

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Application for a staff- ) DOCKET NO. 940243-WU  
assisted rate case by UNIVERSITY ) ORDER NO. PSC-94-1616-POF-WU  
OAKS WATER SYSTEM in Levy ) ISSUED: December 28, 1994  
County. )  
\_\_\_\_\_ )

The following Commissioners participated in the disposition of this matter:

J. TERRY DEASON, Chairman  
SUSAN F. CLARK  
JOE GARCIA  
JULIA L. JOHNSON  
DIANE K. KIESLING

ORDER GRANTING TEMPORARY RATES IN EVENT OF PROTEST

AND

NOTICE OF PROPOSED AGENCY ACTION  
ORDER GRANTING RATES AND CHARGES

BY THE COMMISSION:

NOTICE IS HEREBY GIVEN by the Florida Public Service Commission that the action discussed herein regarding our granting of the increased rates and charges 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

University Oaks Water System, Inc. (UOWS or utility) is a Class C water utility serving 99 customers located in Levy County. UOWS began operation as a utility in 1973. On October 19, 1992, the previous owners of the utility filed a Notice of Abandonment for the water system. Levy County subsequently filed a Petition to Appoint a Receiver to take possession of and operate the facilities. The Circuit Court of the Eighth Circuit, appointed Mr. Frank E. Woodward as the receiver. Order No. PSC-93-0369-POF-WU, issued March 3, 1993, acknowledged abandonment of the utility and appointment of Mr. Woodward as the receiver.

On March 7, 1994, the utility applied for a staff assisted rate case and paid the appropriate filing fee. We have audited the

DOCUMENT NUMBER-DATE

12980 DEC 28 94

FPSC-RECORDS/REPORTING

utility's records and conducted an engineering field investigation of the utility's water treatment facilities and certificated territory serving the customers of the utility. A review of the utility's operation expenses associated with the technical production of potable water was conducted to determine prudence. Also, an in-house study of the utility's maps, files, and rate application was done to establish reasonableness of plant cost, utility plant in service, and quality of service.

Based on the billing analysis, the utility provided water service to approximately 99 residential customers. The utility recorded test year revenue of \$12,024. The utility's expenses were reported as \$17,785, resulting in a net operating loss of \$5,761.

#### QUALITY OF SERVICE

A customer meeting was held on August 31, 1994, at the Bronson High School in Bronson, Florida, Levy County. Approximately 28 customers were in attendance. Of that number, nine individuals spoke of either poor water taste, low pressure, and in the area of plant engineering. One customer spoke of the terrible taste produced by the injection of chlorine into the water, that the water was without the chlorine taste prior to the current receiver assuming control. Other customers echoed this statement. A staff engineer made a return trip to the utility and attempted to contact the customers who spoke at the customer meeting. As a result of this trip, it was determined that some justification was in order for some complaints, but not all. In response to the complaints, in the order listed above, the following is offered:

#### Taste of Chlorine

The previous owner had not properly disinfected the water for a long period of time. After attempting to abandon the facility, the Court ordered him to bring the treatment plant up to at least minimum standards as established by the Department of Environmental Protection (DEP). To do this, a chlorinator was installed. With chlorine present in the water after a long absence, the water would not taste pleasant to some individuals while others would not notice the difference, and still others can detect but not dislike the taste. The current receiver has no control over this situation and must abide by the requirements of DEP. DEP has the primary oversight of the quality of water and establishes the amount of chlorine to be added, then it requires periodic tests to be made by appropriately licensed laboratories to ascertain whether the quality of the water, including the amount of chlorine present is satisfactory. Upon consideration, we are satisfied with the water quality offered by this utility.

### Low Pressure

After our engineering investigation, we believe that the pressure throughout the system is satisfactory. When an unannounced request for the receiver to check for pressure in the treatment plant, it was found that the water level in the storage tank was slightly below normal, and the air pressure was slightly below the utility's goal of at least 48 pounds, but was well above the Commission's requirements. The engineer requested the receiver to accompany him to the home of the customer who spoke strongly about the low pressure to test the pressure at that point. The pressure was well above this Commission's standard, even with one of the outside valves in the full flow position. The volume and pressure were far more than adequate. It should be emphasized that the water sprinklers were operating at the maximum, even in the rain, and the water was being used excessively to water the road that particular day. These actions would cause low pressure.

We are convinced that the occasional low pressure problem will be eliminated after the conservation sensitive rates are in place. The addition of meters will show customers how easy it becomes to save both water and money.

### Engineering concerns

These complaints included, in part, the low pressure situation. One customer thought the utility needed an added well at a location some distance from the existing treatment plant and that adequate pressure would be impossible without the added well. Another customer thought the utility was in violation since backflow devices were not being installed, plus other discussions relative to engineering concerns. We conclude that there is no need for a second well location to serve the current customers or those in the immediate area of present customers. Further, the installation of backflow devices are unnecessary in this area. Therefore, we find that the utility is operating properly in both of these areas in question.

In conclusion, this utility has many problems, most which were inherited from the former owner. Based on the foregoing, we find that the quality of service is satisfactory.

### RATE BASE

Our calculation of the appropriate rate base for the water system is depicted on Schedule No. 1. Our adjustments are itemized on Schedule No. 1-A. Those adjustments which are self-explanatory or which are essentially mechanical in nature are reflected on

those schedules without further discussion in the body of this Order. The major adjustments are discussed below.

