WU  
ORDER NO. PSC-01-2385-PAA-WU  
ISSUED: December 10, 2001

The following Commissioners participated in the disposition of  
this matter:

E. LEON JACOBS, JR., Chairman  
J. TERRY DEASON  
LILA A. JABER  
BRAULIO L. BAEZ  
MICHAEL A. PALECKI

ORDER GRANTING TEMPORARY RATES IN THE EVENT OF A PROTEST,  
DECLINING TO INITIATE A SHOW CAUSE PROCEEDING,  
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 actions discussed herein, except for the  
granting of temporary rates, subject to refund, in the event of a  
protest, and our decision not to initiate a show cause proceeding  
are preliminary in nature and will become final unless a person  
whose interests are substantially affected files a petition for a  
formal proceeding, pursuant to Rule 25-22.029, Florida  
Administrative Code.

BACKGROUND

Holmes Utilities, Inc. (Holmes or utility) is an existing  
Class C utility which is currently providing water service to 64  
single family residences in Highlands County. At build out, the  
utility anticipates serving 90 single family residences. The  
utility has been in existence and providing water service since  
1987. Its facilities consist of one water treatment plant and one  
water transmission and distribution system. Wastewater is provided

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by septic tank. According to the utility's 2000 annual report, the utility had gross revenues of \$8,669 and operating expenses of \$17,659.

The current owners purchased the utility on August 1, 1995, and were not aware that the system was subject to Commission jurisdiction. The Commission became aware of the utility's existence due to an inquiry by a customer regarding Commission regulation of the utility. Holmes filed an application for a certificate on February 27, 1996, after being advised that it is subject to this Commission's jurisdiction and that it is in apparent violation of Section 367.031, Florida Statutes, for providing water service without a certificate.

The utility received its certificate by Order No. PSC-97-0568-FOF-WU, issued May 20, 1997, in Docket No. 960244-WU. The utility's existing rates were approved in that Order. On April 5, 2001, the utility filed an application for a staff assisted rate case and paid the appropriate filing fee on June 4, 2001. This is the utility's first rate case. Rate base has not been established for this utility. Our staff has audited the utility's records for compliance with our rules and Orders and determined the components necessary for rate setting. Our staff engineer also conducted a field investigation of the utility's plant and service area and an original cost study. We have the authority to consider this rate case under Section 367.0814, Florida Statutes.

#### QUALITY OF SERVICE

A customer meeting was conducted on October 10, 2001, at the Highlands County Civic Center in Sebring, Florida. Approximately forty-two customers attended the meeting. Nine customers chose to give comments regarding the utility's quality of service and the proposed rate increase. In addition, Mr. Waller of Superior Water Works, a home filter company, made a statement upon a request from a customer of the utility.

The complaints concerned the lack of the company's response to concerns and inquires, water aesthetics (smell, taste and turbidity), black water, and low pressure.

Rule 25-30.433(1), Florida Administrative Code specifies that:

The Commission in every rate case shall make a determination of the quality of service provided by the utility. This shall be derived from an evaluation of three separate components of water and wastewater utility operations: quality of the utility's product (water and wastewater); operational conditions of the utility's plant and facilities; and the utility's attempt to address customer satisfaction. Sanitary surveys, outstanding citations, violations and consent orders on file with the Department of Environmental Protection (DEP) and the county health departments or lack thereof over the preceding 3-year period shall also be considered. DEP and Health department officials' comments or testimony concerning quality of service as well as the complaints or testimony of utility's customers shall be considered.

Our analysis below addresses each of these three components.

Holmes' service area is located northwest of Lake Placid, Florida. The utility obtains its raw water from one well adjacent to the water plant. The water treatment plant includes a 5,000 gallon hydropneumatic tank, a chlorine injection system, and a Sequest-All injection system to protect copper pipe.

#### Quality of Utility's Product

In Highlands County, the potable water program is regulated by the Florida Department of Environmental Protection (DEP). According to the DEP, the utility is currently up-to-date with all chemical analysis and all test results have been satisfactory for the past three years.

The water does contain sulfur, but is within acceptable limits. Although the distribution system is PVC, all residences are plumbed with copper, and some are experiencing "black water" (copper sulfate). The current utility owner added treatment to solve this problem, but the problem persists when residents are seasonal. Our staff engineer and the utility are considering a residential flushing allowance for customers who leave their home

water systems unused for extended periods of time, as the cost of added treatment would be prohibitive and the effectiveness of such additional treatment is unknown. The utility's testing program indicates that the utility serves water which meets or exceeds all standards for safe drinking water and the water quality is considered satisfactory.

#### Operational Conditions of the Utility's Plant and Facilities

The quality of the utility's plant-in-service is generally reflective of the quality of the utility's product. The building which houses the tank, the chlorine system and Sequest-All system were found to be well maintained and in excellent condition. The DEP has had a few minor plant-in-service deficiencies over the last three years, but the utility was responsive and addressed these in a prompt manner. Currently, there are no outstanding violations, citations, or corrective orders. Therefore, the operational conditions at the water treatment plant are satisfactory.

#### Utility's Attempt to Address Customer Satisfaction

As discussed above, complaints presented at the October 10, 2001, customer meetings concerned the lack of the company's response to concerns, water aesthetics (smell, taste and turbidity), and occasional low pressure. After the meeting, Mr. Tuttle, homeowners association President, and Mr. Danny Holmes, the utility owner, met and agreed to schedule meetings with the customers.

On October 11, 2001 our staff engineer and Mr. Holmes met for a review of the distribution system. It was agreed that two short loops in the distribution system would improve the aesthetics and pressure. In the field, water was tested (chlorine levels, taste and filter check) at all of the homes of customers that spoke at the meeting. By this Order, we shall grant the utility pro forma funds for the installation of the loops. Customers were also informed as to what they could do to improve the aesthetics of their water.

In conclusion, based on the quality of product and plant being satisfactory, as well as the utility's attempt to address customer

satisfaction, we find that the quality of service provided by Holmes is satisfactory.

#### RATE BASE

##### Excessive Unaccounted for Water

It is our practice to allow 10% of the total water treated as an acceptable amount of unaccounted for water in order to allow for a reasonable amount of non-revenue producing water caused by stuck meters, line flushing, etc. (See Orders Nos. PSC-000248-PAA-WU, issued February 7, 2000, in Docket No. 990535-WU, and PSC-00-2005-PAA-WU, issued June 7, 2000, in Docket No. 000331-WU).

The distribution system is well maintained, and all events that cause unaccounted for water have been minimized. The gallons of water treated were approximately 3,300,000. The total water sold was 2,718,000, while approximately 570,000 gallons were used in flushing. The unaccounted for water is 12,000 gallons. This is 0.44% of the water sold, which is well below the generally allowed threshold of 10%.

##### Used and Useful

Water Treatment Plant - The water treatment plant is a small closed system which draws raw water from one well at a total rate of 350 gpm. The well is equipped with a 5-horsepower pump. Well-point draw down and groundwater recovery time limits the well to a reliable extraction time equal to a 12-hour day. Holmes' firm reliable capacity of the well (85 gpm X 60 m/hr X 12 hour day) is 61,200 gpd. The average daily flow calculated from the monthly operating reports is 9,041 gpd.

Under the American Water Works Association's method recommended for small closed systems, 1.1 gpm per ERC normal demand, times a peaking factor of 2, results in a peak demand of 2.2 gpm per ERC. When this is multiplied by 80.5 ERCs, 64.5 average test year ERCs plus growth of 16 ERCs, the plant average demand is 89 gpm or 64,080 gpd (89 gpm X 60 min/hr X 24 hr) while the peak demand is 177 gpm or 204,336 gpd.

Section 367.081(2)(b), Florida Statutes, requires that we consider utility property needed to serve customers five years after the end of the test year used and useful in our final order on a rate request. This growth rate for equivalent residential connections should not exceed 5 percent per year. In accordance with Section 367.081(2)(b), Florida Statutes, a five year period has been used in our calculations.

