

FLORIDA PUBLIC SERVICE COMMISSION
GUNTER BUILDING
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M E M O R A N D U M

August 22, 1996

TO: DIRECTOR, DIVISION OF RECORDS AND REPORTING (BAYO)

FROM: DIVISION OF WATER & WASTEWATER (DEWBERRY, DAVIS) *JD*
DIVISION OF LEGAL SERVICES (AGARWAL) *MO* *160* *RA* *ll*

RE: DOCKET NO.: 960132-WS - MHC-DeAnza Financing Limited
Partnership d/b/a Colonies Water Company
APPLICATION FOR A STAFF ASSISTED RATE CASE
COUNTY: BROWARD

AGENDA: 09/03/96 - REGULAR AGENDA - PROPOSED AGENCY ACTION EXCEPT
ISSUE NO. 12 - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: 15-MONTH EFFECTIVE DATE: JULY 5, 1997
(SARC)

SPECIAL INSTRUCTIONS: THIS IS AN INITIAL DECISION WHICH SHOULD
BE HEARD BY THE FULL COMMISSION. PLEASE
SCHEDULE THIS CASE TO BE ADDRESSED
IMMEDIATELY PRIOR TO DOCKET NO. 960133-
WU.

LOCATION OF FILE: S:\PSC\WAW\WP\960132WS.RCM

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FPSC-RECORDS/REPORTING

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CASE BACKGROUND

Colonies Water Company (Colonies or utility) is a Class C water and wastewater utility located in Broward County. The utility resells water and wastewater services to an area known as Colonies of Margate Mobile Home Park. During 1985, the utility filed with this Commission an application for certificates to make specific charges to its utility customers. Previously, utility services were included in rent charges which qualified the Colonies for exemption. By Order Number 17686, dated June 10, 1987, the Commission granted the utility Certificate Numbers 481-W for water and 417-S for wastewater.

On March 19, 1990, a complaint was filed by the Colonies of Margate Homeowners' Association (CMHA) against Colonies Water Company regarding excessive water rates. This complaint also protested the utility's certification and challenged those circumstances surrounding the utility obtaining its certificates in 1987. The complaint was referred to the Division of Administrative Hearings (DOAH). However, prior to the scheduled hearing, the homeowners moved for a voluntary dismissal, at which time, the water company moved to be awarded costs incurred to defend the complaint. On November 27, 1990, the DOAH hearing officer ordered that the voluntary dismissal be granted, and denied the motion for attorney's fees/costs.

On November 28, 1990, a second complaint was filed by the Colonies of Margate Homeowners' Association (CMHA). The CMHA claimed that the Colonies Water Company was a simple water metering entity that doubled the charges for water. This second complaint petitioned the Commission for three counts of relief: (1) revoke Colonies certificate, (2) refund all payments made to the water company, and (3) provide all other relief in the best judgement of the Commission. By Order No. 23234, dated March 12, 1991, the Commission ordered that the complaint be dismissed, that the utility file a plan within 90 days to correct its excessive unaccounted-for water problem, that the water company's request for attorney's fees be denied, and that the docket be closed.

On August 15, 1994, the Commission received an application from the utility to transfer Certificate Nos. 481-W and 417-S in Broward County from Colonies Water Company to MHC-DeAnza Financing Partnership d/b/a Colonies Water Company. This application was a direct result of the utility entering into an acquisition agreement on May 9, 1994, with DeAnza Properties-X, Ltd. for the sale of the Colonies of Margate Mobile Home Park including all utility assets. On September 12, 1994, the City of Margate (Margate) and the CMHA filed objections to the application. By Order No. PSC-95-0417-FOF-

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WS, issued March 27, 1995, the Commission dismissed those objections. Subsequently, a customer objection was received, but was later withdrawn.

On February 8, 1996, the utility applied for this staff assisted rate case (SARC) pursuant to Section 367.0814, Florida Statutes. An audit and engineering investigation has been done to determine components necessary for setting rates. Staff has selected a historical test year ended December 31, 1995. Staff's adjusted test year revenues are \$118,785 for water and \$10,870 for wastewater. This results in an adjusted net operating income of \$16,286 for water and an adjusted net operating loss of \$29,205 for wastewater. Even though the utility earned income from its water system, the income does not provide the adequate level required to allow the utility the opportunity to earn a reasonable return on its investment.

The original customer meeting was scheduled to be held for this rate case on July 10, 1996. However, due to hazardous weather in South Florida, the meeting was cancelled. The customer meeting was rescheduled for August 1, 1996 and customers were renoticed.

On August 1, 1996, the customer meeting was held in the utility's service area and approximately 200 or more customers attended. At the beginning of the customer meeting, the president for Colonies of Margate Homeowner's Association (CMHA) submitted a list of customer concerns and schedules to Commission staff for discussion. After the listed items were discussed, several customers voiced concerns. A list of major customer concerns follows:

- 1) Opposition to a rate increase
- 2) Questioned the accuracy of the utility's annual reports
- 3) The commission's function in reviewing annual reports
- 4) Ownership of land on which utility assets are located
- 5) Unrecorded revenue for the utility's 4 general service customers
- 6) Income generated from the use of washing machines in the laundry room and water vending machine
- 7) Recommended salaries for the utility's bookkeeper and maintenance person
- 8) Percentage increase in rates for Canadian residents due to the currency exchange rate
- 9) City sales tax charge of 10%
- 10) Management fees
- 11) Billing cost
- 12) Rate case expense
- 13) Lack of notification by management of water shut downs

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Staff has responded to the homeowner's association both verbally and in writing and provided it with a copy of the rules and statutes governing water and wastewater utilities.

Ownership of land and unrecorded revenue for the utility's 4 general service customers is addressed in Issues 3 and 5, respectively. Staff's recommended salaries, management fee, billing costs and rate case expense is addressed in Issue 8.

Customers stated a concern that income generated from the use of washing machines in the laundry room and from a water vending machine is not recorded on the utility's books. MHC-DeAnza Limited Partnership owns the laundry and Glacier Water Company owns the vending machines. Since the Commission does not regulate laundry facilities or water vending machines, it would be inappropriate to include this income on the utility's books. However, the water vending machine is tied into the utility's line and is filtered by Glacier Water Company. The water usage for the facility containing the laundry and water vending machine is included in the usage for the 4 general service customers and has been used in the calculation of rates.

The utility's customer base is seasonal. Staff has recommended that the utility retain its existing base facility and gallonage charge rate structure, which means that all customers are required to pay the base facility charge when they are not residing in the service area. The list of issues addressed at the customer meeting included a customer concern from Canadian residents stating that the percentage increase, especially for the base facility charge will be higher for them than for other customers because of the currency exchange of Canadian dollars to American dollars. They stated that they own houses, pay taxes, and add to the economy of Florida, but in this instance they have a second class status. Since the utility operates in the United States and pays for materials and services in US dollars, rates must be set without regard to currency exchange rate differences. Staff believes that the recommended rates are fair, reasonable and non-discriminatory. Staff is not aware of a case where rates have been set differently for seasonal customers.

Staff has reviewed a bill from the City of Margate for the utility's purchased water and wastewater. We have also reviewed a customer bill to determine if the utility is billing its customers correctly. The City of Margate charges the utility \$3.41 per unit and \$1.14 per 1,00 gallons for purchased water. In addition, it charges a 10% city sales tax on both the per unit charge and the gallonage charge. The city charges \$9.81 per unit for purchased wastewater, with no gallonage charge or city tax. The review of

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the customer's bill shows that the utility billed the customer using the appropriate Commission approved rates. The 10% city tax on the base and the gallonage charge was also correct. The 10% city tax is a cost for purchased water. Therefore, the tax has been included in the costs for calculating rates. Customers asked if it is legal to pass the 10% city tax on to customers. Since the tax is imposed by the City of Margate the tax appears legal and should be passed on to customers. The other concerns brought up at the customer meeting have been addressed both verbally and in writing.

The only quality of service concern was the lack of notification by management of water shut downs. This concern is addressed in Issue 1.

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QUALITY OF SERVICE

ISSUE 1: Is the quality of service provided by Colonies Water Company in Broward County satisfactory?

RECOMMENDATION: Yes. The quality of service provided by Colonies Water Company is considered satisfactory. (DAVIS)

STAFF ANALYSIS: The overall quality of service provided by the utility is derived from the evaluation of three separate components of the Water or Wastewater Utility Operations: (1) Quality of Utility's Product (water and wastewater compliance with regulatory standards), (2) Operational Conditions of Utility's Plant or Facilities, and (3) Customer Satisfaction of the drinking water and domestic wastewater. A customer meeting was held on the evening of August 1, 1996, in the Sports Center at 6500 Colonial Drive; Margate, Florida. Approximately 200 customers were represented at this meeting by Mr. Beauregard, president of the homeowners' association and keynote spokesman. In addition to Mr. Beauregard, six other customers came forward to express comments and opinions. The customers were mainly concerned with the impact of the rates and the way the rates were calculated. One issue that came forward concerning quality of water service was the lack of notification by the management during water shut-downs.

