

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for staff-assisted rate case in Polk County by Tevalo, Inc. d/b/a McLeod Gardens Water Company.

DOCKET NO. 011677-WU
ORDER NO. PSC-02-1733-PAA-WU
ISSUED: December 9, 2002

The following Commissioners participated in the disposition of this matter:

LILA A. JABER, Chairman
J. TERRY DEASON
BRAULIO L. BAEZ
MICHAEL A. PALECKI
RUDOLPH "RUDY" BRADLEY

ORDER GRANTING TEMPORARY RATES IN THE EVENT OF A PROTEST,
AND
NOTICE OF PROPOSED AGENCY ACTION APPROVING INCREASE
IN RATES AND CHARGES, REQUIRING CUSTOMER DEPOSITS,
REQUIRING THE INSTALLATION OF AN AUTOMATIC
CHLORINATION SYSTEM, AND REQUIRING REPORTS

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein, except for the granting of temporary rates, subject to refund, in the event of a protest, the reduction of rate case expense, and the closure of the docket, 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

Tevalo, Inc. d/b/a McLeod Gardens Water Company (McLeod Gardens or utility) is a Class C water utility providing service to approximately 57 residential customers in Polk County. Wastewater service is provided through septic tanks. At build-out, the McLeod

DOCUMENT NUMBER-DATE
13437 DEC-9 2002
FPSC-COMMISSION CLERK

Gardens subdivision, developed by Tevalo, Inc., will serve a maximum of 176 lots. The utility's 2001 annual report shows total operating revenue of \$11,976 and a net operating loss of \$5,532.

The utility filed an application for certification as a utility in existence on September 12, 2000. The utility received its certificate by Order No. PSC-01-2317-PAA-WU, issued November 27, 2001, in Docket No. 001381-WU. The utility's existing rates were approved in that Order. On December 27, 2001, the utility filed an application for a Staff Assisted Rate Case (SARC) and paid the appropriate filing fee on February 25, 2002. This is the utility's first SARC. Rate base has not been established for this utility. The utility's records have been audited for compliance with Commission rules and Orders and a determination of the components necessary for rate setting. A field investigation of the utility's plant and service area and a supplemental original cost study were also conducted.

On June 27, 2002, an informal customer meeting was held in the service area. Seven customers attended the meeting and four customers chose to give comments. The majority of the customer comments were about the quality of the water, specifically the constant fluctuations between high levels of chlorine and high levels of hydrogen sulfide. Customers also raised health concerns related to the chlorine and hydrogen sulfide levels. Several customers raised concerns about subsidizing future growth. All the customers who gave comments mentioned that they had difficulty contacting the utility.

QUALITY OF SERVICE

Rule 25-30.433(1), Florida Administrative Code, states 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 utility's product (water and wastewater); operational conditions of 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 county health departments (HRS) or lack thereof over the proceeding 3-year period shall also be considered. DEP and HRS officials' testimony concerning quality of service as well as the comments and testimony of the utility's customers shall be considered.

Our analysis concerning the overall quality of service provided by the utility addresses each of these three components.

Quality of Utility's Product

The Department of Environmental Protection (DEP) has conveyed all enforcement of community water systems in Polk County to the county health office. The potable water program is regulated by the Environmental Engineering Division of the Polk County Department of Health. According to county health records for the last three years, the utility has kept current with all chemical analyses. Those analyses' results have been satisfactory with the exception of a higher than normal presence of Hydrogen Sulfide in the raw water. Hydrogen Sulfide is a secondary standard, is not considered to be a health hazard, and no corrective mandates have been issued to reduce Maximum Contaminant Levels (MCL); however, the utility's operator is treating the raw water with chlorination to reduce the Hydrogen Sulfide levels. The quality of the utility's product is considered to be satisfactory.

Consumptive use in Polk County is permitted by the Southwest Florida Water Management District (SWFMD). The utility formally obtained its Water Use Permit (WUP No. 7172.03) on January 20, 1998, which expired on July 18, 1999. On July 28, 1998, the water management office issued a letter of extension for WUP No. 7172.03 to July 18, 2010. Currently, the utility does not appear to be exceeding its water withdrawal allowances.

Operational Conditions of 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. Over the last three years the county has cited the utility for a few violations. The Polk County Health Department has required the utility to

provide a back-up well, cited the utility for insufficient chlorination/treatment, and issued a violation letter for replacing the turbine pump with a submersible pump without notifying the Department. In each case, the utility responded satisfactorily and the deficiencies were resolved. During the rate case, our staff made suggestions concerning maintenance/repairs of the building which houses the well and pump at the water treatment plant. Those repairs were completed prior to the customer meeting. The quality of the water treatment plant-in-service is considered to be satisfactory.

Utility's Attempt to Address Customer Satisfaction

An informal customer meeting was held on June 27, 2002, at 6:00 p.m. in the Chain of Lakes Complex on Cypress Gardens Boulevard in Winter Haven. Seven customers attended the meeting. Four customers offered comments concerning the utility's quality of service. The first speaker was Mr. Rosser who, in addition to being a customer of McLeod Gardens, is the Superintendent over water and wastewater facilities for a neighboring city. He identified the utility's problems as: excessive Hydrogen Sulfide, erratic control over Chlorine dosages, and the utility not returning phone calls when messages were left on the answering machine. Mr. Rosser also asked if the building contractors were paying their fair share for water use, and what were the draw-down effects from other wells. Another customer, Mr. Turly, agreed with all of Mr. Rosser's comments, but added that, at times, the pressure in the system was low. The other two customers that spoke did so in support of the comments made by Mr. Rosser and Mr. Turly.

During the investigation of the Hydrogen Sulfide and Chlorination issues, it was determined that the two are interrelated. The customers complained of excessive chlorine in the drinking water at times and a strong sulfur taste/odor. Hydrogen Sulfide, while not considered to be a health hazard, does emit odors and has a taste that some find to be unpleasant. The Chlorine pump is set on a timer that only injects Chlorine while the pump is engaged. This treatment process is a recognized treatment for disinfection and for the removal of Hydrogen Sulfide. The process is complicated by unfettered flat-rate water use that shortens the retention time in the pressure tank, and encourages inconsistent interaction of the Hydrogen Sulfide with the Chlorine dosages.

The interaction between the Chlorine and the Hydrogen Sulfide is, by its nature, constantly in flux and results shift from moment to moment. In order to insure that the water remains protected throughout the distribution system and the required level of free residual is maintained, the operator has been injecting sufficient Chlorine to neutralize the Hydrogen Sulfide at its highest concentration. When chlorine is fed into the raw water, it first reacts with any iron, manganese, or hydrogen sulfide that may be in the water. If any residual (un-reacted) chlorine remains, it will next react with organic material (including bacteria) present. By Rule 62-550.518(4), Florida Administrative Code, the utility is required to maintain a free Chlorine residual of 0.2 parts per million throughout the system. However, while there is a 0.2 parts per million minimum free chlorine residual requirement, the maximum limit is a standard of 4 parts per million calculated as a running average computed quarterly using monthly averages of all samples taken. A review of the utility's Monthly Operator's Reports for the test year did not yield a quarterly average that exceeded 4 parts per million.