Used and Useful

UOWS's treatment plant facility consists of two active wells. Each well has the stated free flow capacity of 360,000 gallons per day (gpd) for a combined potential of 720,000 gpd. From the beginning, continuing through our investigation, the system has had a permitted capacity of 120,000 gpd, or 480 equivalent residential connections (ERCs).

The calendar year 1993 was selected for the test year. A review of the operator's records shows that a total of 39,268,452 gallons of drinking water was produced by this facility during the test year. This computes to a daily average of 109,079 gallons. The highest daily flow was measured at 283,000 gpd (August 13 and 14, 1993). The highest 5 day average was 249,480 gpd during June, which was the high month of the test year with an average daily flow of 182,133 gallons.

It should be noted that the recorded water usage computes to approximately 3 times the amount considered appropriate by the American Water Works Association (AWWA) for consumption by the number of customers this utility serves. With 99 single resident customers, it would be expected that 99 ERCs be used. Instead, records show an average of 430 ERCs were processed. Without individual meters with which to compare flows, it is uncertain if the master flow meter is accurately recording the flows, if an excessive amount of water is actually being used by the customers, or if the utility has this much loss in "unaccounted for" water. On site observations led us to believe that a considerable amount of the water is being wasted by the customers. We believe consumption is excessive because the utility bills a flat rate of \$7.00 per month. The utility is presently installing individual meters. It is expected that the consumption of water by the customers will be significantly reduced when individual meters are used.

Used and useful percentages for the water treatment plant and the distribution system can be viewed in several ways. However, we decided to use the following factors to calculate used and useful for this utility:

ERCs-Actual Connections

Treatment Plant

ERC Connections- 99 ERCs(connections)/480 ERCs (capacity)=21%

ERCs-Amount Processed/Consumed

Treatment Plant

ERC Connections-430 ERCs(amt. sold) /480 ERCs (capacity)=90%

Taking an approximate average between these two methods for determining the used and useful percentage, we determined that a 75% used and useful percentage should be applied to utility plant (excluding organization costs, land, and meters because these account balances are considered 100% used and useful). While 75% is not an exact measure, we believe that this method is an equitable compromise between the usage the utility has had to serve in the past and the usage pattern that is expected in the future.

We believe that small utilities should not be financially abused for beginning conservation measures. As more small utilities become less and less economically viable (due to increased costs, capital demands and insufficient revenue streams), governmental agencies are constantly seeking individuals to take on the responsibility of running small utilities. Penalizing the owner of a utility for implementing conservation rates is counterproductive. It is inequitable to reduce a utility's revenue as a result of conservation measures.

A utility in this situation has no incentive to lower consumption if the byproduct of this change is to decrease revenues and the numbers of customers. We believe that due to the unique characteristics of the history of the utility (abandonment, receivership, flat rates for an extended period), the excessive consumption patterns of the ratepayers (usage levels at three times the normal amount), and the business environment in which the utility operates (neither the county nor the water management district has precluded the sinking of wells by the customers of this utility), the utility should be insulated from decreased revenue flows due to anticipated reduction in usage.

The importance of maintaining the fiscal viability of small utilities, in the face of increased regulation and difficulty in obtaining financing, is paramount. While it might appear to be unfair to the ratepayers to set used and useful at any amount higher than that justified by actual ERCs served or utilization of capacity, it is also unfair to change the rules of rate setting and leave the utility holding the bag. Not only is this unfair to the utility, a utility that has provided the quantity of service that was demanded under fixed rates, but it will also prove to be unfair to the ratepayers when they are confronted with the costs of deterioration of a system that cannot economically stand on its own feet. For quite some time, the ratepayers of this utility have enjoyed extremely low rates. While enjoying these artificially low

rates, the customers have developed water usage patterns that can only be described as wasteful, as evidenced by customers using water to keep the dust down on the road or using water to cool off trailer roofs. The utility has met the burden of providing the vast sums of water that these customers have demanded, and now that conservation rates and water meters are going to be used, the utility should not be placed at a disadvantage through the degradation of its plant in service. Even though the 75% level cannot be supported with a specific empirical calculation, we believe that this will result in an equitable compromise between the interests of the ratepayers and that of the utility.

For the above reasons, we hereby conclude that a sharing of this loss in revenue should take place between the ratepayers and the utility. To effect this sharing arrangement, 75% shall be utilized as the used and useful percentage for deciding the amount of plant in service.

#### Utility Plant in Service

We have never established rate base for this utility. The utility did not have recorded plant in its application before the Commission. Therefore, we performed an original cost study to determine the value of original plant.

Plant in service has been adjusted by \$74,213 to reflect the balance in this original cost study, along with vouched additions in the test year as verified by our audit. In addition, we have decreased plant in service by \$3,847 to reflect the test year averaging adjustment. The total adjustment to utility plant in service is \$70,366.

#### Land

The utility recorded no amount for land in its application. According to the Levy County Tax Appraiser's office, the current value of undeveloped land in the subdivision that is home to this utility is \$3,680 per acre. The utility has title to approximately .13 acre, which equals a cost of \$478. We then adjusted this amount by \$48 for engineering and administrative overhead. The total was then reduced by \$232 to discount the property back to the original 1973 value. Therefore, we have made an adjustment of \$309 to land value.