Colonies Water Company is a consecutive water and wastewater system which purchases water service and wastewater disposal from Margate. Margate is a municipality which has to comply to standards set by the Environmental Protection Agency (EPA) under the jurisdiction of the Department of Environmental Protection (DEP). DEP has no citations or corrective orders pending against Margate. Water served to the Colonies Water Company meets or exceeds all quality standards for safe drinking water.

Since there is neither a water treatment plant or a wastewater treatment plant, the issue of operational conditions at the plants is mute.

The customers' concerns about the lack of notification was investigated. The distribution system within the Colonies of Margate Mobile Home Park is divided into three major areas where the water can be isolated and shut off in case of an emergency. This causes a large block of customers to suffer water loss during repairs to a singular water line. The Colonies manager, Mr. Barton has recently spoke with the park's cablevision provider (TCI - Telecommunications Inc.) and has obtained a closed circuit information channel that will post advanced water outages, information about emergency outages, and other park events. This

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service will be installed within 120 days of the date of the Order. Staff believes that this is a reasonable resolution to the customers' concerns.

All things considered, the customers appear content with the quality of the service received by the utility and staff recommends that the quality of service provided by Colonies Water Company is satisfactory.

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RATE BASE

ISSUE 2: What portions of water and wastewater plants-in-service are used and useful?

RECOMMENDATION: The water treatment plant used and useful is not applicable; the water distribution system is 100% used and useful; the wastewater treatment plant used and useful is not applicable; and the wastewater collection system is 100% used and useful.
(DAVIS)

STAFF ANALYSIS: A calculation for a used and useful percentage of both the water treatment plant and the wastewater treatment plant is not applicable. There is not a water treatment facility to evaluate other than the interconnecting pipework to the city's main which is considered a component of the distribution system. Likewise, there is not a wastewater treatment plant to evaluate. Wastewater generated by the residents of the Colonies is transported to the City of Margate via two (2) in-line lift stations which are considered components of the collection system.

The network of water distribution and wastewater collection mains are engineered and constructed to adequately serve the potential capacity of the Colonies of Margate Mobile Home Park. In keeping with the approved formula, used to determine a starting point for a used and useful percentage, both the water distribution and the wastewater collection mains were calculated to be 99.04% used and useful (Attachment "A" & "B"). It is believed that nothing less than the existing network of mains could serve the current number of customers.

Therefore, it is recommended that all accounts relating to both the distribution system and the wastewater collection system be considered 100% used and useful.

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ISSUE 3: What is the appropriate average test year rate base for each system?

RECOMMENDATION: The appropriate average test year rate base should be \$211,121 for water and \$193,508 for wastewater. The utility should be required to provide staff with all pertinent documentation and other information regarding the nominee relationship between Snowbirdland Vistas, so that staff may determine whether a separate docket should be opened on this matter. (AGARWAL, DAVIS, DEWBERRY)

STAFF ANALYSIS: The utility has not had a prior formal rate case. By Order No. 17686, issued June 10, 1987, in Docket No. 861071-WS, the Commission granted the utility's original certificates and established initial rates. These rates were set using a projected test year ended December 31, 1987. The utility submitted an original cost study to determine plant values. Pro forma schedules for operating expenses and cost of capital was also submitted by the utility. Adjustments were made by staff and initial rates were set.

By Order No. PSC-95-0622-FOF-WS, issued May 22, 1995, in Docket No. 940850-WS, the Commission approved the transfer of Certificate Nos. 481-W and 417-S from Colonies Water Company to MHC-DeAnza financing limited partnership d/b/a Colonies Water Company. In the transfer docket rate base for water and wastewater was based on the utility's 1993 Annual Report and the original cost study used in Docket No. 861071-WS. In addition, an audit of the utility's books was done to determine rate base components at June 30, 1994.

Staff has selected a historical test year ended December 31, 1995 for this rate case. An audit has been completed to determine rate base components at December 31, 1995. A discussion of each component follows:

Utility Plant in Service (UPIS) - Order No. PSC-95-0662-FOF-WS, established depreciable plant of \$337,976 for water and \$386,011 for wastewater at June 30, 1994. The utility's recorded plant balances at June 30, 1994, agrees with the order. During the test year the utility recorded plant additions of \$27,116 for water and \$8,034 for wastewater. These additions included some replacement costs for lines. Therefore, the value of the old lines have been retired. UPIS was decreased by \$15,934 for water and \$4,913 for wastewater to reflect the retirement of line costs. The

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utility has adjusted its books accordingly and the utility's recorded year end UPIS balances at December 31, 1995, are \$349,158 for water and \$389,132 for wastewater. The averaging adjustment for rate setting is \$5,591 for water and \$1,550 for wastewater.

Land - The utility's assets consist of a water transmission and distribution system, a collection system and two lift stations. At the customer meeting, held on August 1, 1996, customers questioned the ownership of the land on which the utility's assets are located. A review of documentation indicates that on August 18, 1994, Colonies Water Company conveyed its assets to Snowbirdland Vistas, Inc. as nominee, subject to the Commission's approval. In Docket No. 940850-WS, the Commission approved the transfer of Colonies from its prior to current owner. While not specifically stated, the nominee agreement appears to have been part of the transfer docket, as it was included in the utility's filing.

While a utility is not required by statute or Commission rule to provide proof of land ownership in a rate proceeding, Staff regularly examines land ownership in the course of its review. The nominee agreement is an unusual situation, but appears to function as a holding company for the utility. The Commission has recognized utility/holding company and utility/parent relationships in the past. Staff requested that the utility provide information as to the nominee arrangement. As of the date of the filing of this recommendation, utility counsel has provided information regarding the partnership, but is still seeking information concerning the nominee arrangement with Snowbirdland Vistas.

Because the utility resells water and wastewater service, it does not own treatment facilities. The value of the land on which the transmission and distribution system, collection system and lift stations are located is not included in rate base, because the value is included in total purchase price for utility assets and the mobile home park, and a separate land value has not been determined by the utility.

Issues of ownership and corporate structure are typically addressed in a certification and transfer matters, as opposed to a rate case. Staff recognizes that the customers are concerned over the land ownership, and further recognizes that the nominee situation should be fully explored in regard to the utility's certification. Therefore, Staff recommends that the utility be directed to provide Staff with all pertinent documentation and other information regarding the nominee relationship between the utility and Snowbirdland Vistas, so that Staff may determine whether a separate docket should be opened on this matter.

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Contributions in Aid of Construction (CIAC) - The utility has not recorded any CIAC. The utility has no Commission approved service availability charges and a review of the utility's records showed no evidence that the utility has collected CIAC. The utility's recorded plant balances at December 1994 agrees with the depreciable assets listed in its 1994 tax return. Therefore an imputation of CIAC is not necessary.

Accumulated Depreciation - The accumulated depreciation balances approved in Order No. PSC-95-0622-FOF-WS, at June 30, 1994, in the certificate transfer, was based on depreciation rates for A and B utilities. The utility has recalculated accumulated depreciation using Class C utility depreciation rates and have adjusted their books accordingly. The utility recorded year-end accumulated depreciation of \$141,009 for water and \$212,821 for wastewater. These totals are net of the retirement adjustments of \$15,934 for water and \$4,913 for wastewater. The averaging adjustment is \$2,841 for water and \$3,377 for wastewater.

Working Capital Allowance: Following current Commission practice and consistent with Rule 25-30.443, Florida Administrative Code (Form PSC/WAS 18), staff recommends that the one-eighth of operation and maintenance expense formula approach be used for calculating working capital allowance. Applying that formula, staff recommends a working capital allowance of \$11,404 for water and \$15,370 for wastewater (based on O&M expense of \$91,235 for water and \$122,963 for wastewater).

Rate Base Summary: Based on the foregoing, the appropriate average test year rate base is \$211,121 for water and \$193,508 for wastewater. Rate base is shown on Schedule Nos. 1 and 1A adjustments are shown on Schedule No. 1B.

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COST OF CAPITAL

ISSUE 4: What is the appropriate return on equity and the appropriate overall rate of return?

RECOMMENDATION: The appropriate return on equity is 11.10% with a range of 10.10% - 12.10%. The appropriate overall rate of return is 9.46% with a range of 8.91% - 10.01%. (DEWBERRY)

STAFF ANALYSIS: The utility's business operation is a partnership. The partners are MHC-QRS DeAnza, Inc. and MHC Operating Limited Partnership. MHC-QRS DeAnza, Inc. owns 1% of the partnership and MHC Operating Limited Partnership owns 99% of the partnership. When needed, utility operations are financed by MHC Operating Limited Partnership, through its general partner, Manufactured Home Communities, Inc. (MHC). Therefore, the capital structure for MHC has been used to determine the utility's cost of capital.