Our normal method of projecting growth is regression analysis where the historical growth for the past five years is projected into the future to estimate the number of ERCs expected for a given year. In Holmes' service area, growth using regression analysis was calculated to be 3.2 ERCs per year. Over a five year statutory period, that equates to 16 ERCs or 25,344 gpd.

By the formula, the water treatment plant is 100% used and useful. The calculation is summarized in page 1 of Attachment A, attached hereto and incorporated herein by reference.

The 100% used and useful calculation shall be applied to the following accounts:

- 304 Structures and Improvements
- 320 Water Treatment Equipment
- 309 Supply Mains
- 311 Pumping Equipment
- 320 Water Treatment Equipment
- 307 Wells and Springs

Water Transmission and Distribution System - The water transmission and distribution system is capable of serving 90 ERCs at build out. Year end data showed that the utility had 65 ERCs. When a growth factor of 16 ERCs is added, the utility distribution system is 90% used and useful. (See attachment A, page 2 of 2 for calculations.)

The 90% used and useful calculation shall be applied to the following accounts:

- 330 Distribution Reservoirs and Standpipes
- 331 Transmission and Distribution Mains
- 333 Services

Acquisition Adjustment

An acquisition adjustment results when the purchase price differs from the original cost calculation adjusted at the time of the acquisition. The acquisition adjustment resulting from the transfer of the utility would be calculated as follows:

<u>August 1, 1995</u>	<u>Water</u>
Plant in Service	\$44,797
Accumulated Depreciation	(\$9,418)
Land	\$13,643
CIAC	(\$5,325)
Amortization of CIAC	<u>\$611</u>
Acquired Rate Base	<u>\$44,308</u>
Purchase Price	<u>(\$1)</u>
Negative Acquisition Adjustment	<u>(\$44,307)</u>

In the absence of extraordinary circumstances, it has been our practice that a subsequent purchase of a utility system at a premium or discount should not affect the rate base calculation. See Order No. PSC-00-0682-FOF-WU, issued April 12, 2000, in Docket No. 990253-WU; Order No. PSC-00-0264-FOF-WS, issued February 8, 2000, in Docket No. 971220-WS; and Order No. PSC-99-1818-PAA-WS, issued September 20, 1999, in Docket No. 981403-WS. The circumstances in this exchange are not extraordinary; therefore, a negative acquisition adjustment shall not be included in the calculation of rate base. Further, allowing a negative acquisition adjustment, in this case, would reduce the utility's rate base substantially below the level of Operation and Maintenance (O&M). Although we are not allowing the use of an operating ratio, any further reduction in rate base would cause us to consider the operating ratio method. Under our current practice, an operating margin is determined by using 10% of O&M. The utility's current cost of capital is 8.5%. In this case, using either method results in virtually identical revenue requirements.

Therefore, an acquisition adjustment shall not be approved in the determination of the utility's rate base.

Average Test Year Rate Base

The appropriate average test year rate base for Holmes is \$24,135 for water. The utility shall be required to complete all pro forma additions within nine months of the effective date of this Order.

During our staff audit, it was discovered that the utility did not have original cost documentation for plant prior to 1996; therefore, an original cost study was completed by our staff engineer to determine plant values prior to 1996. The utility has plant documentation for UPIS since 1996.

We selected a historical test year ended December 31, 2000, and the rate base components have been calculated using the original cost study, our staff's audit, and the engineering report for a plant balance through December 31, 2000. A discussion of each component of rate base follows:

Utility Plant in Service (UPIS): According to Audit Exception No. 2, the utility recorded \$47,967 for UPIS. Using our staff's original cost study and utility cost documentation, we determined UPIS to be \$52,034; therefore, we have increased UPIS by \$4,067 to reflect plant per the original cost study. UPIS has been decreased by \$548 to reflect an averaging adjustment.

Pro Forma Plant: As discussed previously, we are requiring that the utility loop its existing distribution system. This pro forma addition will help improve the quality of the water and water pressure throughout the system. We have increased this account by \$8,663 to include pro forma distribution system looping. We have decreased this account by \$4,332 to reflect an averaging adjustment.

Our net adjustment to UPIS is an increase of \$7,850. Therefore, UPIS is \$55,817 for water.

Land: The utility recorded \$745 for land. This amount consists of the cost associated with a title search for the land. According to



the Highlands County Property Appraiser, the assessed value of the land for 1987 was \$3,000 per acre for the portion presently occupied by the Holmes water plant.

The utility occupies a quarter acre of land. Based on the per acre price established in 1987 (Holmes Utility's first year of operation) our calculated land values are as follows:

Plant Site	Acres	Price Per Acre	Land Value
Water	0.25	\$3,000	\$750

Therefore, this account has been increased by \$750 to reflect the original cost of the land.

Non-used and Useful Plant: Our staff engineer determined the used and useful percentages for each plant account. The water treatment plant is 100% used and useful and the water distribution system is 90% used and useful. However, as discussed below, CIAC shall be increased based on the value of the transmission and distribution lines consistent with Rule 25-30.570, Florida Administrative Code. This causes the transmission and distribution system to be fully contributed. The purpose of the used and useful adjustment is to remove from rate base the cost of Utility Plant-in-Service (UPIS) not used by current customers. The purpose of Contribution in Aid of Construction (CIAC) is to remove from rate base that portion of UPIS that was not invested by the utility. Applying a used and useful adjustment to fully contributed plant would result in a double reduction to rate base. Therefore, a used and useful adjustment shall not be made to this account.

Contribution in Aid of Construction (CIAC): The utility recorded \$13,100 for CIAC. This amount included collections of tap in fees. These tap in fees do not cover the value of the transmission and distribution lines. Rule 25-30.570, Florida Administrative Code specifies that:

If the amount of 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 shall be imputed to be the amount of plant costs charged to the cost of land sales for tax purposes if .

available, or the portion of the cost of the facilities and plant attributable to the water transmission and distribution system and the sewage collection system.

Although the utility did record an amount for CIAC, we were able to identify these amounts as tap in fees. We were unable to find the cost of the lines in the utility's tax return; therefore, it is apparent that these lines were donated by the developer and they should have been included as CIAC. Therefore, we have imputed CIAC of \$9,600, consistent with Rule 25-30.570, Florida Administrative Code, to cover the cost of the transmission and distribution lines. This amount has been allocated in accordance with customer growth. This account has also been decreased by \$1,400 to reflect an averaging adjustment. We have calculated average CIAC to be \$21,300.

Accumulated Depreciation: The utility recorded \$5,436 for accumulated depreciation on its books during the test year. We have calculated accumulated depreciation using the prescribed rates in Rule 25-30.140, Florida Administrative Code. Our calculated accumulated depreciation on December 31, 2000, is \$17,985. We have increased this account by \$12,549 for water to reflect our calculated accumulated depreciation. We have decreased this account by \$943 to reflect an averaging adjustment.

We have increased this account by \$144 to reflect accumulated depreciation on the pro forma improvements. We have decreased this account by \$57 to reflect an averaging adjustment on pro forma depreciation. Our net adjustment to accumulated depreciation is an increase of \$11,663. We have determined average accumulated depreciation to be \$17,099.

Amortization of CIAC: The utility recorded \$894 for amortization of CIAC. We have calculated year end amortization using composite depreciation rates. Our calculated year-end amortization of CIAC is \$3,227. This account has been increased by \$2,333 to reflect our calculated amortization of CIAC. We have decreased the account by \$386 to reflect an averaging adjustment. We have determined the average amortization of CIAC to be \$2,841.

Working Capital Allowance: The utility did not record a working capital allowance. Working capital is defined as the investor-

supplied funds necessary to meet operating expenses or going-concern requirements of the utility. Consistent with Rule 25-30.433, Florida Administrative Code, the one-eighth of O&M expense formula approach shall be used for calculating working capital allowance. Applying that formula results in a working capital allowance of \$2,381 (based on O&M of \$19,045). Working capital has been increased by \$2,381 to reflect one-eighth of our approved O&M expenses.

Rate Base Summary: Based on the foregoing, we find that the appropriate average test year rate base is \$24,135 for water.

Rate base is shown on Schedule No. 1-A, and related adjustments are shown on Schedule No. 1-B. The schedules are attached hereto and incorporated herein by reference.