The "rate of feed" is adjusted by the operator during his required visits to the plant to maintain the minimum 0.2 ppm level of free Chlorine; however, the required on-site operator time for this water plant is three one-hour visits per week plus one weekend visit. It is between these on-site visitations that the interaction becomes unstable and the proper dosage levels become unbalanced. Mr. Dosser illustrated his awareness of this by recommending the utility either interconnect to a larger system or install an automatic disinfection feed system with sensor/control to regulate the Chlorine dosage levels between operator visits.

In reaction to the comments expressed at the customer meeting, the utility owner requested a waiver of the statutory deadline in order to investigate options to remedy these problems. During the construction of Phase III, an 8 inch stub-out was extended outside of the subdivision with the sole purpose of interconnecting with the City of Bartow. At the time Phase III was constructed, Bartow was not ready to interconnect McLeod Gardens, and the utility was hopeful that the situation had changed. The City of Bartow is still not ready to interconnect McLeod Gardens to its system. After the utility's latest attempt to interconnect failed, it obtained a cost estimate for the installation of an automatic disinfection feed system with sensor/control. We find that the

cost to install this automated disinfection system shall be included as a pro forma plant, and the utility is required to install the system within four months from the date of the Consummating Order.

Concerning the complaint of low water pressure, our staff discussed the issue at the customer meeting by informing the customers that the minimum requirement pursuant to Rule 62-550.518(4), Florida Administrative Code, for water pressure is 20 psi. The county health office is the office of primacy in this matter, and the low pressure complaint was reported to the Polk County Department of Health the next day. It did not have any record of low pressure complaints for this utility, but stated that should a customer call its office, the matter would be investigated completely. Our staff later told Mr. Dossier that the health department would investigate the low pressure complaint as soon as someone registered a complaint. At this time, no such complaint has been received.

The concerns over contractors paying their fair share and the draw-down effect from the two wells at the plant site are believed to be minor issues. At every opportunity, it was explained to the customers that the installation of individual meters would insure they would only pay their fair share. The contractors building houses in the subdivision may be using a lot of water, but the utility alternates the use of the two wells. This insures that any draw-down cone created by the extraction of raw water from the water table will have a chance to recover before the other well is placed into use. Both wells are considered deep wells. The smaller (4 inch) well was drilled to a depth of 280 feet with the casing set at 105 feet, and the static water level recorded at 58 feet. Other wells in the area are considered to be at a sufficient distance away to not have an influence on the dynamics of the wells serving McLeod Gardens. It is believed that the installation of meters will resolve both of these concerns.

The utility was asked why it did not return customer phone calls left on the answering machine. The utility answered that it either called the operator or a contract service company to go and correct the complaint. At that point, it considered the issue resolved. The appropriate response was discussed with the utility management, and the utility has assured our staff that in the future it will respond directly to customers and inform them what

was being done to resolve their complaint. The utility tends to respond well to regulatory authority, and it is believed that they will be responsible in this matter as well. The utility has shown ample good faith effort in its attempt to address customer concerns.

In conclusion, based on the quality of product and the operational conditions of the plant being satisfactory, as well as the utility's good faith effort in attempting to address customer concerns, we find that the utility's quality of service is satisfactory; however, the utility is required to install the automatic chlorination system within four months of the Consummating Order.

RATE BASE

Year End Test Year

For audit purposes a historic test year ending December 31, 2001 was selected. Because the utility is growing at an exceptionally high rate (13 connections a year or 22%), rates based on historical data alone will be significantly different than rates based on current or even future conditions. As a result, a projected test year (ending December 31, 2003) is appropriate in this case and will better match increasing revenues with expenses on a going forward basis.

This is consistent with Order No. 15725, issued February 21, 1986, in Docket No. 840315-WS, In re: Application of Martin Downs Utilities, Inc. For an increase in water and wastewater rates to its customers in Martin County, Florida, in which the Commission found the following:

The test year is an analytical device used in rate making proceedings to compute current levels of investment and income in order to determine the amount of revenue that will be required to assure a company a fair return on its investment. Test year data must be adjusted to properly reflect conditions in the future period for which rates are being fixed. Based upon historical data we anticipate Martin Downs will continue to experience rapid growth of demand for its services.

ORDER NO. PSC-02-1733-PAA-WU
DOCKET NO. 011677-WU
PAGE 8

As a result, the Commission found a projected test year was appropriate for Martin Downs.

Using a projected test period in cases of extremely high growth will keep the utility from overearning in the short run and will promote rate stability. The Commission has approved a projected test year for high growth in Order No. PSC-01-1246-PAA-WS, issued June 4, 2001, in Docket No. 001382-WS.

Based on the above factors, we find that a projected test year rate base is appropriate in this case to better match expenses with customer base on a going forward basis. We hereby approve a projected test year ending December 31, 2003.

Used and Useful

Water Treatment Plant - The water treatment plant is a closed system that fully relies on the total pumping capacity of 495 gallons per minute (gpm) to meet instantaneous customer demands on the system. Well number one is equipped with a 25 horsepower submersible pump, and has a rated capacity of 425 gpm. Well number two is equipped with a 5 horsepower submersible pump that has a rated capacity of 70 gpm. To properly evaluate a closed system plant, the highest capacity well is removed from the calculation which reduces the reliable capacity to 70 gpm. The hydropneumatic tank is considered to be a pressure equalization chamber and serves little as a storage facility. Current customer demands (for calculation purposes) are more appropriately determined by the minimum design criteria of 1.1 gpm in accordance with General Waterworks Design Criteria which is compared to the number of customer connections. This standard is backed by the American Water Works Association (AWWA), and is recommended to be met by the lowest capacity well. Based upon design criteria, the reliable capacity of this plant is calculated to be 70 gpm which serves an average anticipated customer demand of 91 gpm.

Customer growth has been steady over the last five years. The anticipated growth rate is calculated to be 13 customers per year by regression analysis. Using a projected test year for the used and useful calculation, it is anticipated that the average number of customers in 2003 will be 77 Equivalent Residential Connections (ERCs). The anticipated growth rate of 13 customers per year exceeds the 5% per year statutory limit which must be used in

calculating the five year growth period as prescribed by Section 367.081(2)(a)2(b), Florida Statutes. The 5% growth in ERCs used to calculate customer growth is 3 ERCs per year which yields an estimated 36 gpm for the five year growth capacity. From the flow analysis, there does not appear to be an excessive unaccounted for water problem. By the formula, the water plant is calculated to be 100% used and useful. The calculation is summarized on page 1 of Attachment A, attached hereto and incorporated by reference. Therefore, we find that the water treatment plant is 100% used and useful.