MHC's capital structure includes equity of \$268,859, which is 55.07% of total capital. Using the current leverage formula approved by Order No. PSC 96-0729-FOF-WS, issued May 31, 1996, in Docket No. 96-0006-WS, the rate of return on common equity is 11.10% with a range of 10.10% - 12.10%.

The total long term debt included in the capital structure is \$219,318. This total includes several loans with various costs. The weighted cost of total debt has been calculated based on the cost and weight of each loan and the weighted cost of debt is 7.45%. The utility's capital structure has been reconciled with staff's recommended rate base for water and wastewater. Applying the cost times the weight of each capital component results in an overall rate of return of 9.46% with a range of 8.91% - 10.01%.

The return on equity and overall rate of return are shown on Schedule No. 2.

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NET OPERATING INCOME

ISSUE 5: What are the appropriate test year revenues?

RECOMMENDATION: The appropriate test year revenues are \$118,785 for water and \$111,142 for wastewater. The utility should be required to henceforth record revenue for the 4 general service customers. (DEWBERRY)

STAFF ANALYSIS: Based on the test year billing analysis, the utility provided water and wastewater service to approximately 818 residential customers and 4 general service customers. The general service customer base includes a guard house, a maintenance facility, a club house and a sports center, which are owned by MHC-DeAnza Financing Limited Partnership. The guard house and maintenance facility are provided service through 5/8" x 3/4" meters and the club house and sports center have 2" meters. The utility recorded revenue for the residential customers, but did not bill or record revenue for the 4 general service customers during the test year.

Annualized revenue has been calculated for the residential customers based on the number of bills and usage from the billing analysis, meter size and existing rates. The calculated revenue for residential customers is \$105,951 for water and \$97,587 for wastewater. The utility recorded revenue for residential customers of \$104,657 for water and \$98,950 for wastewater. Revenue has been increased by \$1,294 for water and decreased by \$1,363 for wastewater to adjust test year revenue for residential customers to the appropriate amount.

Water usage for 5 months was available for the 4 general service customers. An average of the 5 months usage was used to estimate usage for the additional 7 months. Annualized revenue has been calculated for the 4 general service customers based on estimated usage for 12 months, number of bills for a 12 month period, meter size for each customer, and existing rates. The calculated revenue for the general service customers is \$12,834 for water and \$13,555 for wastewater. Since the utility did not record revenue for the general service customers, test year revenue has been increased by \$12,834 for water and by \$13,555 for wastewater to reflect revenue for the general service customers. The total adjustment for revenue is \$14,128 for water and \$12,192 for wastewater.

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Although, 4 general service customers are owned by MHC-DeAnza Financing Limited Partnership, the utility should be required to henceforth record revenue for the 4 general service customers.

Test year revenues are shown on Schedule Nos. 3 and 3-A and adjustments are shown on Schedule No. 3-B.

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ISSUE 6: Should Colonies Water Company be required to pay regulatory assessment fees on the amount of the discrepancy in 1995 revenue?

RECOMMENDATION: Yes, if the Commission approves Issue No. 5 of this recommendation, the utility should be required to pay \$1,184 in regulatory assessment fees within 30 days of the effective date of the Commission's order. The utility should also be required henceforth to bill all connections at the approved tariff rates and to record these revenues on its books. (AGARWAL, DEWBERRY)

STAFF ANALYSIS: As discussed in Issue 5, the staff audit revealed that the utility did not bill or record revenue for its 4 general service customers. Staff has calculated revenue using the billing analysis for 1995 and existing rates. Staff's calculated revenue resulted in an increase in revenue of \$14,128 for water and \$12,192 for wastewater to reflect the appropriate revenue for the test year. The total revenue increase is \$26,320, and the regulatory assessment fee due on this increase is \$1,184.

Pursuant to Section 367.145, Florida Statutes, and Rule 25-30.120, Florida Administrative Code, the Commission requires each water and wastewater utility to pay an annual regulatory assessment fee (RAF) based upon a percentage of the utility's gross revenues. Since staff has recommended an adjustment to the utility's revenue due to the discrepancy in revenues, staff recommends that the utility pay an additional \$1,184 in regulatory assessment fees to correspond to that adjustment. The utility should be required to pay \$1,184 in regulatory assessment fees within 30 days of the effective date of the Commission's order.

The utility should also be required henceforth to bill all connections, at the approved tariffed rates, and to record these revenues on its books.

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ISSUE 7: What is the appropriate test year operating income or loss for each system?

RECOMMENDATION: The appropriate test year operating income is \$10,870 for water. The appropriate operating loss is \$29,242 for wastewater. (DEWBERRY)

STAFF ANALYSIS: The utility's test year revenue is \$118,785 for water and \$111,142 for wastewater. The corresponding test year operating expenses are \$107,915 for water and \$140,364 for wastewater (these figures do not include staff's recommended revenue increase and taxes). This results in a test year operating income of \$10,870 for water and a loss of \$29,242 for wastewater.

The test year operating income and loss is shown on Schedule Nos. 3 and 3-A.

ISSUE 8: What is the appropriate amount for operating expenses for each system?

RECOMMENDATION: The appropriate amount for operating expenses is \$108,344 for water and \$142,625 for wastewater. (DAVIS, DEWBERRY)

STAFF ANALYSIS: The utility's recorded operating expenses have been traced to supporting cost documentation. Adjustments have been made for reclassification and to include pro forma expenses that were not recorded in the test year, but required for operating the systems. A summary of adjustments follows:

Operation and Maintenance Expenses

- 1) Salaries and Wages - Employees (601/701) - The utility recorded \$11,586 for water and wastewater each in this expense. The total includes a salary of \$5,751 for a bookkeeper, \$4,363 for a maintenance person, \$720 for meter reading and \$752 for estimated payroll accruals for water and wastewater each.

The bookkeeper coordinates, enters and adjusts meter readings, handle monthly collections, posting, and deposits. She is also responsible for customer contacts and inquiries, mailing, and delinquent collections. The bookkeeper spends 40 hours per month and 480 annually conducting utility business, and earns \$9.67 per hour. Staff believes the number of hours and hourly rate is reasonable for the required duties and recommend an annual salary of \$4,642 for the bookkeeper, \$1,231 for water and wastewater each. This expense has been decreased by \$3,430 for water and wastewater each to reflect staff's recommended salary.

The maintenance person is responsible for handling water leaks, line repairs, meter replacements and any other general maintenance. The maintenance person spends approximately 40 hours per month and 480 hours annually conducting utility business, and earns \$8.16 per hour. Staff believes that the number of hours and hourly rate is reasonable for the required duties and recommend an annual salary of \$3,916, \$1,958 for water and wastewater each. This expense has been decreased by \$2,405 for water and wastewater each to reflect staff's recommended salary for the maintenance person.

This expense has been increased by \$720 for water and decreased by \$720 for wastewater to reflect a reclassification of meter reading expense. The total meter reading cost is \$1,440 annually. The number of test year customer is 822. The meter reading cost per customer is \$.15 ($\$1,440/822/12$) per month. In addition, this expense has been decreased by \$752 for water and wastewater each to remove estimated year-end payroll accruals.

- 2) Purchased Water (610) - The utility recorded \$66,514 in this expense. The City charges the utility \$3.41 per unit and \$1.14 per 1,000 gallons for purchased water. In addition, it charges a 10% city sales on both the per unit and gallonage charge. The utility's recorded expense does not include the 10% city sales tax. Since the tax is a portion of the cost of purchased water, staff has increased this expense by \$5,416 to include the 10% tax charged by the City of Margate. The utility currently list the 10% city tax as a separate line item on customer bills. In Issue 13 staff is recommending that the current billing format be revised to delete the separate line item for tax.
- 3) Sludge Removal (711) - During the engineering investigation some grease build up and foul odors were detected at the utility's lift stations. Staff recommends that sludge removal for the two lift stations be a regular maintenance item. Sludge hauling should occur when telltale signs such as odor and sludge build up deem it appropriate. Since the customer base appears seasonal, one clean-out per year, per lift station, either during or after the peak season is appropriate for this utility. A typical cost for such a clean out is \$300 per load. Staff recommends \$600 annually for sludge hauling. The utility did not record a sludge hauling expense. Therefore, this expense has been increased by \$600 for wastewater.
- 4) Purchased Power (715) - Power consumption for the wastewater system relates solely to the two lift stations. Records of purchased power were not available. Based on similar sized lift stations, it is estimated

that each lift station will require a minimum of \$50 per month. Staff recommends an annual purchased power allowance of \$1,200 for the two lift stations. The utility did not record a purchased power expense. This expense has been increased by \$1,200 to reflect staff's recommended allowance for wastewater.