#### Plant Held for Future Use

As discussed earlier, the water treatment system and the water transmission and distribution system are 75% used and useful. To

determine the average plant held for future, we based our calculation on the non-used and useful percentages times average plant and average accumulated depreciation. Plant held for future use has been decreased by \$16,369 to reflect non-used and useful plant. Adjustments were also made to: reflect average non-used and useful accumulated depreciation associated with non-used and useful plant, which resulted in an increase of \$8,805; reflect average non-used and useful CIAC, which resulted in an increase of \$12,610; and reflect average amortization of non-used and useful CIAC, which was decreased by \$6,057. Therefore, we have made an overall decrease of \$1,011 to plant held for future use.

#### Contributions in Aid of Construction (CIAC)

The utility filing does not contain any provision for CIAC, nor was our audit able to discern any value for this account due to incomplete records. According to Rule 25-30.570, Florida Administrative Code, 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, then the amount of CIAC shall be imputed to be the amount represented by the water transmission and distribution systems. In the instant case, we determined that this imputed amount is \$50,741, with corresponding accumulated amortization of CIAC in the amount of \$24,908. We have decreased the CIAC account to reflect margin reserve in the amount of \$4,000 and we made an averaging adjustment of \$303. Therefore, we have decreased CIAC by \$54,438.

#### Accumulated Depreciation

The utility did not record any test year accumulated depreciation in its application. We recorded accumulated depreciation of \$37,745 as a result of the original cost study and the additions verified by our audit. We calculated accumulated depreciation pursuant to the rates set forth in Rule 25-30.140, Florida Administrative Code. An adjustment of \$1,236 has also been made to reflect the averaging adjustment. Therefore, we have made an adjustment of \$36,509 to accumulated depreciation.

#### Amortization of CIAC

As with all plant accounts, the utility did not make a showing in its application for the amount of amortization of CIAC. Amortization of CIAC has been calculated by using the rates outlined in Rule 25-30.140, Florida Administrative Code. These rates are applied to average balances to calculate amortization of CIAC. The overall adjustment, including test year CIAC amortization, increases CIAC amortization by \$24,908. Adjustments

were also made to reflect margin reserve accumulated CIAC of \$108 and an averaging adjustment of (\$681). Therefore, we have made an adjustment of \$24,335 to amortization of CIAC.

#### Working Capital Allowance

Following Commission practice and consistent with Rule 25-30.443, Florida Administrative Code, the working capital shall be calculated using the one-eighth of operation and maintenance expense formula. Applying that formula, the working capital allowance is \$2,719.

#### Test Year Rate Base

Applying all of the above adjustments, we find that the appropriate test year rate base is \$5,771.

#### COST OF CAPITAL

Our calculation of the appropriate cost of capital and our adjustments are contained in Schedule No. 2. Those adjustments which are self-explanatory or which are essentially mechanical in nature are reflected on those schedules without further discussion in the body of this Order. The major adjustments are discussed below.

#### Return on Equity

In instances when rate base balances are less than the balances in the utility's capital structure, it has been our practice to reduce each component in the capital structure (other than customer deposits) by its weighted share of excess capital. As this utility only has debt in its capital structure, we have reduced the long-term debt balance by \$5,229 to reconcile the utility's capital structure components to the appropriate rate base balance. Therefore, the appropriate cost of debt is 11.00%

#### Overall Rate of Return

The utility's capital structure includes long term debt of \$11,000. The debt is a demand note to the utility from a related party. As this is the only component of the capital structure where that the rate is equitable, we find that the stated overall rate of return on the note of 11% shall be utilized for rate setting.



### NET OPERATING INCOME

Our calculation of net operating income for the water system is depicted on Schedule No. 3. Our adjustments are itemized on Schedule No. 3-A and Schedule No. 3-B. Those adjustments which are self-explanatory or which are essentially mechanical in nature are reflected on those schedules without further discussion in the body of this Order. The major adjustments are discussed below.

#### Test Year Operating Revenues

The utility recorded test year revenue of \$12,024. Based on an audit of the utility's billing register, we found that it did not reconcile to the utility's general ledger. We computed revenues using the utility's billing analysis and reduced reported income by \$3,792 to reflect overstatement by the utility in its application. Based on this adjustment, the appropriate test year operating revenue is \$8,232.

#### Test Year Operating Expenses

The appropriate amount of operating expenses during the test year are \$23,587.

#### Operation and Maintenance Expenses

Operation and maintenance expenses reflected in the utility's records were traced to invoices and test year cancelled checks for verification of the appropriate account, amount, and reasonableness. Our adjustments are itemized on Schedule No. 3-B. Those adjustments which are self-explanatory or which are essentially mechanical in nature are reflected on those schedules without further discussion in the body of this Order. The major adjustments are discussed below.

1) Salaries and Wages - Employees - The utility did not record wages for utility employees, therefore, we made the appropriate adjustments for employee compensation. The maintenance by the utility's president was set at \$6.50 per hour. Based on an average of 4 hours a week, for 52 weeks, we find it appropriate to grant a salary of \$1,352 for maintenance. We then set the secretarial services for this utility at \$9.82 per hour. Based on an average of 4 hours a week, for 52 weeks, we find it appropriate to grant a salary of \$2,043 for secretarial services. Taken together, the appropriate increase for employee wages is \$3,395.