Water Distribution System - The water distribution system has the potential of serving 93 customers (estimated to be 93 ERCs). The average number of customers anticipated during the projected test year is 77 customers (estimated to be 77 ERCs). Using the statutory cap of 5% per year for the five year growth period (3 ERCs), the future growth is calculated to be 15 ERCs. By the formula approach, the distribution system was calculated to be 100% used and useful. The calculation is summarized on page 2 of Attachment A, attached hereto and incorporated by reference. Therefore, we find that the water distribution system is 100% used and useful.

Average Test Year Rate Base

Rate base has not been established by the Commission for this utility. Cost documentation was found for Utility Plant in Service (UPIS) with the exception of three items of plant. For those three items, we relied on an original cost study.

A projected average test year ending December 31, 2003 was selected. Rate base components have been calculated using the original cost study and our staff's audit and engineering report for a plant balance through December 31, 2003. A discussion of each component of rate base follows:

Utility Plant in Service (UPIS) - The utility recorded UPIS of \$80,118 for the test year. The utility had three items of plant that were not recorded on the books and for which no cost documentation was available. The original cost of these items was determined as follows:

<u>Acct. No.</u>	<u>Description</u>	<u>Original Cost</u>
304	Pumphouse	\$2,250
307	Well Drilling and Casing	\$4,251
311	Vertical Turbine Pump	<u>\$2,678</u>
		<u>\$9,179</u>

Therefore, UPIS has been increased by \$9,179 to reflect the plant items not recorded on the utility's books.

The utility serves a subdivision being developed by its parent company (developer). According to Audit Exception No. 5, the utility is recording the cost of the distribution system as development cost; the cost is recorded as the developer's lot inventory. The inventory account is expensed as "cost of sales" as lots are sold. The cost of the distribution system should have been recorded on the utility's books with a corresponding adjustment to Contribution in Aid of Construction (CIAC). Therefore, we increased UPIS by \$97,126 (Acct. No. 331 \$64,725, Acct. No. 333 \$22,143 and Acct. No. 335 \$10,258) to include the portion of the distribution system not recorded by the utility. Because the utility is recovering the cost of the distribution system through lots sold, a corresponding adjustment has been made to CIAC to recognize the contributed lines.

According to Audit Exception No. 4, the utility recorded \$1,885 associated with meters and meter installation in an expense account (Account No. 636 Contractual Services-Other). The cost of purchasing and installing a meter should be capitalized. Therefore, Account No. 334 was increased by \$1,885 to reclassify and capitalize the cost of meters expensed by the utility from Account No. 636.

In 2000, the utility replaced the vertical turbine pump discussed above with a 25-horsepower submersible pump. Since the vertical pump was replaced, it should have been retired from UPIS by the utility. Therefore, in order to reflect the retirement of the vertical pump, we decreased Account No. 311 by \$2,678.

The utility has provided our staff with cost documentation associated with meters and meter installation of \$115 per meter. Accordingly, we have increased Account No. 334 by \$2,990 (\$115 x 13 connections x 2 years) to reflect the meters associated with the projected customers. UPIS was decreased by \$748 to reflect an

averaging adjustment. We have required herein the utility to install an automatic chlorination system that will reduce the fluctuations in chlorine and hydrogen sulfide levels which concerned several customers. The utility has provided our staff with estimates for the chlorination equipment of \$7,375, which includes installation cost. To include the cost of the automatic chlorination system, we have increased Account No. 320 by \$7,375.

Our net adjustment to UPIS is an increase of \$115,129, resulting in a UPIS balance of \$195,247.

Land - The utility did not record an amount in this account for the test year. According to Audit Exception No. 3, the developer bought a total of 70 acres for \$245,000 in 1991 to develop as single family home sites. Our staff auditor determined that the utility occupies approximately 2 acres of this land. Therefore, we increased this account by \$7,000 ($\$245,000 \div 70 \text{ acres} \times 2 \text{ acres}$) to reflect the original cost of the land associated with utility use.

Non-used and Useful Plant - We 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 100% used and useful. Because both the treatment plant and water distribution system are considered 100% used and useful, a non-used and useful adjustment has not been made.

Contribution in Aid of Construction (CIAC) - The utility recorded \$15,650 in this account during the test year. As discussed above, the cost of the distribution system is expensed through the "cost of sales." This means that the utility has recovered its investment of the distribution system through lot sales and should not continue to earn a return on that investment. Therefore, an adjustment has been made to CIAC to remove the cost of the distribution system from rate base.

We increased this account by \$1,955 to reflect the contributed portion of the collection system recorded by the utility. As discussed above, because the utility recovered the collection system through the "cost of sales," the utility did not record a majority of the distribution system on its books. We made an adjustment above to include the unrecorded distribution system in rate base. Therefore, a corresponding adjustment was recorded to

increase this account by \$97,126 to reflect the contributed portion of the collection system not recorded by the utility.

We increased this account by \$8,645 to reflect CIAC for the projected test years. Projected CIAC was determined by taking the projected number of customers times the utility's current service availability charges and the service availability charges anticipated to be in effect during the projected period. We then decreased this account by \$2,535 to reflect an averaging adjustment. All of these adjustments result in CIAC of \$120,841.

Accumulated Depreciation - The utility recorded \$14,239 for accumulated depreciation on its books during the historic test year. We calculated accumulated depreciation using the prescribed rates in Rule 25-30.140, Florida Administrative Code. Our calculated accumulated depreciation on December 31, 2001, is \$17,179. This account was decreased by \$2,678 to reflect the retirement above, and was increased by \$5,618 to reflect our calculated depreciation of \$17,179 ($\$14,239 - \$2,678 + 5,618$).

We increased this account by \$13,628 to reflect accumulated depreciation for the projected test years, and decreased this account by \$3,333 to reflect an averaging adjustment. These adjustments result in an accumulated depreciation of \$27,474.

Amortization of CIAC - The utility recorded \$421 for amortization of CIAC. We calculated year end amortization using composite depreciation rates. The calculated year-end amortization of CIAC is \$7,020. This account has been increased by \$6,599 ($\$7,020 - \421) to reflect the calculated amortization of CIAC.

We increased this account by \$7,072 to reflect CIAC amortization for the projected test years, and decreased this account by \$1,828 to reflect an averaging adjustment. These adjustments result in an amortization of CIAC of \$12,264.

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, we find that the one-eighth of operation and maintenance (O&M) expense formula approach be used for calculating working capital allowance. Applying that formula, we calculate a working capital allowance of \$2,596 (based on O&M of

ORDER NO. PSC-02-1733-PAA-WU
DOCKET NO. 011677-WU
PAGE 13

\$20,770). Working capital has been increased by \$2,596 to reflect one-eighth of the O&M expenses approved herein.

Rate Base Summary - Based on the foregoing, we find that the appropriate projected test year rate base is \$68,792 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 \$37,500, retained earnings of \$37,134, paid in capital of \$298,210, and long term debt of \$114,000. The utility's long term debt consists of two loans of \$67,500 and \$46,500 with an interest cost of 8.75% and 8.30% respectively.

