

REVISED 10/31/96

FLORIDA PUBLIC SERVICE COMMISSION

FLETCHER BUILDING
2540 Shumard Oak Boulevard
TALLAHASSEE, FLORIDA 32399-0850

M E M O R A N D U M

October 31, 1996

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

FROM : DIVISION OF WATER AND WASTEWATER (OKOME, RIEGER)
DIVISION OF LEGAL SERVICE (AGARWAL)

RE : UTILITY: BUCCANEER WATER SERVICE
DOCKET NO.: 960133-WU
COUNTY: LEE
CASE: STAFF-ASSISTED RATE CASE

AGENDA : 11/12/96 - REGULAR AGENDA - PROPOSED AGENCY ACTION
EXCEPT FOR ISSUES 12 and 13 - INTERESTED PERSONS MAY
PARTICIPATE

CRITICAL DATES: FIFTEEN MONTHS EXPIRES JULY 5, 1997

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FPSC-RECORDS/REPORTING

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CASE BACKGROUND

Buccaneer Water Service (Buccaneer or utility) is a Class C utility which provides water service to Buccaneer Mobile Home Park, located in Lee County. The utility currently serves 967 residential and 12 general service customers. According to the utility's books in 1995, the utility recorded operating revenues of \$108,736 and operating expenses of \$183,100, which resulted in an operating loss of \$74,364.

Buccaneer purchases its water from Lee County Utilities, and therefore does not have a water treatment plant. The facilities of the utility consist of one water transmission and distribution system.

The utility was established in 1974 by Buccaneer Mobile Estates, Inc. On August 28, 1980, the utility and the related mobile home park were sold to DeAnza Properties-XI, Ltd. (DeAnza). After purchasing the utility DeAnza instituted a policy of charging metered rates for water used by the tenants; however, in order to honor the original life-long lease agreements signed prior to its takeover, only new tenants were subject to the metered water bills. Tenants holding life-long leases were referred to as "lifetime lessees" (lifetimers) while new tenants were referred to as "non-lifetime lessees" (non-lifetimers). On March 17, 1982, DeAnza Properties, XI, Ltd., d/b/a Buccaneer Water Service, filed an original application for authority to provide water service to Buccaneer Mobile Estates in Lee County. By Order No. 11263, issued October 25, 1982, the utility was granted Water Certificate No. 366-W and initial water rates were set. Wastewater service continues to be provided without charge for both lifetimers and non lifetimers.

The utility filed for a staff-assisted rate case (SARC) in Docket No. 850650-WU. At that time the utility provided service to 314 non-lifetimers who were being charged for water and to 605 lifetimers who were not being charged. In order to set fair rates the Commission imputed revenues for the 605 connections receiving service without charge. Final rates were set by Order No. 16354, issued on July 15, 1986.

Order No. PSC-95-0623-FOF-WU, issued May 22, 1995, granted the transfer of Certificate No. 366-W from DeAnza Properties-XI d/b/a Buccaneer Water Service to MHC-DeAnza Financing Limited Partnership d/b/a Buccaneer Water Service (MHC).

On February 6, 1996, Buccaneer applied for the instant SARC. Staff has selected a historical test year ending December 31, 1995. In preparation for this report, staff has audited the utility's records for compliance with Commission rules and orders and determined all components necessary for rate setting. The staff engineer has also conducted a field investigation of the utility's water plants and the service area. A review of the utility's operation expenses, maps, files, and rate application was also performed to obtain information about the physical plants and operating costs.

As stated above, upon taking over the utility in 1980 DeAnza instituted a policy of charging new tenants for water service. However, tenants holding lifetime leases continued receiving water service for no charge until October 1993, at which time the utility invoked a provision of the lease agreements and began billing these customers. According to the utility, this change was necessary because it could no longer absorb the increases in purchased water rates from Lee County. The rates charged to lifetimers were less than the approved tariffed rates, as the utility based them on the increases in Lee County rates that had occurred since 1988. Thus, the utility has been charging non-lifetimers the tariffed rates and lifetimers a lower rate since October 1993. However, the utility did not record the revenues received from lifetimers until 1995, when the staff audit for this case discovered the discrepancy. Moreover, the staff audit also discovered that the utility has not been billing affiliated general service connections.

A customer meeting was held on July 17, 1996, in the utility's service area to receive quality of service testimony. Although no quality of service issues were raised, several customers expressed concerns about failure of the utility to record correct revenue amounts on the utility's books. Customers also erroneously believed that staff had failed to include revenues from lifetimers and general service connections in setting the preliminary rates presented at the customer meeting. Customers provided staff with invoices from the Lee County Utilities for water usage in the entire service area. Staff agreed to compare the invoices with the figures used in setting final rates and to make any adjustments that are appropriate. The discrepancy in revenue is further discussed in Issues Nos. 6 and 7.

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This recommendation was deferred from the September 3, 1996, agenda conference in order to allow staff to address and attempt to resolve customer concerns expressed at agenda. The customers' main concern was over requiring the utility to bill lifetimers the approved tariffed rates, which exceed the lease agreement contractual rates and, according to the customers, force a breach of contract. Staff's intent was not to force a breach of contract, but to rectify discriminatory application of rates and to properly recognize jurisdictional revenues for earnings reviews and regulatory assessment fees.