#### COST OF CAPITAL

The utility's capital structure consists of common stock of \$100, negative retained earnings of \$26,295, and long term debt of \$72,829. The utility's long term debt consists of a single loan with an interest cost of 8.50%. We made an adjustment of \$26,195 to remove negative equity.

Using the current leverage formula approved by Order No. PSC-00-1162-PAA-WS, issued June 26, 2000, in Docket No. 000006-WS, the appropriate rate of return on equity is 9.94% for all equity ratios less than 40%. Since the utility's capital structure is 100% debt, the appropriate return on equity is 9.94%.

Because the utility's capital structure is 100% debt, the overall rate of return should be equal to the weighted average cost of debt of 8.50%. The utility's capital structure has been reconciled with the rate base approved herein. The return on equity is 9.94% with a range of 8.94% - 10.94% and an overall rate of return of 8.50%.

The return on equity and overall rate of return are shown on Schedule No. 2, attached hereto and incorporated herein by reference.

NET OPERATING INCOME

The utility recorded revenues, for the 12-month period ended December 31, 2000, of \$8,669 for water. Per Audit Disclosure No. 4, the utility did not bill according to its tariff during the test year.

The utility's tariff authorizes a block rate gallonage rate structure. The rate structure consists of 5,000 gallon blocks, and each block is increased by \$0.30 per 1,000 gallons. However, the utility billed all gallons above 15,000 gallons at the same rate as the 10,000-15,000 gallon block. The utility's current tariff authorizes a minimum base facility charge of \$8.00 and a block rate gallonage charge as follows:

<u>Gallonage Charge(per 1,000 gallons)</u>	<u>Existing Charges</u>
0-5,000 gallons	\$1.40
5,001-10,000 gallons	\$1.70
10,001-15,000 gallons	\$2.00
Over 15,000 gallons	Gallonage Charge increases by \$0.30 for each 5,000 gallon block over 15,000 gallons

The utility's existing rates became effective July 18, 1997. We have calculated annualized revenue using the existing rates times the number of bills and consumption provided in the billing analysis. Test year revenues have been increased by \$1,853 for water to reflect annualized revenue based on the existing rates.

Based upon the foregoing, the test year revenues are \$10,522. Test year revenues are shown on Schedule No. 3-A, and the related adjustments are shown on Schedule No. 3-B. The schedules are attached hereto and incorporated herein by reference.

Operating Expenses

The utility recorded O&M expenses of \$15,981 during the test year. The utility provided the auditor with access to all

invoices, canceled checks and other utility records to verify its O&M and taxes other than income expense for the 12-month period ended May 31, 2000. Using the documents provided by the utility, we determined the appropriate operating expenses for the test year and a breakdown of expenses by account class. The utility's books and records were maintained on a semi-accrual basis and used the NARUC account titles. Adjustments have been made to reflect the appropriate annual operating expenses that are required for utility operations on a going forward basis.

Operations and Maintenance Expenses (O&M)

Salaries and Wages-Employees-(601)- The utility recorded no salaried employees during the test year. Like many Class C utilities regulated by this Commission, Holmes performed services during the test year that it did not record as an expense. Both our staff auditor and engineer suggested that the utility should request salaries for these services. The utility requested \$14,400 for a full time secretary and \$19,200 for a full time manager/maintenance person and submitted the following duties associated with each.

The secretary duties include: making sure all reports are filed in a timely manner to all necessary agencies, taking care of the collections of connect and disconnect fees, banking, paying bills, office space, and making sure all necessary tax forms and reports are filed in a timely manner. The manager's duties include: being on call 24 hours per day 7 days per week, checking the facility seven days per week, handling all service calls, and overseeing all repair services contracted out. We can only justify a \$5,000 annual increase for a utility of this size based on past Commission allowances.

Our staff spoke with the utility at the customer meeting and discussed the requested salaries. The utility representative stated that the utility did not need or want these salaries. The utility requested an increase for its contracted operator and management. The utility stated that the above services could be performed through the increased contracted expense for the operator and management.

The contracted operator and management are a related party; however, the requested increase in contractual services is less than the preliminary amount recommended by our staff for salaries that was brought before the customers at the customer meeting. Our staff's preliminary recommendation included an increase for management services of \$5,000 based on past Commission allowances for similar sized utilities. The utility is requesting a \$1,920 annual increase for contractual services to cover the same responsibilities. Therefore, the requested increase for contractual services is reasonable and an adjustment to this account has not been made for salaries.

Purchased Power Expense- (615) - The utility recorded \$613 in this account for the test year. We have decreased this account by \$25 to reflect a 4% repression adjustment.

Chemicals Expense- (618) - The utility recorded \$2,107 in this account for the test year. We have decreased this account by \$84 to reflect a 4% repression adjustment.

Contracted Services-Billing-(630) - The utility recorded \$863 for contracted service billing during the test year. The utility provided cost documentation of \$1.15 per bill. Therefore, this account has been increased by \$20 to reflect customers bills for the test period ( $\$1.15 * 64 \text{ (customers)} * 12 = 883$ ).

Contracted Services-Professional-(631) - The utility recorded \$1,725 for contracted service professional expense. Although the utility uses the NARUC USOA account titles, it does not reconcile its books to the accrual basis monthly. A CPA reconciles the utility's books annually. Both our auditor and engineer have commented that the utility has well-maintained books and records with the only exception being the use of the cash method of accounting.

Because this utility is so small, the differences in cash versus accrual accounting are minimal. We are in agreement with the utility's accountant, that it is not cost effective to reconcile the utility's books monthly. Because these amounts are so minimal and the utility's books are well maintained, the utility is in substantial compliance with Rule 25-30.115, Florida Administrative Code. In addition, the utility's accountant

provided us with a cost estimate of an additional \$1,800 annually to reconcile the utility's books on a monthly basis. Therefore, the utility shall continue its current accounting practices.

Contractual Services-Testing-(635/735) - The utility recorded \$1,795 for this expense during the test year. Each utility must adhere to specific testing conditions prescribed within its operating permit. These testing requirements are tailored to each utility as required by Rules 62-550 and 551, Florida Administrative Code, which are enforced by the DEP. The tests and the frequency at which those tests must be repeated for this utility are:

<u>Test</u>	<u>Frequency</u>	<u>Annual Amount</u>
Bacteriological	Monthly	\$2,160
Nitrates	Yearly	\$70
Lead & Copper	3 Years	\$167
Triannual sampling	3 Years	<u>\$934</u>
Total		<u>\$3,331</u>

This account has been increased by \$1,536 (\$3,331-\$1,795) to reflect DEP required testing.

Contractual Services Other-(636) - The utility recorded \$6,960 for this expense during the test year. The utility requested a \$2,400 increase; an increase from \$440 to \$600 per month for contracted operator/ management (\$1,920), an increase of \$35 to \$45 per mowing for grounds keeping expense (\$120), an increase in line flushing 18(a year)\*\$45-\$35 (\$180), and an increase for meter reading 18(hours per year)\*\$45-\$35 (\$180). The utility's related party (Pugh Utility) provides these services.

Related party transactions require close scrutiny. However, the fact that the transaction is between related parties does not mean the transaction is unreasonable. It is the utility's burden to prove that its costs are reasonable. Florida Power Corp. v. Cressee, 413, So. 2d 1187, 1191 (Fl. 1982). The burden is even greater when the transaction is between related parties. In GTE

Florida Inc. v. Deason, 642 So. 2d 545 (Fl. 1994), the court established that the standard to use in evaluating affiliate transactions is whether those transactions exceed the going market rate or are otherwise inherently unfair. We believe that the test year cost for mowing, line flushing, and meter reading is reasonable for a utility of this size. Further, the utility could not provide us with a reason for the hourly increase; therefore, an adjustment has not been made for these items.

As discussed above, we agree that the requested increase for the contractual operator and management is appropriate, considering that the utility will be able to perform the services discussed above for less than the preliminary amount of \$5,000 which was presented at the customer meeting. We find that the utility has met its burden of proof for justifying the increase in operator and management fees. Therefore, this account has been increased by \$1,920 to reflect an increase in contractual operator and management.

