BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for staff-assisted rate case in Polk County by Pinecrest Ranches, Inc.	DOCKET NO. 020406-WU ORDER NO. PSC-03-0008-PAA-WU ISSUED: January 2, 2003

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 PROTEST

AND

NOTICE OF PROPOSED AGENCY ACTION
ORDER ESTABLISHING RATES AND CHARGES

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein, except for the four-year rate reduction requirement and the granting of temporary rates, subject to refund, in the event of protest, 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

Pinecrest Ranches, Inc. (Pinecrest or utility) is a Class C utility which is currently providing water service to 129 mobile homes in a community in Polk County known as Citrus Highlands. During the 2001 test year, a neighboring system serving seven customers failed. The utility connected with these customers on an emergency basis and filed an amendment application which is being

processed in Docket No. 020823-WU to include these customers. There was not another utility willing and capable of providing reasonably adequate service to the new territory. The utility is located in the Southern Water Use Caution Area of the Southwest Florida Water Management District (SWFWMD). According to the utility's 2001 annual report, the utility had operating revenues of $20,195 and a net operating loss of $11,799.

The utility received its certificate by Order No. PSC-97-0367-FOF-WU, issued April 2, 1997, in Docket No. 961253-WU. The utility's existing rates were approved in that Order. The utility filed for a transfer of majority organizational control of Pinecrest Ranches, Inc., holder of certificate No. 588-W in Polk County, from James O. Vaughn and Margaret S. Hankin to S. Norman Duncan and Richard S. Little. The transfer was granted by Order No. PSC-02-0893-FOF-WU, issued July 5, 2002, in Docket No. 011651-WU.

On May 8, 2002, the utility filed an application for a staff-assisted rate case and paid the appropriate filing fee on July 11, 2002. We have audited the utility's records for compliance with Commission rules and Orders and have determined the components necessary for rate setting. We have also conducted a field investigation of the utility's plant and service area and an original cost study was performed. We have jurisdiction pursuant to Section 367.0814, Florida Statutes.

A customer meeting was conducted on November 7, 2002, at the Chain of Lakes Complex in Winter Haven, Florida. Approximately 14 customers attended the meeting. Five customers chose to give comments regarding the utility's quality of service and the proposed rate increase. Customers' complaints included dirty water, the strong smell of chlorine, and the water filters becoming dirty in a short span of time.

The following is a list of acronyms and commonly used technical terms which are used throughout this Order:

COMPANY AND PARTY NAMES

DEP Department of Environmental Protection

FPSC Florida Public Service Commission

NARUC National Association of Regulatory Utility Commissioners

OPC Office of Public Counsel

SWFMD Southwest Florida Water Management District

GLOSSARY OF TECHNICAL TERMS

BFC Base Facility Charge - A charge designed to recover the portion of the total expenses required to provide water and sewer service incurred whether or not the customer actually uses the services and regardless of how much is consumed.

CIAC Contributions In Aid Of Construction - Any amount or item of money, services, or property received by a utility, from any person or governmental agency, any portion of which is provided at no cost to the utility, and which is utilized to offset the acquisition, improvement, or construction costs of the utility's property, facilities, or equipment used to provide utility services to the public. The term includes, but is not limited to, system capacity charges, main extension charges, and customer connection charges.

ERCs Equivalent Residential Connections - A statistic used to quantify the total number of water or wastewater connections that can be served by a plant of some specific capacity. The consumption of each connection is considered to be that of a single family residential connection, which is usually considered to be a unit comprised of 3.5 persons.

GPD Gallons Per Day - The amount of liquid that can be delivered or actually measured during a 24-hour period.

GPM	Gallons Per Minute - The amount of liquid that can be delivered or actually measured during a one-minute time period.
O&M	Operations and Maintenance Expense
RAF	Regulatory Assessment Fees
SARC	Staff Assisted Rate Case
UPIS	Utility Plant in Service - The land, facilities, and equipment used to generate, transmit, and/ or distribute utility service to customers.
USED AND USEFUL	The amount of plant capacity that is used by current customers including an allowance for the margin reserve.
USOA	Uniform System of Accounts - A list of accounts for the purpose of classifying all plant and expenses associated with a utility's operations.

QUALITY OF SERVICE

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 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 decision concerning the overall quality of service provided by the utility is derived from an evaluation of three separate components of water utility operations:

(1) Quality of utility's product (compliance with drinking water standards),
(2) Operational conditions of utility's plant or facility,
(3) Utility's attempt to address customer satisfaction.

Pinecrest provides water service to a modular home community known as Citrus Highlands Subdivision in Polk County. The utility currently has the capacity to serve drinking water to 157 residential mobile homes (estimated to be 126 ERCs) without the construction of additional lines. The utility is located within Section 6, Township 30 South, Range 26 East in Polk County, Florida. The service territory is accessed by a county maintained road known as Hankin Road which intersects State Road 60 between Bartow and Lake Wales.

Quality of Utility's Product

The water system at Pinecrest is under the jurisdiction of the Polk County Health Department. The utility has conformed with all testing and chemical analysis required by this agency and the test results have been satisfactory.

The raw water being treated at the Pinecrest water treatment plant contains Hydrogen Sulfide and Iron. Both are secondary standards, and are not considered to be health hazards. The utility operator is treating the Hydrogen Sulfide levels by going to "break-point" chlorination. This is considered to be a valid form of treatment, though less effective than aeration. However, aeration for this system would require the construction of a cascading aeration unit, a ground storage tank, and high service pumps to pressurize/distribute the treated water. The installation of such equipment would cost approximately $100,000. We believe that it would be imprudent to require the installation of such equipment, and levy that size capital investment on customers. Instead, each customer that finds the taste, odor, and color of their water unacceptable should consider investing in a whole-house filtration unit that uses carbon cartridges.

Consumptive use in Polk County is permitted by the Southwest Florida Water Management District. The utility formally obtained Water Use Permit No. 209128 on March 23, 1988, which expired on March 23, 1998. On January 21, 1998, the water management office issued a letter of extension for WUP No. 209128.01 that is valid until January 21, 2008. The parameters of the permit limit the utility to an average withdrawal of 58,000 gallons per day with a peak monthly withdrawal of 88,400 gallons. Currently, the utility is exceeding both parameters, and is being required to install meters as a conservation measure.

Operational Conditions at the Plant

Maintenance at the plant site appeared to have been given adequate attention, but lacked detail. During the engineering field inspection, water plant equipment was working properly. Plant piping is showing some rust pitting which will need to be sanded and painted in the near future. The pavilion that covers the primary well and the hydropneumatic tank is adequate, but could be improved upon as it is open to view as one drives into the subdivision. The plant grounds within the fenced-in area is somewhat organized and appears to have been recently mowed. The utility plant-in-service appears to be satisfactory.

Customer Satisfaction

An informal customer meeting was held on November 7, 2002, at the Chain of Lakes Complex in Winter Haven. Our staff conducted two meetings; one at 4:00 pm and another at 6:00 pm. The three customers who attended the 4:00 pm meeting were all in agreement that the water was discolored, the Chlorine levels were inconsistent, there were unannounced water outages, and the proposed $153 meter installation fee was unacceptable. During the 6:00 pm meeting, fourteen customers out of the 129 active customer connections expressed concern with the rate increase. Of the customers that attended the evening meeting, five gave comments concerning the quality of service and the proposed rates. The quality of service issues raised by these customers included water discoloration, inconsistent Chlorine levels, unannounced water outages, and the meter installation fee.