Staff also does not believe that requiring all customers to be billed the tariff rate prevents the related development entity from honoring its contractual agreements. In fact, in an October 2, 1996 letter, the utility's attorney stated that the utility and the related development entity never proposed to breach the contract. The utility proposes to honor the lifetimer contracts and also to properly recognize regulatory revenues. The letter further states that this will be accomplished by continuing to bill lifetimers the lower rate in accordance with their contracts, while also booking the total amount of revenue due based upon application of the rates approved by the Commission to all customers in a non-discriminatory manner. The utility proposes to book the difference between the amounts billed to lifetimers and the tariff rates as a receivable from the developer. The utility states it is proposing this method because of the expense that would be required to reprogram the billing system to show the amount of the credit due to the lifetimers on the bill itself.

Customers at agenda also questioned staff's maintenance salary allowance, staff's revenue imputation for lifetimers, how the return on equity (ROE) was established and the costs allowed for maintenance personnel. One customer asked about who pays for water lost during line breaks and why staff was recommending a base facility charge double that charged by Lee County.

Staff responded to the customer concerns by letter dated September 13, 1996. In addition, staff has addressed the concern about unaccounted-for water in Issue No. 2 and the concern about maintenance salaries in Issue No. 8.

DISCUSSION OF ISSUES

SARC DENIAL OR APPROVAL

ISSUE 1: Should the utility's petition for a staff assisted rate case be approved?

RECOMMENDATION: Yes, the utility's petition for a staff assisted rate case should be approved. (BETHEA, OKOME, AGARWAL)

STAFF ANALYSIS: In accordance with Section 367.0814, Florida Statute, and Rule 25-30.455, Florida Administrative Code, utilities whose gross annual revenues total \$150,000 or less for water or wastewater services, or \$300,000 or less on a combined basis, may petition the Commission for staff assistance in rate applications. On February 6, 1996, Buccaneer Water Service submitted an application for a staff assisted rate case (SARC) in which it reported 1994 annual revenues of \$88,279. The utility's 1995 annual report listed \$108,736 in revenues. Staff granted preliminary approval of the utility's application, based upon this information.

During the subsequent audit of the utility staff discovered that the utility was neither billing nor recording affiliated general service customers. Additionally, as mentioned in the case background, the utility was billing a group of residential customers known as "lifetimers" at lower than tariffed rates. When staff imputed revenues for the above customers at the tariffed rates, the utility's 1995 annual revenues totaled \$174,223. The utility exceeds the \$150,000 threshold for SARC eligibility because of the imputation. Although the utility exceeds the \$150,000 threshold as a result of the revenue imputation, staff recommends that the Commission grant the utility's petition for staff assistance for the following reasons.

From 1982 to 1993, the utility provided water to lifetimers free of charge due to its desire to honor previously signed life-long lease agreements. During this period non-lifetimers were metered and billed the approved metered rates. Lifetimers were not metered until 1993. The Commission set rates in two docketed proceedings during that period and in both cases the Commission acknowledged the rate treatment, but did not direct the utility to bill and book revenues for all connections at the approved tariffed rates. The utility, therefore, had no basis on which bill or book revenues for regulatory purposes.

As stated in the case background, in 1993 the utility invoked a provision of the life-long lease agreements and began billing lifetimers at a rate less than the approved tariffed rates for non-lifetimers. The utility erroneously considered these revenues to be non-jurisdictional and did not record them on its books until 1995, after staff discovered the discrepancy in the SARC audit. Moreover, the utility recorded the revenues at the billed rather than the tariffed rates, resulting in reported annual revenues of \$108,736. Staff does not believe the utility's intent was to misstate revenues. It could reasonably interpret previous Commission inaction to mean that it could continue to abide by the provisions of the lifelong lease agreements with regard to rates.

Given the above facts, staff believes that the utility has met the revenue requirement for staff assistance. Section 367.0814(1) refers to "gross annual revenues," which implies revenues actually billed, not those to be imputed. Whether or not revenues should be imputed is an issue to be decided in this case. An additional issue ignored in previous Commission decisions, but central to the determination of the present issue, is whether the utility should be ordered to book and bill all connections at the approved tariffed rates, irrespective of the utility's desire to honor prior contractual agreements. Staff's recommendation on those issues are discussed in Issue Nos. 6, 7 and 13.

Staff also believes it would be impractical from a regulatory standpoint and detrimental to the ratepayers to deny the utility staff assistance. After completion of the audit and preliminary accounting report, when it was apparent that imputation would cause the utility to exceed the \$150,000 threshold, a significant amount of Commission resources had already been expended in processing the case. In fact, the majority of work in the case had already been done. Should the Commission deny eligibility for staff assistance, which would necessitate the utility filing its own case, the amount of Commission resources needed to process that filing would likely exceed that already expended processing the instant case. Moreover, the increased costs associated with that filing would very likely result in rates higher than proposed in this SARC. Staff believes this would result in an unnecessary waste of taxpayer money and would be financially detrimental to the utility's ratepayers.

In light of the above, staff recommends that the Commission approve the utility's request for a staff assisted rate case.

QUALITY OF SERVICE

ISSUE 2: Is the quality of service provided by Buccaneer Water Service satisfactory?

RECOMMENDATION: The quality of service provided by Buccaneer should be considered satisfactory. (RIEGER)

STAFF ANALYSIS: The customer meeting was held on July 17, 1996, in the utility's service area at Buccaneer Estates in North Fort Myers, Florida. There were approximately 400 customers who attended the meeting. There were no significant comments concerning quality of service at the customer meeting. At the September 3, 1996, agenda conference, concerns were stated by customers over a recent water line brake. There were questions about who was going to pay for the lost water, and why it took several days to make the repair.