- 5) Chemicals (718) - The utility purchases a liquid digester - degreaser/deodorant as a chemical pretreatment to eliminate build-up of sludge/grease in the lift station wet wells. The dosage rate is 5 gallons per lift station per month. This liquid digester is purchased in 55 gallon drums. The annual cost for two lift stations is \$1,553. The utility did not record a chemical expense. This expense has been increased by \$1,553 to reflect the appropriate annual allowance for wastewater.
- 6) Contractual Services (630/730) - The utility recorded contractual service expense of \$5,466 for water and wastewater each. This total includes \$376 for miscellaneous expense and \$5,090 for a management fee. This expense has been decreased by \$376 for water and wastewater to reflect a reclassification to miscellaneous expense.

MHC, a related company, provides management service for the utility. The services provided by this company include organization of accounting records in accordance with NARUC, verification of budget adherence, approval of all capital expenditures, review of all legal documents and correspondence, and entry of daily activity for utility journal entries, invoices and checks. This company also oversees the completion of the annual report, rate case audits, daily operations and the overall financial operation of the utility. MHC charges the utility \$9,861 annually for this service, \$8,021 for salaries and \$1,840 for overhead. Staff believes this amount is reasonable and recommends an annual management allowance of \$9,861, \$4,931 for water and wastewater each. The utility recorded \$5,090 for water and wastewater each in this expense. This expense has been decreased by \$159 for water and wastewater each to reflect staff's recommended allowance.

This expense has been increased by \$318 for wastewater to reflect a reclassification of contractual lift station maintenance expense from miscellaneous expense. The annual contractual lift station maintenance

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expense is \$1,908 (\$159 per month). This expense has been increased by \$1,590 to reflect the appropriate annual amount of \$1,908.

The Department of Environmental Protection (DEP) is the primary enforcers of rulings passed down from the Environmental Protection Agency (EPA). The DEP considers this utility to be a consecutive system, and as such, must meet the requirements of Section 62.550.540, Florida Administrative Code (FAC). This portion of the FAC enforced locally by the Broward County Public Health Unit (BCPHU) and sets forth monitoring requirements for Microbiological/Chlorine, Lead/Copper, and Asbestos. Those tests and the frequency at which those tests must be reported are:

| <u>Rule</u> | <u>Description</u> | <u>Frequency</u> | <u>Cost</u> |
|-------------------|--------------------|---------------------------|-----------------|
| 62-550.518 F.A.C. | Microbiological | monthly | \$300/yr |
| 62-551 F.A.C. | Lead & Copper | biannual/subseq annual | 240/yr |
| 62-551.511 F.A.C. | Asbestos | 1/9 yrs. | 25/yr |
| | | TOTAL | <u>\$565/yr</u> |

Staff recommends an annual DEP required testing expense of \$565 for water. The utility did not record a testing expense. This expense has been increased by \$565 for water to reflect staff's recommended allowance.

MRI software provides billing services for the utility. The services includes preparation of the utility's bills, stuffing invoices, and postage. The utility did not record billing cost in the test year expenses and have requested an annual billing cost of \$4,428. During the process of this rate case, a customer voiced a concern about the format of the customer bill. Staff requested a copy of the customer's bill and the customer submitted a copy for staff's review. The customer's bill included charges for utility services, lot rent, trash and a pass-through for real estate taxes. The bill include charges for four services. Therefore, staff believes that the annual cost should be spread over all services provided and 25% of the cost should be allowed for utility billing services. Staff recommends a billing cost for utility services of \$1,108 ($\$4,428/4$) be allowed, with an allocation of \$554 for water and wastewater each. This expense has been increased by \$554 for water and wastewater each.

- 7) Transportation Expense (650/750) - Utility employees are required to attend meetings with regulatory personnel, run errands, pick up parts and supplies, and perform general duties. The utility is centrally located where it is estimated that 150 miles per month is reasonable for a travel allowance. The reimbursement standard twenty-nine cents per mile recently approved by the Florida Legislature is considered prudent. Therefore, staff recommends a transportation allowance of \$522 (150 mi. x 12 mos. x \$.29), \$261 for water and wastewater each. The utility did not record a transportation expense. This expense has been increased by \$261 for water and wastewater each to reflect staff's recommended allowance.
- 8) Regulatory Commission Expense (655/755) - The utility's rate case expense includes a filing fee of \$2,000, \$3,014 for accounting services and \$5,462 for legal services for a total of \$10,476. The costs for accounting and legal services include costs for service that have already been provided and for service that will be provided through the Proposed Agency Action (PAA) process. Invoices for accounting and legal services through June 1996 have been provided for staff's review. Estimated costs for additional services required through the PAA process has also been provided. The number of hours booked for the services provided and the costs appears reasonable. Staff recommends a rate case expense of \$10,476 amortized over four years with a 50% allocation for water and wastewater each. This expense has been increased by \$1,310 ($\$10,476/4 \times .50$) for water and wastewater each.
- 9) Miscellaneous Expense (675/775) - The utility recorded \$888 in this expense for water and \$10,318 for wastewater. This expense has been decreased by \$123 for water and by \$1,303 wastewater to remove a non-utility expense. It has been decreased by \$318 for wastewater to reflect a reclassification to contractual services, increased by \$244 for water and decreased by \$244 for wastewater to reflect reclassification of meter repair expense to water. In addition, this expense has been increased by \$376 for water and wastewater to reflect a reclassification of repair and maintenance expense from contractual services.

The utility's recorded expense include \$620 for repair and maintenance costs for water. Staff has estimated that the utility will incur approximately

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\$5,000 in repairs and maintenance on a going forward basis and recommends an annual allowance of \$5,000 for repair and maintenance. This expense has been increased by \$4,380 for water to reflect staff's recommended allowance.

The utility is required to obtain a water operating permit at a cost of \$200 annually. The utility did not record an expense for the permit. Therefore, this expense has been increased by \$200 for water.

Depreciation Expense - Test year depreciation expense has been calculated using the rates prescribed by Rule 25-30.40, Florida Administrative Code. Test year depreciation expense is \$10,400 for water and \$11,720 for wastewater. The utility record depreciation expense of \$10,255 for water and \$11,669 for wastewater. This expense has been increased by \$145 for water and \$51 for wastewater to reflect the appropriate test year depreciation expense.

Taxes Other Than Income - The utility recorded \$9,531 for water and \$4,478 for wastewater. This expense has been increased by \$610 for water and \$523 for wastewater to reflect regulatory assessment fees at 4.5% on test year revenue. This expense has also been increased by \$935 for water and \$700 for wastewater to reflect payroll taxes on recommended salaries.

Increase in Operating Revenues and Expenses

Operating Revenues - Revenue has been increased by \$9,531 for water and by \$49,750 for wastewater to allow the utility to recover its expenses and earn the authorized return on its investment.

Taxes Other Than Income - This expense has been increased by \$429 for water and by \$2,241 for wastewater to reflect regulatory assessment fee at 4.5% on the required increase in revenue.

The application of staff's recommended adjustments to the utility's recorded operating expenses results in operating expense of \$108,344 for water and \$142,625 for wastewater.

Operating expenses are shown on Schedule Nos. 3 and 3-A and adjustments are shown on Schedule No. 3-B.

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REVENUE REQUIREMENT

ISSUE 9: What are the appropriate revenue requirements?

RECOMMENDATION: The appropriate revenue requirements are \$128,316 for water and \$160,931 for wastewater. (DEWBERRY)

STAFF ANALYSIS: The utility should be allowed an annual increase in revenue of \$9,531 (8.02%) for water and \$49,789 (44.80%) for wastewater. This will allow the utility to recover its expenses and earn a 9.46% return on its investment. The calculations are as follows:

| | <u>Water</u> | <u>Wastewater</u> |
|----------------------------|------------------|-------------------|
| Adjusted Rate Base | \$211,121 | \$193,508 |
| Rate of Return | X .0946 | X .0946 |
| Return on Investment | \$ 19,972 | \$ 18,306 |
| Adjusted Operating Expense | 91,235 | 122,963 |
| Depreciation Expense | 10,400 | 11,720 |
| Taxes Other Than Income | 6,709 | 7,942 |
| Revenue Requirement | <u>\$128,316</u> | <u>\$160,931</u> |

Revenue requirements are shown on Schedule Nos. 3 and 3-A.

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RATES AND TARIFF CHARGES

ISSUE 10: What are the appropriate rates and rate structure?