It appears that the discussion of the meter installation charge in the staff report was misunderstood. The customers did not understand that they would not be subject to the $153 charge. This charge is further discussed later in this Order.

Our staff investigated the Chlorination and discolored water issues by calling the Polk county Health Department. It was determined that the raw water from the wells at Pinecrest contain Hydrogen Sulfide and Iron. The level of Iron does not exceed the Maximum Contaminant Level (MCL), and has not been an issue for compliance. Both are secondary standards which are not considered to be a health hazard, and the Health Department is not recommending additional treatment to remove either of the two organic compounds. The customers complained that, at times, there was a strong smell of Chlorine in the drinking water and, at other times, the water would smell like rotten eggs. Hydrogen Sulfide, while not considered to be a health hazard, emits odors, and has a taste that some find to be unpleasant. The Chlorine pump is set on a timer that injects Chlorine during those times that the pump is engaged. This treatment process is a recognized treatment for both disinfection and for the removal of Hydrogen Sulfide.

The interaction between the Chlorine and the Hydrogen Sulfide, by its nature, is constantly in flux. This causes treatment results to shift from moment to moment. In order to insure proper disinfection throughout the distribution system, 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 (unreacted) Chlorine remains, it will next react with organic material (including bacteria) that is present. The goal of disinfecting the system is to kill the bacteria. 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 (ppm) throughout the system. However, while there is a 0.2 ppm minimum free Chlorine residual requirement, Rule 62-550.310(2)(a), Florida Administrative Code, will (beginning January 1, 2004) limit Chlorination to a maximum 4.0 ppm calculated as a running average to be computed quarterly using monthly averages of all samples taken. Mr. Duncan has made a commitment that he will instruct his

operator to be more diligent in overseeing higher dosages of Chlorine in the future.

The treatment process is further complicated by the existence of Iron. While Iron does not exceed the MCL, there is a sufficient level to react with the free Chlorine residual, causing the Iron to fall out of suspension, and creating sedimentation. It appears that this sedimentation has been allowed to collect in the distribution lines which can harbor additional bacteria. Additional bacteria has the potential to further compromise the free Chlorine residual and yield inconsistent levels of disinfectant in the lines. It is believed that a routine flushing program is needed to remove the sedimentation of Iron, eliminate the discolored water, and normalize the free Chlorine residual in the system. Mr. Duncan has already installed three "blow-off" valves and has started a flushing program. Currently, his schedule is to flush while the system is off-line during meter installations. The utility shall submit a monthly report for the next six months to chronicle the date and time flushings occur, the size and location of each valve flushed, and the lapse of time required for each blow-off to yield a transparent water stream.

Concerning water outages, the utility has recently been installing meters in compliance with directives by our staff. The customers complained that the water went out every Thursday of every week, and when they called the utility office, they were told that someone had run over a water line. The morning after the customer meeting, our staff discussed the outage complaints with Mr. Duncan. He stated that he had been installing the meters by using individual shut-off valves at each customer connection. He explained that recently, there have been several water line breaks. However, he was unable to explain why there were water line breaks every Thursday of every week. In accordance with Rule 25-30.250, Florida Administrative Code, "[e]ach utility shall make all reasonable efforts to provide continuous service. Should interruption in service occur, however, each utility shall reestablish service with the shortest delay consistent with the safety of its customers and the general public." This Rule also states that "[e]ach utility shall schedule any necessary interruptions in service at a time anticipated to cause the least inconvenience to its customers. Each utility shall notify its customers prior to scheduled interruptions." Mr. Duncan has stated

that he will make every effort to notify his customers of planned outages. Currently, he believes that from now until all meters, replacement valves, and blow-off valves are installed, he will need to schedule outages on select days from 10:00 am until 2:00 pm. However, all customers will be notified of this time schedule.

All things considered, we find that the new owner of the utility is putting forth a sufficient good faith effort to resolve customer complaints.

Based upon the foregoing, we find Pinecrest's quality of service to be satisfactory. Nevertheless, the utility shall submit monthly reports for the next six months that chronicles the newly instituted flushing program.

PROJECTED TEST YEAR

For audit purposes, our staff selected a historical test year ending December 31, 2001. As previously discussed, the utility was recently purchased by a new owner. Also previously discussed was the emergency connection of seven new customers that took place after the historic test year. The majority of the historic test year represents expenses associated with the previous owner and does not include the revenues and expenses associated with the seven emergency customers.

We find it appropriate to approve a projected test year for Pinecrest. 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 this 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.

We find that the historic test year is not representative of the change in revenues and expenses that occurred outside of the historic test year and that a projected test year would better match revenues and expenses for this utility on a going forward basis. Therefore, we approve a projected test year ending December 31, 2002.

RATE BASE

Our calculations of rate base are shown on Schedule 1-A, with our related adjustments itemized on Schedule 1-B. Rate base is shown on Schedule No. 1-A. The following discussion highlights our major findings and adjustments.

Used and Useful

Water Treatment Plant

The water treatment plant is a closed system operation that relies on two wells to meet instantaneous fluctuations in flow demands. The lowest capacity well is determined to have a capacity of 95 gpm. For a closed system plant, the firm reliable capacity (based on average gallons per day usage) is not the most appropriate method of evaluation to fully represent the instantaneous demand/performance a closed system is required to meet. We find it appropriate to base the used and useful calculation on the minimum design criteria of 1.1 gpm per customer. The General Waterworks Design Criteria of a minimum 1.1 gpm per customer is backed by the American Water Works Association (AWWA), which is to be met by the lowest capacity well. In this case, the utility is serving a 157-lot service area with an active customer count of 129. The minimum criteria that this utility currently needs to meet is 142 gpm. Consideration for fire-flow is not applicable since the fire service is a separate parallel fire protection system.

The number of active customers has decreased over the last five years, which has produced a negative two (-2) ERCs by the regression analysis. We find that a -2 ERCs factor for future growth is not applicable. One variable is that the utility has a new owner from a recent sale/purchase. The new owner appears to have a fresh energy and is anticipated to stimulate sales and seek

out potential home buyers. This should create future growth. Moreover, in the last few years, the economy and the events of September 11, 2001, has slowed travelers to Florida who normally visit during the winter months and purchase second homes. It is believed that tourism will return and growth in this area will resume within the next few years. Lastly, the four-inch well serving customers outside of this utility's service area recently failed. This well served seven customers who would have been without drinking water had it not been for Pinecrest making an emergency interconnection. Pinecrest has submitted an application for an amendment to its certificate to encompass these customers as part of its service territory. The utility owner intends to install a larger, permanent interconnect within the next few months. In consideration of the foregoing, we find that a growth factor of three ERCs over the statutory five growth period in accordance with Chapter 367.081(2)(b), Florida Statutes, is reasonable and prudent for potential growth.

By the approved formula used as an indicator of useful plant, the water plant is calculated to be 100% used and useful. Our calculations are shown on Attachment A, Sheet 1 of 2. We find that the water treatment plant is 100% used and useful.