Unaccounted for water during the test year is determined to be at six percent of the total volume purchased from Lee County. Since the Commission has traditionally considered ten percent unaccounted for water as reasonable, six percent is within acceptable parameters. In response to staff's data request, the utility estimated that approximately 5,000 gallons was lost over the 36 hour period before the break was repaired. Staff does not consider this amount to be significant in light of the total amount purchased during the test year.

In reference to the extended timeframe for the repair to be made, the utility has indicated that it was of a nature that the utility maintenance staff was not equipped to handle. Moreover, it was determined to be more cost effective to have a subcontractor perform the work. The break occurred on a weekend. Since water loss was not considered to be major, the utility decided to wait to perform the work during normal working hours on the following Monday. Staff believes that the utility acted appropriately in this situation.

In addition to the above, the utility is in compliance with health standards. Therefore, it is recommended that the quality of service provided by the utility be considered satisfactory.

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RATE BASE

ISSUE 3: What portions of water plants-in-service are used and useful?

RECOMMENDATION: The utility does not operate a water treatment plant. It is recommended that the water distribution system be considered 100% used and useful. (RIEGER)

STAFF ANALYSIS:

Water Distribution System - The utility currently services approximately 967 residential and 12 general service connections. There are less than five available connections left to buildout of the service area. It is recommended that the water distribution system be considered 100% used and useful.

Staff's calculation of the appropriate used and useful percentage is shown on Attachment B.

ISSUE 4: What is the average test year rate base for the system?

RECOMMENDATION: The average test year rate base is \$96,366.
(OKOME)

STAFF ANALYSIS: Rate base was previously established by this Commission in Docket No. 850650-WU, which was a staff-assisted rate case. According to Order No. 16354 issued on July 15, 1986, rate base was \$69,062 as of September 30, 1985. Order No. PSC-96-0509-FOF-WS issued April 5, 1993, established rate base component balances at August 27, 1992. Staff has selected a historical test year ending December 31, 1995 for this rate case. All rate base components have been updated through December 31, 1995, to include additions and reclassification. A discussion of each component of rate base follows:

Utility Plant in Service (UPIS): The utility recorded UPIS of \$280,276. UPIS has been increased by \$3,248 to bring the utility balance to staff's audited balance. Averaging adjustment reducing water UPIS by \$1,624 were also made. The total adjustment is an increase of \$1,624. Therefore, total recommended utility plant in service is \$281,900.

Accumulated Depreciation: The utility's books reflected accumulated depreciation balance of \$122,993. Consistent with Commission practice, staff started with Commission Order No PSC-93-0509-FOF-WS, issued April 5, 1993, and calculated accumulated depreciation using the prescribed rates in Rule 25-30.140, Florida Administrative Code. Staff has increased accumulated depreciation by \$14,062. Averaging adjustments of \$4,696 were also made. Therefore, total recommended average accumulated depreciation is \$132,359.

Contributions-in-Aid-of-Construction (CIAC): The utility had recorded CIAC of \$172,269. CIAC has been increased by \$990 to bring CIAC to the correct amount approved by Order No. PSC-95-0623-FOF-WS. CIAC has been decreased by \$495 to reflect averaging adjustments. Therefore, total recommended average CIAC balance is \$172,764.

Amortization of CIAC: Amortization of CIAC has been calculated consistent with Staff's calculation of accumulated depreciation. The utility recorded amortization of CIAC of \$91,514. Staff increased CIAC amortization by \$2,859. Staff reduced amortization of CIAC by \$8,589 to reflect averaging adjustments. The resulting balance is \$97,244 for the system.

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Working Capital Allowance: Consistent with Rule 25-30.443, Florida Administrative Code, 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 \$22,345 (based on O&M of \$178,756).

Rate Base Summary: Based on the foregoing, the appropriate balances for test year rate base is \$96,366.

Rate base is shown on Schedule No. 1. Related adjustments are shown on Schedule No. 1A.

COST OF CAPITAL

ISSUE 5: What is the appropriate rate of return on equity, and what is the appropriate overall rate of return for this utility?

RECOMMENDATION: The appropriate rate of return on equity is 11.10% with a range of 10.10% - 12.10% and the appropriate overall rate of return is 9.47% with a range of 8.92% - 10.03%. (OKOME)

STAFF ANALYSIS: The utility's business operation is a partnership. The partners are MHC-QRS DeAnza Inc. and MHC operating limited partnership. MHC operating limited partnership owns 99% of MHC-DeAnza financing limited partnership and MHC-QRS, Inc. owns 1% of MHC-DeAnza financing limited partnership. Utility operations, when needed are financed by Manufactured Home Communities, Inc. Therefore, the capital for MHC has been used to determine the utility's cost of capital.

The utility's capital structure includes a long term debt balance of \$211,966 and common equity balance of \$263,065 for the test year. The utility's debt is at a cost rate of 7.45%. The utility's return on equity, when based on the leverage graph formula in Order No. PSC-96-0729-FOF-WS, issued May 31, 1996, is 11.10%. Therefore, the resulting weighted costs of debt and equity are 3.32% and 6.15%, respectively.

In instances when staff's recommended rate base balances are less than the balances in the utility's capital structure, it has been Commission practice to reduce each component in the capital structure by its weighted share of the excess capital. As a result, staff has reduced the long-term debt balance by \$168,966 and reduced the common equity balance by \$209,699 to reconcile the utility's capital structure components to staff's recommended rate base balances.

The weighted costs of 3.32% for debt and 6.15% for equity result in the appropriate overall rate of return of 9.47%. The return on equity and overall rate of return are shown on Schedule No. 2.