Regulatory Commission Expense-(655/755) - The utility did not record an amount in this account during the test year. The utility paid a \$500 rate case filing fee pursuant to Rule 25-30.020, Florida Administrative Code. This account has been increased by \$125 (\$500/4 years) to reflect rate case expense amortized over four years. During a rate proceeding, utilities are required to send notices to customers. We have estimated \$60 of noticing cost and amortized them over four years, (\$.34 stamp, \$0.10 per page, 6 pages with 64 customers/4 years is \$15). The total annual expense for this account is \$140.

Miscellaneous Expense-(675/775) - The utility recorded \$1,194 for this expense during the test year. We removed billing cards included in contracted service billing of \$68. We also removed non-utility advertising cost of \$375. The net adjustment to this account is a decrease of \$443.

Operation and Maintenance Expense (O&M Summary) - The total O&M adjustment is an increase of \$3,064. The approved O&M expense is \$19,045 for water. O&M expenses are shown on Schedule 3-B, attached hereto and incorporated herein by reference.



Depreciation Expense - The utility recorded depreciation expense net of CIAC of \$789 (\$1,085 Depreciation and \$296 CIAC). Depreciation expense has been calculated using the prescribed rates in Rule 25-30.140, Florida Administrative Code. Our calculated depreciation is \$2,247; therefore, we have increased this account by \$1,162 to reflect our calculated depreciation expense. We have calculated test year amortization of CIAC, using composite rates, of \$764; therefore, this account has been decreased by \$468 to reflect our calculated amortization of CIAC. CIAC has a negative impact on depreciation expense. Our calculated net depreciation expense is \$1,483.

Taxes Other Than Income - The utility recorded taxes other than income of \$888. This account has been increased by \$83 to reflect RAFs based on annualized revenues.

Income Tax - Holmes is a Sub-chapter S corporation; therefore, the utility pays no income taxes.

Operating Revenues - Revenues have been increased by \$13,642 to reflect the increase in revenue required to cover expenses and allow the approved return on investment.

Taxes Other Than Income - This expense has been increased by \$614 to reflect RAFs of 4.5% on the increase in revenues.

Operating Expenses Summary - The application of our adjustments to the audited test year operating expenses results in operating expenses of \$22,113.

Operating expenses are shown on Schedule No. 3-A. The related adjustments are shown on Schedule No. 3-B.

#### REVENUE REQUIREMENT

The appropriate revenue requirement is \$24,164 for water. The utility shall be allowed an annual increase of \$13,642 (129.66%) for water. This will allow the utility the opportunity to recover its expenses and earn an 8.50% return on its investment. The calculations are as follows:

	<u>Water</u>
Adjusted Rate Base	\$24,135
Rate of Return	x .0850
Return on Investment	<u>\$2,051</u>
Adjusted O & M Expense	\$19,045
Depreciation Expense (Net)	\$1,483
Taxes Other Than Income	<u>\$1,585</u>
Revenue Requirement	<u><u>\$24,164</u></u>
Adjusted Test Year Revenues	<u>\$10,522</u>
Percent Increase/(Decrease)	<u><u>129.66%</u></u>

Revenue requirements are shown on Schedules No. 3-A, attached hereto and incorporated herein by reference.

#### RATES AND CHARGES

We find that a revision to the utility's current inclining-block rate structure for its water system is appropriate in this case. No conservation adjustment is approved. The rate structure shall be changed to a two-tier inclining-block rate structure. The recommended usage blocks are for monthly consumption of: 1) 0-10,000 gallons; and 2) in excess of 10,000 gallons (10 kgal), with usage block rate factors of 1.0 and 1.25, respectively.

The utility's current water system rate structure consists of an inclining-block rate structure, with no pre-set limit on the number of usage blocks ("infinitely-tiered"). The base facility charge (BFC) is \$8.00 per month, plus a charge of \$1.40 per one thousand gallons (1 kgal) sold for usage of 0 - 5 kgal. The remaining usage blocks are capped at 5 kgal increments (e.g., 10 kgal, 15 kgal, 20 kgal, etc.), with the usage charge in each subsequent block increasing by \$.30 (e.g., \$1.70 per kgal for usage at 5-10 kgal, \$2.00 for usage at 10-15 kgal, etc). This rate structure was in place when the utility was issued a grandfather certificate.

Conservation Adjustment

In this case, absent any rate design adjustment, our preliminary revenue recovery allocation results in 42% of the revenues recovered through the base facility charge (BFC), with the remaining 58% of revenues recovered through the gallonage charge. In cases in which the percentage of revenues recovered through the BFC is greater than 40%, it is our practice to implement a conservation adjustment such that the resulting revenue recovery allocation through the BFC is no greater than 40%. This is an important rate design goal because it results in a higher gallonage charge, thereby making that charge more conservation-oriented. This practice is also consistent with the conservation rate structure guidelines of the Southwest Florida Water Management District, within which the utility is located.

The principles of going concern and revenue stability shall be considered in conjunction with any adjustment to a utility's revenue recovery allocation. Although a conservation adjustment may increase revenue instability, our concerns in this regard are often mitigated by such factors as: 1) the percentage of bills and gallons recovered in the first block (in the case of an inclining-block rate structure); 2) a low seasonality of the utility's customer base; or 3) the average consumption per customer. Based upon our analysis, well over 50% of the utility's bills and gallons are accounted for in the 0 - 5 kgal usage block, which typically mitigates revenue stability concerns when shifting more of the cost recovery burden to the gallonage charge. However, due to the high seasonality of the utility's customer base coupled with the low average consumption per customer, we do not find that sufficient mitigating factors exist in this case.

Our analysis indicates that the average number of bills in which only the BFC is charged ("0 gallonage bills") equals 8% during the months of November through April, while the corresponding average monthly consumption is approximately 4 kgal. However, during the months of May through October, the number of 0 gallonage bills more than triples to 28%, with customers' average consumption dropping to 3.3 kgal. We are concerned that a conservation adjustment may leave the utility with operating margins so small during the May - October time frame that the utility's ability to operate as a going concern may be compromised.

For example, approximately \$20,740 of the utility's revenue requirement (or an average of \$1,730 per month) is represented by cash outflow items such as O&M expenses and taxes other than income taxes. It is important to design rates such that cash outflows are covered during each month of the year. As is discussed below, the utility's infinitely-tiered inclining-block rate structure shall be revised to a two-tier inclining-block structure. The preliminary rates, before a repression adjustment, are a monthly BFC of \$13.30, with a charge of \$4.79 for each kgal sold in the 0-10 kgal usage block, and a charge of \$5.99 per kgal in the 10+ kgal usage block.

Based on these preliminary rates, the revenue received during October, which represents the month with the lowest total customer consumption, is approximately \$1,800 per month, leaving a preliminary operating margin during that month of approximately \$70. In the event customers reduce their consumption more than we have anticipated, the utility will incur increased revenue instability, and its ability to meet cash flow requirements will be jeopardized. An increased gallonage charge (resulting from a conservation adjustment) under these circumstances would further exacerbate matters.

Based on the foregoing, we find that any conservation adjustment would decrease the utility's revenue stability, as well as endanger its ability to meet its cash flow requirements during certain months of the year. Therefore, we find that a conservation adjustment is not appropriate in this case.

#### Rate Structure

As discussed previously, the utility's current rate structure consists of a BFC with an infinitely-tiered inclining-block rate structure. The goal of this rate structure is to reduce average demand. Under an inclining-block rate structure, it is anticipated that demand in the higher usage block(s) will be more elastic than demand in the first block. Water users with low monthly usage will benefit because the gallonage charge is slightly lower than the true cost of service, while water users with high monthly use will pay increasingly higher rates because the gallonage charge(s) increase in subsequent usage blocks. Thus, the high water users have a greater incentive to conserve.

