

BEFORE THE PUBLIC SERVICE COMMISSION

In re: Application for rate increase in Pinellas
County by Ranch Mobile WWTP, Inc.

DOCKET NO. 040972-SU
ORDER NO. PSC-05-0287-PAA-SU
ISSUED: March 17, 2005

The following Commissioners participated in the disposition of this matter:

BRAULIO L. BAEZ, Chairman
J. TERRY DEASON
RUDOLPH "RUDY" BRADLEY
CHARLES M. DAVIDSON
LISA POLAK EDGAR

NOTICE OF PROPOSED AGENCY ACTION APPROVING
INCREASED WASTEWATER RATES
AND
FINAL ORDER REDUCING RATES AT THE END OF THE FOUR-YEAR RATE CASE
EXPENSE AMORTIZATION PERIOD

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein, except for our decision reducing rates at the end of the four-year amortization period, 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.

CASE BACKGROUND

Ranch Mobile WWTP, Inc. (Ranch Mobile or utility) is a Class C utility which provides wastewater service to three customers, Ranch Mobile (RM), Down Yonder (DY), and Twin Palms (TP), which are mobile home parks. The utility purchases wastewater treatment services from the City of Largo (City). This is a unique utility in that it is the only utility in Florida, of which we are aware, that serves only three general service bulk customers.

This proceeding commenced on August 30, 2004, with the filing of a petition for a permanent rate increase by Ranch Mobile. The utility is engaged in phase one of a three phase project to rehabilitate its wastewater collection lines. Ranch Mobile will be requesting additional increases as it undertakes phases two and three of its project. The utility is expected to file for the phase two increase at the end of 2005. In this case, the utility requested a 35.85% increase or \$66,489 in additional annual revenues. The utility based its request on a projected test year

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ending December 31, 2005. We last granted Ranch Mobile a \$3,005 rate increase by Order No. 24888, issued August 7, 1991, in Docket No. 900246-SU, In re: Application for a staff-assisted rate case in Pinellas County by Ranch Mobile WWTP, Inc.

Pursuant to Section 367.081(8), Florida Statutes, the utility requested that the Commission process its petition for rate relief using Proposed Agency Action (PAA) procedures. Under that section, we must vote on the petition within five months of the date on which a complete set of minimum filing requirements (MFRs) is filed with the Commission. The official date of filing is September 22, 2004. By letter dated December 7, 2004, the utility waived its right, pursuant to Section 367.081(8), Florida Statutes, to have the Commission vote on its petition within five months following the company's filing up through our March 1, 2005 Agenda Conference. The utility did not request interim rates. We have jurisdiction under Section 367.081, Florida Statutes.

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 or lack thereof over the proceeding 3-year period shall also be considered. DEP and county health departments officials' testimony concerning quality of service as well as the comments and testimony of the utility's customers shall be considered.

Our analysis addresses each of these three components based on the information available.

Quality Of Utility's Product

The utility's collection system is regulated by the Department of Environmental Services (DES), City of Largo. The DES inspected the utility's collection system on March 2, 2004. According to the DES, the utility meets or exceeds regulatory standards and is considered satisfactory. Therefore, we find that the quality of the utility's product is satisfactory.

Operational Conditions At The Plant

The utility has interconnected with the City of Largo and retired all of its plant. The utility's collection system operating permit was issued on March 2, 2004, and will expire on March 1, 2006. The utility is in the process of a comprehensive rehabilitation of the wastewater lines. This rehabilitation project was not mandated by the City of Largo nor Pinellas County.

The utility has performed this project as preventative maintenance and to improve the operational conditions. All things considered, the operational conditions shall be considered satisfactory.

Although the operational conditions are considered satisfactory, RM's collection system was designed and installed around 1959. Construction was primarily vitrified clay pipe. DY's collection system was constructed in the mid-1970s, and TP's collection system was constructed in the mid-1980s. Near the end of July 2003, a portion of RM's wastewater line collapsed due to a possible sink hole or age-related weakness. The utility was unable to determine the exact cause. The utility entered into a contract with Ultra Vision to repair the collapsed lines.

As a precautionary measure to determine the stability of the rest of the wastewater lines (which cover an expanse of 60 acres), the utility engaged Ultra Vision to videotape all the wastewater lines. As a result of the video inspection, the utility decided to rehabilitate its wastewater lines. Three bids were received for the project and the Ultra Vision proposal was chosen for the work due to the lining material it would use and the previous satisfactory experience with the firm. The utility anticipated the rehabilitation project would extend over a ten-year period and the total cost would be approximately \$1.5 million. The utility has divided the park into phases for completion of the work, and phase one is currently in progress.

Ultra Vision estimated that it would cost \$346,617.80 to inspect all manholes, install two new manholes, install eight manhole to manhole liners, and videotape the lines in year 2004. It will cost \$115,900.00 to install five manhole to manhole liners and videotape the lines in the year 2005. The total cost will be \$462,517.80 to complete the phase one pro forma project.