NET OPERATING INCOME

ISSUE 6: What is the appropriate test year operating revenue?

RECOMMENDATION: The appropriate test year operating revenue should be \$174,223. (OKOME)

STAFF ANALYSIS: As discussed in the case background, when the utility was established in 1974, it provided free water and wastewater service to residents as a condition of the lease agreement. After purchasing the mobile home park and utility in 1980 and receiving Commission certification in 1982, DeAnza began charging new tenants for water. Wastewater service continues to be provided without charge.

Tenants known as lifetimers continued to receive water without charge until October 1993, when the utility began billing these customers at rates that were less than the tariffed rates charged to non-lifetimers. During the test year 612 non-lifetimers were charged the Commission authorized base facility charge of \$3.77 and \$3.96 per thousand gallons while 355 lifetimers were charged a \$4 base facility charge and \$.12 per thousand gallons. The utility based its lifetimer rates on the \$4.00 per unit flat rate charged by Lee County in addition to the \$.12 increase in the gallonage charge implemented by Lee County in February 1993.

After the utility began billing lifetimers it failed to record the associated revenues until 1995, after staff discovered the discrepancy during the audit for this case. When the utility began recording lifetimer revenues in 1995, the test year, it did so at the billed rather than tariffed rates, thus understating revenue for regulatory purposes. Total consumption during the test year was approximately 12.237 million gallons for the lifetimers and 18.366 million gallons for the non lifetimers. Staff has increased revenue to account for lifetimer billings at the appropriate tariffed rates.

In addition to the understated lifetimer revenue, there was also unbilled general service connections during the test year. These general service connections are all affiliated with the utility and included six irrigation connections (all 5/8" x 3/4" meters); two model homes that have since been sold (5/8" x 3/4" meters); the manager's residents and utility office (5/8" x 3/4" meters); a hospitality house, pool, and sewer plant (1" meters); and a club house (3" meter). Staff has also made an appropriate adjustment to account for the general service revenue.

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The utility recorded test year water system revenue of \$108,736 during the test year. Staff recalculated test year revenue based on the appropriate number of test year bills and consumption. Based on staff's analysis, the appropriate test year operating revenue is \$174,223. Staff has therefore increased revenue by \$65,487 to reflect the appropriate test year revenue.

Test year revenue is shown on Schedule Nos. 3 and the adjustments are shown on Schedule No. 3A.

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ISSUE 7: Should Buccaneer Water Service be required to pay regulatory assessment fees on the amount of discrepancy in 1995 revenue?

RECOMMENDATION: Yes, if the Commission approves Issue No. 6 of this recommendation, the utility should be required to pay \$2,946 in regulatory assessment fees within 30 days of the effective date of the Commission Order. (OKOME, AGARWAL)

STAFF ANALYSIS: As discussed in Issue No. 6, the staff audit revealed that the customer group known as lifetimers were billed at a non-tariffed rate. The auditor also discovered that twelve general service connections that are affiliated with the utility were not being billed. Hence, the utility failed to record the correct revenues for regulatory purposes in the 1995 test year and on its 1995 annual report. After completing a billing analysis to determine the appropriate test year revenue, staff increased revenue by \$65,487 to reflect the appropriate amount for rate setting and regulatory assessment fee purposes.

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 a yearly 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 \$2,946 in regulatory assessment fees to correspond to that adjustment. The utility should be required to pay \$2,946 in regulatory assessment fees within 30 days of the effective date of the Commission's Order.

It appears that the utility may have underpaid RAF's in years prior to the test year. Staff will consider whether another docket will be opened to address regulatory assessment fees from previous years.

ISSUE 8: What are the appropriate amounts for operating expense for the system?

RECOMMENDATION: The appropriate amounts for operating expense should be \$191,857. (OKOME)

STAFF ANALYSIS: The components of the utility's operating expenses include operation and maintenance expenses, depreciation expense, amortization of CIAC, and taxes other than income taxes.

The utility's test year operating expenses have been traced to invoices. Adjustments have been made to reflect unrecorded test year expenses and reflect recommended allowances for plant operations.

OPERATION AND MAINTENANCE EXPENSES (O & M): The utility charged \$171,261 to water O & M during the test year. A summary of adjustments that were made to the utility's recorded expenses follows:

- 1) Salaries and Wages - Employees - The utility provided budgeted figures for their clerical person based on current salary level of \$14,830 (\$7.13 per hr.x40x52). The utility recorded a total of \$9,565 for salaries and expense for the bookkeeper during the test period. Staff recalculated the salaries and expense for the bookkeeper at 10 hours a week of her time conducting utility business at \$7.13 per hour (\$7.13 per hr.x10x52). This expense was decreased by \$5,857 to reflect the appropriate salaries expense of \$3,708 based on the duties performed by the bookkeeper. Staff recommends an annual salary of \$3,708 for the bookkeeper.

The utility recorded \$19,083 in maintenance salaries. Staff had recommended \$16,739 for this expense in the initial recommendation. As a result of a customer concern expressed at the September 3, 1996, Agenda, staff requested additional information from the utility to justify the maintenance salary. Based upon the analysis the utility provided, an adjustment of \$3,851 was made to reduce the expense. Staff recommends that the expense for maintenance personnel including taxes, benefits and insurance should be \$15,232.

- 2) Contractual Services - The utility recorded \$7,480 for the system during the test period. The total includes water testing expense of \$60, management fees of \$5,437, professional fees of \$1,139, and legal fees of \$844. Staff made several adjustments to these balances.