2) Salaries and Wages - Officers - The utility did not record wages for any utility employees, therefore, we made the appropriate

calculations for officer compensation. The president's salary was set at \$19.27 per hour. Based on an average of 4 hours a week, for 52 weeks, we find it appropriate to grant a salary of \$3,006. Therefore, the appropriate increase for officer wages is \$3,006.

3) Purchased Power - The utility requested \$3,363 for test year expense for purchased power. We increased the account by \$688 to reflect a missing invoice and incorrect posting in the check register. Therefore, the appropriate amount of purchased power is \$4,051.

4) Materials and Supplies - The utility recorded \$8,441 in the materials and supplies account for the test year. However, our audit revealed that the utility was only able to vouch for \$1,359 in materials and supplies expense. Without a greater showing by the utility of competent substantial support for a higher level of materials and supplies expense, we find it appropriate to limit this expense category to the amount determined by our audit. Therefore, we decreased the account by \$7,082 to reflect the unsupported amount. Therefore the appropriate amount for materials and supplies is \$1,359.

5) Contractual Services - The utility recorded \$2,465 for contractual services during the test year. Our audit determined that an adjustment of \$1,127 is necessary to reflect reclassification of operator services. Another adjustment of (\$225) results from the monthly rate being charged by the system operator. A further adjustment of \$3,028 is made to reclassify expense incorrectly booked as miscellaneous expense.

State and local authorities require that several analyses be performed as scheduled per Rule 17-22, Florida Administrative Code. The utility's monthly monitoring is a routine program that includes sampling and testing for bacteria. An adjustment of \$1,100 is made to include all required water testing. Therefore, the appropriate contractual service is \$5,030.

6) Rents - The utility recorded no rent expense for the test year. Utility business is conducted out of the utility president's home. The utility requested \$25 per month rent expense. We believe \$25 per month rent is reasonable. Therefore, the appropriate rent expense for the test year is \$300.

7) Transportation Expenses - The utility recorded no transportation expense. We find it appropriate to allow \$452 to cover the costs associated with the receiver's personal vehicle used for utility business.

8) Chemical Expense - The utility did not record any expense for chemicals in the test year. We find that the appropriate amount for test year chemical expense is be \$286.

9) Regulatory Commission Expense This expense has been adjusted by \$250 to reflect the \$1,000 rate case filing fee amortized over four years.

10) Miscellaneous Expense - The utility recorded \$3,576 for miscellaneous expenses. We made adjustments to reclassify legal, labor and office expense in the amount of \$3,028. Therefore, the appropriate amount of miscellaneous expense is \$548.

#### Depreciation Expense

The utility recorded no depreciation expense nor any amortization of CIAC. We calculated test year depreciation expense using the rates prescribed by Rule 25-30.140, Florida Administrative Code. The total average depreciation on plant for the test year was calculated as \$1,937. Therefore, an appropriate adjustment of \$1,937 was made to reflect test year depreciation net of non-used and useful depreciation.

Amortization of CIAC - This expense has been decreased by \$1,021 to reflect amortization expense net of non-used and useful amortization.

Taxes Other Than Income - The utility recorded no taxes other than income. This expense has been adjusted by \$490 to reflect payroll taxes and by \$370 to reflect the proper amount of regulatory assessment fees for the test year. Therefore, the appropriate adjustment to taxes other than income is \$860.

#### Increase in Operating Revenues for Ratesetting Purposes

Revenue has been adjusted by \$16,680 to reflect the increase in revenue required to cover expenses and allow the utility the opportunity to earn its return on investment.

#### Increase in Operating Expenses for Ratesetting Purposes

Expenses has been adjusted by \$751 to reflect the regulatory assessment fees at 4.5% on the increase in revenue.

#### Operating Expenses Summary

Based on the foregoing, the appropriate amounts of operating expense for the test year is \$24,278.

REVENUE REQUIREMENT

Based on the utility's books and records and the adjustments made herein, we find that the appropriate annual revenue requirement is \$23,912. This represents an annual increase in revenue of \$16,680 or 202.63%. These revenue requirements will allow the utility to recover its expenses and the opportunity to earn a 11.00% return on its investment.

RATES AND RATE STRUCTURE

The utility is currently using a flat rate structure. Using this method, average consumption by utility customers is excessive, averaging 33,054 gallons per connection per month. Although the utility is not located in a critical use area, it is bordered by critical use areas which draw their water from the same aquifer. Therefore, a conservation rate structure shall be implemented by using a base facility/gallonnage charge rate structure.

Rates have been calculated based on test year customers and an allowance for 200 gallons of consumption per day per ERC. The 200 gallons is a twenty percent reduction from the AWWA standard of 250 gallons per day for mobile homes, but we believe that the 20% repression factor is necessary to offset reduced revenues that are expected as a result of the trebling of rates.