Approximately 95% of customers' bills are accounted for at monthly consumption per customer of 10 kgal or less, representing average monthly consumption of a mere 3.0 kgal. However, the remaining bills represent average monthly consumption of 15.3 kgal. In this case, it is important to target average monthly consumption greater than 10 kgal with a higher usage rate. We examined usage block rate factors of 1.25, 1.50, 1.75 and 2.0 for the second usage block. As discussed above, we have concerns about revenue instability and revenue sufficiency. Therefore, the least aggressive rate factor of 1.25 shall be approved for the second usage block.

Based on the foregoing, we find that a continuation of the utility's current inclining-block rate structure is not appropriate. Although it is unusual to go from a more conservation-oriented to a less conservation-oriented rate structure, due to the low average monthly consumption per customer, coupled with the above-referenced concerns, no conservation adjustment shall be made, and a two-tier inclining-block rate structure with a greater rate differential between usage blocks shall be implemented. The approved usage blocks are for monthly consumption of: 1) 0-10,000 gallons; and 2) in excess of 10,000 gallons (10 kgal), with usage block rate factors of 1.0 and 1.25, respectively.

#### Repression Adjustment

We find that an adjustment of 117 kgal to reflect repression of consumption is appropriate in this case. In order to monitor the effects of both the change in rate structure and the recommended revenue increase, the utility is hereby ordered that it shall prepare monthly reports detailing the number of bills rendered, the consumption billed and the revenue billed. These reports shall be provided, by customer class and meter size, on a quarterly basis for a period of two years, beginning with the first billing period after the increased rates go into effect.

Typically, our repression analysis involves an examination of our database of utilities receiving rate increases and decreases. We look for utilities with comparable parameters to the utility being examined, and ultimately base our approved repression adjustment on the past behavior of these like utilities. These

parameters include, but are not limited to, similar: 1) rate structure changes; 2) average monthly consumption; and 3) price increases. However, on an overall basis, an examination of our database revealed no sufficiently similar utilities upon which we could base an appropriate regression adjustment. Therefore, we have extrapolated from available information to develop our regression adjustment.

We have found that for utilities that did not experience a rate structure change, an approximate 33% price increase in water-only cases have led to a corresponding 7% reduction in consumption (repression). By assuming a proportional relationship between the overall average and the actual price increase of the utility being examined, we have used this overall price/repression relationship as a starting point in cases where there are no comparable utilities in the database. That analysis in this case would yield the following proportional relationship:

$$\frac{\text{Avg 33.33\% price increase}}{6.97\% \text{ consumption reduction}} = \frac{\text{New avg price increase of 135.5\%}}{X\% \text{ consumption reduction}}$$

Solving for X, the anticipated consumption reduction would be approximately 28%. However, based on overall historical usage patterns, we do not believe 28% is an appropriate regression adjustment. As discussed previously, Holmes' system-wide average monthly consumption per customer is 3.7 kgal, with approximately 95% of Holmes' bills representing average monthly consumption per customer of 3.0 kgal. We do not believe this consumption level is sufficient to sustain a 28% reduction. In fact, a 28% consumption reduction would result in average monthly consumption dropping to an exceptionally low 2.7 kgal per month.

In the alternative, we analyzed the potential repression effects in three average monthly usage groups: 1) usage at 5 kgal or less; 2) usage between 5 kgal and 10 kgal; and 3) usage above 10 kgal. Our analysis of the anticipated repression in each of these three usage groups follows.

0 - 5 kgal per Month

Based upon our visual inspection of the service area, we do not believe that repression will occur at monthly usage levels below 5 kgal due to housing size and landscaping requirements.

5 kgal - 10 kgal per Month

As discussed above, an examination of our database revealed no similar utilities upon which we could base an appropriate overall repression adjustment. However, in our analysis of Holmes' customers using 5 kgal to 10 kgal per month, we identified eight utilities which exhibited similar prior price and prior consumption characteristics. For these eight utilities, we found that an approximate 39% price increase in water-only cases led to a corresponding 9.5% reduction in consumption (repression). For Holmes' customers using 5 kgal - 10 kgal per month, we calculated an average price increase of 155.7% based on consumption of 7.5 kgal. We then assumed a proportional price/repression relationship as a starting point for Holmes' customers at the 5 kgal - 10 kgal monthly usage level. That analysis yields the following proportional relationship:

$$\frac{\text{Avg } 38.8\% \text{ price increase}}{9.5\% \text{ consumption reduction}} = \frac{\text{New avg price increase of } 155.7\%}{X\% \text{ consumption reduction}}$$

Solving for X, the anticipated consumption reduction would be approximately 38% for monthly usage of 5 kgal - 10 kgal. Again, based on the housing types and landscaping requirements of the service area, we do not believe a 38% reduction in consumption at this usage level can be sustained, as the predicted average monthly consumption would decrease to 4.6 kgal. In the alternative, we calculated revised average monthly consumption levels based on repression adjustments of both 25% and 15% for the 5 kgal - 10 kgal group, which yielded post-repression estimates of 5.6 kgal and 6.4 kgal, respectively. Based on this analysis and the requirements discussed above, we find that a 15% repression adjustment, which yields an anticipated reduction of 73 kgal in this usage group, is appropriate. The resulting post-repression estimated usage is 6.4 kgal per month.

10+ kgal per Month

An examination of our database revealed no sufficiently similar utilities upon which we could base an appropriate regression adjustment for monthly usage levels above 10 kgal. Absent any comparable utilities, and in consideration of the factors and discussion above, we find that a 20% regression adjustment, which yields an anticipated reduction of 44 kgal in this usage group, is appropriate. We find that the resulting estimated post-regression usage for this usage group of 12.2 kgal per month is reasonable.

The above-referenced regression adjustments result in an overall regression adjustment of 4% and an anticipated 117 kgal reduction in consumption. Therefore, the appropriate number of gallons for rate-setting purposes is 2,750.55 kgal. In order to monitor the effects of both the changes in rate structure and the recommended revenue increases, the utility is hereby ordered to prepare monthly reports detailing the number of bills rendered, the consumption billed and the revenue billed. These reports shall be provided, by customer class and meter size, on a quarterly basis for a period of two years, beginning with the first billing period after the increased rates go into effect.

Rates

The appropriate revenue requirement, excluding miscellaneous service charges, is \$24,164. As discussed previously, the water system rate structure shall be changed to a two-tiered inclining-block rate structure, with monthly usage blocks of 0 - 10 kgal and in excess of 10 kgal. Also discussed previously, usage block rate factors shall be 1.0 and 1.25, respectively, and no conservation adjustment shall be implemented. We find that the appropriate regression adjustment is 117 kgal. Therefore, the resulting monthly rates for service are those shown below.



Monthly Rates - Water  
Residential and General Service  
Base Facility Charge

<u>Meter Sizes</u>	<u>Existing Rates</u>	<u>Commission</u> <u>Approved Rates</u>
5/8" x 3/4"	\$8.00	\$13.30
3/4"	N/A	\$19.95
1"	N/A	\$33.25
1 1/2"	N/A	\$66.50
2"	N/A	\$106.40
3"	N/A	\$212.79
4"	N/A	\$332.49
6"	N/A	\$664.98

Monthly Rates - Water  
Residential Gallonage Charge

<u>Inclining Block Rate Structure</u> <u>Per 1,000 gallons</u>	<u>Existing Rates</u>	<u>Commission</u> <u>Approved Rates</u>
0-5,000 gallons	\$1.40	\$5.00
5,001-10,000 gallons	\$1.70	\$5.00
Each additional 5,000 increment	additional \$0.30 per increment	\$6.25

Monthly Rates - Water  
General Service Gallonage Charge

	<u>Existing Rates</u>	<u>Commission</u> <u>Approved Rates</u>
0-5,000 gallons	\$1.40	N/A
5,001-10,000 gallons	\$1.70	N/A
Each additional 5,000 increment	additional \$0.30 per increment	N/A
Per 1,000 gallons	N/A	\$5.05

The approved increase in revenue requirements is \$13,642 or approximately 129.66%. The rates approved for the utility shall be designed to produce revenues of \$24,164 (excluding miscellaneous service charge revenues).

Approximately 43% (\$10,281) of the revenue requirement is recovered through the recommended base facility charge. The fixed costs are recovered through the BFC based on the number of factored ERCs. The remaining 57% (\$13,884) of the revenue requirement represents revenues collected through the consumption charge based on the number of gallons.