Staff did not make any adjustments to the amount recorded for water testing. This allowance is reasonable therefore no adjustments were made.

MHC 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 capital expenditures, review of all legal documents and correspondence, entering daily activity for the utility journal entries, invoices and checks. This company also oversees the compilation of the annual report, rate case audits, daily operations and the overall financial operation of the utility. MHC charges the utility \$9,495 annually for this service, \$7,655 for salaries and \$1,840 for overhead. Staff believes this amount is reasonable and recommends an annual management allowance of \$9,495. The utility recorded \$5,437 for management fees during the test year. Staff increased this expense by \$4,058 to reflect the appropriate test year balance of \$9,495.

The utility recorded \$1,139 for professional fees for the test year. This amount included \$369 of regulatory commission expense. Staff made an adjustment to reduce the professional fees (accounting expenses) by \$369 for the test year. This amount was reclassified to regulatory commission expense.

The utility recorded legal fees of \$844 for the test year. Staff did not make any adjustments to this amount.

The utility utilizes the service of MRI Software for stuffing envelopes, postage and preparing the utility bills. The bills provide monthly billings for both lot rental and utility services. The

utility has requested \$5,306 annually for billing cost. Staff made an adjustment to record test year billing cost of \$2,653 ($5,306/2$) relating to utility expense.

Total adjustments to this account amounted to \$6,342. Staff recommends a contractual service expense of \$13,822 for the test year.

- 3) Regulatory Commission Expense - This expense has been adjusted by \$2,494 ($\$9,977/4$) to record the utility's rate case expense amortized over four years. This expense includes \$1,000 for rate case filing fees, \$369 accounting fees that were reclassified from professional fees and \$8,608 for legal fees for a total of \$9,977.
- 4) Miscellaneous Expense - The utility recorded \$1,161 for the test year miscellaneous expense. This expense has been increased by \$14,000 to reflect water line repair cost for the test year. These costs are not unusual, nor are they one time expenses. Therefore, staff allowed water line repair expenses for the test year of \$14,000. Staff recommends \$15,161 for test year miscellaneous expense.

Operation and Maintenance Expenses (O & M) Summary: Total operation and maintenance adjustments are \$13,128. Staff recommends test year operation and maintenance expenses of \$184,389.

Depreciation Expense: The utility recorded \$12,063 for depreciation expense during the test period. This expense was reduced by \$2,672. Applying the prescribed depreciation rates to the appropriate used and useful plant in service account balances results in depreciation expense of \$9,391 for the test year.

Amortization of CIAC: Amortization of CIAC reduces depreciation expense. Amortization of CIAC has been calculated using the rate prescribed by Rule 25-30.140, Florida Administrative Code. The utility recorded \$5,118 for amortization expense for the test year. This expense was increased by \$600 to reflect staff's calculated test year amortization expense.

Taxes Other Than Income: The utility recorded taxes other than income of \$4,894. Staff has adjusted this account by \$384 to reflect taxes on recommended salaries and by \$2,946 to reflect

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regulatory assessment fees for the test year resulting in a total increase of \$3,330 to adjust the utility balance to staff's recommended balance.

Operating Revenues: Revenues have been adjusted by \$26,761 to reflect the increase in revenue required to cover expenses and allow the recommended rate of return on investment.

OPERATIONS AND MAINTENANCE: The utility recorded \$133,972 for purchased water for the test year. During the test year, consumption demands were dramatically reduced due to the modifications in the treatment process used at the wastewater treatment facility at the park. The treatment facility is one of the utility's general service water connections. The facility consumed approximately 2,764,000 gallons, for an average of 230,000 per month. Since the wastewater plant now uses treated effluent for the chlorination process rather than potable water, consumption has now dropped from the previous 230,000 gallons per month to an estimated 15,000 gallons per month or 180,000 gallons per year. The staff engineer recommended a 2,584,000 adjustment be made to reflect the reduction (2,764,000 minus 180,000). As a result staff adjusted the purchased water amount by \$5,633 (2,584 gallons multiplied by \$2.18 Lee County rates for gallonage to the utility) to reflect purchased water amount of \$128,339 for the test year.

Taxes Other Than Income Taxes : This expense has been increased by \$1,204 to reflect the regulatory assessment fee of 4.5% on the increase in revenue.

Operating Expenses Summary : The application of staff's recommended adjustments to the utility's test year operating expenses results in staff's recommended operating expenses of \$191,857. Operating expenses are shown on Schedule No. 3. Adjustments are shown on Schedule No. 3A. Operation and maintenance expenses are shown in Schedule No. 3B.

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REVENUE REQUIREMENT

ISSUE 9: What is the appropriate revenue requirement?

RECOMMENDATION: The appropriate revenue requirement is \$200,984.
(OKOME)

STAFF ANALYSIS: The utility should be allowed an annual increase in revenue of \$26,761 (15.36%) for the water system. This will allow the utility the opportunity to recover its operating expenses and earn a 9.47% return on its investment. The calculations are as follows:

	<u>Water</u>
Adjusted Rate Base	\$ 96,366
Rate of Return	x .0947
Return on Investment	\$ 9,127
Adjusted Operation Expenses	178,756
Net Depreciation Expense	3,673
Taxes Other Than Income Taxes	9,428
Revenue Requirement	<u>\$200,984</u>
Annual Revenue Increase	\$ 26,761
Percentage Increase	<u>15.36%</u>

The revenue requirements and resulting annual increases are shown on Schedule No. 3.

RATES AND CHARGES

ISSUE 10: What is the appropriate rate structure and what are the recommended rates for this utility?