The utility's current and approved rates are shown below:

RESIDENTIAL SERVICE

	<u>Current Rates</u>	<u>Commission Approved Rates</u>
<u>Base Facility Charge</u>		
Meter sizes: 5/8 x 3/4"	\$ 7.00	\$ 8.88
3/4"	N/A	13.32
1"	N/A	22.19
1 1/2"	N/A	44.39
2"	N/A	71.02
3"	N/A	142.04
4"	N/A	221.94
6"	N/A	572.93
<u>Gallonnage Charge</u>		
Per 1,000 gallons	\$ .00	\$ 1.99

The rates approved above shall be effective for meter readings taken on or after 30 days after the stamped approval date on the revised tariff sheets. The utility shall submit revised tariff sheets reflecting the approved rates along with a proposed customer notice listing the new rates and explaining the reasons therefor. The revised tariff sheets will be approved upon our staff's verification that the tariff sheets are consistent with our decision herein and that the proposed customer notice is adequate.

Miscellaneous Charges

The utility's current tariff contains no provision for miscellaneous service charges. We authorize the following charges:

Water

Initial Connection	\$15.00
Normal Reconnection	\$15.00
Violation Reconnection	\$15.00
Premises Visit (in lieu of disconnect.)	\$10.00

These charges are designed to more accurately reflect the costs associated with each service and to place the burden of payment on the person who causes the cost to be incurred rather than on the entire ratepaying body. Following is a description of each service:

- 1) Initial Connection: This charge is to be levied for service initiation at a location where service did not exist previously.
- 2) Normal Reconnection: This charge is to be levied for transfer of service to a new customer account at a previously served location, or reconnection of service subsequent to a customer requested disconnection.
- 3) Violation Reconnection: This charge is to be levied prior to reconnection of an existing customer after disconnection of service for cause according to Rule 25-30.320(2), Florida Administrative Code, including a delinquency in bill payment.
- 4) Premises Visit (in lieu of disconnection): This charge is to be levied when a service representative visits a premises for the purpose of discontinuing service for nonpayment of a due and collectible bill, but does not discontinue service because the customer pays the service

representative or otherwise makes satisfactory arrangements to pay the bill.

The miscellaneous service charges approved herein shall be effective for service rendered on or after the stamped approval date on the revised tariff pages.

STATUTORY RATE REDUCTION AND RECOVERY PERIOD

The statutory recovery period for rate case expense is four years. The appropriate annual reduction at the end of that period is \$250.

Section 367.0816, Florida Statutes, provides that:

The amount of rate case expense determined by the Commission pursuant to the provisions of this chapter to be recovered through a public utilities rate shall be apportioned for recovery over a period of four years. At the conclusion of the recovery period, the rate of public utility shall be reduced immediately by the amount of rate case expense previously included in rates.

The rate case expense incurred by the utility for this case is a \$1,000 filing fee. Based on the above mentioned statute, the appropriate recovery period for these expenses is four years which allows the utility to recover approximately \$250 per year through its rates. Once the annual rate case expense recovery is grossed up to reflect regulatory assessment fees, the annual recovery increases to \$250.

At the end of four years the utility's rates should be reduced by \$250 annually. Assuming no change in the utility's current revenues, expenses, capital structure and customer base, the effect of this rate reduction is an approximate rate reduction of \$.26 reduction in the base facility charge for a 5/8" X 3/4" meter, and a \$.06 reduction in the gallonage charge for residential service.

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

TEMPORARY RATES IN THE EVENT OF PROTEST

This Order proposes 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, in the event of a protest filed by a party other than the utility, we hereby authorize the utility to collect the rates approved herein, on a temporary basis subject to refund provided that the utility first furnish and have approved by Commission staff, adequate security for a potential refund through a bond, letter of credit in the amount of \$16,680, or an escrow account, a proposed customer notice, and revised tariff sheets.

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 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 the 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 Consentino v. Elson, 263 So. 2d 253 (Fla. 3d DCA 1972), escrow accounts are not subject to garnishments.
- 8) The Director of Records and Reporting must be a signatory to the escrow account.

In no instance should the maintenance and administrative costs associated with the refund be borne by the customers. These costs are the responsibility of, and should be borne by, the utility. Irrespective of the form of security chosen by the utility, an account of all monies received as a result of the rate increase shall be maintained by the utility. This account must specify by whom and on whose behalf such monies were paid. If a refund is ultimately required, it shall be paid with interest calculated pursuant to Rule 25-30.360(4), Florida Administrative Code.

In addition, after the increased rates are in effect, the utility shall file reports with the Division of Water and Wastewater no later than 20 days after each monthly billing. These reports shall indicate the amount of revenue collected under the increased rates.

#### BOOKS AND RECORDS

During the test year, the utility's books were not maintained in conformity with the Uniform Systems of Accounts. Paragraph (1) of Rule 25-30.115, Florida Administrative Code, entitled "Uniform System of Accounts for Water and Sewer Utilities", states:

- 1) Water and Sewer Utilities shall, effective January 1, 1986, maintain its [sic] accounts and records in conformity with the 1984 NARUC Uniform System of Accounts adopted by the National Association of Regulatory Utility Commissioners.



We believe the utility has the expertise necessary to convert and maintain the utility's records in conformity with this rule. Therefore, the utility shall maintain its books and records in conformity with the 1984 NARUC Uniform System of Accounts.

If a protest is not received within 21 days of issuance of this Order, this Order will become final. The docket may be closed upon the utility's filing of and staff's approval of revised tariff sheets. Further, in the event of no protest, the letter of credit may be released.