RECOMMENDATION: The recommended rates should be designed to produce revenue of \$128,316 for water and \$160,931 for wastewater. The utility should retain its existing rate structure. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), Florida Administrative Code. The rates should not be implemented until proper notice has been received by the customers. The utility should provide proof of the date notice was given no less than 10 days after the date of the notice. (DEWBERRY)

STAFF ANALYSIS: The utility currently employs the base facility and gallonage charge rate structure, which is the Commission's preferred rate structure. This rate structure is designed to provide for the equitable sharing by the ratepayers of both the fixed and variable costs for providing service. The base facility charge is based on the concept of readiness to serve all customers connected to the system. This ensures that ratepayers pay their share of the variable costs of providing service (through the consumption or gallonage charge) and also pay their share of the fixed costs of providing service (through the base facility charge). Staff recommends that the utility retain its existing rate structure.

During the test year the utility provided water and wastewater service to approximately 818 residential customers and 4 general service customers. The utility's initial rates were approved by Order No. 17686, issued June 10, 1987, in Docket No. 861071-WS. Purchased water and wastewater expenses were included in the calculation of rates. However, the percentage allocation of the cost associated with the base charge and gallonage charge used in the rate calculation is unknown. In this rate case, the purchased water cost is \$3.41 per unit and \$1.14 per 1,000 gallons. The purchased wastewater cost is \$9.81 per unit with no gallonage charge. Since the cost for purchased water includes a fixed per unit charge and a gallonage charge, the pro rata share of the per unit cost is included in the base facility charge. The total cost for purchased wastewater is included in the base facility charge. This results in an adjustment in the utility's rate structure resulting in a shift in revenues required to cover fixed vs. gallonage costs. Failure to adjust the rate structure to allow for appropriate recovery of fixed and variable expenses will result in year round customers subsidizing seasonal customers. A schedule of the utility's existing rates and staff's recommended rates are as follows:

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MONTHLY RATES
Water
Residential and General Service

| <u>Base Facility Charge</u> <u>Meter Size</u> | <u>Current Rates</u> | <u>Staff's Recommended</u> <u>Rates</u> |
|--|----------------------|--|
| 5/8" x 3/4" | \$ 4.80 | \$ 6.31 |
| 3/4" | 7.20 | 9.46 |
| 1" | 12.00 | 15.77 |
| 1 1/2" | 24.00 | 31.54 |
| 2" | 38.41 | 50.46 |
| 3" | 76.83 | 100.92 |
| 4" | 120.04 | 157.68 |
| 6" | 240.09 | 315.36 |
| <u>Gallonge Charge</u> Per 1,000 gallons | \$ 2.55 | \$ 2.35 |

MONTHLY RATES
WasteWater
Residential Service

| <u>Base Facility Charge</u> <u>Meter Size</u> | <u>Current Rates</u> | <u>Staff's Recommended</u> <u>Rates</u> |
|--|----------------------|--|
| All Sizes | \$ 4.72 | \$ 12.45 |
| <u>Gallonge Charge</u> Per 1,000 gallons (10,000 gal. max) | \$ 2.26 | \$ 1.33 |

General Service

| <u>Base Facility Charge</u> <u>Meter Size</u> | <u>Current Rates</u> | <u>Staff's Recommended</u> <u>Rates</u> |
|--|----------------------|--|
| 5/8" x 3/4" | \$ 4.72 | \$ 12.45 |
| 3/4" | 7.08 | 18.68 |
| 1" | 11.79 | 31.13 |
| 1 1/2" | 23.58 | 62.26 |
| 2" | 37.72 | 99.62 |
| 3" | 75.45 | 199.25 |
| 4" | 117.88 | 311.32 |
| 6" | 235.76 | 622.65 |
| <u>Gallonge Charge</u> Per 1,000 gallons | \$ 2.71 | \$ 1.60 |

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The average water usage for an individually metered residential customer is approximately 2,352 gallons per month. A schedule of an average bill for a 5/8" x 3/4" meter using existing rates and recommended rates follows:

| | |
|--------------------------------------|------------------------|
| Average bill using recommended rates | \$11.84 |
| Average bill using existing rates | <u>(10.80)</u> |
| Increase in bill | \$ 1.04 |
| Percentage increase in bill | 9.63% (\$1.04/\$10.80) |

The average number of gallons of wastewater billed for an individually metered residential customer is approximately 2,312 gallons per month. A schedule of an average billing using existing rates and recommended rates follows:

| | |
|--------------------------------------|------------------------|
| Average bill using recommended rates | \$15.52 |
| Average bill using existing rates | <u>(9.95)</u> |
| Increase in bill | \$ 5.57 |
| Percentage increase in bill | 55.98% (\$5.57/\$9.95) |

Staff's recommended rates are designed to produce revenue of \$128,316 for water and \$160,931 for wastewater. The utility should retain its existing rate structure. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), Florida Administrative Code. The rates may not be implemented until proper notice has been received by the customers. The utility should provide proof of the date notice was given no less than 10 days after the date of the notice.

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ISSUE 11: What is the appropriate amount by which rates should be reduced four years after the established effective date to reflect the removal of the amortized rate case expense as required by Section 367.0816, Florida Statutes?

RECOMMENDATION: Revenues should be reduced by a total of \$1,372 for water and wastewater each to reflect the removal of rate case expense grossed up for regulatory assessment fees, which is being amortized over a four year period. The effect of the revenue reduction results in rate decreases as shown on Schedule Nos. 4 and 4-A. The decrease in rates should become effective immediately following the expiration of the recovery period, pursuant to Section 367.0816, Florida Statutes. The utility should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. (DEWBERRY)

STAFF ANALYSIS: 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 the revenues associated with the amortization of rate expense and the gross-up for regulatory assessment fees, which is \$1,372 for water and wastewater each. The reduction in revenues will result in the rates recommended by staff on Schedule Nos. 4 and 4-A.

The utility should be required to file revised tariffs no later than one month prior to the actual date of the required rate reduction. The utility also should be 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 for the reduction in the rates due to the amortized rate case expense.

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ISSUE 12: Should the recommended rates be approved for the utility on a temporary basis in the event of a timely protest filed by a party other than the utility?

RECOMMENDATION: Yes, the recommended rates should be approved for the utility on a temporary basis in the event of a timely protest filed by a party other than the utility. The utility should be authorized to collect the temporary rates after staff's approval of the security for potential refund, the proposed customer notice, and the revised tariff sheets. (AGARWAL, DAVIS, DEWBERRY)

STAFF ANALYSIS: This recommendation proposes an increase in water and wastewater 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 timely protest filed by a party other than the utility, staff recommends that the recommended rates be approved as temporary rates. The recommended rates collected by the utility shall be subject to the refund provisions discussed below.

The utility should be authorized to collect the temporary rates upon the staff's approval of the security for potential refund and the proposed customer notice. The security should be in the form of a bond or letter of credit in the amount of \$40,993. Alternatively, the utility could establish an escrow agreement with an independent financial institution.

If the utility chooses a bond as security, the bond should 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 should 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 final Commission order is rendered, either approving or denying the rate increase.

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

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

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 result of the rate increase should 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 should be paid with interest calculated pursuant to Rule 25-30.360(4), Florida Administrative Code.

The utility should maintain a record of the amount of the bond, and the amount of revenues that are subject to refund. In addition, after the increased rates are in effect, the utility should 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.

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OTHER

ISSUE 13: Should the utility be required to revise its customer bill format to include the delinquent date or date after which a customer bill becomes delinquent and delete the separate line item for the 10% city sales tax?

RECOMMENDATION: Yes, the utility should be required to revise its customer bill format to include the delinquent date or date after which a customer bill becomes delinquent. The utility should also be required to delete the separate line item for the 10% city sales tax. A revised tariff sheet with a revised bill attached should be submitted along with other tariff revisions for this rate case. (AGARWAL, DAVIS, DEWBERRY)

STAFF ANALYSIS: Rule 25-30.355(1), requires that customer bills indicate the billing period covered the applicable rate schedule, beginning and ending meter reading, the amount of the bill and the delinquent date or the date after which the bill becomes past due. The utility's customer bill is in compliance with Rule 25-30.355(1), except the requirement of providing the delinquent date or the date after which the bill becomes past due.

A review of a customer bill shows that the utility lists the 10% city sales tax as a separate line item. The sales tax is not included in the utility's existing rates. As addressed in Issue 8, staff has included the 10% city sales tax in the cost of purchased water for setting rates. Therefore, the separate line item for the 10% city sales tax should be deleted.

Staff recommends that the utility be required to revise its customer bill to include the delinquent date or date after which a customer bill is due. It should also be required to delete the separate line item for the 10% city sales tax. A revised tariff sheet with a revised billed attached should be submitted along with other tariff revisions for this rate case.