RECOMMENDATION: The recommended rates should be designed to produce revenue of \$200,984 using the base facility charge rate structure. These rates should be charged to all customers of the utility. 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 within 10 days after the date of the notice. (OKOME, AGARWAL)

STAFF ANALYSIS: The utility is located in North Ft. Myers, in Lee County. Potable water is purchased through a six inch meter from Lee County Utilities. The utility currently provides service to approximately 967 residential and 12 general service customers.

Staff's recommended rates reflect an increase in the base facility charge and a decrease in the gallonage charge. Staff decreased the gallonage charge because the utility's existing rate structure does not provide for appropriate recovery of its fixed versus variable expenses. To illustrate, whereas the Lee County Utilities is charging the utility a fixed rate of \$4.75 per customer on a monthly basis, the utility charges a base facility charge of only \$3.77 per customer. Lee County also charges the utility \$2.18 per thousand gallons versus the utility's charge of \$3.96 per thousand. If the rate structure is not adjusted to allow for appropriate recovery of fixed and variable expenses, year-round customers will end up subsidizing seasonal customers.

Staff recommends that all customers of Buccaneer, whether lifetimers or non-lifetimers, or affiliated general service customers, should pay the approved rate on a going-forward basis. Staff believes that the Commission should set rates for this utility pursuant to Section 367.081(2), Florida Statutes, which requires that the Commission "fix rates which are just, reasonable, compensatory and not unfairly discriminatory." The current rates are discriminatory in nature as the non-lifetimer customers are paying more than the lifetimer customers, in violation of Sections 367.081(2)(a), 367.091(2) and (3), 367.101(1), and 367.121(1)(a), Florida Statutes.

The lifetimer customers contracted with the developer that the

water utility charges would be included in the lot rental. Those customers may have concerns over the fact that the Commission, if it agrees with staff's recommendation, is ordering them to pay while their contract indicated otherwise. The courts have considered this issue in the past. In Cohee v. Crestridge Utilities Corp., 324 So.2d 155 (2nd D.C.A. 1975), the Second District Court of Appeal stated that:

[D]espite the fact that Crestridge had a pre-existing contract concerning its rates, now that Crestridge is under the jurisdiction of the Public Service Commission, these rates may be ordered changed by that body. The Public Service Commission has authority to raise as well as lower rates established by a pre-existing contract when deemed necessary in the public interest. State v. Burr, 1920, 79 Fla. 290, 84 So. 61.

The Court also stated, after setting out the full text of Section 367.081(2), Florida Statutes, that ". . . it would appear that the Commission would not even be authorized to take into consideration the pre-existing contract in its determination of reasonable rates."

The Commission has determined in similar situations that a pre-existing contract is not determinative in setting rates for a utility under the Commission's jurisdiction. The Commission has the authority to charge rates which it finds to be in the public interest, even if it runs contrary to a contractual agreement. See Order No. PSC-94-0171-FOF-WS, issued February 10, 1994 in Docket No. 930133-WS (In re: application for water and wastewater Certificates in Lake County by Lake Yale Corporation d/b/a Lake Yale Utility Company). See also Order No. 21680, issued August 4, 1989 (In re: application of Continental Country Club, Inc., for an increase in water and wastewater rates in Sumter County) In a case involving Shady Oaks Mobile-Modular Estates, the Second District Court of Appeal, citing past precedent, held that the Commission's authority to set rates preempted contractual agreements which had set rates based upon a yearly fee. Public Service Commission v. Lindahl, 613 So.2d 63 (Fla. 2nd DCA 1993).

In consideration of this precedent, and the Commission's jurisdiction in this matter, staff recommends that the Commission require the utility to charge lifetimers the same rate as the non-lifetimers. Staff notes that the lifetimers have been paying a reduced rate, based upon Lee County increases, since 1993. The Commission's action should place all customers of Buccaneer Water Service on an equal footing.

By letter dated October 2, 1996, the utility proposed to charge the tariffed rates while at the same time, abide by the original developer's agreement with the "lifetimers". Until programming changes can be made to the billing system to accommodate developer credits to lifetimer bills, the utility will bill the "lifetimers" the original developer's agreement rate, and receive the difference between this rate and the tariffed rate from the developer. The net effect would be that the utility would reflect receiving the tariffed rate in its books. Staff supports this proposal until the billing changes can be implemented. The utility states that the program changes will not be complete until the first quarter of 1997. Pending that change and to prevent confusion as to the status of MHC, MHC should be placed on notice that it should not act as a utility or perform functions of a utility, such as increasing rates or charges, collecting deposits for service and discontinuation of service.

Rates have been calculated based on test year customers and consumption levels. Schedules of the utility's existing rates and rate structure and staff's recommended rates and rate structure are as follows:

MONTHLY WATER RATES

Residential and General Service

Base Facility Charge

<u>Meter Sizes:</u>	<u>Current Rates</u>	<u>Staff's Recommended Rates</u>
5/8" x 3/4"	\$ 3.77	\$ 8.05
3/4"	5.66	12.07
1"	9.43	20.12
1 1/2"	18.88	40.24
2"	30.18	64.38
3"	60.37	128.76
4"	94.33	201.18
6"	188.68	402.37

Gallage Charge

Per 1,000 Gallons	\$ 3.96	\$ 3.46
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Based on the test year billing analysis the average water consumption for individually metered residential customers was approximately 2,495 gallons per month. A schedule of an average residential customer bill based on existing and staff's recommended rates are as follows:

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Average bill using recommended rates	\$	16.68
Average bill using existing rates		<u>(13.65)</u>
Increase in average bill	\$	3.03
Percentage increase in average bill = 22.20% (\$3.03/\$13.65)		

The percentage increase in average bill (22.20%) is higher than Staff's recommended revenue increase (15.36%) as shown in Issue No. 9. The reason for this is that subsequent to the test year, the wastewater treatment plant, a general service customer, significantly reduced its water consumption due to some modifications (see Issue No. 8). Therefore, there are less billable gallons over which to allocate costs.