Water Distribution System

The distribution system was constructed to serve a 150-lot mobile home park known as Citrus Highlands. The seven additional customers connected due to the emergency outage has increased this to 157 lots which is estimated to be 126 ERCs. Currently, the utility serves 129 customers (estimated to be 104 ERCs) including the seven additional customers served by the emergency interconnect. Growth over the last five years was calculated using the linear progression method, to be -2 ERCs. For the foregoing reasons, we find that a growth factor of 3 ERCs is appropriate to calculate the statutory five year growth rate. By the formula approach, we find that the distribution system is 92% used and useful. Our calculations are shown on Attachment A, Page 2 of 2. However, we find that Meters (Account No. 346), and Meter Installations (Account No. 347), which are installed for active customers only, are 100% used and useful. A used and useful percentage of 92% shall be applied to all other water distribution accounts.

Test Year Rate Base

It was discovered during the staff audit that the utility did not have sufficient documentation for its plant assets. Therefore, an original cost study was conducted to determine plant values beginning in 1985, the utility's first year of operation. Because the utility did not have sufficient supporting documentation, we have used the utility's 2001 annual report as a basis for our adjustments.

As explained above, we have approved a projected test year ending December 31, 2002 for this rate case. Rate base components have been calculated using the original cost study, the audit, and the engineering report for a plant balance through December 31, 2002. A discussion of each component of rate base follows:

Utility Plant in Service (UPIS)

According to the 2001 annual report, the utility reported $172,079 for UPIS. Using the original cost study, we have determined UPIS to be $131,736. Therefore, UPIS is decreased by $40,343.

The utility currently charges an unmetered flat rate for water service. The utility has been required to install meters pursuant to its Water Use Permit. By this Order, we approve a BFC/ gallonage charge rate structure. The utility must install meters for all of its customers in order to charge a consumption based rate. The utility has already begun installing these water meters. Therefore, UPIS is increased by $19,724 to include the installation of meters for all utility customers.

We have made an adjustment to increase UPIS by $316 to allow the cost to connect the seven new customers on an emergency basis. No other utility in the area is willing or capable of providing reasonably adequate service to the new territory. Our net adjustment to UPIS is a decrease of $20,303. Based upon the foregoing, we approve UPIS of $151,776.

Land

The utility recorded $16,500 for land. According to Audit Disclosure No. 3, the utility has on its books 3.56 acres of land valued at $16,500. This is the land where the utility's well is located. Per discussion with the prior owners of the utility, the land in question has been owned by the prior owners since the 1950s or 1960s and has been used as a citrus grove. In 1987, the owners developed the land, which is when the utility came into existence. When asked how the land came to be valued at $16,500 on the utility's books, the prior owner's outside accountant stated that she was sure it was an allocation of the original cost of the larger piece of property that was being developed. However, she was unable to provide any support for the valuation.

As a result, the auditor did some research through the Polk County Property Appraiser's Office in an attempt to find sales of like property that occurred between June 30, 1986, and June 30, 1987. The auditor confined the search to vacant property with a use code of "pasture" and found six sales that occurred during this time period. We have compared this acre price with similar land purchased in 1985, and find the $16,500 value to be reasonable.

Non-used and Useful Plant

We have determined the used and useful percentages for each plant account. The water treatment plant is 100% used and useful. Applying the non-used and useful percentages to the water distribution system results in average non-used and useful plant of $1,023. The average non-used and useful accumulated depreciation is $482. This results in net average non-used and useful plant of $541. Used and useful adjustments have not been applied to contributed plant.

Contribution in Aid of Construction (CIAC)

The utility's annual report listed $1,150 for CIAC. Although the utility has tariffed tap-in fees, we are unable to verify the reported CIAC. 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 recorded an amount on its annual report, we believe that the value of the lines was recovered through the cost of land sales. The previous owner's management agreed that the lines were likely contributed. Therefore, we have increased CIAC by $99,202, consistent with Rule 25-30.570, Florida Administrative Code, to cover the cost of the transmission and distribution lines that was recovered through land sales. Based upon the foregoing, we approve an average CIAC of $100,352.

Accumulated Depreciation

The utility's annual report listed $84,904 for accumulated depreciation on its books during the historic test year. We have calculated accumulated depreciation using the rates prescribed in Rule 25-30.140, Florida Administrative Code. Our calculated accumulated depreciation as of December 31, 2001, is $53,789. We have decreased this account by $31,115 to reflect test year depreciation, as required by Rule 25-30.140, Florida Administrative Code. We have increased this account by $4,032 to include depreciation for the projected year. We have also increased this account by $584 to include depreciation on meters and the emergency interconnect. We also made an averaging adjustment of $2,016. Based upon the foregoing, we approve an average accumulated depreciation of $56,389 for the projected test year ending December 31, 2002.

Amortization of CIAC

The utility's annual report listed $98 for amortization of CIAC. We have calculated amortization using specifically identified depreciation rates related to the contributed property. Our calculated amortization of CIAC is $37,581 for the historic test year ending December 31, 2001. To reflect our calculated

amortization of CIAC, we have increased this account by $37,483. We have also increased this account by $2,806 to include amortization for the projected year. We have made an adjustment to decrease this account by $1,403 to reflect an averaging adjustment. Based upon the foregoing, we approve average amortization of CIAC in the amount of $38,984, for the projected test year ending December 31, 2002.

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 approve the one-eighth of operation and maintenance (O&M) expense formula approach to be used for calculating working capital allowance. Applying that formula, we approve a working capital allowance of $5,142 (based on O&M of $41,132). Working capital has been increased by $5,142 to reflect one-eighth of our approved O&M expenses.

Rate Base Summary

Based upon all of the foregoing, we approve an average test year rate base for Pinecrest of $55,120. The utility shall complete meter installations for all of its customers, as discussed above, within six months of the issuance date of the Consummating Order to be filed in this docket.

COST OF CAPITAL

Our calculations of Pinecrest's return on equity and overall rate of return are shown on Schedule No. 2. According to the audit, the utility's capital structure consists of common stock of $100, retained earnings of $3,469, and paid in capital of $107,488. We have not made any adjustments to this account.

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 10.23% for all equity ratios of 100%. Because the utility is 100% equity, we find that the appropriate rate of return on equity is 10.23%

The utility's capital structure has been reconciled with our approved rate base. We hereby approve a return on equity of 10.23% with a range of 9.23% - 11.23% and an overall rate of return of 10.23%.

NET OPERATING INCOME

Test year revenues are shown on Schedule No. 3-A. Our related adjustments are shown on Schedule No. 3-B. The major items and adjustments are discussed below.

Test Year Operating Revenue

Because of a transfer in ownership, the new utility owner only had three months of revenue and expense items recorded during the audit. We have annualized the three months of data to reflect approximate annual operating revenues per the utility. The utility's annualized service revenues, for the twelve month period ending December 31, 2001, were $19,525. The utility had other annualized income that totaled $1,600 (late fees of $1,020, visitation fees of $160, and reconnection fees of $420). The utility's current rate structure is a flat rate structure of $12.85 per unit.

The utility's existing rates became effective March 20, 2002. We have calculated annualized revenue using the existing rates times the number of customers for the test year ending December 31, 2002. Test year revenues have been increased by $367 to reflect annualized revenue based on the existing rates and the number of customers projected for December 31, 2002.