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ISSUE 14: Should this docket be closed?

RECOMMENDATION: Yes, upon expiration of the protest period, if no timely protest is received, this docket should be closed.
(AGARWAL, DAVIS, DEWBERRY)

STAFF ANALYSIS: If no timely protest is received, the rate case process will be final. Therefore, this docket should be closed.

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ISSUE AND RECOMMENDATION SUMMARY

ISSUE 1: Is the quality of service provided by Colonies Water Company in Broward County satisfactory?

RECOMMENDATION: Yes. The quality of service provided by Colonies Water Company is considered satisfactory. (DAVIS)

ISSUE 2: What portions of water and wastewater plants-in-service are used and useful?

RECOMMENDATION: The water treatment plant used and useful is not applicable; the water distribution system is 100% used and useful; the wastewater treatment plant used and useful is not applicable; and the wastewater collection system is 100% used and useful. (DAVIS)

ISSUE 3: What is the appropriate average test year rate base for each system?

RECOMMENDATION: The appropriate average test year rate base should be \$211,121 for water and \$193,508 for wastewater. The utility should be required to provide staff with all pertinent documentation and other information regarding the nominee relationship between Snowbirdland Vistas, so that staff may determine whether a separate docket should be opened on this matter. (AGARWAL, DAVIS, DEWBERRY)

ISSUE 4: What is the appropriate return on equity and the appropriate overall rate of return?

RECOMMENDATION: The appropriate return on equity is 11.10% with a range of 10.10% - 12.10%. The appropriate overall rate of return is 9.46% with a range of 8.91% - 10.01%. (DEWBERRY)

ISSUE 5: What are the appropriate test year revenues?

RECOMMENDATION: The appropriate test year revenues are \$118,785 for water and \$111,142 for wastewater. The utility should be required to henceforth record revenue for the 4 general service customers. (DEWBERRY)

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ISSUE AND RECOMMENDATION SUMMARY

ISSUE 6: Should Colonies Water Company be required to pay regulatory assessment fees on the amount of the discrepancy in 1995 revenue?

RECOMMENDATION: Yes, if the Commission approves Issue No. 5 of this recommendation, the utility should be required to pay \$1,184 in regulatory assessment fees within 30 days of the effective date of the Commission's order. The utility should also be required henceforth to bill all connections at the approved tariff rates and to record these revenues on its books. (AGARWAL, DEWBERRY)

ISSUE 7: What is the appropriate test year operating income or loss for each system?

RECOMMENDATION: The appropriate test year operating income is \$10,870 for water. The appropriate operating loss is \$29,242 for wastewater. (DEWBERRY)

ISSUE 8: What is the appropriate amount for operating expenses for each system?

RECOMMENDATION: The appropriate amount for operating expenses is \$108,344 for water and \$142,625 for wastewater. (DAVIS, DEWBERRY)

ISSUE 9: What are the appropriate revenue requirements?

RECOMMENDATION: The appropriate revenue requirements are \$128,316 for water and \$160,931 for wastewater. (DEWBERRY)

ISSUE 10: What are the appropriate rates and rate structure?

RECOMMENDATION: The recommended rates should be designed to produce revenue of \$128,316 for water and \$160,931 for wastewater. The utility should retain its existing rate structure. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), Florida Administrative Code. The rates should not be implemented until proper notice has been received by the customers. The utility should provide proof of the date notice was given no less than 10 days after the date of the notice. (DEWBERRY)

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ISSUE AND RECOMMENDATION SUMMARY

ISSUE 11: What is the appropriate amount by which rates should be reduced four years after the established effective date to reflect the removal of the amortized rate case expense as required by Section 367.0816, Florida Statutes?

RECOMMENDATION: Revenues should be reduced by a total of \$1,372 for water and wastewater each to reflect the removal of rate case expense grossed up for regulatory assessment fees, which is being amortized over a four year period. The effect of the revenue reduction results in rate decreases as shown on Schedule Nos. 4 and following the expiration of the recovery period, pursuant to Section 367.0816, Florida Statutes. The utility should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. (DEWBERRY)

ISSUE 12: Should the recommended rates be approved for the utility on a temporary basis in the event of a timely protest filed by a party other than the utility?

RECOMMENDATION: Yes, the recommended rates should be approved for the utility on a temporary basis in the event of a timely protest filed by a party other than the utility. The utility should be authorized to collect the temporary rates after staff's approval of the security for potential refund, the proposed customer notice, and the revised tariff sheets. (AGARWAL, DAVIS, DEWBERRY)

ISSUE 13: Should the utility be required to revise its customer bill format to include the delinquent date or date after which a customer bill becomes delinquent and delete the separate line item for the 10% city sales tax?

RECOMMENDATION: Yes, the utility should be required to revise its customer bill format to include the delinquent date or date after which a customer bill becomes delinquent. The utility should also be required to delete the separate line item for the 10% city sales tax. A revised tariff sheet with a revised bill attached should be submitted along with other tariff revisions for this rate case. (AGARWAL, DAVIS, DEWBERRY)

ISSUE 14: Should this docket be closed?

RECOMMENDATION: Yes, upon expiration of the protest period, if no timely protest is received, this docket should be closed. (AGARWAL, DAVIS, DEWBERRY)

COLONIES WATER COMPANY
 TEST YEAR ENDING DECEMBER 31, 1995
 SCHEDULE OF WATER RATE BASE

SCHEDULE NO. 1
 DOCKET NO. 960132-WS

| | <u>BALANCE PER UTILITY</u> | <u>STAFF ADJUST. TO UTIL. BAL.</u> | <u>BALANCE PER STAFF</u> |
|--|--------------------------------|--|--|
| UTILITY PLANT IN SERVICE | \$ 349,158 | \$ (5,591)A | \$ 343,567 |
| LAND/NON-DEPRECIABLE ASSETS | 0 | 0 | 0 |
| NON USED AND USEFUL PLANT | 0 | 0 | 0 |
| CWIP | 0 | 0 | 0 |
| CIAC | 0 | 0 | 0 |
| ACCUMULATED DEPRECIATION | (141,009) | (2,841)B | (143,850) |
| AMORTIZATION OF ACQUISITION ADJUSTMENT | 0 | 0 | 0 |
| AMORTIZATION OF CIAC | 0 | 0 | 0 |
| WORKING CAPITAL ALLOWANCE | <u>0</u> | <u>11,404 C</u> | <u>11,404</u> |
| WATER RATE BASE | \$ 208,149 | \$ 2,972 | \$ 211,121 |

COLONIES WATER COMPANY
 TEST YEAR ENDING DECEMBER 31, 1995
 SCHEDULE OF WASTEWATER RATE BASE

SCHEDULE NO. 1A
 DOCKET NO. 960132-WS

| | <u>BALANCE PER UTILITY</u> | <u>STAFF ADJUST. TO UTIL. BAL.</u> | <u>BALANCE PER STAFF</u> |
|--|--------------------------------|--|--|
| UTILITY PLANT IN SERVICE | \$ 389,132 | \$ (1,550)A | \$ 387,582 |
| LAND/NON-DEPRECIABLE ASSETS | 0 | 0 | 0 |
| NON USED AND USEFUL PLANT | 0 | 0 | 0 |
| CWIP | 0 | 0 | 0 |
| CIAC | 0 | 0 | 0 |
| ACCUMULATED DEPRECIATION | (212,821) | 3,377 B | (209,444) |
| AMORTIZATION OF ACQUISITION ADJUSTMENT | 0 | 0 | 0 |
| AMORTIZATION OF CIAC | 0 | 0 | 0 |
| WORKING CAPITAL ALLOWANCE | <u>0</u> | <u>15,370 C</u> | <u>15,370</u> |
| WASTEWATER RATE BASE | \$ 176,311 | \$ 17,197 | \$ 193,508 |

COLONIES WATER COMPANY
TEST YEAR ENDING DECEMBER 31, 1995
ADJUSTMENTS TO RATE BASE

SCHEDULE NO. 1B
DOCKET NO. 960132-WS

| | <u>WATER</u> | <u>WASTEWATER</u> |
|--|-------------------|-------------------|
| A. <u>UTILITY PLANT IN SERVICE</u> | | |
| 1. Averaging adjustment | (5,591) | (1,550) |
| | \$ <u>(5,591)</u> | \$ <u>(1,550)</u> |
| D. <u>ACCUMULATED DEPRECIATION</u> | | |
| 1. To reflect averaging adjustment | (2,841) | 3,377 |
| | \$ <u>(2,841)</u> | \$ <u>3,377</u> |
| <u>WORKING CAPITAL ALLOWANCE</u> | | |
| 1. To reflect 1/8 of test year O & M expense | \$ <u>11,404</u> | \$ <u>15,370</u> |