Staff's recommended rates are designed to produce revenue of \$200,984, using the base facility charge rate structure. If the Commission approves staff's recommendation, these 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, provided the customers have received notice. 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 within 10 days after the date of the notice.

OTHER ISSUES

ISSUE 11: What is the appropriate amount by which revenues 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 \$2,612 annually to reflect the removal of rate case expense grossed-up for regulatory assessment fees which is being amortized over a four year period. Using the utility's current revenues, expenses, capital structure and customer base, the effect of the revenue reduction results in rate decreases as shown on Schedule No. 4. The decrease in rates should become effective immediately following the expiration of the four year rate case expense 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. (OKOME)

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 revenues associated with the amortization of rate case expense and the gross-up for regulatory assessment fees which is \$2,612 annually for water. Using the utility's current revenues, expenses, capital structure and customer base the reduction in revenues will result in the rate decreases as shown on Schedule No. 4.

The utility should be required to file revised tariff sheets 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 the reduction in the rates due to the amortized rate case expense.

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

RECOMMENDATION: Yes, the recommended rates should be approved for the utility on a temporary basis, subject to refund, in the event of a protest filed by a party other than the utility. If the recommended rates are approved on a temporary basis, the rates collected by the utility shall be subject to the refund provisions discussed below in the Staff Analysis. (OKOME, RIEGER, AGARWAL)

STAFF ANALYSIS: This recommendation 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, 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 security for both the potential refund and a copy of the proposed customer notice. The security should be in the form of a bond or letter of credit in the amount of \$18,488. 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 a 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.

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.

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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.

ISSUE 13: Should MHC-DeAnza Financing Limited Partnership d/b/a Buccaneer Water Service be ordered to show cause why it should not be fined for violating Section 367.091(2) and (3), Florida Statutes, for failure to charge its existing tariff rates for water service?

RECOMMENDATION: No, based upon the Commission's past orders, a show-cause action is not warranted. However, the utility should be ordered to bill all connections, including lifetimer residents and affiliated general service connections, at the approved, tariffed rates. (AGARWAL)

STAFF ANALYSIS: As stated in the case background, the utility is currently charging two sets of rates, differentiated by the "lifetimer" or "non-lifetimer" status of the customer. In addition, the utility has not rendered bills to affiliated general service connections. Staff has recommended in Issue No. 10 that the utility collect the same authorized rates from all customers, and addresses the legal justification of that requirement below. Staff also believed it necessary to address whether a show cause order should be issued because of the utility's continued establishment of different rates.

The Commission consistently recognized in past orders that the utility had two classes of customers. However, the orders do not indicate that the Commission required to utility to cease the practice. In the order that granted the utility's original certificate, Order No. 11263, issued October 25, 1982, in Docket No. 820120-W, the Commission noted that approximately 710 customers still received their water service with their rent, but that new customers were required to pay the metered rates. The order contained a brief discussion of whether the Commission could remedy a breach of contract between the utility and the customers. The ordering paragraphs contain general language as to the new rates, but do not require the utility to charge all customers those rates. Moreover, the lifetimers at that time were unmetered. Since the Commission set only metered rates, and did not order meters to be installed, the utility had no basis for billing or booking revenues associated with the lifetimers.

In Docket No. 850650-WU, by Order No. 16354, issued July 15, 1986, the Commission recognized that utility had 314 metered and 605 unmetered customers, and that "[e]ventually, the utility plans to charge and meter all customers." For the purposes of the SARC, the Commission imputed revenues for ratesetting purposes to take the impact of the unmetered customers into account. Again, the ordering paragraphs do not specify that the utility must begin

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metering or charging the lifetimer customers.

The utility filed for a pass-through increase in 1994, but did not charge its metered customers the increased rate. By Order No. PSC-95-0623-FOF-WS, issued May 22, 1995, in Docket No. 940849-WU, the Commission approved a transfer of the utility to the current owner. That order did not address the lifetimer/non-lifetimer situation, although the statement that the utility had 660 customers indicates that the Commission was only addressing the metered, non-lifetimer customers. In that order, the Commission noted that the utility had not implemented the pass-through increase in its rates, and ordered the utility to do so. However, the Commission found that the utility should not be show caused for this failure. It does not appear that Order No. PSC-95-0623-FOF-WS addressed the lifetimer customers at all.

As noted in the case background, the utility did begin charging the lifetimer customers sometime in 1993, and based the charge on increases that had been incurred from Lee County. It may be argued that the cost of water service has been included in the lot rental. Nevertheless, at this point, staff believes that the utility has been charging different rates for similar services. This circumstance might lead to a show cause action, which can be initiated for any willful violation of statute, rule, or order. However, Staff recommends that a show cause action should not be initiated. The Commission's past orders clearly acknowledged the billing and metering situation at Buccaneer Estates, but did not explicitly order the utility to alter the situation. Therefore, the utility is not in violation of a Commission order, and in fact can be seen as reliant upon those orders. Moreover, imputing the revenues and ordering the utility to charge the same rates on a going-forward basis remedies the situation. Therefore, Staff recommends that the utility not be required to show caused why it should not be fined.