Using the current leverage formula approved by Order No. PSC-02-0898-PAA-WS, issued July 5, 2002, in Docket No. 020006-WS, the appropriate rate of return on equity is 10.41%. We determined the total weighted average cost of capital to be 9.98%.

The utility's capital structure has been reconciled with the rate base approved herein. The return on equity is 10.41% with a range of 9.41% - 11.41% and an overall rate of return of 9.98%.

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

Test Year Revenues

The utility recorded revenues, for the 12-month period ended December 31, 2001, of \$11,982 (\$11,222 for service revenues and \$760 for other revenues). Included in the utility's test year revenues was \$60 associated with revenues collected for non-sufficient funds. We approved herein the removal of the expense associated with receiving non-sufficient fund checks from customers from O&M. As a result, the revenues associated with the non-

sufficient funds shall be removed as well. This account has been decreased by \$60 to remove the non-sufficient funds revenue.

The utility's tariff authorizes a \$18 flat rate for residential customers. Service revenues were recalculated based on the billing analysis and the authorized rate. We increased this account by \$460 to annualize historic test year billing. A projected test year ending December 31, 2003 is approved herein. Accordingly, this account has been increased by \$4,842 to account for total service revenues that would be collected based on average projected test year customers.

Based upon the foregoing, we find that the test year revenues are \$17,224. Test year revenues are shown on Schedule No. 3-A, with related adjustments shown on Schedule No. 3-B. The schedules are attached hereto and incorporated herein by reference.

Operating Expense

The utility recorded operations and maintenance (O&M) expenses of \$19,642 during the test year. The utility provided the staff 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 December 31, 2001. 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 did not use the National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts (USOA) account numbers; however, the utility did use similar accounts and we have allocated those expenses to the appropriate NARUC accounts.

Operations and Maintenance Expenses (O&M)

Purchased Power-(615) - The utility recorded \$1,891 in this account during the test year. We increased this account by \$838 to reflect the increase in power associated with the projected increase in gallons consumed. We decreased this account by \$1,365 to reflect a regression adjustment. We find a purchased power expense of \$1,365 appropriate.

Chemicals-(615) - The utility recorded \$1,708 in this account during the test year. We increased this account by \$757 to reflect

the increase in chemicals associated with the projected increase in gallons consumed, and decreased this account by \$1,233 to reflect a repression adjustment. We find a chemicals expense of \$1,233 appropriate.

Contracted Services-Billing-(630) - The utility did not record an amount in this account during the test year. Although the utility currently has a flat rate structure, we approve a base facility gallonage charge rate structure herein. Therefore, the utility will need someone to read the meters. The utility has requested \$75 per month for meter reading. Traditionally, the Commission has approved a meter reading expense of between \$0.30 and \$1.00 per meter. The utility's requested amount results in an expenses of approximately \$0.90 per meter. We find this amount to be reasonable and have increased this account by \$900 (\$75 x 12 months) to reflect annual meter reading expense.

Contractual Services-Testing-(635) - The utility recorded \$1,328 in this account 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 Chapters 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:

WATER DEP REQUIRED TESTING

<u>Test</u>	<u>Frequency</u>	<u>Annual Amount</u>
Microbiological	Monthly	\$480
Primary Inorganics	3 Years	\$77
Secondary Inorganics	3 Years	\$77
Asbestos	9 Years	\$35
Volatile Organics	Yearly	\$658
Pesticides & PCB	3 Years	\$292
Nitrates & Nitrites	Yearly	\$40
Radionuclides I	3 Years	\$32

<u>Test</u>	<u>Frequency</u>	<u>Annual Amount</u>
Unregulated Organics I	qty 1 st yr/ 9 yrs.	\$275
Unregulated Organics II	3 Years	\$110
Unregulated Organics III	3 Years	\$83
Lead & Copper	Biannual	<u>\$320</u>
Total		<u>\$1,999</u>

Therefore, we increased this account by \$1,401 (\$2,729 - \$1,328) to reflect the DEP required testing.

Contractual Services Other-(636) - The utility recorded \$10,647 in this account during the test year. The utility has a contracted operator at \$250 a month, two contracted bookkeepers at \$150 a month, and contracted management at \$250 a month. These amounts are reasonable for a utility of this size. Accordingly, this account has been increased by \$250 to annualize the above contracts.

The utility believes that the cost associated with the bookkeeping will increase to \$650 per month once billing for metered consumption begins. We agree that accounting for metered bills is more complex than flat rate bills; however, a monthly increase of \$500 to account for 83 customer bills is unreasonable. Currently the utility is billing customers a flat rate, and since we have allowed an amount for a meter reader herein, the only accounting difference will be multiplying the gallonage rate times the gallons provided by the meter reader and adding that amount to the base facility charge. The difference in time associated with calculating a flat rate bill and calculating a base facility gallonage charge bill is immaterial. The increased cost associated with the new rate structure is reflected in the approved expense for the meter reader.

According to Audit Exception No. 4, the utility recorded \$1,885 in this account for meters and meter installations during the test year. Meters and meter installations should be capitalized rather than expensed. Therefore, we decreased this account by \$1,885 to reclassify and capitalize meters to Account No. 311.

The utility did not record an amount for grounds keeping during the test year. The utility has submitted a bid for \$65 a month for grounds keeping. This amount is reasonable and this account has been increased by \$780 ($\65×12 months) to reflect grounds keeping expense.

The net adjustment to this account is a decrease of \$855. The approved Contractual Services-Other expense is \$9,792.

Transportation Expense - (650) - The utility did not record an amount in this account during the historic test year. The utility personnel uses their personal vehicles to meet with regulatory personnel, run errands, pick up supplies, meet with contracted companies on special projects, and perform minor repairs and upkeep at the plants. We have estimated that the utility personnel travels approximately 200 miles per month performing these functions. This account has been increased by \$696 to reflect this transportation expense (200 miles a month \times 12 months \times \$0.29 a mile).

Regulatory Commission Expense-(655) - The utility did not record an amount in this account during the test year. The utility paid a \$200 rate case filing fee pursuant to Rule 25-30.020, Florida Administrative Code. We increased this account by \$50 ($\$200/4$ years) to reflect rate case expense amortized over four years.

Miscellaneous Expense-(675/775) - The utility recorded \$62 in this account during the test year. This amount reflects expense associated with non-sufficient funds and penalties for over drawing an account. The customers should not be responsible for the cost associated with the utility over drawing an account. Further, the utility can recover the cost associated with non-sufficient funds paid to the utility from the individual who wrote the bad check under Section 68.065, Florida Statutes. Therefore, we decreased this account by \$62 to remove the expense associated with non-sufficient funds and penalties for over drawing an account.