COLONIES WATER COMPANY
 TEST YEAR ENDING DECEMBER 31, 1995
 SCHEDULE OF CAPITAL STRUCTURE

SCHEDULE NO. 2
 DOCKET NO. 960132-WS

| | PER UTILITY | STAFF ADJUST. TO UTIL. BAL. | BALANCE PER STAFF | PERCENT OF TOTAL | COST | WEIGHTED COST |
|-------------------|-------------|--------------------------------|----------------------|---------------------|--------|------------------|
| LONG-TERM DEBT | \$ 219,318 | \$ (37,518) | \$ 181,800 | 44.93% | 7.45% | 3.35% |
| COMMON EQUITY | 268,859 | (46,030) | 222,829 | 55.07% | 11.10% | 6.11% |
| CUSTOMER DEPOSITS | 0 | 0 | 0 | 0.00% | 0.00% | 0.00% |
| TOTAL | \$ 488,177 | \$ (83,548) | \$ 404,629 | 100.00% | | 9.46% |

| <u>RANGE OF REASONABLENESS</u> | <u>LOW</u> | <u>HIGH</u> |
|--------------------------------|------------|-------------|
| RETURN ON EQUITY | 10.10% | 12.10% |
| OVERALL RATE OF RETURN | 8.91% | 10.01% |

COLONIES WATER COMPANY
 TEST YEAR ENDING DECEMBER 31, 1995
 SCHEDULE OF WATER OPERATING INCOME

SCHEDULE NO. 3
 DOCKET NO. 960132-WS

| | <u>TEST YEAR PER UTILITY</u> | <u>STAFF ADJ. TO UTILITY</u> | <u>STAFF ADJUSTED TEST YEAR</u> | <u>ADJUST. FOR INCREASE</u> | <u>TOTAL PER STAFF</u> |
|---------------------------|----------------------------------|----------------------------------|---|-------------------------------------|----------------------------|
| OPERATING REVENUES | \$ <u>104,657</u> | \$ <u>14,128</u> A | \$ <u>118,785</u> | \$ <u>9,531</u> E | \$ <u>128,316</u> |
| OPERATING EXPENSES: | | | | | |
| OPERATION AND MAINTENANCE | 84,454 | 6,781 B | 91,235 | 0 | 91,235 |
| DEPRECIATION | 10,255 | 145 C | 10,400 | 0 | 10,400 |
| AMORTIZATION(CIAC) | 0 | 0 | 0 | 0 | 0 |
| TAXES OTHER THAN INCOME | 4,735 | 1,545 D | 6,280 | 429 F | 6,709 |
| INCOME TAXES | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| TOTAL OPERATING EXPENSES | \$ <u>99,444</u> | \$ <u>8,471</u> | \$ <u>107,915</u> | \$ <u>429</u> | \$ <u>108,344</u> |
| OPERATING INCOME/(LOSS) | \$ <u>5,213</u> | | \$ <u>10,870</u> | | \$ <u>19,972</u> |
| WATER RATE BASE | \$ <u>208,149</u> | | \$ <u>211,121</u> | | \$ <u>211,121</u> |
| RATE OF RETURN | <u>2.50%</u> | | <u>5.15%</u> | | <u>9.46%</u> |

COLONIES WATER COMPANY
 TEST YEAR ENDING DECEMBER 31, 1995
 SCHEDULE OF WASTEWATER OPERATING INCOME

SCHEDULE NO. 3A
 DOCKET NO. 960132-WS

| | TEST YEAR PER UTILITY | STAFF ADJ. TO UTILITY | STAFF ADJUSTED TEST YEAR | ADJUST. FOR INCREASE | TOTAL PER STAFF |
|---------------------------|--------------------------|--------------------------|--------------------------------|----------------------------|--------------------|
| OPERATING REVENUES | \$ 98,950 | \$ 12,192 A | \$ 111,142 | \$ 49,789 E | \$ 160,931 |
| OPERATING EXPENSES: | | | | | |
| OPERATION AND MAINTENANCE | 124,908 | (1,945) B | 122,963 | 0 | 122,963 |
| DEPRECIATION | 11,669 | 51 C | 11,720 | 0 | 11,720 |
| AMORTIZATION(CIAC) | 0 | 0 | 0 | 0 | 0 |
| TAXES OTHER THAN INCOME | 4,478 | 1,223 D. | 5,701 | 2,241 F | 7,942 |
| INCOME TAXES | 0 | 0 | 0 | 0 | 0 |
| TOTAL OPERATING EXPENSES | \$ 141,055 | \$ (671) | \$ 140,384 | \$ 2,241 | \$ 142,625 |
| OPERATING INCOME/(LOSS) | \$ (42,105) | | \$ (29,242) | | \$ 18,306 |
| WASTEWATER RATE BASE | \$ 176,311 | | \$ 193,508 | | \$ 193,508 |
| RATE OF RETURN | <u>-23.88%</u> | | <u>-15.11%</u> | | <u>9.46%</u> |

COLONIES WATER COMPANY
 TEST YEAR ENDING DECEMBER 31, 1995
 ADJUSTMENTS TO OPERATING INCOME

SCHEDULE NO. 38
 DOCKET NO. 960132-WS

| A. <u>OPERATING REVENUES</u> | <u>WATER</u> | <u>WASTEWATER</u> |
|--|-------------------|-------------------|
| 1. To reflect annualized revenue for residential customers | \$ 1,294 | \$ (1,363) |
| 2. To reflect annualized revenue for general service customers | <u>12,834</u> | <u>13,555</u> |
| | <u>\$ 14,128</u> | <u>\$ 12,192</u> |
| | | |
| B. <u>OPERATION AND MAINTENANCE EXPENSES</u> | | |
| 1. <u>Salaries and Wages -- Employees</u> | | |
| a. Adjustment for bookkeeper's annual salary | \$ (3,430) | \$ (3,430) |
| b. Adjustment for maintenance person's annual salary | (2,405) | (2,405) |
| c. Reclassification of meter readin expense | 720 | (720) |
| c. To remove estimated payroll accruals | <u>(752)</u> | <u>(752)</u> |
| | <u>\$ (5,067)</u> | <u>\$ (7,307)</u> |
| | | |
| 2. <u>Purchased Water</u> | | |
| a. To include 10% city sales tax | <u>\$ 5,416</u> | <u>\$ 0</u> |
| | | |
| 3. <u>Sludge Removal Expense</u> | | |
| a. Annual expense | <u>\$ 0</u> | <u>\$ 600</u> |
| | | |
| 4. <u>Purchased Power</u> | | |
| a. Expense for two lift stations | <u>\$ 0</u> | <u>\$ 1,200</u> |
| | | |
| 5. <u>Chemicals</u> | | |
| a. Annual allowance | <u>\$ 0</u> | <u>\$ 1,553</u> |
| | | |
| 6. <u>Contractual Services</u> | | |
| a. Reclassification to miscellaneous expense | \$ (376) | \$ (376) |
| b. To adjust management fee to accrued total for test year | (159) | (159) |
| c. DEP required testing expense | 565 | 0 |
| d. Reclassification from miscellaneous expense | 0 | 318 |
| e. Annual lift station maintenance allowance | 0 | 1,590 |
| f. Annual billing expense | <u>554</u> | <u>554</u> |
| | <u>\$ 584</u> | <u>\$ 1,927</u> |
| | | |
| 7. <u>Transportation Expense</u> | | |
| a. Annual transportation expense | <u>\$ 261</u> | <u>\$ 261</u> |

COLONIES WATER COMPANY
 TEST YEAR ENDING DECEMBER 31, 1995
 ADJUSTMENTS TO OPERATING INCOME

SCHEDULE NO. 38
 DOCKET NO. 960132-WS

| | <u>WATER</u> | <u>WASTEWATER</u> |
|--|-----------------|-------------------|
| 8. <u>Regulatory Commission Expense</u> | | |
| a. Rate case expense amortized over four years | \$ <u>1,310</u> | \$ <u>1,310</u> |
| 9. <u>Miscellaneous Expense</u> | | |
| a. To remove a non-utility expense | \$ (123) | \$ (1,303) |
| b. Reclassification of meter repair expense | 244 | (244) |
| c. Operating permit cost | 200 | 0 |
| d. reclassification to contractual services | 0 | (318) |
| e. reclassification from contractual services | 378 | 378 |
| h. Proforma repair and maintenance expense | 4,360 | 0 |
| | \$ <u>5,077</u> | \$ <u>(1,469)</u> |
| TOTAL O & M | \$ <u>6,781</u> | \$ <u>(1,945)</u> |
| C. <u>DEPRECIATION EXPENSE</u> | | |
| 1. Test year depreciation expense | \$ <u>145</u> | \$ <u>51</u> |
| D. <u>TAXES OTHER THAN INCOME</u> | | |
| 1. Payroll taxes on recommended salaries | \$ 935 | \$ 700 |
| 2. Regulatory assessment fees on test year revenue | 610 | 523 |
| | \$ <u>1,545</u> | \$ <u>1,223</u> |
| E. <u>OPERATING REVENUES</u> | | |
| 1. To reflect increase in revenue to cover expenses and allow recommended return on investment | \$ <u>9,531</u> | \$ <u>49,789</u> |
| F. <u>TAXES OTHER THAN INCOME</u> | | |
| 1. To reflect additional regulatory assessment of 4.5% on increase in revenue | \$ <u>429</u> | \$ <u>2,241</u> |