Based on the foregoing, it is, therefore,

ORDERED by the Florida Public Service Commission that University Oaks Water System, Inc.'s application for increased water rates is 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 schedules attached hereto are by reference incorporated herein. It is further

ORDERED that University Oak Water System, Inc. is authorized to charge the new rates and charges as set forth in the body of this Order. It is further

ORDERED that University Oaks Water System, Inc.'s rates and charges shall be effective for meter readings taken on or after 30 days after the stamped approval date on the revised tariff sheets. It is further

ORDERED that the miscellaneous service charges approved herein shall be effective for service rendered on or after the stamped approval date of the revised tariff pages. It is further

ORDERED that, prior to its implementation of the rates and charges approved herein, University Oak Water System, Inc. shall submit and have approved a proposed customer notice to its customers of the increased rates and charges and reasons therefor. The notice will be approved upon our staff's verification that it is consistent with our decision herein. It is further

ORDERED that prior to its implementation of the rates and charges approved herein, University Oaks Water System, Inc. shall

submit and have approved a bond or letter of credit in the amount of \$16,680 or an escrow agreement as a guarantee of any potential refund of revenues collected on a temporary basis. It is further

ORDERED that in the event of a protest by any substantially affected person other than the utility, University Oaks Water System, Inc. is authorized to collect the rates approved on a temporary basis, subject to refund in accordance with Rule 25-30-360, Florida Administrative Code, provided that University Oaks Water System, Inc. has furnished satisfactory security for any potential refund and provided that it has submitted and Staff has approved revised tariff pages and a proposed customer notice. It is further

ORDERED that, prior to its implementation of the rates and charges approved herein, University Oak Water System, Inc. shall submit and have approved revised tariff pages. The revised tariff pages will be approved upon staff's verification that the pages are consistent with our decision herein, that the protest period has expired, and that the customer notice is adequate. It is further

ORDERED that University Oak Water System, Inc. shall submit monthly reports as set forth in the body of this Order. It is further

ORDERED that the rates shall be reduced at the end of the four-year rate case expense amortization period, consistent with our decision herein. The utility shall file revised tariff sheets no later than one month prior to the actual date of the reduction and shall file a customer notice. It is further

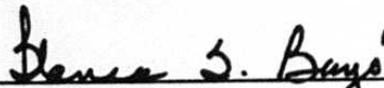
ORDERED that all provisions of this Order are issued as proposed agency action and shall become final, unless an appropriate petition in the form provided by Rule 25-22.029, Florida Administrative Code, is received by the Director of the Division of Records and Reporting at 101 East Gaines Street, Tallahassee, Florida, 32399-0870, by the date set forth in the Notice of Further Proceedings below. It is further

ORDERED that University Oaks Water System, Inc. shall maintain its books and records in conformity with the NARUC Uniform System of Accounts and Rule 25-30.115, Florida Administrative Code. It is further

ORDERED that, if no timely protest is received from a substantially affected person, the letter of credit may be released. It is further

ORDERED that this docket shall be closed if no timely protest is received from a substantially affected person, and upon the utility's filing and staff's approval of revised tariff sheets and the customer notice.

By ORDER of the Florida Public Service Commission, this 28th day of December, 1994.



BLANCA S. BAYÓ, Director  
Division of Records and Reporting

( S E A L )

MSN

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.59(4), 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 regarding our granting of the increased rates and charges is preliminary in nature and will not become effective or final, except as provided by Rule 25-22.029, Florida Administrative Code. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, as provided by Rule 25-22.029(4), Florida Administrative Code, in the form provided by Rule 25-22.036(7)(a) and (f), Florida Administrative Code. This petition must be received by the Director, Division of Records and Reporting at 101 East Gaines Street, Tallahassee, Florida 32399-0870, by the close of business on January 18, 1995. the absence of such a petition, this order shall become effective on the date subsequent to the above date as provided by Rule 25-22.029(6), Florida Administrative Code.

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.

If the relevant portion of this order becomes final and effective on the date described above, any party adversely affected may request judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or by 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 Records and Reporting 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 of the effective date 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.

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 Records and Reporting 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 Records and Reporting 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.

ORDER NO. PSC-94-1616-FOF-WU  
DOCKET NO. 940243-WU  
PAGE 21

UNIVERSITY OAKS WATER SYSTEM, INC.  
SCHEDULE OF WATER RATE BASE  
TEST YEAR ENDED DECEMBER 31, 1993

SCHEDULE NO. 1  
DOCKET NO. 940243-WU

	<u>TEST YEAR PER UTILITY</u>	<u>COMM. ADJUST. TO UTIL. BAL.</u>		<u>BALANCE PER COMM.</u>
UTILITY PLANT IN SERVICE	\$ 0	\$70,366	A	\$70,366
LAND/NON-DEPRECIABLE ASSETS	0	309	B	309
PLANT HELD FOR FUTURE USE	0	(1,011)	C	(1,011)
ACQUISITION ADJUSTMENT	0	0		0
CWIP	0	0		0
CIAC	0	(54,438)	D	(54,438)
ACCUMULATED DEPRECIATION	0	(36,509)	E	(36,509)
AMORTIZATION OF ACQUISITION ADJUSTMENT	0	0		0
AMORTIZATION OF CIAC	0	24,335	F	24,335
WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>2,719</u>	G	<u>2,719</u>
WATER RATE BASE	<u>\$0</u>	<u>\$5,771</u>		<u>\$5,771</u>