The utility shall file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. 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 the customers. The utility shall provide proof of the date notice was given no less than 10 days after the date of the notice.

Four-Year Rate Reduction

Section 367.0816, Florida Statutes, requires that the rates be reduced immediately following the expiration of the four year period by the amount of the rate case expense previously included in the rates. The reduction will reflect the removal of revenues associated with the amortization of rate case expense and the

gross-up for RAFs, which is \$147 annually. Using the utility's current revenues, expenses, capital structure and customer base, the reduction in revenues will result in the rate decreases as shown on Schedule No. 4, attached hereto and incorporated herein by reference.

The utility shall file revised tariff sheets no later than one month prior to the actual date of the required rate reduction. The utility shall also file a proposed customer notice setting forth the lower rates and the reason for the reduction.

If the utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data shall be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense.

Customer Deposits

Rule 25-30.311, Florida Administrative Code, provides guidelines for collecting, administering and refunding customer deposits. It also authorizes customer deposits to be calculated using an average monthly bill for a two-month period. The utility's existing tariff does not authorize the utility to collect a customer deposit. We have calculated customer deposits using the recommended rates and an average monthly bill for a two-month period. A schedule of the utility's existing and our approved deposits follows:

<u>Water</u>		
<u>Residential and General Service</u>		
<u>Meter Size</u>	<u>Existing deposit</u>	<u>Commission Approved deposit</u>
5/8" x 3/4"	N/A	\$62.00
All over 5/8" x 3/4"	N/A	2 x average bill

The utility shall file revised tariff sheets, which are consistent with our decision herein. Our staff shall have

administrative authority to approve the revised tariff sheets upon staff's verification that the tariffs are consistent with our decision herein. If revised tariff sheets are filed and approved, the customer deposits shall become effective for connections made on or after the stamped approval date of the revised tariff sheets, if no protest is filed.

Service Availability Charge

The utility's current service availability charges shall be revised to include a tap in fee of \$150 and a meter installation charge of \$100. The utility's existing tariff authorizes a tap in fee of \$550. We are approving a new tap in fee and a meter installation charge.

The utility's existing tap in fee was grandfathered in the certification docket. We are unable to determine cost justification for the \$550 tap in fee. The utility has requested a new tap in fee and provided us with cost justification. Pugh Utilities connects new customers to Holmes' system and charges Holmes a \$250 "tap in fee" for this service. This "tap in fee" includes installation of a meter. We are able to determine the meter installation cost to be \$100 per connection. Therefore, the appropriate tap in fee shall be \$150 (\$250 - \$100). Because the utility does not have an existing meter installation charge, allowing a \$100 meter installation charge is appropriate.

Both the meter installation charge and the tap in fee are reasonable and similar to past Commission allowances. A schedule of the utility's existing charges and our approved charges are as follows:

	<u>Existing Charge</u>	<u>Commission Approved Charge</u>
<u>Tap in Fee</u>		
5/8" x 3/4"	\$550.00	\$150.00
All Over 5/8" x 3/4"	Actual Cost	Actual Cost

<u>Meter Installation Charge</u>	<u>Existing Charge</u>	<u>Commission Approved Charge</u>
5/8" x 3/4"	N/A	\$100.00
All Over 5/8" x 3/4"	N/A	Actual Cost

The utility shall file revised tariff sheets, which are consistent with our decision herein. Our staff shall have administrative authority to approve the revised tariff sheets upon staff's verification that the tariffs are consistent with our decision herein. If revised tariff sheets are filed and approved, the service availability charges shall become effective for connections made on or after the stamped approval date of the revised tariff sheets, if no protest is filed.

DECLINING TO INITIATE A SHOW CAUSE PROCEEDING  
FOR APPARENT VIOLATION OF SECTIONS  
367.081(1), AND 367.091(3), FLORIDA STATUTES

Section 367.081(1), Florida Statutes, provides that a utility may only charge rates and charges that have been approved by the Commission. Section 367.091(3), Florida Statutes provides that "each utility's rates, charges, and customer service policies must be contained in a tariff approved by and on file with the Commission."

The current revenue tariff in effect for Holmes was established in Order No. PSC-97-0568-FOF-WU. It includes an inclining block rate structure that provides for a gallonage charge increase of \$0.30 for each 5,000-gallon block. However, the utility capped the rate billed customers at 15,000 gallons, thus billing all gallons above 15,000 at the same rate as the 10,000 to 15,000 gallon block, contrary to the specification of the tariff. This resulted in undercharged revenue for the 12-month period ending December 31, 2000, for a total of \$31.20. This is an apparent violation of Sections 367.081(1) and 367.091(3), Florida Statutes.

Section 367.161, Florida Statutes, authorizes the Commission to assess a penalty of not more than \$5,000 per day for each offense, if a utility is found to have knowingly refused to comply

with, or to have willfully violated any Commission rule, order, or provision of Chapter 367, Florida Statutes. Utilities are charged with the knowledge of the Commission's rules and statutes. Additionally, "it is a common maxim, familiar to all minds that 'ignorance of the law' will not excuse any person, either civilly or criminally." Barlow v. United States, 32 U.S. 404, 411 (1833).

Thus, any intentional act, such as the utility's failure to adhere to its rate tariff would meet the standard for a "willful violation." 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., Order No. 24306, issued April 1, 1991, in Docket No. 890216-TL, the Commission having found that the company had not intended to violate the rule, nevertheless found it appropriate to order it to show cause why it should not be fined, stating that "'willful' implies an intent to do an act, and this is distinct from an intent to violate a statute or rule." Id. at 6.

Although regulated utilities are charged with knowledge of the Commission's rules and statutes, and the utility's failure to adhere to its rate tariff is an apparent violation of Sections 367.081(1) and 367.091(3), Florida Statutes, we find that a show cause proceeding is not warranted and shall not be initiated at this time. In this case, the utility's failure to adhere to its revenue tariff resulted in a \$31.20 undercharge, which is an immaterial amount. In addition, there were very few customers that consumed above 15,000 gallons for this period of time, and these customers benefitted from the utility's oversight by being charged the lower rate. Furthermore, upon being made aware of the oversight, the utility is now charging the appropriate tariff rates.

Based on the foregoing, we find that the apparent violation of Sections 367.081(1) and 367.091(3), Florida Statutes, under these circumstances, does not rise to the level that warrants the initiation of a show cause proceeding. However, the utility shall hereby be put on notice that it must continue to comply with its tariff and bill accordingly in the future.

TEMPORARY RATES IN THE EVENT OF A PROTEST

This Order approves an increase in water rates. A timely protest might delay what may be a justified rate increase resulting in an unrecoverable loss of revenue to the utility. Therefore, pursuant to Section 367.0814(7), Florida Statutes, in the event of a protest filed by a party other than the utility, the rates approved herein shall be implemented as temporary rates. The approved rates collected by the utility shall be subject to the refund provisions discussed below.

The utility shall be authorized to collect the temporary rates upon our staff's approval of appropriate security for the potential refund and the proposed customer notice. Security shall be in the form of a bond or letter of credit in the amount of \$9,243. Alternatively, the utility could 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) We approve the rate increase; or
- 2) If we deny the increase, the utility shall refund the amount collected that is attributable to the increase.

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

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

If security is provided through an escrow agreement, the following conditions shall be part of the agreement:

- 1) No refunds in the escrow account may be withdrawn by the utility without the express approval of the Commission.
- 2) The escrow account shall be an interest bearing account.
- 3) If a refund to the customers is required, all interest earned by the escrow account shall be distributed to the customers.
- 4) If a refund to the customers is not required, the interest earned by the escrow account shall revert to the utility.
- 5) All information on the escrow account shall be available from the holder of the escrow account to a Commission representative at all times.
- 6) The amount of revenue subject to refund shall be deposited in the escrow account within seven days of receipt.
- 7) This escrow account is established by the direction of the Florida Public Service Commission for the purpose(s) set forth in its order requiring such account. Pursuant to Cosentino v. Elson, 263 So. 2d 253 (Fla. 3d DCA 1972), escrow accounts are not subject to garnishments.
- 8) The Director of Commission Clerk and Administrative Services must be a signatory to the escrow agreement.