Although this rehabilitation project was not mandated by the City of Largo or Pinellas County, we find that rehabilitation of the wastewater lines is prudent due to the age of the collection system and the type of the pipes used in construction. Also, we find that the total cost of \$462,517.80 to complete the phase one pro forma project is prudent.

Utility's Attempt To Address Customer Satisfaction

A series of informal customer meetings were held on December 1, 2004, in the Ranch Mobile Clubhouse in Clearwater, Florida. Two people requested individual meetings with Commission staff to discuss issues related to the rate increase. The first meeting occurred at 4:00 pm with Mr. Earl Jones, the Twin Palms Mobile Home Park president, and Mr. Klaus Voss, the principal of the SI Group Environmental Consulting Firm, on behalf of Down Yonder Mobile Home Park. These representatives were concerned about increasing wastewater rates. Mr. Jones stated that his brother, his sister and he own and operate the Twin Palms Mobile Home Park. He said the Ranch Mobile rehabilitation cost should not affect the Twin Palms customers due to the small segment of the wastewater collection system shared with RM. Mr. Jones said if the Ranch Mobile's rehabilitation cost would affect the Twin Palms wastewater rates, he will pursue bypassing RM's wastewater system as expeditiously as he can.

Mr. Klaus Voss, the Down Yonder representative, stated that the DY wastewater collection system was constructed in the mid-1970s. The last phase was completed in the mid-1980s, while the RM wastewater collection system was constructed around 1959. Mr. Voss stated that DY utilizes less than 10% of the wastewater collection system that the utility is currently repairing; therefore, it should not share in the cost to restore Ranch Mobile's wastewater collection system.

Mr. Voss also submitted a letter dated December 6, 2004. In his letter, he added that the utility did not request or obtain a third party independent engineering survey to determine an appropriate scope of work for the capital improvement project to its collection system. The utility solicited bids directly from repair contractors to repair/replace the entire system. This was done without consideration as to whether the entire collection system required repair/replacement. There was no determination by the utility of whether it would be prudent to repair portions of the system or replace the entire system.

The evening meeting, which was open to all customers, was at 6:00 P.M. in the Ranch Mobile Clubhouse. Forty-three persons attended. Two customers made comments expressing concerns about the utility. The primary concern was the amount of the wastewater rate increase. Mr. Jones, the Twin Palms president, again shared his concerns at the evening meeting.

As discussed later in this Order, we are approving a cost of service analysis which takes into consideration both DY and TP's concerns. Commission staff has discussed and explained this cost allocation to all three general service customers. Mr. Voss, as well as DY's attorney, have both indicated that DY is satisfied with our analysis and agrees with the approved rates. TP has indicated that it appreciates our consideration of its position, but has no comment on the cost of service analysis.

Commission staff investigated and researched the line rehabilitation project and contacted Ultra Vision, the rehabilitation contractor. According to Ultra Vision, the following are TP's and DY's wastewater lines that are shared with RM's wastewater lines under rehabilitation:

TP discharges wastewater into manhole B7 through a 4" PVC force main where it is traveling through manhole B6 to manhole B1. From there, the lines have been refurbished.

From manhole B1 to manhole A2	280 feet
From manhole A2 to manhole A1A	80 feet
From manhole A1A to manhole A1	280 feet
From manhole A1 to Lift Station	<u>40 feet</u>
Total TP New Lines Shared	680 feet

DY discharges wastewater into manhole B5 to manhole B3 via a gravity sewage line. From there, the lines have been refurbished.

From manhole B3 to manhole B2	380 feet
From manhole B2 to manhole B1	380 feet
From manhole B1 to manhole A2	280 feet
From manhole A2 to manhole A1A	80 feet
From manhole A1A to manhole A1	280 feet
From manhole A1 to Lift Station	<u>40 feet</u>
Total DY New Lines Shared	1,440 feet

According to Ultra Vision's proposal, manhole A1 is going to be replaced with a new manhole and it is estimated that it will cost \$44,800 to complete this project. TP, DY, and RM will all discharge their wastewater in this new manhole.

Ultra Vision estimated that the rehabilitation of the wastewater lines will cost \$297,422.80 for a total of 2,503 linear feet or \$118.83 per linear foot ($\$297,422.80 / 2,503$). The total new lines that TP is sharing with RM is 680 feet and the total new lines that DY is sharing with RM is 1,440 feet; however, the three parks, RM, TP and DY, are using the new lines from manholes B1 to A2 to A1A to A1 to the lift station which is 680 ft. This path from manhole B1 to the lift station will cost \$80,804.40 ($680 \text{ ft} \times \$118.83/\text{ft}$) to be rehabilitated.

DY and RM also are using the new lines from manhole B3 to B1 which is 760 feet. This path from manhole B3 to B1 will cost \$90,310.80 ($760 \text{ ft} \times \$118.83/\text{ft}$) to be rehabilitated.