Operating Expenses

Because of a transfer in ownership, the new utility owner only had three months of expense recorded during the audit. We have annualized the three month data to reflect approximate annual operating expenses per the utility. The utility's annualized operations and maintenance (O&M) expense was $60,729 during the historic 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 three month period ending December 31, 2001. Using documents provided by the utility,

the staff auditor determined the appropriate operating expenses for the test year and a breakdown of expenses by account. 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)

Operating expenses are shown on Schedule No. 3-B. Our related adjustments are shown on Schedule No. 3-C. The major items and adjustments are discussed below.

Salaries and Wages-Officers (603) - The annualized total in this account for the historic test year is $2,000. The utility requested management fees which include duties that will be performed by the owner. We find that the requested management fee is reasonable and we have made an adjustment for the requested amount in Account No. 636. The management fee requested is adequate and includes the duties that would be performed by an officer. Therefore, we have reduced this account by $2,000.

Purchased Power (615) - The annualized total in this account for the historic test year is $3,281. Although we have used annualized expense for a three month period, we find it appropriate to use actual expense for a twelve month period for purchased power and chemicals. Because purchased power and chemical expenses are variable and are influenced by seasonality, we believe that a three-month annualization is not appropriate when actual data is available. Further, purchased power and chemical expenses are directly correlated with gallons treated. Because we use actual gallons treated for the twelve-month period ending December 31, 2001, we find it appropriate to use actual purchased power expense over that same time period.

We were able to identify actual purchase power expense of $5,134. Therefore, we have increased this account by $1,853 ($5,134-$3,281) to reflect actual purchased power expense for the historic test year ending December 31, 2001. We have also increased this account by $263 to include electric expenses associated with the addition of the seven emergency customers. We have decreased this account by $3,238 to reflect a repression adjustment as discussed later in this Order. We hereby approve a purchased power expense of $2,159.

Chemicals (618) - The utility did not record chemical expense over the three-month period audited. As discussed above, we find that it is appropriate to use actual chemical and electric expense over the historic twelve-month period.

We were able to estimate chemical expense based on flows for the historic twelve-month period. Therefore, we have increased this account by $990 to reflect chemical expense for the historic test year ending December 31, 2001. We have also increased this account by $51 to include chemical expense associated with the additional seven emergency customers. We have decreased this account by $624 to reflect a repression adjustment as discussed later in this Order. We approve a chemicals expense of $416.

Materials and Supplies (620) - The utility's annualized total in this account for the historic test year was $13,088. We have reviewed all invoices whereby the utility purchased parts/supplies in order to make in-house system repairs, and find that $293 is reasonable for materials and supplies. Therefore, we have reduced this account by $12,795 ($13,088-$293).

Contractual Services-Professional (631)- The utility did not record an amount for the three-month period audited. The utility employs a CPA to help prepare taxes and annual reports in the amount of $2,004 annually. We find this amount to be prudent and reasonable for these services. Therefore, we have made an adjustment to increase this account by $2,004.

Contractual Service-Testing (635) - The utility's annualized total in this account for the historic test year is $4,155. 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:

Water-DEP Required Testing

Test	Frequency	Annual Amount
Microbiological	Monthly	$480
Primary Inorganics	3 Years	$49
Secondary Inorganics	3 Years	$29
Asbestos	9 Years	$35
Volatile Organics	Yearly	$110
Pesticides & PCB	3 Years	$146
Nitrates & Nitrites	Yearly	$80
Radionuclides I	3 Years	$42
Radionuclides II	3 Years	$250
Unregulated Organics I	qty 1st yr / 9yrs.	$112
Unregulated Organics II	3 Years	$18
Unregulated Organics III	3 Years	$83
Lead & Copper	Biannual	$300
Total		$1,734

We have decreased this account by $2,421 ($4,155 - $1,734) to reflect the DEP-required testing.

Contractual Services Other (636) - The utility's annualized total in this account for the historic test year is $32,457. We have removed $26,810 to reflect the amount we could not verify and amounts that should have been capitalized. Capitalized costs are accounted for through the original cost study. The utility requested $12,000 for management/maintenance (40 hours per month at $25 an hour). Mr. Duncan has taken ownership of this utility as a retirement project and appears to be willing to devote sufficient effort towards improving service to the customers of the system. He will perform general system repairs, meet with officials having jurisdiction over the utility, orchestrate contract labor when necessary, supervise upgrades and repairs, and receive all after-

hour customer calls. We find this amount to be reasonable and have therefore increased this account by $12,000.

The utility requested $9,600 for bookkeeping/secretary services (80 hours per month at $10 per hour). During the test year, Ms. Gossett and Ms. Griffith, hired under the past owners, performed part time duties which included customer billings, all governmental paperwork, and quarterly county service tax reports. The new owner has hired Ms. Kelley full time, who will relieve Ms. Gosset and Ms. Griffith of their duties. In addition to Ms. Kelley's bookkeeping duties, she will prepare reports for the accountant, answer the phone, prepare customer bills, collect payments, perform banking and all other office chores. We find this amount to be reasonable. The annualized total for the contractual services other account includes bookkeeping and secretary expenses of $5,520. Therefore, we have increased this account by $4,080 ($9,600-$5,520) to include our approved bookkeeping/secretary expense.

The utility employs an operator for a monthly fee of $250. The utility did not record an amount for the operator during the test year. Therefore, we have increased this account by $3,000 ($250 x 12 months) to reflect operator expense. We find this amount to be reasonable.

The utility requested $2,052 annually for meter reading expense. This amount results in approximately $1.33 per meter. We find that this amount is unreasonable. We find that $.50 per meter is reasonable and consistent with past Commission allowances. The utility's annualized total already includes $127 for the meter reader. Therefore, we have increased this account by $647 ($.50 x 129 customers x 12 months - $127) to reflect our approved meter reader expense.

The water treatment plant is at a very visible location in the subdivision. Mowing and groundskeeping of the water plant must be performed on a regular basis. During the historic test year, the utility contracted a major clean-up (via a gardening service) for a cost of $2,400. This occurred after the new owner assumed title of the utility and wanted to get control of the vegetation and trash at the water treatment plant site. This level of clean-up is considered to be a non-repeating occurrence and shall be amortized

over a period of five years pursuant to Rule 25-30.433(8), Florida Administrative Code. The utility has entered into a contract for lawn service that is billed at a flat rate of $300 per month. This amount is not considered to be reasonable and prudent based on past Commission allowances for utilities of this size. We find that a more appropriate amount is $120 per month. Therefore, we approve an amount of $1,920 per year ($2,400/5 yrs + $120 x 12 months) for water plant groundskeeping.

Rent Expense (640) - The utility did not record an amount in this account during the three-month period. The utility shares one-third of the cost of work space with two companies. The rent for this work space is $600. Therefore, we have increased this account by $2,400 (600/3 x 12 months) to reflect rent.