Operation and Maintenance Expense (O&M Summary) - The total O&M adjustment is an increase of \$1,128. The approved O&M expense is \$20,770 for water. O&M expenses are shown on Schedule 3-B.

Depreciation Expense - The utility did not record depreciation expense for the test year. Depreciation expense has been calculated using the prescribed rates in Rule 25-30.140, Florida Administrative Code. The calculated depreciation is \$7,692; therefore, this account has been increased by \$7,692 to reflect our calculated depreciation expense. The calculated test year amortization of CIAC, using composite rates, is \$4,050; therefore, this account has been decreased by \$4,050 to reflect the calculated amortization of CIAC. CIAC has a negative impact on depreciation expense. The calculated net depreciation expense is \$3,642.

Taxes Other Than Income - The utility recorded taxes other than income of \$372. According to Audit Exception No. 7, the utility did not record Regulatory Assessment Fees (RAFs) for the test year. We increased this account by \$775 to include RAFs based on annualized revenues.

Income Tax - McLeod Gardens is a Sub-chapter S corporation; therefore, consistent with Rule 25-30.433(7), Florida Administrative Code, an allowance for income taxes has not been made.

Operating Revenues - Revenues have been increased by \$15,917 to reflect the increase in revenue required to cover expenses and allow the return on investment approved herein.

Taxes Other Than Income - This expense has been increased by \$716 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 \$26,276.

Operating expenses are shown on Schedule No. 3-A, and the related adjustments are shown on Schedule No. 3-B.

REVENUE REQUIREMENT

The utility will be allowed an annual increase of \$15,917 (92.41%). This will allow the utility the opportunity to recover its expenses and earn a 9.98% return on its investment. The calculations are as follows:

	<u>Water</u>
Adjusted Rate Base	\$68,792
Rate of Return	x .0998
Return on Investment	<u>\$6,865</u>
Adjusted O & M Expense	\$20,770
Depreciation Expense (Net)	\$3,642
Taxes Other Than Income	<u>\$1,863</u>
Revenue Requirement	<u>\$33,141</u>
Adjusted Test Year Revenues	<u>\$17,224</u>
Percent Increase/(Decrease)	<u>92.41%</u>

The revenue requirement is shown on Schedule No. 3-A.

RATES AND CHARGES

Conservation Rate Structure

The utility's current water system rate structure consists of a monthly flat rate of \$18.00. This rate structure is nonusage sensitive and discourages conservation at all levels of consumption. The Commission's preferred rate structure has been the traditional BFC/gallonage charge rate structure, because it is designed to provide for the equitable sharing by the rate payers of both the fixed and variable costs of providing service. This rate structure is also considered usage-sensitive because customers are charged for all water consumed. Therefore, customers are able to reduce their total bill by reducing their water consumption. Over the past few years, due to water supply concerns and requirements imposed on utilities by the Water Management Districts, the more conservation-oriented inclining-block rate structure has become the Commission's rate structure of choice.

Rule 25-30.255(1), Florida Administrative Code, requires that each utility measure water sold on the basis of metered volume sales unless the Commission approves a flat rate service

arrangement for that utility. The utility's current flat rates were approved when it was granted an original water certificate in Docket No. 001381-WU. See Order No. PSC-01-2317-PAA-WU, issued on November 27, 2001. All customers are now metered; therefore, we find that the current flat rate structure will be discontinued in favor of a usage-sensitive rate structure, not only to conform to the requirements of the Commission's prior Order, but to be consistent with Commission policy and with the overall statewide goal of eliminating conservation-discouraging water rate structures.

Although meters have been installed for all customers, the utility's current flat rate structure does not require, nor has the utility been taking, meter readings of its customers. The absence of metered consumption data precludes implementation of an inclining-block rate structure at this time. Therefore, the traditional BFC/gallonage charge shall be implemented.

In lieu of metered consumption data, data was obtained from the DEP Monthly Operating Reports (MORs) during the test year to estimate customers' average monthly consumption of approximately 18,900 gallons (18.9 kgal). Based on an average of 2.5 persons per household, the average gallons per day per capita (gpdc) use is 252 gallons (18,900 gallons / 2.5 persons / 30 days).

McLeod Gardens is located in the Southwest Florida Water Management District (SWFWMD or District) within the Southern Water Use Caution Area (SWUCA). The gallons per day per capita (gpdc) target usage rate for utilities located in the SWUCA is 150 gpdc, and is listed as a general condition on the utility's Water Use Permit (WUP). The customers' gpdc of 252 gallons is substantially greater (approximately 68%) than the District's 150 gpdc target.

Although implementation of an inclining-block rate structure is not appropriate at this time, one method of making rates more conservation-oriented is by implementing a conservation adjustment, whereby more of the revenue recovery is shifted to the gallonage charge. Based on an initial assessment of fixed versus variable allocation of revenue requirement recovery, the utility would recover 41% (\$14,394) in the BFC and the remaining 59% (\$20,801) in the gallonage charge. This revenue recovery allocation is just outside the rate design guidelines of the SWFWMD which state that

no more than 40% of the total cost recovery be allocated to the BFC.

The additional costs will be shifted from the BFC to the gallonage charge in order to accomplish several rate design goals. BFC cost recovery percentages of 35% (requiring a pre-repression conservation adjustment of 15%) and 30% (requiring a pre-repression conservation adjustment of 27%) were analyzed. The results of this pre-repression analysis, including making no adjustment, are shown in the following table:

PRE-REPRESSION PRICE INCREASES AT VARIOUS CONSERVATION ADJUSTMENTS (CA) AND BFC COST RECOVERY PERCENTAGES			
	CA and BFC Cost Recovery Percentages		
Monthly Consumption	CA = 0% BFC = 41%	CA = 15% BFC = 35%	CA = 27% BFC = 30%
0 kgal	-12.9%	-25.9%	+36.4%
1 kgal	-6.2%	-18.6%	-28.5%
2 kgal	0.4%	-11.3%	-20.6%
3 kgal	7.1%	-3.9%	-12.7%
5 kgal	20.4%	10.7%	3.1%
9 kgal	47.1%	40.1%	34.6%
10 kgal	53.8%	47.4%	42.5%
15 kgal	87.1%	84.1%	81.9%
20 kgal	120.4%	120.7%	
25 kgal	153.8%	157.4%	

As shown above, the BFC cost recovery percentage of 30% accomplishes the following rate design goals: 1) it minimizes the price increases for lesser, nondiscretionary monthly consumption of 5 kgal or less; and, 2) it maximizes price increases at levels of consumption greater than the current monthly average.

Therefore, we find that a continuation of the utility's current flat rate structure for its water system is not appropriate in this case. The water system rate structure shall be changed to a traditional BFC/gallonage charge rate structure. The cost recovery allocated to the BFC will be 30%.