As a result, we believe that the utility is putting forth a sufficient good faith effort in its attempts to resolve customer complaints to justify a finding that the quality of customer service is satisfactory.

In conclusion, we hereby find that Ranch Mobile's overall quality of service shall be considered satisfactory.

RATE BASE

Year End Test Year

The utility is undertaking a comprehensive rehabilitation of its wastewater lines as a preventative maintenance measure. By Order No. 23807, issued November 27, 1990, in Docket No. 900246-SU, In re: Application for staff-assisted rate case in Pinellas County by Ranch Mobile WWTP, Inc., the utility retired all of its plant assets and the land value was established as zero for rate setting purposes. The collection system is contributed plant as established by Order No. 16730, issued October 15, 1986, in Docket No. 860582-SU, In re: Application by Ranch Mobile WWTP, Inc. for staff-assisted rate case in Pinellas County. Each mobile home park maintains its own collection lines. Therefore, for the historical 2003 test year, the utility had a zero beginning balance for plant in service. For the test year ended December 31, 2005, the utility requested \$463,162 for its rehabilitation project, which represents 100% of its rate base.

We only apply a year end rate base in extraordinary circumstances. City of Miami v. Florida Pub. Serv. Comm'n, 208 So. 2d 249, 258 (Fla. 1968); Citizens of Florida v. Hawkins, 356 So. 2d 254, 257 (Fla. 1978). We believe that extraordinary circumstances exist in this docket. The utility made net additions of \$243,985 in the 2004 test year and we are approving pro forma additions of \$237,808 for the projected 2005 test year. As stated above, these improvements represent 100% of the utility's rate base. In Order No. PSC-00-1774-PAA-WU, issued September 27, 2000, in Docket No. 991627-WU, In re: Application for rate increase in Polk County by Park Water Company, Inc., we found improvements representing over 52% of the utility's rate base to be considered an extraordinary circumstance.

A year end rate base will provide the utility with an opportunity to recover the investment made to rehabilitate its lines and will ensure compensatory rates for this utility in this rate case. Moreover, pursuant to Section 367.081(2)(a), Florida Statutes, we are required to consider the investment in plant made by the utility in the public service. As a result, we approve a year end rate base for this utility. Therefore, a year end test year ending December 31, 2005, is hereby approved.

Used and Useful Percentages

The utility has interconnected with the city of Largo and retired all of its treatment plant assets, except the collection system. The collection system is contributed plant according to Order No. 23807. Each park maintains its own collection lines. The City of Largo has installed a lift station, which is owned and operated by the City, on the utility's land. The network of gravity mains throughout the three parks transport the raw effluent to a central collection point (lift station) where the city transfers it into their system. The utility has granted the City easement rights. The utility has served the three parks (867 customers) since 1983. There is no possibility of any growth and the utility would never provide wastewater to more than 867 customers. Therefore, we find that the wastewater collection system shall be considered 100% used and useful.

Plant, Land, and Depreciation Adjustments

Commission staff auditors conducted an audit of the utility's minimum filing requirement (MFR) schedules. The audit report contained several disclosures and recommendations for adjustments. The utility did not respond to the audit.

a. Utility Plant in Service (UPIS)

For 2005, the utility included \$463,192 in plant in service. As discussed above, for the historical 2003 test year, the utility had a zero plant in service beginning balance. For 2003, the utility included \$42,974 in construction work in process (CWIP). The \$42,974 consisted of \$34,506 for sink hole repairs, and \$8,468 in legal fees. For 2004 and 2005, Ranch Mobile included plant additions of \$304,318 and \$115,900, respectively, for the rehabilitation of lines.

Per Audit Disclosure 1, in 2003, the utility experienced a break in its wastewater collection lines, evidenced by the sinking of a manhole. As a precautionary measure the utility engaged Ultra Vision to video the entire wastewater collection system at a cost of \$22,363. Ranch Mobile included the total cost of the sink hole repair and video inspection of \$34,506 in CWIP and reclassified these costs to plant in service in 2004. We find that the \$22,363 cost of the video inspection shall be capitalized as part of the rehabilitation project because the entire system was videoed. However, we find the remaining \$12,143 for the repair is a nonrecurring maintenance expense and shall be removed from rate base, reclassified to Account 736, Contractual Services-Other, and amortized over five years in accordance with Rule 25-30.433(8), Florida Administrative Code. Therefore, we find that plant in service shall be decreased by \$12,143 and expenses be increased by \$2,429 to amortize the repair over five years.

In 2003 Ranch Mobile capitalized \$8,468 in legal fees related to contract negotiations among the utility, DY, and TP mobile home parks. Per Audit Disclosure 1, the negotiations were an attempt to persuade the mobile home parks to hook up directly with the City of Largo and thereby close the utility business. Negotiations were unsuccessful and Ranch Mobile is currently providing service to the parks without a contract. We find that these expenses are nonrecurring and do not apply to wastewater operations. Therefore, we find that plant in service shall be decreased by \$8,468.