Insurance Expense (655) - The utility's annualized total for the historic test year is $2,230. The utility requested $3,516 for insurance on the building the utility occupied. We find that amount to be unreasonable. We find it appropriate to include that amount as part of the rent expense. The utility recorded $312 ($104 x 25% x 12) for truck insurance. The owner uses his personal truck for 25% of the utility's business. We find that this amount is reasonable. The utility also requested $694 for general liability insurance. We find this amount to be reasonable. Therefore, we have decreased this account by $1,224 ($2,230 - $312 - $694). The utility shall provide proof of liability insurance within six months of the issuance date of the Consummating Order to be filed in this docket.

Regulatory Commission Expense (665) - The utility did not record any amount in this account. The cost of this rate case consists of a filing fee of $500. The utility is also required to send notices to customers during this proceeding. We have estimated noticing expenses of $48 postage expense, $71 printing expense, and $12 for envelopes. The above results in a total rate case expense of $631. Rate case expense has been amortized over a 4 year period. Therefore, we have increased this account by $158 ($631 ÷ 4).

Miscellaneous Expense (675) - The utility's annualized total for the historic test year is $1,600. We have increased this

account by $150 to reclassify this corporate filing fee from the taxes other than income account.

Operation and Maintenance Expense (O&M Summary) - The total O&M adjustment is a decrease of $19,597. Based upon all of the foregoing, our approved O&M expense is $41,132 for water.

Depreciation Expense

The utility did not record an amount in this account. Depreciation expense has been calculated using the rates prescribed in Rule 25-30.140, Florida Administrative Code. Our calculated depreciation is $5,200. Therefore, we have increased this account by $5,200 to reflect our calculated depreciation expense. We have decreased this account by $34 to reflect non-used and useful depreciation expense. We have calculated test year amortization of CIAC, using composite depreciation rates, to be $2,806. Therefore, we have decreased this account by $2,806 to reflect our calculated amortization of CIAC. CIAC and non-used and useful depreciation have a negative impact on depreciation expense. Based upon the foregoing, we approve a net depreciation expense of $2,360.

Taxes Other Than Income

The utility recorded taxes other than income of $1,532. We have increased this account by $27 to reflect RAFs based on annualized revenues. We have also decreased this account by $150 to reclassify corporate filing fees to Account No. 675 (Miscellaneous Expense). Our net adjustment to this account is a decrease of $123.

Income Tax - Pinecrest is a Sub-chapter S corporation. Therefore, consistent with Rule 25-30.433(7), Florida Administrative Code, an allowance for income tax has not been made.

Operating Revenues - Revenues have been increased by $30,417 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 $1,369 to reflect RAFs of 4.5% on the increase in revenues.

Operating Expenses Summary

The application of the adjustments approved herein to the audited test year operating expenses results in an amount of $46,270 for operating expenses.

REVENUE REQUIREMENT

Based upon the adjustments discussed above, we find it appropriate to increase revenues by $30,417 (141.53%) for water. This will allow the utility the opportunity to recover its expenses and earn a 10.23% return on its investment. The calculations are as follows:

	Water
Adjusted rate base	$55,120
Rate of Return	x .1023
Return on investment	$5,639
Adjusted O & M expense	$41,132
Depreciation expense (Net)	$2,360
Taxes Other Than Income	$2,778
Revenue Requirement	$51,909
Adjusted Test Year Revenues	$21,492
Percent Increase/(Decrease)	141.53%

Revenue requirements are shown on Schedules No. 3-A.

RATES AND RATE STRUCTURE

Rate Structure

The utility's current water system rate structure consists of a monthly flat rate of $12.85. This rate structure is nonusage sensitive and discourages conservation at all levels of consumption. This 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.

The utility currently has flat rates. Rule 25-30.255(1), Florida Administrative Code, requires that each utility measure water sold on the basis of metered volume sales unless this Commission approves a flat rate service arrangement for that utility. Pinecrest's current flat rates were approved by Order No. PSC-97-0367-FOF-WU, when the utility was granted a grandfather water certificate in Docket No. 961253-WU. According to the audit report, the utility decided to install meters and request metered rates. As previously discussed, the utility is in the process of installing the meters. Therefore, once all meters have been installed, the current flat rate structure shall be discontinued in favor of a usage-sensitive rate structure to be consistent with Commission policy and with the overall statewide goal of eliminating conservation-discouraging water rate structures.

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 our rate structure of choice. The absence of at least 12 months of metered consumption data precludes implementation of an inclining-block rate structure at this time. Therefore, we find it appropriate to approve the implementation of the traditional BFC/gallonage charge.

In lieu of metered consumption data, we have used the pumping and purchased water from the utility's 2001 annual report to estimate customers' average monthly consumption of approximately 18,879 gallons (18.879 kgal). Based on an average of 2.5 persons per household, the average gallons per day per capita (gpdc) use is approximately 252 gallons (18,900 gallons / 2.5 persons / 30 days).

Pinecrest 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. The

customers' gpdc of 252 gallons is substantially greater (approximately 68%) than the District's desired 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 our initial assessment of fixed versus variable allocation of revenue requirement recovery, the utility would recover 43% ($23,222) in the BFC charge and the remaining 57% ($31,183) 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% be recovered through the BFC. Therefore, we find it appropriate to shift the additional costs from the BFC to the gallonage charge in order to accomplish several rate design goals. Conservation adjustments were tried, in increments of 10%, from 0% to 30%. The results of this analysis are shown in the following table:

PRE-REPRESSION PRICE INCREASES AT VARIOUS CONSERVATION ADJUSTMENTS				
	Conservation Adjustment(CA) Percentages and Resulting BFC Allocations			
Monthly Consumption	**CA=0% BFC=43%**	**CA=10% BFC=38%**	**CA=20% BFC=34%**	**CA=30% BFC=30%**
0 kgal	16.3%	4.7%	-7.0%	-18.6%
1 kgal	24.5%	13.5%	2.5%	-8.5%
2 kgal	32.8%	22.4%	12.0%	1.6%
3 kgal	41.0%	31.3%	21.5%	11.8%
5 kgal	57.5%	49.0%	40.5%	32.0%
8 kgal	82.3%	75.6%	68.9%	62.3%
9 kgal	90.5%	84.5%	78.4%	72.5%
10 kgal	98.8%	93.4%	87.9%	82.6%
15 kgal	140.0%	137.7%	135.4%	133.2%

PRE-REPRESSION PRICE INCREASES AT VARIOUS CONSERVATION ADJUSTMENTS CONT.				
	Conservation Adjustment(CA) Percentages and Resulting BFC Allocations			
20 kgal	181.2%	182.1%	182.9%	183.7%
25 kgal	222.5%	226.5%	230.4%	234.3%

As shown above, the 30% conservation adjustment (relative to the other adjustments) accomplishes the following rate design goals: 1) it minimizes the price increases for nondiscretionary consumption of 5 kgals or less; and 2) it maximizes price increases at levels of consumption greater than the current monthly average 18.879 kgals/month.

For the foregoing reasons, 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 base facility charge (BFC)/gallonage charge rate structure. A conservation adjustment shall also be implemented so that a total of 70% of the revenue requirement is recovered through the gallonage charge.

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 also received substantial 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 Pinecrest's customers is approximately 18.879 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 (141.53%) indicates that the current rates are far from compensatory. We believe that, due to the severe rate shock to be experienced by the customers, the anticipated consumption reductions will in fact be substantial. Therefore, we find it appropriate to make a 60% repression adjustment to residential consumption. The resulting approved reduction in consumption is 17,603 kgal.