Repression Adjustment

Based on information contained in our database of utilities receiving rate increases and decreases, there were four water utilities that converted from a flat rate structure to a traditional BFC/gallonage charge rate structure. The specific consumption reductions were 60%, 60%, 50%, and 44%, respectively. Two utilities were removed from consideration because they received substantial concomitant wastewater increases, which, we believe, placed upward pressure on the levels of water consumption reduction levels. This leaves two utilities in the sample: one of the remaining utilities experienced a 60% consumption reduction, while the other utility's corresponding consumption reduction was 44%.

We note that the average monthly consumption for McLeod Gardens' customers is approximately 18.885 kgal, which, we believe, represents a substantial amount of discretionary usage, making a high magnitude of repression likely. Furthermore, the magnitude of the revenue requirement increase (92.41%) indicates that the current rates are far from compensatory. We believe that, due to the rate shock to be experienced by the customers, the anticipated consumption reductions will in fact be substantial. Therefore, a 50% repression adjustment shall be made to residential consumption; the resulting reduction in consumption is 8,668 kgal.

In order to monitor the effects of both the changes in rate structure and the recommended revenue change, the utility is required to prepare monthly reports detailing the number of bills rendered, the consumption billed and the revenue billed. These reports will 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 approved rates go into effect.

Rates

As previously discussed, the appropriate revenue requirement is \$33,141. The utility had other revenues totaling \$700 during

the test year. Other revenues are used to reduce the revenue requirement recovered through rates. Therefore, rates have been designed to produce revenues of \$32,441 (\$33,141 - \$700). The water system rate structure has been changed herein to a traditional BFC/gallonage charge rate structure with a BFC cost recovery percentage of 30%, and the appropriate repression adjustment is 8,668 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>APPROVED RATES</u>
Flat Rate	\$18.00	N/A
5/8" x 3/4"	N/A	\$10.51
3/4"	N/A	\$15.76
1"	N/A	\$26.26
1 1/2"	N/A	\$52.53
2"	N/A	\$84.05
3"	N/A	\$168.10
4"	N/A	\$262.65
6"	N/A	\$525.30

GALLONAGE CHARGE

Per 1,000 gallons	Flat Rate	\$2.63
-------------------	-----------	--------

The approved increase in revenue requirements is \$15,917 or approximately 92.41%. The rates approved for the utility are designed to produce revenues of \$32,441.

Approximately 30% (\$9,644) of the service revenues are recovered through the recommended base facility charge. The fixed costs are recovered through the BFC based on the number of factored ERCs. The remaining 70% (\$22,797) of the service revenues represents revenues collected through the consumption charge based on the number of gallons. The following is a comparison of bills at 3,000, 5,000, and 10,000 gallons:

<u>GALLONS</u>	<u>EXISTING RATE</u>	<u>APPROVED RATE</u>
3,000	\$18.00	\$18.40
5,000	\$18.00	\$23.66
10,000	\$18.00	\$36.81

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 will not be implemented until 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. Staff is given administrative authority to approve the revised tariff sheets upon staff's verification that the tariffs are consistent with our decision.

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 regulatory assessment fees which is \$52 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 also shall file a proposed customer notice setting forth the lower rates and the reason for the reduction. If the utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data shall be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense. Staff is given administrative authority to approve the revised tariff sheets upon

staff's verification that the tariffs are consistent with our decision.

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. Customer deposits were calculated using the approved rates and an average monthly bill for a two-month period. A schedule of the utility's existing and the approved deposits follows:

Water Customer Deposits

Residential and General Service

<u>Meter Size</u>	<u>Existing Deposit</u>	<u>Recommended Deposit</u>
5/8" x 3/4"	N/A	\$70.00
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. Staff is given administrative authority to approve the revised tariff sheets upon staff's verification that the tariffs are consistent with our decision. 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 Charges

The utility's existing tariff authorizes a tap in fee of \$275. As discussed previously, the utility's distribution system is contributed through the cost of sales. A tap in fee is usually designed to recover the cost of the line from the main to the meter (also referred to as services). Since services are contributed through the cost of lot sales, the tap in fee shall be discontinued.

The utility has collected the \$275 tap in fee for all its existing customers. These previous fees will be considered plant capacity charges (charges designed to defray the cost of the treatment plant associated with customer growth). A plant capacity charge of \$275 is approved for the utility. This is consistent with previous CIAC collections by the utility and this charge will not cause the utility to exceed the contributions levels outlined in Rule 25-30.580, Florida Administrative Code.

As discussed earlier, the utility's rate structure is changed to bill based on consumption. The utility has installed meters on all existing customers and will install meters on all future customers. The utility currently does not have a meter installation fee. A meter installation fee will help defray the cost associated with customer growth since new customers will be paying for additional meters rather than the general body of rate payers. Accordingly, we approve a meter installation fee of \$115. Based on the utility's cost documentation, this fee will cover the cost of the meter, meter box, labor, and other miscellaneous supplies necessary to install a meter.

The utility's current tap in fee of \$275 shall be discontinued and a plant capacity charge of \$275 is approved. Further, a meter installation fee of \$115 is approved. If revised tariff sheets are filed and approved, the service availability charges will become effective for connections made on or after the stamped approval date of the revised tariff sheets, if no protest is filed. Staff is given administrative authority to approve the revised tariff sheets upon staff's verification that the tariffs are consistent with our decision.

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, we find that the rates approved herein 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 staff's approval of appropriate security for the potential refund and the proposed customer notice. Security should be in the form of a bond or letter of credit in the amount of \$10,745. 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) The Commission approves the rate increase; or
- 2) If the Commission denies the increase, the utility shall refund the amount collected that is attributable to the increase.

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

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

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

- 1) No refunds in the escrow account may be withdrawn by the utility without the express approval of the Commission.
- 2) The escrow account shall be an interest bearing account.
- 3) If a refund to the customers is required, all interest earned by the escrow account shall be distributed to the customers.

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

ORDER NO. PSC-02-1733-PAA-WU
DOCKET NO. 011677-WU
PAGE 29

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 five months from the date of the Consummating Order, to allow staff time to verify the installation of an automatic chlorination system 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 Tevalo, Inc. d/b/a McLeod Gardens Water Company'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 are hereby approved in every respect. It is further

ORDERED that all matters contained in the attachments and schedules attached hereto are incorporated herein by reference. It is further

ORDERED that Tevalo, Inc. d/b/a McLeod Gardens Water Company is hereby authorized to charge the new rates and charges as set forth in the body of this Order. It is further

ORDERED that Tevalo, Inc. d/b/a McLeod Gardens Water Company shall install an automatic chlorination system within four months from the date of the Consummating 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 sheets, pursuant to Rule 25-30.475(1), Florida Administrative Code. The tariff sheet 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

ORDER NO. PSC-02-1733-PAA-WU
DOCKET NO. 011677-WU
PAGE 30

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 be subject to the refund provisions as 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. The reports shall also indicate the status of the security being used to guarantee repayment of any potential refund. It is further

ORDERED that the utility 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 approved rates go into effect. It is further

ORDER NO. PSC-02-1733-PAA-WU
DOCKET NO. 011677-WU
PAGE 31

ORDERED that the utility shall charge the appropriate service availability charges 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 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. It is further

ORDERED that the provisions of this Order, except for the granting of temporary rates, subject to refund, in the event of a protest, the reduction of rate case expense, and the closure of the docket, are issued as proposed agency action, and 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 the 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 9th day of December, 2002.