In 2004 Ranch Mobile included \$304,318 in plant in service. Per Audit Disclosure 1, this amount consisted of \$301,818 in rehabilitation costs plus \$2,500 in rate case amortization. The National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts for Class C Wastewater Utilities states that Account 765, Regulatory Commission Expenses, shall include all expenses incurred by the utility in connection with formal cases before regulatory commissions. Therefore, we find that plant in service shall be decreased by \$2,500 to remove rate case expense and that it be reclassified to Account 765.

Per Audit Disclosure 2, in 2004, Ranch Mobile entered into a contract for \$44,800 with Ultra Vision Pipeline Services to install a new manhole to replace the existing manhole A1. An analysis of rate base revealed that the utility did not include this cost in its rate base calculation for 2004. Therefore, we find that plant in service shall be increased by \$44,800.

b. Pro Forma 2005 Plant Additions

In 2005, the utility included \$115,900 in UPIS for pro forma wastewater rehabilitation costs. We reviewed these estimates and find that the costs are prudent and reasonable. Therefore, we find that no adjustment is necessary.

c. Land and Land Rights

Ranch Mobile included \$1,000 for land in its MFRs. Per Audit Disclosure 3, the utility's plant was situated on the land, which was conveyed to the utility by its parent. When the utility interconnected with the City of Largo, the City installed a lift station on approximately this same area of land. The lift station is owned and operated by the City. The utility granted the City permanent easement rights. As a result, Ranch Mobile does not pay real estate tax on this land. Order No. 23807 removed the land from rate base because "the land has no usefulness for utility operations." Therefore, we find that land shall be decreased by \$1,000.

d. Accumulated Depreciation

Ranch Mobile recorded an accumulated depreciation balance of \$15,317 for the projected test year. We have recalculated accumulated depreciation using the prescribed rates in Rule 25-30.140, Florida Administrative Code. Our calculated accumulated depreciation on December 31, 2005, is \$12,238. Therefore, we find that this account shall be decreased by \$3,079 to reflect our calculated accumulated depreciation.

e. Depreciation Expense

The utility recorded depreciation expense of \$14,379 for the projected test year. We recalculated the depreciation expense using the prescribed rates in Rule 25-30.140, Florida Administrative Code. Our recalculated depreciation expense is \$12,122. Therefore, we find that depreciation expense shall be decreased by \$2,257.

All of the adjustments to rate base and depreciation expense described above are shown on Schedule Nos. 1-B and 3-B, respectively, which are attached to this Order.

In conclusion, plant in service shall be increased by \$21,689, land and land rights shall be decreased by \$1,000, accumulated depreciation shall be decreased by \$3,079, and depreciation expense shall be decreased by \$2,257.

Working Capital Allowance

Rule 25-30.433(2), Florida Administrative Code, requires that Class C utilities use the formula method (one-eighth of operation and maintenance (O&M) expenses) to calculate the working capital allowance. Ranch Mobile did not include a working capital allowance in its MFRs. Applying the formula, we find that rate base shall be increased by \$23,756 to include a working capital allowance based on O&M expenses of \$190,046.

Appropriate Rate Base

Consistent with the adjustments approved above, the appropriate year end rate base for Ranch Mobile for the projected test year ended December 31, 2005, is \$496,399. Rate base is shown on Schedule No. 1-A and the adjustments to rate base are shown on Schedule No. 1-B, both of which are attached to this Order.

COST OF CAPITAL

Ranch Mobile is a wholly-owned subsidiary of Ranch Mobile, Inc. The utility used its parent's capital in the MFRs. We also elected to use the consolidated capital structure of the parent because the source of funds for utility operations comes entirely from Ranch Mobile, Inc. In a similar situation, in Order No. PSC-02-1739-PAA-WS, issued December 10, 2002, in Docket No. 020010-WS, In re: Application for staff-assisted rate case in Highlands County by The Woodlands of Lake Placid, L.P., we approved the use of the parent's capital structure rather than the utility's.

Based on the Commission staff audit, the capital structure consists entirely of equity of \$1,780,876. In its MFRs, the utility requested a 9.10% return on equity. Using the current leverage formula approved by Order No. PSC-04-0587-PAA-WS, issued June 10, 2004, in Docket No. 040006-WS, In re: Water and wastewater industry annual reestablishment of authorized range of return on common equity for water and wastewater utilities pursuant to Section 367.081(4)(f), F.S., the rate of return on common equity allowed for the utility is 9.10% with a range of 8.10% - 10.10%.

The utility's capital structure was reconciled with the rate base approved earlier in this Order. Applying the cost of each capital component times the pro-rata share of each component results in an overall rate of return of 9.10%.