In order to monitor the effects of both the changes in rate structure and the revenue change approved herein, 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.

Rates

As previously discussed, the approved revenue requirement is $51,909. The utility had other revenues totaling $1,600 during the test year. Other revenues shall be used to reduce the revenue requirement recovered through rates. Therefore, we have designed rates to produce revenues of $50,309 ($51,909 - $1,600).

By this Order, we are approving a water system rate structure change to a traditional BFC/gallonage charge rate structure with a conservation adjustment, resulting in a final BFC cost recovery allocation of 30%. However, the utility has not completed installing meters for all of its customers. The utility will not be able to charge a metered rate until all meters are installed. Therefore, we have designed a phase I flat rate to be effective for the interim period prior to completion of the meter installation.

As previously discussed, the approved repression adjustment is 17,603 kgal. The resulting monthly rates for service are those shown below.

MONTHLY RATES - WATER (PHASE I)
RESIDENTIAL AND GENERAL SERVICE

Base Facility Charge

Meter Sizes	Existing Rates	Approved Rates
Flat Rate	$12.85	$32.37

MONTHLY RATES - WATER (PHASE II)
RESIDENTIAL AND GENERAL SERVICE

Base Facility Charge

Meter Sizes	Existing Rates	Approved Rates
Flat Rate	$12.85	N/A
5/8" x 3/4"	N/A	$9.86
3/4"	N/A	$14.79
1"	N/A	$24.65
1 ½"	N/A	$49.30
2"	N/A	$78.88
3"	N/A	$157.76
4"	N/A	$246.50
6"	N/A	$493.00
Gallonage Charge		
Per 1,000 gallons	N/A	$2.98

Our approved increase in revenue requirements is $30,417 or approximately 141.53%. The rates approved for the utility shall be designed to produce revenues of $50,309.

Approximately 30% ($15,328) of the service revenues are recovered through the approved base facility charge. The fixed costs are recovered through the BFC based on the number of factored ERCs. The remaining 70% ($34,981) of the service revenues represents revenues collected through the consumption charge based on the number of gallons. The phase I flat rate was calculated using the average bill based on the approved BFC/gallonage charge

rates (phase II rates). The following is a comparison of bills at 3,000, 5,000, and 10,000 Gallons:

Gallons	Existing Rate	Approved Rate Phase I	Approved Rate Phase II
3,000	$12.85	$32.37	$18.80
5,000	$12.85	$32.37	$24.76
10,000	$12.85	$32.37	$39.66

The utility shall file revised tariff sheets reflecting the phase I rates approved herein and a proposed customer notice to reflect the approved phase I and phase II rates. The approved rates should 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, the notice has been received by the customers, and our staff has verified that the tariffs are consistent with our decision. The utility shall provide proof of the date notice was given no less than ten days after the date of the notice. Once the utility has completed the previously discussed meter installations, the utility shall file revised tariff sheets reflecting the phase II rates approved herein. The phase II rate tariffs shall be approved once our staff has verified 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 $165 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.

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.

METER INSTALLATION CHARGES

The utility currently does not have an existing tariff authorizing a meter installation fee. As previously discussed, we have ordered that the utility install meters for its customers so that consumption based rate can be charged. The meter installation fee applies to new customers only. Existing customers will not be charged a meter installation fee.

We have determined the meter installation cost to be $153 per connection. Therefore, we find it appropriate to approve a meter installation fee of $153. Because the utility does not have an existing meter installation charge, we find that allowing a $153 meter installation charge is appropriate and will defray the cost associated with future growth.

We further find that the meter installation charge is reasonable and similar to past Commission allowances. A schedule of the utility's existing charges and our approved charges are as follows:

Meter Installation Charge	Existing Charge	Approved Charge
5/8" x 3/4"	N/A	$153.00
All Over 5/8" x 3/4"	N/A	Actual Cost

Based upon the foregoing, Pinecrest's service availability charges shall be revised to include a meter installation charge of $153. The utility shall file revised tariff sheets which are consistent with our decision within one month of the issuance of the Consummating Order to be filed in this docket. The revised tariff sheets shall be approved upon our staff's verification that

the tariffs are consistent with our decision. If revised tariff sheets are filed and approved, the meter installation charges shall become effective for connections made on or after the stamped approval date of the revised tariff sheets, if no protest is filed.

TEMPORARY RATES IN THE EVENT OF A PROTEST

This Order proposes to approve 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 proposed herein shall be approved as temporary rates. The temporary 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 $20,522. Alternatively, the utility may establish an escrow agreement with an independent financial institution.

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

1) The Commission approves the rate increase; or

2) If the Commission denies the increase, the utility shall refund the amount collected that is attributable to the increase.

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

1) The letter of credit is irrevocable for the period it is in effect.

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

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

1) No refunds in the escrow account may be withdrawn by the utility without the express approval of the Commission.

2) The escrow account shall be an interest bearing account.

3) If a refund to the customers is required, all interest earned by the escrow account shall be distributed to the customers.

4) If a refund to the customers is not required, the interest earned by the escrow account shall revert to the utility.

5) All information on the escrow account shall be available from the holder of the escrow account to a Commission representative at all times.

6) The amount of revenue subject to refund shall be deposited in the escrow account within seven days of receipt.

7) This escrow account is established by the direction of the Florida Public Service Commission for the purpose(s) set forth in its order requiring such account. Pursuant to Cosentino v. Elson, 263 So. 2d 253 (Fla. 3d DCA 1972), escrow accounts are not subject to garnishments.

8) The Director of 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, 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's 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, the Proposed Agency Action portions of this Order will become final upon the issuance of a Consummating Order. However, this docket shall remain open for an additional seven months from the issuance date of the Consummating Order to allow our staff time to verify completion of the meter installations discussed herein, and to verify proof of insurance as also discussed herein. Once our staff has verified that these items have been completed, this docket shall be closed administratively.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Pinecrest Ranches, 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 attached hereto are incorporated herein by reference. It is further

ORDERED that Pinecrest Ranches, 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 Pinecrest Ranches, Inc. shall submit a monthly report for the next six months to chronicle the date and time flushings occur, the size and location of each valve flushed, and the lapse of time required for each blow-off to yield a transparent water stream. It is further

ORDERED that Pinecrest Ranches, Inc. shall complete meter installations for all of its customers, as set forth in the body of this Order, within six months of the issuance date of the Consummating Order to be filed in this docket. It is further

ORDERED that Pinecrest Ranches, Inc. shall provide proof of liability insurance within six months of the issuance date of the Consummating Order to be filed in this docket. It is further

ORDERED that once all meters have been installed, the current flat rate structure shall be discontinued in favor of a usage-sensitive rate structure. The water system rate structure shall be changed to a traditional base facility charge (BFC)/gallonage charge rate structure. A conservation adjustment shall also be implemented, as set forth in the body of this Order. It is further

ORDERED that a 60% repression adjustment shall be made to residential consumption. The resulting approved reduction in consumption is 17,603 kgal. It is further

ORDERED that Pinecrest Ranches, Inc. 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