UNIVERSITY OAKS WATER SYSTEM, INC.  
ADJUSTMENTS TO RATE BASE  
TEST YEAR ENDED DECEMBER 31, 1993

SCHEDULE NO. 1A  
DOCKET NO. 940243-WU

A. UTILITY PLANT IN SERVICE

WATER

1. To add plant per original cost study per engineer
2. To reflect averaging adjustment  
\$70,366

\$74,213  
(3,847)

B. LAND

1. To add land per original cost study

\$309

C. PLANT HELD FOR FUTURE USE

1. To reflect average non-used and useful plant
2. To reflect non-used and useful accumulated depreciation associated with non-used and useful plant
3. To reflect average non-used and useful CIAC
4. To reflect average amortization of non-used and useful CIAC

(\$16,369)  
8,805  
12,610  
( 6,057)  
(\$1,011)

D. CONTRIBUTIONS IN AID OF CONSTRUCTION

1. To impute CIAC (\$50,741)
2. To reflect averaging adjustment
3. To reflect CIAC for margin reserve

303  
(4,000)  
(\$54,438)

**E. ACCUMULATED DEPRECIATION**

- |  |                   |
|--|-------------------|
| 1. To reflect accumulated depreciation on utility plant through 12-31-93 | (\$37,745)        |
| 2. To reflect averaging adjustment                                       | <u>1,236</u>      |
|  | <u>(\$36,509)</u> |

**F. AMORTIZATION OF CIAC**

- |   |                 |
|---|-----------------|
| 1. To reflect amortization of CIAC through 12-31-93               | \$24,908        |
| 2. To reflect averaging adjustment                                | (681)           |
| 3. To reflect amortization of CIAC associated with margin reserve | <u>108</u>      |
|   | <u>\$24,335</u> |

**G. WORKING CAPITAL ALLOWANCE**

- |   |                |
|---|----------------|
| 1. To reflect 1/8 of operation and maintenance expenses | <u>\$2,719</u> |
|---|----------------|

ORDER NO. PSC-94-1616-POF-WU  
 DOCKET NO. 940243-WU  
 PAGE 24

UNIVERSITY OAKS WATER SYSTEM, INC.  
 SCHEDULE OF CAPITAL STRUCTURE  
 TEST YEAR ENDED DECEMBER 31, 1993

SCHEDULE NO. 2  
 DOCKET NO. 940243-WU

	PER UTILITY	COMM. ADJUST. TO UTIL. BAL.	BALANCE PER COMM.	PERCENT OF TOTAL	COST	WEIGHTED
LONG-TERM DEBT	\$11,000	\$( 5,229)	\$5,771	100.00%	11.00%	11.00%
LONG-TERM DEBT	0	0	0	0.00%	0.00%	0.00%
PREFERRED EQUITY	0	0	0	0.00%	0.00%	0.00%
CUSTOMER DEPOSITS	0	0	0	0.00%	0.00%	0.00%
RETAINED EARNINGS	0	0	0	0.00%	0.00%	0.00%
CAPITAL STOCK	0	0	0	0.00%	0.00%	0.00%
PAID IN CAPITAL	0	0	0	0.00%	0.00%	0.00%
OTHER	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	0.00%	<u>0.00%</u>
TOTAL	<u>\$11,000</u>	<u>\$( 5,229)</u>	<u>\$5,771</u>	<u>100.00%</u>		<u>11.00%</u>

RANGE OF REASONABLENESS

LOW                      HIGH

RETURN ON EQUITY	0.00%	0.00%
OVERALL RATE OF RETURN	11.00%	11.00%



UNIVERSITY OAKS WATER SYSTEM, INC.  
 SCHEDULE OF WATER OPERATING INCOME  
 TEST YEAR ENDED DECEMBER 31, 1993

SCHEDULE NO. 3  
 DOCKET NO. 940243-WU

	<u>TEST YEAR PER UTILITY</u>	<u>COMM. ADJ. TO UTILITY</u>	<u>COMM. ADJUSTED TEST YEAR</u>	<u>ADJUST. FOR INCREASE</u>	<u>TOTAL PER COMM.</u>
OPERATING REVENUES	\$12,024	\$(3,792)A	\$8,232	\$16,680 E	\$ 24,912
OPERATING EXPENSES:					
OPERATION AND MAINTENANCE	17,785	3,966 B	21,751	0	21,751
DEPRECIATION (NET)	0	1,937 C	1,937	0	1,937
AMORTIZATION	0	(1,021)	(1,021)	0	(1,021)
TAXES OTHER THAN INCOME	0	860 D	860	751 F	1,611
INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL OPERATING EXPENSES	<u>17,785</u>	<u>\$5,742</u>	<u>23,527</u>	<u>\$751</u>	<u>24,278</u>
OPERATING INCOME/(LOSS)	<u>\$(5,761)</u>		<u>(15,295)</u>		<u>635</u>
WATER RATE BASE	<u>0</u>		<u>\$5,771</u>		<u>\$5,771</u>
RATE OF RETURN	<u>N/A</u>		<u>-265.04%</u>		<u>11.00%</u>