Therefore, we find the appropriate rate of return on equity is 9.10% with a range of 8.10% - 10.10% and the appropriate overall rate of return for this utility is 9.10%. The approved cost of capital is shown on Schedule No. 2, which is attached to this Order.

NET OPERATING INCOME

Test Year Revenues

Ranch Mobile recorded revenues of \$185,468 for the projected test year ended December 31, 2005. This was the same amount of revenues recorded for the historical test year ended December 31, 2003. Tariffed rates have changed since 2003. We calculated revenues using the current rates times the number of customers in each mobile home park, resulting in projected test year revenues of \$198,038. Therefore, we find that revenues shall be increased by \$12,570 to reflect projected test year revenues of \$198,038.

Test Year Operation and Maintenance Expenses

The utility recorded \$184,755 in O&M expenses, which includes \$182,297 for purchased wastewater treatment and \$2,458 for miscellaneous expenses (\$2,000 management fee, \$200 permit fee, \$150 corporate filing fee, and \$108 bank fee).

a. (736) Contractual Services – Other

As discussed above, we increased this account by \$2,429 to amortize nonrecurring repairs over five years (\$12,143/5). In addition, per Audit Disclosure 1, in 2004, the utility incurred \$7,555 in repair costs that were not included in the MFRs. We find that the cost of the repairs shall be amortized over five years in accordance with Rule 25-30.433(8), Florida Administrative Code. Therefore, we find that this account shall be increased by \$1,511 (\$7,555/5).

b. (765) – Regulatory Commission Expense

Ranch Mobile requested a total of \$5,672 in rate case expense. This amount includes the \$2,500 in rate case expense that we reclassified to this account earlier in this Order. The requested rate case expense included \$147 in costs of the parent company from Office Depot and \$120 in fees for preparing a price index application. We believe that these costs are unrelated to the rate case and find that rate case expense shall be decreased by \$267. Therefore, we find that the appropriate rate case expense is \$5,405.

For the projected test year, the utility's MFRs included \$1,418 (\$5,672/4) of rate case amortization expense in Account 407, Amortization Expense – Other. Per the NARUC Uniform System of Accounts, this amount should be included in Account 765. Therefore, we find that Amortization Expense shall be decreased by \$1,418 to reclass amortized rate case expense to this account.

Based on the above, we find that Account 765 shall be increased by \$1,351 (\$5,405/4) to amortize rate case expense over four years pursuant to Section 367.0816, Florida Statutes.

In conclusion, the total O&M adjustments approved result in an increase of \$5,291 and a total projected test year O&M expense of \$190,046. O&M expenses are shown on Schedule No. 3-C, which is attached to this Order.

Taxes Other Than Income

In the projected test year, Ranch Mobile included \$8,346 in taxes other than income for regulatory assessment fees (RAFs). We find that this account shall be increased by \$566 to reflect RAFs based on projected test year annualized revenues (\$198,038 x .045 - \$8,346).

Test Year Operating Income

Based on the adjustments approved in this Order, we find that the projected test year net operating loss before any revenue increase is (\$13,042). Our approved NOI is reflected on

Schedule No. 3-A with adjustments shown on Schedule No. 3-B, both of which are attached to this Order.

REVENUE REQUIREMENT

The utility requested a revenue requirement of \$252,751. Based on our decisions concerning the underlying rate base, cost of capital, and operating income, we calculated a revenue requirement of \$258,995 for this utility. Our approved adjustments generate a revenue requirement higher than that requested by the utility. In such circumstances, it has been our practice to limit the revenue requirement to the level requested by the utility. See Order No. PSC-95-0191-FOF-WS, issued February 9, 1995, in Docket No. 940917-WS, In re: Application for rate increase for increased water and wastewater rates in Seminole, Orange, and Pasco Counties by Utilities, Inc. of Florida; Order No. PSC-92-0229-FOF-GU, issued April 20, 1992, in Docket No. 910873-GU, In re: Petition for approval of initial rates to be established by Sebring Gas System, a division of Coker Fuels, Inc.; Order No. 15796, issued March 10, 1986, in Docket No. 840047-WS, In re: Application of Poinciana Utilities, Inc., for increased rates to its customers in Osceola County, _____ Nevertheless, it should be noted that by Order No. 24094, No. 900151-GU. In re: Application for a rate increase in _____ gas operations by _____ Company, approved a revenue requirement higher than that requested by the company. In that case there were mitigating circumstances; subsequent to the company filing its MFRs, we approved a depreciation study that substantially increased O&M expense and accumulated depreciation. Notwithstanding that, in the instant case, we find that Ranch Mobile shall be limited to the revenue requirement it requested because the projected test year is based on estimates that will be trued up when the utility requests recovery of phase two and phase three of its rehabilitation project beginning at the end of 2005.