ORDERED that Pinecrest Ranches, Inc. shall file revised tariff sheets reflecting the phase I rates approved herein and a proposed customer notice to reflect the approved phase I and phase II rates, as set forth in the body of this Order. 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. It is further

ORDERED that the rates approved herein shall not be implemented until our staff has approved the proposed customer notice, the notice has been received by the customers, and our staff has verified that the tariffs are consistent with our decision. Pinecrest Ranches, Inc. shall provide proof of the date notice was given no less than ten days after the date of the notice. It is further

ORDERED that once Pinecrest Ranches, Inc. has completed the required meter installations, the utility shall file revised tariff sheets reflecting the phase II rates approved herein. The phase II rate tariffs shall be approved once our staff has verified that the tariffs are consistent with our decision. It is further

ORDERED that pursuant to Section 367.0816, Florida Statutes, the rates approved herein shall 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 shall reflect the removal of revenues associated with the amortization of rate case expense and the gross-up for regulatory assessment fees, which is $165 annually. It is further

ORDERED that Pinecrest Ranches, Inc. shall file revised tariff sheets no later than one month prior to the actual date of the required rate reduction. Pinecrest Ranches, Inc. shall also file a proposed customer notice setting forth the lower rates and the reason for the reduction. It is further

ORDERED that if Pinecrest Ranches, Inc. 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. It is further

ORDERED that Pinecrest Ranches, Inc.'s service availability charges shall be revised to include a meter installation charge of $153. Pinecrest Ranches, Inc. shall file revised tariff sheets which are consistent with this decision within one month of the issuance of the Consummating Order to be filed in this docket. The

revised tariff sheets shall be approved upon our staff's verification that the tariffs are consistent with this decision. If the revised tariff sheets are filed and approved, the meter installation 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, issued as proposed agency action, shall become final and effective upon the issuance of a Consummating Order unless an appropriate petition, in the form provided by Rule 28-106.201, Florida Administrative Code, is received by the Director, Division of 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 pursuant to Section 367.0814(7), Florida Statutes, the rates proposed herein shall be approved for Pinecrest Ranches, Inc. on a temporary basis, subject to refund as set forth in the body of this Order, in the event of a protest filed by a party other than the utility. Prior to the implementation of any temporary rates, the utility shall provide appropriate security, as set forth in the body of this Order. It is further

ORDERED that Pinecrest Ranches, Inc. 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 $20,522. Alternatively, the utility may establish an escrow agreement with an independent financial institution. It is further

ORDERED that after the increased rates are in effect, pursuant to Rule 25-30.360(6), Florida Administrative Code, Pinecrest Ranches, Inc. shall file reports with this Commission's 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. It is further

ORDERED that if no timely protest is received upon expiration of the protest period, the Proposed Agency Action portions of this Order will become final upon the issuance of a Consummating Order. However, this docket shall remain open for an additional seven months from the issuance date of the Consummating Order to allow our staff time to verify completion of the meter installations as set forth in the body of this Order, and to verify proof of insurance as also set forth in the body of this Order. Once our staff has verified that these items have been completed, this docket shall be closed administratively.

By ORDER of the Florida Public Service Commission this 2nd day of January, 2003.

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

(S E A L)

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NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing 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 four-year rate reduction requirement and the granting of temporary rates subject to refund, 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 January 23, 2003. 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 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.

Attachment A, page 1 of 4

WATER TREATMENT PLANT - USED AND USEFUL DATA
Docket No. 020406-WU - Pinecrest Ranches, Inc.

1) **Capacity of Plant**	95	gallons per minute
2) **Maximum Minute** (129 cust X 1.1 gpm X 2)	284	gallons per minute
3) **Average Minute Flow** (129 cust X 1.1 gpm)	142	gallons per minute
4) **Fire Flow Capacity**	N/A	gallons per minute
A) Fire Flow is provided by a separate well that supports a separate Fire Flow distribution system.		
5) **Growth**	21	gallons per minute
A) Test Year Customers in ERCs	98	Begin
	104	End
	101	Average
B) Customer Growth based on average fluctuations in the peak month for rented units.	3	ERCs
C) Statutory Growth Period	5	years
(B)x(C)x[(3)/(A)]	21	gallons per minute
6) **Excessive Unaccounted Water**	N/A	gallons per minute
A) Total Unaccounted for Water	N/A	gallons per minute
B) Reasonable Amount (10% of 3)	14	gallons per minute
C) Excessive Amount	N/A	gallons per minute

WATER DISTRIBUTION SYSTEM - USED AND USEFUL DATA

Docket No. 020406-WU - Pinecrest Ranches, Inc.

1)	**Capacity of System** (Number of Potential Customers, ERCs or Lots Without Expansion)	126	ERCs
2)	**Test year connections**		
	A) Beginning of Test Year	98	ERCs
	B) End of Test Year	104	ERCs
	C) Average Test Year	101	ERCs
3)	**Growth**	15	ERCs
	A) Customer growth based on anticipated fluctuations in the normal growth cycle.	3	ERCs
	B) Statutory Growth Period	5	Years

(a)x(b) = 15 ERCs allowed for growth

USED AND USEFUL FORMULA

[2+3]/(1) = 92% Used and Useful

PINECREST RANCHES, INC.
TEST YEAR ENDING 12/31/02
SCHEDULE OF WATER RATE BASE

SCHEDULE NO. 1-A
DOCKET NO. 020406-WU

DESCRIPTION	BALANCE PER UTILITY	COMM. ADJUST. TO UTIL. BAL.	BALANCE PER COMM.
1. UTILITY PLANT IN SERVICE	$172,079	($20,303)	$151,776
2. LAND & LAND RIGHTS	16,500	$0	$16,500
3. NON-USED AND USEFUL COMPONENTS	0	($541)	($541)
4. CIAC	(1,150)	($99,202)	($100,352)
5. ACCUMULATED DEPRECIATION	(84,904)	$28,515	($56,389)
6. AMORTIZATION OF CIAC	98	$38,886	$38,984
7. WORKING CAPITAL ALLOWANCE	0	$5,142	$5,142
8. WATER RATE BASE	$102,623	($47,503)	$55,120

PINECREST RANCHES, INC. TEST YEAR ENDING 12/31/02	SCHEDULE NO. 1-B DOCKET NO. 020406-WU
ADJUSTMENTS TO RATE BASE	
	WATER
UTILITY PLANT IN SERVICE	
1. To adjust per Original Cost Study	($40,343)
2. To include meters	19,724
3. To connect with Emergency customers	316
Total	($20,303)
Non-Used and Useful	
1. Non-used and Useful Plant	($1,023)
2. Non-used and Useful Accumulated Depreciation	$482
Total	($541)
CIAC	
Contribute lines per Rule 25-30.570	($99,202)
ACCUMULATED DEPRECIATION	
1. To reflect test year depreciation calculated per 25-30.140 FAC.	$31,115
2. To include depreciation on projected year	($4,032)
3. To include depreciation on projected plant	(584)
4. Averaging Adjustment	2,016
Total	$28,515
AMORTIZATION OF CIAC	
1. To include amortization calculated per staff	$37,483
2. To include depreciation on projected year	$2,806
3. Average Adjustment	(1,403)
Total	$38,886
WORKING CAPITAL ALLOWANCE	
1. To reflect 1/8 of test year O & M expenses.	$5,142