This account must specify by whom and on whose behalf such monies were paid.

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 result of the rate increase shall



be maintained by the utility. 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 Commission Division of Economic Regulation no later than the 20th of each month indicating the monthly and total amount of money subject to refund at the end of the preceding month. The report filed shall also indicate the status of the security being used to guarantee repayment of any potential refund.

If no timely protest is received upon expiration of the protest period, this Order will become final upon the issuance of a Consummating Order. However, this docket shall remain open for an additional nine months from the effective date of the Order to allow our staff to verify completion of pro forma plant items as described herein. Once our staff has verified that this work has been completed, the docket shall be closed administratively.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Holmes Utilities, Inc.'s application for increased 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 attachments and schedules hereto are incorporated herein by reference. It is further

ORDERED Holmes Utilities, Inc. is hereby authorized to charge the new rates and charges as set forth in the body of this Order. It is further

ORDERED that the approved rates shall be effective for service rendered on or after the stamped approval date on the tariff sheet,

pursuant to Rule 25-30.475(1), Florida Administrative Code. The tariff sheets will be approved upon our staff's verification that the tariffs are consistent with this Order and the customer notice is adequate. It is further

ORDERED that the rates shall not be implemented until notice has been received by the customers. The utility shall provide proof of the date notice was given within 10 days after the date of the notice. It is further

ORDERED that the utility shall charge the appropriate customer deposits as set forth in the body of this Order. The utility shall file revised tariff sheets which are consistent with this Order, and our staff shall have administrative authority to approve the revised tariff sheets upon staff's verification that the tariffs are consistent with this Order. If revised tariff sheets are filed and approved, the customer deposits 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

ORDERED that pursuant to Section 367.0814(7), Florida Statutes, the rates approved herein shall be approved for the utility on a temporary basis, subject to refund, in the event of a protest filed by a party other than the utility. It is further

ORDERED that prior to implementation of any temporary rates, the utility shall provide appropriate security. If the rates are implemented on a temporary basis, the rates collected by the utility shall become subject to the refund provisions set forth in the body of this Order. It is further

ORDERED that after any temporary rates are in effect, pursuant to Rule 25-30.360(7), Florida Administrative Code, the utility shall file reports with the Division of Economic Regulation no later than 20 days after each monthly billing. These reports shall indicate the amount of revenue collected under the increased rates subject to refund. It is further

ORDERED that the utility shall complete all pro forma additions, as set forth in the body of this Order, within nine months of the effected date of this Order. It is further

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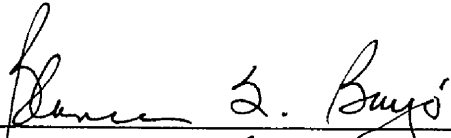
ORDERED that the utility shall prepare monthly reports detailing the number of bills rendered, the consumption billed and revenue billed. These reports shall be provided, by customer class and meter size, on a quarterly basis for a period of two years, beginning with the first billing period after the increased rates go into effect. It is further

ORDERED that the utility is hereby put on notice that it must continue to comply with its tariff and bill accordingly in the future. 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 provide by Rule 28-106.201, Florida Administrative Code, is received by the Director, Division of Commission Clerk and Administrative Services, 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 in the event this Order becomes final, this docket shall be closed administratively once our staff has verified that the matters specified herein have been completed.

By ORDER of the Florida Public Service Commission this 10th day of December, 2001.

  
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BLANCA S. BAYÓ, Director  
Division of the Commission Clerk  
and Administrative Services

( S E A L )

LAE

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 herein, except for the granting of temporary rates, subject to refund, in the event of a protest, and our decision not to initiate show cause proceeding are 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 the Commission Clerk and Administrative Services, at 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on December 31, 2001. 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 the Commission Clerk and Administrative Services 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

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the Director, Division of the Commission Clerk and Administrative Services and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days after the issuance of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.

HOLMES UTILITIES, INC.		SCHEDULE NO. 1-A	
TEST YEAR ENDING 12/31/00		DOCKET NO. 010403-WU	
SCHEDULE OF WATER RATE BASE			
DESCRIPTION	BALANCE PER UTILITY	COMM. ADJUST. TO UTIL. BAL.	BALANCE PER COMM.
1. UTILITY PLANT IN SERVICE	\$47,967	\$7,850	\$55,817
2. LAND & LAND RIGHTS	745	750	1,495
3. NON-USED AND USEFUL COMPONENTS	0	0	0
4. CIAC	(13,100)	(8,200)	(21,300)
5. ACCUMULATED DEPRECIATION	(5,436)	(11,663)	(17,099)
6. AMORTIZATION OF CIAC	894	1,947	2,841
7. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>2,381</u>	<u>2,381</u>
8. WATER RATE BASE	<u>\$31,070</u>	<u>(\$6,933)</u>	<u>\$24,135</u>

HOLMES UTILITIES, INC. TEST YEAR ENDING 12/31/00 ADJUSTMENTS TO RATE BASE	SCHEDULE NO. 1-B DOCKET NO. 010403-WU
	<u>WATER</u>
<u>UTILITY PLANT IN SERVICE</u>	
1. Plant per original cost study (52,034)	\$4,067
2. Averaging adjustment	(548)
3. Pro forma plant	8,663
4. Pro forma averaging adjustment	<u>(4,332)</u>
Total	<u>\$7,850</u>
<u>LAND AND LAND RIGHTS</u>	
1. Land per original cost study	<u>\$750</u>
<u>CIAC</u>	
1. CIAC imputed per staff	(\$9,600)
2. Averaging adjustment	<u>1,400</u>
Total	<u>(\$8,200)</u>
<u>ACCUMULATED DEPRECIATION</u>	
1. Accumulated depreciation per 25-30.140 FAC	(\$12,549)
2. Averaging adjustment	943
3. Pro forma depreciation	(114)
4. Pro forma averaging adjustment	<u>57</u>
Total	<u>(\$11,663)</u>
<u>AMORTIZATION OF CIAC</u>	
1. Amortization of CIAC per staff	\$2,333
2. Averaging adjustment	<u>(386)</u>
Total	<u>\$1,947</u>
<u>WORKING CAPITAL ALLOWANCE</u>	
1. To reflect 1/8 of test year O & M expenses.	<u>\$2,381</u>

HOLMES UTILITIES, INC.							SCHEDULE NO. 2	
TEST YEAR ENDING 12/31/00							DOCKET NO. 010403-WU	
SCHEDULE OF CAPITAL STRUCTURE								
CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUSTMENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUSTMENTS	BALANCE PER COMM.	PERCENT OF TOTAL	COST	WEIGHTED COST
1. COMMON STOCK	\$100	\$0	\$100					
2. RETAINED EARNINGS	(26,295)	26,195	(100)					
3. PAID IN CAPITAL	0	0	0					
4. OTHER COMMON EQUITY	0	0	0					
5. TOTAL COMMON EQUITY	(\$26,195)	\$26,195	0	0	0	0.00%	9.94%	0.00%
6. LONG TERM DEBT	72,829	0	72,829	(48,694)	24,135	100.00%	8.50%	8.50%
	0	0	0	0	0	0.00%	0.00%	0.00%
7. TOTAL LONG TERM DEBT	<u>72,829</u>	<u>0</u>	<u>72,829</u>	<u>(48,694)</u>	<u>24,135</u>	<u>100.00%</u>		
8. CUSTOMER DEPOSITS	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	6.00%	<u>0.00%</u>
9. TOTAL	<u>\$46,634</u>	<u>\$26,195</u>	<u>\$72,829</u>	<u>(\$48,694)</u>	<u>\$24,135</u>	<u>100.00%</u>		<u>8.50%</u>
							<u>LOW</u>	<u>HIGH</u>
							<u>8.94%</u>	<u>10.94%</u>
							<u>8.50%</u>	<u>8.50%</u>