Therefore, we hereby approve a revenue requirement of \$252,751. This reflects a 27.63% increase over the approved adjusted test year revenues of \$198,038 as shown on Schedule No. 3A, which is attached to this Order. This will provide the utility the opportunity to recover its expenses and earn a 7.84% return on its investment in rate base.

COST OF SERVICE AND RATES

Cost of Service Methodology

As discussed in the case background, we believe that this is a unique utility. It is the only utility in Florida that we are aware of that serves only three general service bulk customers. As a result, in this case we are approving bulk rates, and when bulk rates are designed, cost allocations must be employed.

The purpose of a cost of service study is to allocate the total costs of the utility among the various rate classes. The results of the cost of service study are used to determine how any revenue increase granted by the Commission will be allocated to the rate classes. Once this determination is made, rates are designed for each rate class that recover the total revenue requirement attributable to that class.

We prepared a detailed cost of service study for this utility. This is unusual for a Class C utility. A cost of service study is required by Rules 25-6.043, and 25-7.039, Florida Administrative Code, for electric and gas rate cases, respectively; however, cost of service studies are not required for Class B or C water and wastewater rate cases. Below is a description of the methodology we used to allocate costs to the three customers.

Whenever possible, costs were directly assigned to the cost causer. For example, the sink hole repairs and costs for the rehabilitation of nonshared lines were directly assigned to RM, and costs for a check valve were directly assigned to Down Yonder because these items were entirely related to a particular mobile home park. The purchased wastewater treatment was directly assigned based on the breakdown provided by the utility in MFR Schedule B-5.

a. O&M Expenses

As stated above, sink hole repairs were directly assigned to RM, and purchased wastewater treatment was directly assigned per the MFR schedule. The remaining O&M expenses and related taxes were allocated based on the number of customers in each mobile home park.

b. Depreciation Expense

Depreciation and the associated taxes were allocated based on plant improvements. First, the total cost of plant improvements (Manhole A1, Shared Line from B1 to A2 to A1A to A1, CCTV wastewater lines, and shared line from B3 to B1) was allocated based on the number of customers of the impacted mobile home parks (some improvements did not involve all three customers). The check valve was directly assigned to Down Yonder. Non-shared lines were directly assigned to RM. Second, a ratio was calculated based on the improvements of each customer to the total of all improvements. Third, the ratio was applied to depreciation expense.

c. Return on Investment

The return on investment and associated taxes were allocated based on the plant improvement methodology described above for depreciation expense.

In conclusion, we find that the cost of service methodology used in this case is reasonable and fairly allocates costs to the cost causers. Commission staff explained and discussed the cost of service methodology with all three mobile home parks. DY has indicated that it agrees with this method and the resulting rates. While RM and TP did not agree with the methodology, they did not strongly oppose it or offer an alternative methodology. Therefore, we hereby approve the allocation of costs based on the cost of service methodology described above.

Wastewater Monthly Service Rates

Our approved revenue requirement and the revenue to be recovered through rates is \$252,751. Ranch Mobile's current tariff sheets characterize the rates as Residential (RS). As

discussed above, we are approving bulk rates; therefore, we direct that the tariff sheets shall be changed to reflect the General Service (GS) designation.

Monthly flat rates were calculated by adding the expenses and the return on investment (revenue requirement) allocated to each mobile home park, dividing by the number of customers in each mobile home park, and dividing by 12 months. Our approved rates are as follows:

MONTHLY GENERAL SERVICE (GS)

FLAT RATES – WASTEWATER

	<u>Existing Rates</u> (per mobile home)	<u>Commission</u> <u>Approved Rates</u> (per mobile home)
Ranch Mobile	\$18.27	\$26.08
Down Yonder	\$18.27	\$20.87
Twin Palms	\$22.72	\$23.70

The utility shall file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates shall be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(1), Florida Administrative Code. The rates shall not be implemented until Commission staff has approved the proposed customer notice. The utility shall provide proof of the date notice was given no less than 10 days after the date of the notice.

Four-Year Rate Reduction

Section 367.0816, Florida Statutes, requires that the rates be reduced immediately following the expiration of the four-year period by the amount of the rate case expense previously included in the rates. The reduction will reflect the removal of revenues associated with the amortization of rate case expense and the gross-up for regulatory assessment fees which is \$1,415 annually for wastewater. 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, which is attached to this Order. Accordingly, the wastewater rates shall be reduced as shown on Schedule No. 4, effective immediately following the expiration of the four-year rate case expense recovery period.