COLONIES WATER COMPANY
 TEST YEAR ENDING DECEMBER 31, 1995
 ANALYSIS OF WATER OPERATION AND
 MAINTENANCE EXPENSE

SCHEDULE NO. 3C
 DOCKET NO. 960132-WS

| | <u>TOTAL PER UTIL.</u> | <u>STAFF ADJUST.</u> | <u>TOTAL PER STAFF</u> |
|--------------------------------------|----------------------------|--------------------------|----------------------------|
| (601) SALARIES AND WAGES – EMPLOYEES | \$ 11,586 | \$ (5,867) [1] | \$ 5,719 |
| (603) SALARIES AND WAGES – OFFICERS | 0 | 0 | 0 |
| (604) EMPLOYEE PENSIONS AND BENEFITS | 0 | 0 | 0 |
| (610) PURCHASED WATER | 66,514 | 5,416 [2] | 71,930 |
| (615) PURCHASED POWER | 0 | 0 | 0 |
| (616) FUEL FOR POWER PRODUCTION | 0 | 0 | 0 |
| (618) CHEMICALS | 0 | 0 | 0 |
| (620) MATERIALS AND SUPPLIES | 0 | 0 | 0 |
| (630) CONTRACTUAL SERVICES | 5,466 | 584 [6] | 6,050 |
| (640) RENTS | 0 | 0 | 0 |
| (650) TRANSPORTATION EXPENSE | 0 | 261 [7] | 261 |
| (655) INSURANCE EXPENSE | 0 | 0 | 0 |
| (665) REGULATORY COMMISSION EXPENSE | 0 | 1,310 [8] | 1,310 |
| (670) BAD DEBT EXPENSE | 0 | 0 | 0 |
| (675) MISCELLANEOUS EXPENSES | 888 | 5,077 [9] | 5,965 |
| | <u>\$ 84,454</u> | <u>\$ 6,781</u> | <u>\$ 91,235</u> |

COLONIES WATER COMPANY
 TEST YEAR ENDING DECEMBER 31, 1995
 ANALYSIS OF WASTEWATER OPERATION AND
 MAINTENANCE EXPENSE

SCHEDULE NO. 3D
 DOCKET NO. 960132-WS

| | TOTAL PER UTIL. | STAFF ADJUST. | TOTAL PER STAFF |
|--------------------------------------|--------------------|------------------|--------------------|
| (701) SALARIES AND WAGES – EMPLOYEES | \$ 11,586 | \$ (7,307)[1] | \$ 4,279 |
| (703) SALARIES AND WAGES – OFFICERS | 0 | 0 | 0 |
| (704) EMPLOYEE PENSIONS AND BENEFITS | 0 | 0 | 0 |
| (710) PURCHASED SEWAGE TREATMENT | 96,295 | 0 | 96,295 |
| (711) SLUDGE REMOVAL EXPENSE | 0 | 600 [3] | 600 |
| (715) PURCHASED POWER | 0 | 1,200 [4] | 1,200 |
| (716) FUEL FOR POWER PRODUCTION | 0 | 0 | 0 |
| (718) CHEMICALS | 0 | 1,553 [5] | 1,553 |
| (720) MATERIALS AND SUPPLIES | 0 | 0 | 0 |
| (730) CONTRACTUAL SERVICES | 6,709 | 1,927 [6] | 8,636 |
| (740) RENTS | 0 | 0 | 0 |
| (750) TRANSPORTATION EXPENSE | 0 | 261 [7] | 261 |
| (755) INSURANCE EXPENSE | 0 | 0 | 0 |
| (765) REGULATORY COMMISSION EXPENSES | 0 | 1,310 [8] | 1,310 |
| (770) BAD DEBT EXPENSE | 0 | 0 | 0 |
| (775) MISCELLANEOUS EXPENSES | 10,318 | (1,489)[9] | 8,829 |
| | \$ 124,908 | \$ (1,945) | \$ 122,963 |

RECOMMENDED RATE REDUCTION SCHEDULE

COLONIES WATER COMPANY
TEST YEAR ENDING DECEMBER 31, 1995

SCHEDULE NO. 4
DOCKET NO. 960132-WS

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

MONTHLY WATER RATES

| <u>RESIDENTIAL AND GENERAL SERVICE</u> | <u>MONTHLY RECOMMENDED RATES</u> | <u>MONTHLY RATE REDUCTION</u> |
|--|--|---------------------------------------|
| BASE FACILITY CHARGE: | | |
| Meter Size: | | |
| 5/8" x 3/4" | \$ 6.31 | \$ 0.07 |
| 3/4" | 9.46 | 0.10 |
| 1" | 15.77 | 0.17 |
| 1-1/2" | 31.54 | 0.34 |
| 2" | 50.46 | 0.54 |
| 3" | 100.92 | 1.08 |
| 4" | 157.68 | 1.69 |
| 6" | 315.36 | 3.37 |
| <u>GALLONAGE CHARGE</u> | | |
| <u>PER 1,000 GALLONS</u> | \$ 2.35 | \$ 0.03 |

RECOMMENDED RATE REDUCTION SCHEDULE

COLONIES WATER COMPANY
TEST YEAR ENDING DECEMBER 31, 1995

SCHEDULE NO. 4A
DOCKET NO. 960132-WS

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

MONTHLY WASTEWATER RATES

| <u>RESIDENTIAL AND GENERAL SERVICE</u> | <u>MONTHLY RECOMMENDED RATES</u> | <u>MONTHLY RATE REDUCTION</u> |
|--|--|---------------------------------------|
| BASE FACILITY CHARGE: | | |
| Meter Size: | | |
| 5/8" x 3/4" | \$ 12.45 | \$ 0.11 |
| 3/4" | 18.68 | 0.16 |
| 1" | 31.13 | 0.27 |
| 1-1/2" | 62.26 | 0.53 |
| 2" | 99.62 | 0.85 |
| 3" | 199.25 | 1.70 |
| 4" | 311.32 | 2.65 |
| 6" | 622.65 | 5.31 |
| | | |
| <u>GALLONAGE CHARGE (RS)</u> | | |
| PER 1,000 GALLONS | \$ 1.33 | \$ 0.01 |
| | | |
| <u>GALLONAGE CHARGE (GS)</u> | | |
| PER 1,000 GALLONS | \$ 1.60 | \$ 0.01 |

DOCKET NO. : 960131-WS

DATE: 05/07/96

UTILITY NAME: COLONIES WATER COMPANY

WATER DISTRIBUTION PLANT USED AND USEFUL CALCULATION

$$\% \text{ USED AND USEFUL} = \frac{(2 + 3)}{1} = 99.04 \%$$

(1) Capacity of present distribution system ----- 726 ERCs
-----(2) Average number of ERC's to the system for the year, -- 719 ERCs

(3) Margin Reserve (not to exceed 20% of present ERC's):

(a) Average yearly customer growth in 0
ERC's for most recent 5 years -----(b) Construction time for additional 24
capacity (in months) -----

$$\text{Margin Reserve} = \frac{3a \times 2b}{12 \text{ mths}} = 0 \text{ ERCs}$$



signature

Engineer assigned

ATTACHMENT 'C'

SHEET 2 OF 2

DOCKET NO. : 960132-WS

DATE: 05/07/96

UTILITY NAME: COLONIES WATER COMPANY

WASTEWATER COLLECTION SYSTEM USED AND USEFUL CALCULATION

$$\% \text{ USED AND USEFUL} = \frac{(2 + 3)}{1} = 99.04 \%$$

(1) Capacity of present collection system - - - - - 726 ERC's

 (2) Average number of connections to the system for the year - - 719 ERC's

 (3) Margin Reserve (not to exceed 20% of present ERC's):

(a) Average yearly customer growth in ERC's for most recent 4 years 0

 (b) Construction time for additional capacity (in months) 24

$$\text{Margin Reserve} = 2a \times \frac{2b}{12 \text{ mths}} = 0 \text{ ERC's}$$



Engineer assigned

ATTACHMENT "D"
SHEET 1 OF 2