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

By: Kay Flynn
Kay Flynn, Chief
Bureau of Records and Hearing
Services

(S E A L)
AEV

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, the reduction of rate case expense, and the closure of the docket, 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 the Commission Clerk and Administrative Services, at 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on December 30, 2002. 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, which includes the granting of temporary rates, subject to refund, in the event of a protest, the reduction of rate case expense, and the closure of the docket, 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

ORDER NO. PSC-02-1733-PAA-WU
DOCKET NO. 011677-WU
PAGE 33

or the First District Court of Appeal in the case of a water or wastewater utility by filing a notice of appeal with the Director, Division of 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.

WATER TREATMENT PLANT - USED AND USEFUL DATA

Docket No. 011677-WU - Tevalo, Inc. d/b/a McLeod Gardens

- | | | |
|--|---------|--------------------|
| 1) Reliable Capacity of Plant | 70 | gallons per minute |
| 2) Maximum Daily Flow (83 cust X 1.1 gpm X 2) | 183 | gallons per minute |
| 3) Average Daily Flow (83 cust X 1.1 gpm) | 91 | gallons per minute |
| 4) Fire Flow Capacity | N/A | gallons per minute |
| a) Required Fire Flow: 500 gallons per minute for 4 hours (State if utility is not providing required fire flow) | | |
| 5) Growth | 36 | gallons per minute |
| a) Test year Customers in ERCs: | | |
| | Begin | 70 |
| | End | 83 |
| | Average | 77 |
| b) Customer Growth in ERCs based on 5% of the customer base. | | |
| | 3 | ERCs |
| c) Statutory Growth Period | | |
| | 5 | Years |
| (b)x(c)x [2\ (a)] = 36 gallons per minute for growth | | |
| 6) Excessive Unaccounted for Water | N/A | gallons per minute |
| a) Total Unaccounted for Water | | |
| | N/A | gallons per minute |
| Percent of Average Daily Flow | | |
| b) Reasonable Amount | | |
| | 9 | gallons per minute |
| (10% of average Daily Flow) | | |
| c) Excessive Amount | | |
| | N/A | 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. 011677-WU - Tevalo, Inc. d/b/a McLeod Gardens

- | | | |
|--|----|-------|
| 1) Capacity of System (Number of Potential Customers, ERCs or Lots Without Expansion) | 93 | ERCs |
| 2) Test year connections | | |
| a) Beginning of Test Year | 70 | ERCs |
| b) End of Test Year | 83 | ERCs |
| c) Average Test Year | 77 | ERCs |
| 3) Growth | 15 | ERCs |
| a) customer growth in ERCs based on 5% of the customer base | 3 | ERCs |
| b) Statutory Growth Period | 5 | Years |
| (a)x(b) = 15 connections allowed for growth | | |

USED AND USEFUL FORMULA

$$[(2)+(3)]/(1) = 100\% \text{ Used and Useful}$$

TEVALO, INC. d/b/a McLEOD GARDENS WATER COMPANY TEST YEAR ENDING 12/31/03 SCHEDULE OF WATER RATE BASE			
		SCHEDULE NO. 1-A DOCKET NO. 011677-WU	
DESCRIPTION	BALANCE PER UTILITY	COMM. ADJUST. TO UTIL. BAL.	BALANCE PER COMM.
1. UTILITY PLANT IN SERVICE	\$80,118	\$115,129	\$195,247
2. LAND & LAND RIGHTS	0	\$7,000	\$7,000
3. NON-USED AND USEFUL COMPONENTS	0	\$0	\$0
4. CIAC	(15,650)	(\$105,191)	(\$120,841)
5. ACCUMULATED DEPRECIATION	(14,239)	(\$13,235)	(\$27,474)
6. AMORTIZATION OF CIAC	421	\$11,843	\$12,264
7. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>\$2,596</u>	<u>\$2,596</u>
8. WATER RATE BASE	<u>\$50,650</u>	<u>\$18,142</u>	<u>\$68,792</u>

TEVALO, INC. d/b/a McLEOD GARDENS WATER COMPANY
TEST YEAR ENDING 12/31/03
ADJUSTMENTS TO RATE BASE

SCHEDULE NO. 1-B
DOCKET NO. 011677-WU

WATER

UTILITY PLANT IN SERVICE

1. Original Cost for plant with no documentation	\$9,179
2. Lines Contributed but not recorded on utility's books	97,126
3. Reclassify meters from expense accounts	1,885
4. Retire old pump	(2,678)
5. Projected Meters	2,990
6. Chlorinating System	7,375
7. Averaging Adjustment	(748)
Total	<u>\$115,129</u>

LAND AND LAND RIGHTS

1. Per Audit	<u>\$7,000</u>
--------------	-----------------------

CIAC

1. Unrecorded CIAC	(\$1,955)
2. Contributed lines unrecorded	(97,126)
3. Projected CIAC	(8,645)
4. Averaging Adjustment	2,535
Total	<u>(\$105,191)</u>

ACCUMULATED DEPRECIATION

1. Retirement (pump)	\$2,678
2. To reflect test year depreciation calculated per 25-30.140 FAC.	(5,618)
3. Projected Accumulated Depreciation	(13,628)
4. Averaging Adjustment	3,333
Total	<u>(\$13,235)</u>

AMORTIZATION OF CIAC

1. To reflect accumulated amortization per 25-30.140 FAC.	\$6,599
2. Projected Amortization	7,072
3. Averaging Adjustment	(1,828)
Total	<u>\$11,843</u>

WORKING CAPITAL ALLOWANCE

1. To reflect 1/8 of test year O & M expenses.	<u>\$2,596</u>
--	-----------------------

TEVALO, INC. d/b/a McLEOD GARDENS WATER COMPANY
TEST YEAR ENDING 12/31/03
SCHEDULE OF CAPITAL STRUCTURE

SCHEDULE NO. 2
DOCKET NO. 011677-WU

CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUST-MENTS	BALANCE		PRO RATA BALANCE PER COMM.	PERCENT OF TOTAL	WEIGHTED COST	WEIGHTED COST	
			BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUST-MENTS					
1. COMMON STOCK	\$37,500	\$0	\$37,500						
2. RETAINED EARNINGS	37,134	0	\$37,134						
3. PAID IN CAPITAL	298,210	0	\$298,210						
4. OTHER COMMON EQUITY	<u>0</u>	<u>0</u>	<u>\$0</u>						
5. TOTAL COMMON EQUITY	\$372,844	\$0	372,844	(320,160)	52,684	76.58%	10.41%	7.97%	
6. LONG TERM DEBT		0	0	0	0	0.00%	0.00%	0.00%	
Colonial Bank	67,500	0	67,500	(57,962)	9,538	13.86%	8.75%	1.21%	
Citrus Highlands	<u>46,500</u>	<u>0</u>	<u>46,500</u>	<u>(39,929)</u>	<u>6,571</u>	<u>9.55%</u>	8.30%	0.79%	
TOTAL LONG TERM DEBT	114,000	0	114,000	(97,892)	16,108	23.42%			
7. 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>	
8. TOTAL	<u>\$486,844</u>	<u>\$0</u>	<u>\$486,844</u>	<u>(\$418,052)</u>	<u>\$68,792</u>	<u>100.00%</u>		<u>9.98%</u>	
RANGE OF REASONABLENESS						<u>LOW</u>	<u>HIGH</u>		
RETURN ON EQUITY						<u>9.41%</u>	<u>11.41%</u>		
OVERALL RATE OF RETURN						<u>9.21%</u>	<u>10.74%</u>		