The utility is required to file revised tariff sheets no later than one month prior to the actual date of the required rate reduction. The utility is also required to 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.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Ranch Mobile WWTP, Inc.'s application for increase wastewater rates 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 Schedules No. 1-A, 1-B, 2, 3-A, 3-B, 3-C, and 4 are incorporated herein by reference. It is further

ORDERED that the utility shall file revised tariff sheet and a proposed customer notice reflecting the 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. It is further

ORDERED that the rates shall not be implemented until after the Commission staff has approved the proposed customer notice. The utility must provide proof of the date notice was given no less than 10 days after the date of the notice. It is further

ORDERED that rates shall be reduced at the end of the four-year rate case expense amortization period as set forth in the body of this Order. The utility shall file revised tariff sheets and a proposed customer notice setting forth the lower rates and the reason for the reductions no later than one month prior to the actual date of the required rate reduction. If the utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data shall be filed for the price index and/or pass-through increase or decrease, and for the reduction in rates due to the amortized rate case expense. It is further

ORDERED that the provisions of this Order, issued as proposed agency action, except for our decision reducing rates at the end of the four-year rate case expense amortization period, 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.

By ORDER of the Florida Public Service Commission this 17th day of March, 2005.


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, except for our decision reducing rates at the end of the four-year rate case expense amortization period, 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 April 7, 2005. 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, reducing rates at the end of the four-year rate case expense amortization period, may request: (1) reconsideration of the decision by filing a motion for reconsideration with the Director, Division

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DOCKET NO. 040972-SU

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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.

RANCH MOBILE WWTP, INC. TEST YEAR ENDING 12/31/05 SCHEDULE OF WASTEWATER RATE BASE		SCHEDULE NO. 1-A DOCKET NO. 040972-SU		
DESCRIPTION	BALANCE PER UTILITY	COMM. ADJUST. TO UTIL. BAL.	BALANCE PER COMM.	
1 UTILITY PLANT IN SERVICE	\$463,192	\$21,689	\$484,881	
2 LAND & LAND RIGHTS	1,000	(1,000)	\$0	
3 NON-USED AND USEFUL COMPONENTS	0	0	\$0	
4 CIAC	0	0	\$0	
5 ACCUMULATED DEPRECIATION	(15,317)	3,079	(\$12,238)	
6 AMORTIZATION OF CIAC	0	0	\$0	
7 WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>23,756</u>	\$23,756	
8 WASTEWATER RATE BASE	\$448,875	<u>\$47,524</u>	\$496,399	

RANCH MOBILE WWTP, INC.		SCHEDULE 1-B
TEST YEAR ENDING 12/31/05		DOCKET NO. 040972-SU
ADJUSTMENTS TO RATE BASE		
	<u>UTILITY PLANT IN SERVICE</u>	<u>WASTEWATER</u>
1	Reclassify 2003 repairs to expenses (736)	(\$12,143)
.		
2	Remove 2003 legal fees re contract with RM, DY, TP	(8,468)
.		
3	Reclassify 2004 rate case expense to expenses (765)	(2,500)
.		
4	Include cost for 2004 rehab not included in MFRs	44,800
.		
	Total	<u>\$21,689</u>
1	LAND AND LAND RIGHTS	
.		
	Remove land not owned or used by the utility	<u>(\$1,000)</u>
	ACCUMULATED DEPRECIATION	
1	Accumulated depreciation per Rule 25-30.140, FAC	<u>\$3,079</u>
.		
	WORKING CAPITAL ALLOWANCE	
1	To reflect 1/8 of test year O & M expenses.	<u>\$23,756</u>
.		

RANCH MOBILE WWTP, INC.
TEST YEAR ENDING 12/31/05
SCHEDULE OF CAPITAL STRUCTURE

SCHEDULE NO. 2
DOCKET NO. 040972-SU

CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUSTMENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUSTMENTS	BALANCE PER COMM.	PERCENT OF TOTAL	COST	WEIGHTED COST
1. COMMON STOCK	\$500	\$0	\$500					
2. RETAINED EARNINGS	(523,031)	0	(523,031)					
3. PAID IN CAPITAL	2,024,524	0	2,024,524					
4. OTHER COMMON EQUITY	<u>278,883</u>	<u>0</u>	<u>278,883</u>					
TOTAL COMMON EQUITY	\$1,780,876	\$0	\$1,780,876	(1,284,477)	496,399	100.00%	9.10%	9.10%
LONG TERM DEBT								
5	0	0	0	0	0	0.00%	0.00%	0.00%
	0	0	0	0	0	0.00%	0.00%	0.00%
	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>
TOTAL LONG TERM DEBT	0	0	0	0	0	0.00%		
6. CUSTOMER DEPOSITS	0	0	0	0	0	0.00%	6.00%	0.00%
7. TOTAL	<u>\$1,780,876</u>	<u>\$0</u>	<u>\$1,780,876</u>		<u>\$496,399</u>	100.00%		<u>9.10%</u>
RANGE OF REASONABLENESS						LOW	HIGH	
RETURN ON EQUITY						8.10%	10.10%	
OVERALL RATE OF RETURN						8.10%	10.10%	