UNIVERSITY OAKS WATER SYSTEM, INC.  
ADJUSTMENTS TO OPERATING INCOME  
TEST YEAR ENDED DECEMBER 31, 1993

SCHEDULE NO. 3A  
DOCKET NO. 940243-WU

A. <u>OPERATING REVENUES</u>		<u>WATER</u>
1.	To reflect test year revenue based on test year customers and consumption	\$( <u>3,792</u> )
B. <u>OPERATION AND MAINTENANCE EXPENSES</u>		
1.	Salaries and Wages - Employees	
a.	To reflect Commission's recommended salary for the utility's staff	3,395
2.	Salaries and Wages - Officers	
a.	To reflect Commission's recommended salary for the utility's president	3,006
3.	Fuel for power production	
a.	To correct for misplaced invoice and misclassification	688
4.	Materials and supplies	
a.	To correct misclassifications	(7,082)

5.	<b>Contractual Services</b>		
	a.	To adjust operator services to contractual amount	(225)
	b.	To adjust per check register	1,127
	c.	To reclass miscellaneous expense	3,028
	d.	To adjust for unrecorded testing expense	<u>1,100</u>
		subtotal	5,030
6.	<b>Rents</b>		
	a.	To reflect rent expense of \$25 per month	300
7.	<b>Transportation Expense</b>		
	a.	To make allowance for business use of personal vehicle	452
8.	<b>Regulatory Commission Expense</b>		
	a.	To reflect rate case filing fee amortized over 4 years	250
9.	<b>Miscellaneous Expenses</b>		
	a.	To reclass to contractual services	(3,028)
10.	<b>Chemical Expense</b>		
	a.	To record chemical expense for the test year	286

11.	Miscellaneous Expenses		
	a.	To reclass from contractual services	<u>669</u>
		TOTAL O & M ADJUSTMENTS	<u>\$3,966</u>
C.	<u>DEPRECIATION EXPENSE</u>		
	1.	To reflect Commission's calculated test year depreciation expense net of non-used and useful depreciation expense	<u>\$1,937</u>
		<u>AMORTIZATION EXPENSE (CIAC)</u>	
	1.	To reflect Commission's calculated test year amortization expense	<u>(1,021)</u>
D.	<u>TAXES OTHER THAN INCOME</u>		
	1.	To reflect payroll taxes on officers salary allowed by Commission	490
	2.	To reflect regulatory assessment fee at 4.5% on test year revenue	<u>370</u>
		subtotal	<u>\$860</u>
E.	<u>OPERATING REVENUES</u>		
	1.	To reflect increase in revenue required to cover expenses and allow recommended rate of return	<u>\$16,680</u>
F.	<u>TAXES OTHER THAN INCOME</u>		
	1.	To reflect regulatory assessment fee at 4.5% on increase in revenue	<u>\$751</u>

UNIVERSITY OAKS WATER SYSTEM, INC.  
 ANALYSIS OF WATER OPERATION AND  
 MAINTENANCE EXPENSE  
 TEST YEAR ENDED DECEMBER 31, 1993

SCHEDULE NO. 3B  
 DOCKET NO. 940243-WU

	TOTAL PER UTIL.	COMM. ADJUST.	TOTAL PER COMM.
SALARIES AND WAGES - EMPLOYEES	\$ 0	\$ 3,395 [1]	3,395
SALARIES AND WAGES - OFFICERS	0	3,006 [2]	3,006
PENSIONS AND BENEFITS	0	0	0
PURCHASED WATER	0	0	0
SLUDGE REMOVAL EXPENSE	0	0	0
PURCHASED POWER	3,363	688 [3]	4,051
FUEL FOR POWER PRODUCTION	0	0	0
CHEMICALS	0	286 [10]	286
MATERIALS AND SUPPLIES	8,441	(7,082) [4]	1,359
CONTRACTUAL SERVICES	2,465	5,030 [5]	7,495
RENTS	0	300 [6]	300
TRANSPORTATION EXPENSE	0	452 [7]	452
INSURANCE EXPENSE	0	669 [11]	669
REGULATORY COMMISSION EXPENSE	0	250 [8]	250
MISCELLANEOUS EXPENSES	<u>3,516</u>	<u>(3,028) [9]</u>	<u>488</u>
	\$ <u>17,785</u>	\$ <u>3,966</u>	\$ <u>21,751</u>

ORDER NO. PSC-94-1616-FOF-WU  
DOCKET NO. 940243-WU  
PAGE 30

UNIVERSITY OAKS WATER SYSTEM, INC.  
SCHEDULE OF RATE CASE EXPENSE RATE  
REDUCTION AFTER FOUR YEARS  
TEST YEAR ENDED DECEMBER 31, 1993

SCHEDULE NO. 4  
DOCKET NO. 940243-WU

MONTHLY RATES

<u>RESIDENTIAL AND GENERAL SERVICE</u>	<u>RECOMMENDED RATES</u>	<u>RATE DECREASE</u>
BASE FACILITY CHARGE:		
Meter Size:		
5/8"X3/4"	\$ 8.88	0.26
1"	13.32	0.39
1-1/4"	22.19	0.65
1-1/2"	44.39	1.30
2"	71.02	2.07
3"	142.04	4.15
4"	221.94	6.48
6"	572.93	16.73
RESIDENTIAL GALLONAGE CHARGE PER 1,000 GALLONS	\$ 1.99	0.06