HOLMES UTILITIES, INC. TEST YEAR ENDING 12/31/00 SCHEDULE OF WATER OPERATING INCOME			SCHEDULE NO. 3-A DOCKET NO. 010403-WU		
	TEST YEAR PER UTILITY	COMM. ADJ. PER UTILITY	COMM. ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$8,669</u>	<u>\$1,853</u>	<u>\$10,522</u>	<u>\$13,642</u> 129.66%	<u>\$24,164</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	15,981	3,064	19,045	0	19,045
3. DEPRECIATION (NET)	789	694	1,483	0	1,483
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	888	83	971	614	1,585
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$17,658</u>	<u>\$3,841</u>	<u>\$21,499</u>	<u>\$614</u>	<u>\$22,113</u>
8. OPERATING INCOME/(LOSS)	<u>(\$8,989)</u>		<u>(\$10,977)</u>		<u>\$2,051</u>
9. WATER RATE BASE	<u>\$31,070</u>		<u>\$24,135</u>		<u>\$24,135</u>
10. RATE OF RETURN	<u>-28.93%</u>		<u>-45.48%</u>		<u>8.50%</u>

HOLMES UTILITIES, INC.	SCHEDULE NO. 3-B
TEST YEAR ENDING 12/31/00	
ADJUSTMENTS TO OPERATING INCOME	
	<u>WATER</u>
<b>OPERATING REVENUES</b>	
Annualize revenue based on billing analysis	<u>\$1,853</u>
<b>OPERATION AND MAINTENANCE EXPENSES</b>	
1. Purchased Power Expense (615)	
a. To reflect repression adjustment	<u>(\$25)</u>
2. Chemicals Expense (618)	
a. To reflect repression adjustment	<u>(\$84)</u>
3. Contractual Services - Billing (630)	
a. To reflect contracted billing	<u>\$20</u>
4. Contractual Services - Testing (635)	
a. To reflect DEP required testing	<u>\$1,536</u>
5. Contractual Services - Other (636)	
a. Increase to reflect contracted operator and management	<u>\$1,920</u>
6. Regulatory Commission Expense (665)	
a. Notice mailing cost amortized over 4 years	\$15
b. Amortized filing fee over 4 years	<u>125</u>
Total	<u>\$140</u>
7. Miscellaneous Expense (675)	
a. Remove billing cards already recorded in accountant 630	(\$68)
b. Remove non utility advertising cost	<u>(375)</u>
Total	<u>(\$443)</u>
<b>TOTAL OPERATION &amp; MAINTENANCE ADJUSTMENTS</b>	<u>\$3,064</u>
<b>DEPRECIATION EXPENSE</b>	
1. To reflect test year depreciation calculated per 25-30.140, FAC	\$1,162
2. Test year amortization of CIAC.	<u>(468)</u>
Total	<u>\$694</u>
<b>TAXES OTHER THAN INCOME</b>	
1. To include regulatory assessment fees on test year revenue.	<u>\$83</u>

HOLMES UTILITIES, INC.		SCHEDULE NO. 3-C	
TEST YEAR ENDING 12/31/00		DOCKET NO. 010403-WU	
ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE			
	TOTAL PER UTILITY	COMM. PER ADJUST.	TOTAL PER PER COMM.
(601) SALARIES AND WAGES - EMPLOYEES	0	0	0
(603) SALARIES AND WAGES - OFFICERS	0	0	0
(615) PURCHASED POWER	613	(25) [1]	588
(618) CHEMICALS	2,107	(84) [2]	2,023
(620) MATERIALS AND SUPPLIES	0	0	0
(630) CONTRACTUAL SERVICES - BILLING	863	20 [3]	883
(631) CONTRACTUAL SERVICES - PROFESSIONAL	1,725	1,920 [4]	3,645
(635) CONTRACTUAL SERVICES - TESTING	1,795	1,536 [5]	3,331
(636) CONTRACTUAL SERVICES - OTHER	6,960	0	6,960
(650) TRANSPORTATION EXPENSE	0	0	0
(655) INSURANCE EXPENSE	724	0	724
(655) REGULATORY COMMISSION EXPENSE	0	140 [6]	140
(670) BAD DEBT EXPENSE	0	0	0
(675) MISCELLANEOUS EXPENSES	<u>1,194</u>	<u>(443)</u> [7]	<u>751</u>
	15,981	3,064	19,045

RECOMMENDED RATE REDUCTION SCHEDULE			
HOLMES UTILITIES, INC.		SCHEDULE NO. 4	
TEST YEAR ENDING 12/31/00		DOCKET NO. 010403-WU	
<u>CALCULATION OF RATE REDUCTION AMOUNT</u>			
<u>AFTER RECOVERY OF RATE CASE EXPENSE AMORTIZATION PERIOD OF FOUR YEARS</u>			
<u>MONTHLY WATER RATES</u>			
<u>RESIDENTIAL AND GENERAL SERVICE</u>		<u>MONTHLY APPROVED RATES</u>	<u>MONTHLY RATE REDUCTION</u>
BASE FACILITY CHARGE:			
Meter Size:			
5/8"X3/4"	\$	13.30	0.08
3/4"		19.95	0.12
1"		33.25	0.20
1-1/2"		66.50	0.40
2"		106.40	0.65
3"		212.79	1.29
4"		332.49	2.02
6"		664.98	4.03
RESIDENTIAL GALLONAGE CHARGE (per 1,000 gallons)			
0-10,000 gallons	\$	5.00	0.03
above 10,000 gallons		6.25	0.04
GENERAL SERVICE GALLONAGE CHARGE			
Per 1,000 Gallons		5.05	0.03

**WATER TREATMENT PLANT - USED AND USEFUL DATA**

**Docket No. 010403-WU - Holmes Utility**

- |   |            |                        |
|---|------------|------------------------|
| 1) Firm Reliable Capacity of Plant  | 61,200     | gallons per day        |
| 2) Maximum Day Flow (AWWA)<br>(64.5 ERCs x 1.1 gpm per ERC x 2<br>peaking factor x 60 min per hour<br>x 24 hours per day) | 204,336    | gallons per day        |
| 3) Average Daily Flow (Actual)  | 9,041      | gallons per day        |
| 4) Fire Flow Capacity   | N/A        | gallons per day        |
| 5) Growth   | 16 ERCs or | 25,344 gallons per day |
| a) Test year Customers in ERCs:   |            |                        |
|   |            | Begin 64               |
|   |            | End 65                 |
|   |            | Average 64.5           |
| b) Customer Growth in ERCs  | 3.2        | ERCs                   |
| c) Statutory Growth Period  | 5          | Years                  |
| (b)x(c)x 1.1 x 60 x 24 = 25,344 gallons per day for growth  |            |                        |
| 6) Excessive Unaccounted for Water  | 0          | gallons per day        |
| a) Total Unaccounted for Water  | 40         | gallons per day        |
| Percent of Average Daily Flow   | .44%       |                        |
| b) Reasonable Amount  | 904        | gallons per day        |
| (10% of average Daily Flow)   |            |                        |
| c) Excessive Amount   | 0          | gallons per day        |

**USED AND USEFUL FORMULA**

$$[(2)+(4)+(5) - (6)] / (1) = 100\% \text{ Used and Useful}$$

**WATER DISTRIBUTION SYSTEM - USED AND USEFUL DATA**

**Docket No. 010403 - Holmes Utility**

- |  |      |       |
|--|------|-------|
| 1) <b>Capacity of System</b> (Number of Potential Customers, ERCs or Lots Without Expansion) | 90   | ERCs  |
| 2) <b>Test year connections</b>  |      |       |
| a) Beginning of Test Year  | 64   | ERCs  |
| b) End of Test Year  | 65   | ERCs  |
| c) Average Test Year   | 64.5 | ERCs  |
| 3) <b>Growth</b>   | 16   | ERCs  |
| (Due to plant additions in 1999, Use end of year customer count)                             |      |       |
| a) customer growth in ERCs   | 3.2  | ERCs  |
| b) Statutory Growth Period   | 5    | Years |
| (a)x(b) = 16 ERCs allowed for growth   |      |       |

**USED AND USEFUL FORMULA**

$$[(2b)+(3)]/(1) = 90\% \text{ Used and Useful}$$