RANCH MOBILE WWTP, INC. TEST YEAR ENDING 12/31/05 SCHEDULE OF WASTEWATER OPERATING INCOME		SCHEDULE 3-A DOCKET NO. 040972-SU			
	TEST YEAR PER UTILITY	COMM. ADJUSTMENTS	COMM. ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$185,468</u>	<u>\$12,570</u>	<u>\$198,038</u>	<u>\$60,957</u> 30.78%	<u>\$258,995</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	184,755	5,291	190,046	0	190,046
3. DEPRECIATION (NET)	14,379	(2,257)	12,122	0	12,122
4. AMORTIZATION	1,418	(1,418)	0	0	0
5. TAXES OTHER THAN INCOME	8,346	566	8,912	2,743	11,655
6. INCOME TAXES	0	0	0	0	0
7. TOTAL OPERATING EXPENSES	<u>\$208,898</u>	<u>\$2,182</u>	<u>\$211,080</u>	<u>\$2,743</u>	<u>\$213,823</u>
8. OPERATING INCOME/(LOSS)	<u>(\$23,430)</u>		<u>(\$13,042)</u>		<u>\$45,172</u>
9. WASTEWATER RATE BASE	<u>\$448,875</u>		<u>\$496,399</u>		<u>\$496,399</u>
10. RATE OF RETURN	<u>-5.22%</u>		<u>-2.63%</u>		<u>9.10%</u>

RANCH MOBILE WWTP, INC. TEST YEAR ENDING 12/31/05 ADJUSTMENTS TO OPERATING INCOME		Schedule No. 3-B DOCKET NO. 040972-SU
		<u>WASTEWATER</u>
OPERATING REVENUES		
1	To adjust utility revenues to annualized test year amount.	<u>\$12,570</u>
OPERATION AND MAINTENANCE EXPENSES		
1	Contractual Services - Other (636/ 736)	
	a. Reclassify 2003 repairs from Rate Base and amortize over 5 yrs.	\$2,429
	b. Include 2004 repairs not recorded and amortize over 5 yrs.	1,511
	Subtotal	<u>\$3,940</u>
2	Regulatory Expense (665/ 765)	
	a. Amortize rate case expense over 4 years (\$5,405/4)	\$1,351
	TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	<u>\$5,291</u>
DEPRECIATION EXPENSE		
1	To reflect test year depreciation calculated per 25-30.140, F.A.C.	<u>(\$2,257)</u>
AMORTIZATION		
1	Reclass rate case expense amortization to Acct. 765	<u>(\$1,418)</u>
TAXES OTHER THAN INCOME		
1	Adjust RAF's to Projected Revenue	<u>\$566</u>

RANCH MOBILE WWTP, INC. TEST YEAR ENDING 12/31/05 ANALYSIS OF WASTEWATER OPERATION AND MAINTENANCE EXPENSE		SCHEDULE NO. 3-C DOCKET NO. 040972-SU	
	TOTAL PER UTILITY	COMM. ADJUST- MENT	TOTAL PER COMM.
(701) SALARIES AND WAGES - EMPLOYEES	\$0	0	\$0
(703) SALARIES AND WAGES - OFFICERS	0	0	\$0
(704) EMPLOYEE PENSIONS AND BENEFITS	0	0	\$0
(710) PURCHASED SEWAGE TREATMENT	182,297	0	\$182,297
(711) SLUDGE REMOVAL EXPENSE	0	0	\$0
(715) PURCHASED POWER	0	0	\$0
(716) FUEL FOR POWER PRODUCTION	0	0	\$0
(718) CHEMICALS	0	0	\$0
(720) MATERIALS AND SUPPLIES	0	0	\$0
(730) CONTRACTUAL SERVICES - BILLING	0	0	\$0
(731) CONTRACTUAL SERVICES - PROFESSIONAL	0	0	\$0
(735) CONTRACTUAL SERVICES - TESTING	0	0	\$0
(736) CONTRACTUAL SERVICES - OTHER	0	3,940	\$3,940
(740) RENTS	0	0	\$0
(750) TRANSPORTATION EXPENSE	0	0	\$0
(755) INSURANCE EXPENSE	0	0	\$0
(765) REGULATORY COMMISSION EXPENSES	0	1,351	\$1,351
(770) BAD DEBT EXPENSE	0	0	\$0
(775) MISCELLANEOUS EXPENSES	<u>2,458</u>	0	\$2,458
	<u>184,755</u>	<u>5,291</u>	<u>190,046</u>

APPROVED RATE REDUCTION SCHEDULE

RANCH MOBILE WWTP, INC.
TEST YEAR ENDING 12/31/05

SCHEDULE NO. 4
DOCKET NO. 040972-SU

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

MONTHLY WASTEWATER RATES

	<u>MONTHLY APPROVED RATES</u>	<u>MONTHLY RATE REDUCTION</u>
<u>GENERAL SERVICE - FLAT RATES</u>		
Ranch Mobile	\$ 26.08	0.15
Down Yonder	\$ 20.87	0.12
Twin Palms	\$ 23.70	0.13