TEVALO, INC. d/b/a McLEOD GARDENS WATER COMPANY			SCHEDULE NO. 3-A		
TEST YEAR ENDING 12/31/03			DOCKET NO. 011677-WU		
SCHEDULE OF WATER OPERATING INCOME					
	TEST YEAR PER UTILITY	COMM. ADJ. PER UTILITY	COMM. ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$11,982</u>	<u>\$5,242</u>	<u>\$17,224</u>	<u>\$15,917</u> 92.41%	<u>\$33,141</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	19,642	1,128	20,770	0	20,770
3. DEPRECIATION (NET)	0	3,642	3,642	0	3,642
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	372	775	1,147	716	1,863
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$20,014</u>	<u>\$5,545</u>	<u>\$25,559</u>	<u>\$716</u>	<u>\$26,276</u>
8. OPERATING INCOME/(LOSS)	<u>(\$8,032)</u>		<u>(\$8,335)</u>		<u>\$6,865</u>
9. WATER RATE BASE	<u>\$50,650</u>		<u>\$68,792</u>		<u>\$68,792</u>
10. RATE OF RETURN	<u>-15.86%</u>		<u>-12.12%</u>		<u>9.98%</u>

TEVALO, INC. d/b/a McLEOD GARDENS WATER COMPANY
TEST YEAR ENDING 12/31/03
ADJUSTMENTS TO OPERATING INCOME

SCHEDULE NO. 3-B
DOCKET NO. 011677-WU

WATER

OPERATING REVENUES

1. Annualize Revenues per customer billing data	\$460
2. Remove insufficient fund revenue	(\$60)
3. Projected Revenues	<u>4,842</u>
Total	<u>\$5,242</u>

OPERATION AND MAINTENANCE EXPENSES

1. Purchased Power (615)	
a. Projected power use	\$838
b. Repression Adjustment	<u>(1,365)</u>
Sub Total	<u>(\$526)</u>
2. Chemicals (615)	
a. Projected chemical use	\$757
b. Repression Adjustment	<u>(1,233)</u>
Sub Total	<u>(\$475)</u>
3. Contractual Services - Billing (630)	
a. Meter reader \$75 a month	<u>\$900</u>
4. Contractual Services - Testing (635)	
a. Reflect DEP required testing	<u>\$1,401</u>
5. Contractual Services - Other (636)	
a. Annualize Contractual expenses	\$250
b. Reclassify meter installation	<u>(1,885)</u>
c. Grounds keeping	<u>780</u>
Sub Total	<u>(\$855)</u>
6. Transportation Expense (650)	
a. Include allowance per engineer	<u>\$696</u>
7. Regulatory Commission Expense (665)	
a. Amortize Filing fee over 4 years	<u>\$50</u>
8. Miscellaneous Expense (675)	
a. Remove NSF Fees from bank	<u>(\$62)</u>
 TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	 <u>\$1,128</u>

DEPRECIATION EXPENSE

1. To reflect test year depreciation calculated per 25-30.140, F.A.C.	\$7,692
2. Test year amortization of CIAC.	<u>(4,050)</u>
Total	<u>\$3,642</u>

TAXES OTHER THAN INCOME

1. To include regulatory assessment fees on test year revenue.	<u>\$775</u>
--	--------------

ORDER NO. PSC-02-1733-PAA-WU

DOCKET NO. 011677-WU

PAGE 41

TEVALO, INC. d/b/a McLEOD GARDENS WATER COMPANY		SCHEDULE NO. 3-C	
TEST YEAR ENDING 12/31/03		DOCKET NO. 011677-WU	
ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE			
	TOTAL PER UTILITY	COMM. PER ADJUST.	TOTAL PER COMM.
(601) SALARIES AND WAGES - EMPLOYEES	0	0	0
(603) SALARIES AND WAGES - OFFICERS	0	0	0
(604) EMPLOYEE PENSION & BENEFITS	0	0	0
(610) PURCHASED WATER	0	0	0
(615) PURCHASED POWER	1,891	(526) [1]	1,365
(616) FUEL FOR POWER PRODUCTION	0	0	0
(618) CHEMICALS	1,708	(475) [2]	1,233
(620) MATERIALS AND SUPPLIES	316	0	316
(630) CONTRACTUAL SERVICES - BILLING	0	900 [3]	900
(631) CONTRACTUAL SERVICES - PROFESSIONAL	1,553	0	1,553
(635) CONTRACTUAL SERVICES - TESTING	1,328	1,401 [4]	2,729
(636) CONTRACTUAL SERVICES - OTHER	10,647	(855) [5]	9,792
(640) RENTS	954	0	954
(650) TRANSPORTATION EXPENSE	0	696 [6]	696
(655) INSURANCE EXPENSE	1,183	0	1,183
(665) REGULATORY COMMISSION EXPENSE	0	50 [7]	50
(670) BAD DEBT EXPENSE	0	0	0
(675) MISCELLANEOUS EXPENSES	<u>62</u>	<u>(62)</u> [8]	<u>0</u>
	19,642	1,128	20,770

RECOMMENDED RATE REDUCTION SCHEDULE

TEVALO, INC. d/b/a McLEOD GARDENS WATER COMPANY
 TEST YEAR ENDING 12/31/03

SCHEDULE NO. 4
 DOCKET NO. 011677-WU

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

MONTHLY WATER RATES

<u>RESIDENTIAL AND GENERAL SERVICE BASE FACILITY CHARGE:</u>	<u>MONTHLY APPROVED RATES</u>	<u>MONTHLY RATE REDUCTION</u>
Meter Size:		
5/8"x 3/4"	\$ 10.51	0.02
3/4"	15.76	0.02
1"	26.26	0.04
1-1/2"	52.53	0.08
2"	84.05	0.13
3"	168.10	0.27
4"	262.65	0.41
6"	525.30	0.83
GALLONAGE CHARGE PER 1,000 GALLONS	\$ 2.63	0.00