PINECREST RANCHES, INC.
TEST YEAR ENDING 12/31/02
SCHEDULE OF CAPITAL STRUCTURE

SCHEDULE NO. 2
DOCKET NO. 020406-WU

CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUST-MENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUST-MENTS	BALANCE PER COMM.	PERCENT OF TOTAL	COST	WEIGHTED COST
1. COMMON STOCK	$100	$0	$100					
2. RETAINED EARNINGS	3,469	0	$3,469					
3. PAID IN CAPITAL	107,488	0	$107,488					
4. OTHER COMMON EQUITY	0	0	$0					
5. TOTAL COMMON EQUITY	$111,057	$0	111,057	(55,937)	55,120	100.00%	10.23%	10.23%
6. LONG TERM DEBT		0	0	0	0	0.00%	0.00%	0.00%
TOTAL LONG TERM DEBT	0	0	0	0	0	0.00%		
7. CUSTOMER DEPOSITS	0		0	0	0	0.00%	6.00%	0.00%
8. TOTAL	$111,057	$0	$111,057	($55,937)	$55,120	100.00%		10.23%

RANGE OF REASONABLENESS	LOW	HIGH
RETURN ON EQUITY	9.23%	11.23%
OVERALL RATE OF RETURN	9.23%	11.23%

PINECREST RANCHES, INC.
TEST YEAR ENDING 12/31/02
SCHEDULE OF WATER OPERATING INCOME

SCHEDULE NO. 3-A
DOCKET NO. 020406-WU

	TEST YEAR PER UTILITY	COMM. ADJ. PER UTILITY	COMM. ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	$21,125	$367	$21,492	$30,417 141.53%	$51,909
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	60,729	(19,597)	41,132	0	41,132
3. DEPRECIATION (NET)	0	2,360	2,360	0	2,360
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	1,532	(123)	1,409	1,369	2,778
6. INCOME TAXES	0	0	0	0	0
7. TOTAL OPERATING EXPENSES	$62,261	($17,360)	$44,901	$1,369	$46,270
8. OPERATING INCOME/(LOSS)	($41,136)		($23,409)		$5,639
9. WATER RATE BASE	$102,623		$55,120		$55,120
10. RATE OF RETURN	-40.08%		-42.47%		10.23%

PINECREST RANCHES, INC. TEST YEAR ENDING 12/31/02 ADJUSTMENTS TO OPERATING INCOME	SCHEDULE NO. 3-B DOCKET NO. 020406-WU PAGE 1 OF 2
	WATER
OPERATING REVENUES	
To adjust utility revenues to audited test year amount.	$367
OPERATION AND MAINTENANCE EXPENSES	
1. Salaries and Wages - Officers (603)	
a. To remove undocumented expense and expenses accounted for in 636	($2,000)
2. Purchased Power (615)	
a. To reflect changes per actual bills	1,853
b. To include emergency customers usage	263
c. Repression adjustment	($3,238)
Total	($1,122)
3. Chemicals (618)	
a. Per Engineer test year/ increase for projected customers	990
b. To include emergency customers usage	51
c. Repression Adjustment	($624)
Total	$416
4. Materials and Supplies (620)	
a. To reflect actual invoices	($12,795)
5. Contractual Services - Professional (631)	
a. To reflect professional accounting services	2,004
6. Contractual Services - Testing (635)	
a. DEP Required Testing	($2,421)
7. Contractual Services - Other (636)	
a. To remove undocumented and capitalized items	(26,810)
b. To include Management/Maintenance	12,000
c. To include meter reader	647
c. To include Bookkeeping/secretary services	4,080
d. To include operator services	3,000
e. To include mowing and ground keeping	1,920
Total	($5,163)
8. Rent (640)	
a. To include rent	$2,400
9 Insurance Expenses (655)	
a. To remove insurance on rented building	($1,224)
10 Regulatory Commission Expense (665)	
a. To include Filing Fee and noticing	$158
11 Miscellaneous Expense (675)	
b. Reclassify corporate filing fee to account 675	$150
TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	($19,597)

PINECREST RANCHES, INC.
TEST YEAR ENDING 12/31/02
ADJUSTMENTS TO OPERATING INCOME

SCHEDULE NO. 3-B
DOCKET NO. 020406-WU
PAGE 2 OF 2

	WATER
DEPRECIATION EXPENSE	
1. Depreciation expense per Commission	$5,200
2. Non used and useful depreciation	($34)
3. Test year amortization of CIAC.	(2,806)
Total	$2,360
TAXES OTHER THAN INCOME	
1. To include regulatory assessment fees on test year revenue	27
2. Reclassify corporate filing fee to account 675	(150)
Total	($123)

PINECREST RANCHES, INC.
TEST YEAR ENDING 12/31/02
ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE

SCHEDULE NO. 3-C
DOCKET NO. 020406-WU

	TOTAL PER UTILITY	ADJUST. PER COMM.		TOTAL PER COMM.
(601) SALARIES AND WAGES - EMPLOYEES	0	0		0
(603) SALARIES AND WAGES - OFFICERS	2,000	(2,000)	[1]	0
(604) EMPLOYEE PENSION & BENEFITS	0	0		0
(610) PURCHASED WATER	0	0		0
(615) PURCHASED POWER	3,281	(1,122)	[2]	2,159
(616) FUEL FOR POWER PRODUCTION	0	0		0
(618) CHEMICALS	0	416	[3]	416
(620) MATERIALS AND SUPPLIES	13,088	(12,795)	[4]	293
(630) CONTRACTUAL SERVICES - BILLING	0	0		0
(631) CONTRACTUAL SERVICES - PROFESSIONAL	0	2,004	[5]	2,004
(635) CONTRACTUAL SERVICES - TESTING	4,155	(2,421)	[6]	1,734
(636) CONTRACTUAL SERVICES - OTHER	32,457	(5,163)	[7]	27,294
(640) RENTS	0	2,400		2,400
(650) TRANSPORTATION EXPENSE	1,490	0	[8]	1,490
(655) INSURANCE EXPENSE	2,230	(1,224)	[9]	1,006
(665) REGULATORY COMMISSION EXPENSE	0	158	[10]	158
(670) BAD DEBT EXPENSE	428	0		428
(675) MISCELLANEOUS EXPENSES	1,600	150	[11]	1,750
	60,729	(19,597)		41,132

PINECREST RANCHES, INC.
TEST YEAR ENDING 12/31/02

SCHEDULE NO. 4
DOCKET NO. 020406-WU

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

MONTHLY WATER RATES

		MONTHLY APPROVED RATES	MONTHLY RATE REDUCTION
RESIDENTIAL, MULTI-RESIDENTIAL, AND GENERAL SERVICE BASE FACILITY CHARGE:			
Meter Size:			
5/8"X3/4"	**$**	**9.86**	**0.03**
3/4"		**14.79**	**0.05**
1"		**24.65**	**0.08**
1-1/2"		**49.30**	**0.16**
2"		**78.88**	**0.25**
3"		**157.76**	**0.50**
4"		**246.50**	**0.79**
6"		**493.00**	**1.57**
RESIDENTIAL GALLONAGE CHARGE PER 1,000 GALLONS	**$**	**2.98**	**0.01**