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ISSUE 14: Should this docket be closed if a timely protest is not received?

RECOMMENDATION: If the Commission approves Issue No. 7, and if no timely protest is received from a substantially affected person within 21 days from the issuance of the Order, this docket may be closed administratively upon receipt of the \$2,946 regulatory assessment fees detailed in Issue No. 7. If the Commission denies Issue No. 7, and if no timely protest to the proposed agency action issue is received during the 21 day protest period, this docket should be closed. (OKOME, RIEGER, AGARWAL)

STAFF ANALYSIS: As discussed in Issue No. 7, Staff has recommended that the utility pay \$2,946 in regulatory assessment fees due to the discrepancy in revenues for 1994. If the Commission approves Issue No. 7, and if no timely protest is received from a substantially affected person within 21 days from the issuance of the Order, this docket should be closed administratively, upon receipt of the \$2,946 regulatory assessment fees detailed in Issue No. 7 or the end of the protest period, whichever occurs last. If the Commission denies Issue No. 7, and if no timely protest to the proposed agency action issues is received during the 21 day protest period, this docket should be closed at the end of the protest period.

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Attachment B

WATER DISTRIBUTION SYSTEM

USED AND USEFUL DATA

Docket No. 960133-WU Utility Buccaneer Water Service Date May 96

The utility currently services approximately 967 residential and 12 general service connections. There are less than five available connections left to buildout of the service area. It is recommended that the water distribution be considered 100% used and useful.

BUCCANEER WATER SERVICE
 TEST YEAR ENDING DECEMBER 31, 1995
 SCHEDULE OF WATER RATE BASE

SCHEDULE NO. 1
 DOCKET NO. 960133-WU

	<u>BALANCE PER UTILITY</u>	<u>STAFF ADJUST. TO UTIL. BAL.</u>	<u>BALANCE PER STAFF</u>
UTILITY PLANT IN SERVICE	\$ 280,276	\$ 1,624 A	\$ 281,900
LAND/NON-DEPRECIABLE ASSETS	0	0	0
NON USED & USEFUL PLANT	0	0	0
ACCUMULATED DEPRECIATION	(122,993)	(9,366) B	(132,359)
CIAC	(172,269)	(495) C	(172,764)
AMORTIZATION OF CIAC	91,514	5,730 D	97,244
WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>22,345 E</u>	<u>22,345</u>
WATER RATE BASE	\$ 76,528	\$ 19,838	\$ 96,366

BUCCANEER WATER SERVICE
TEST YEAR ENDING DECEMBER 31, 1995
ADJUSTMENTS TO RATE BASE

SCHEDULE NO. 1A
DOCKET NO. 960133-WU

	<u>WATER</u>
A. <u>UTILITY PLANT IN SERVICE</u>	
1. To bring utility balance to staff's recommended balance.	\$ 3,248
2. To reflect averaging adjustment.	(1,624)
	<u>\$ 1,624</u>
B. <u>ACCUMULATED DEPRECIATION</u>	
1. To bring accumulated depreciation to correct amount	\$ (14,062)
2. To reflect averaging adjustment	4,696
	<u>\$ (9,366)</u>
C. <u>CIAC</u>	
1. To bring CIAC to correct amount.	\$ (990)
2. To reflect averaging adjustment.	495
	<u>\$ (495)</u>
D. <u>AMORTIZATION OF CIAC</u>	
1. To bring CIAC amortization to correct amount.	\$ (2,859)
2. To reflect averaging adjustment.	8,589
	<u>\$ 5,730</u>
E. <u>WORKING CAPITAL ALLOWANCE</u>	
1. To reflect 1/8 of test year O & M expenses.	<u>\$ 22,345</u>

BUCCANEER WATER SERVICE
 TEST YEAR ENDING DECEMBER 31, 1995
 SCHEDULE OF CAPITAL STRUCTURE

SCHEDULE NO. 2
 DOCKET NO. 960133-WU

	<u>PER UTILITY</u>	<u>STAFF ADJUST. TO UTIL. BAL.</u>	<u>BALANCE PER STAFF</u>	<u>PERCENT OF TOTAL</u>	<u>COST</u>	<u>WEIGHTED COST</u>
LONG-TERM DEBT	\$ 211,966	\$ (168,966)	\$ 43,000	44.62%	7.45%	3.32%
COMMON EQUITY	263,065	(209,699)	53,366	55.38%	11.10%	6.15%
CUSTOMER DEPOSITS	0	0	0	0.00%	0.00%	0.00%
TOTAL	\$ 475,031	\$ (378,666)	\$ 96,366	100.00%		9.47%

<u>RANGE OF REASONABLENESS</u>	<u>LOW</u>	<u>HIGH</u>
RETURN ON EQUITY	10.10%	12.10%
OVERALL RATE OF RETURN	8.92%	10.03%

BUCCANEER WATER SERVICE
 TEST YEAR ENDING DECEMBER 31, 1995
 SCHEDULE OF WATER OPERATING INCOME

SCHEDULE NO. 3
 DOCKET NO. 960133-WU

	<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>108,738</u>	\$ <u>65,487</u> A	\$ <u>174,223</u>	\$ <u>26,761</u> F	\$ <u>200,984</u>
OPERATING EXPENSES:					
OPERATION AND MAINTENANCE	171,261	13,128 B	184,389	(5,633) G	178,756
DEPRECIATION	12,063	(2,672) C	9,391	0	9,391
AMORTIZATION	(5,118)	(600) D	(5,718)	0	(5,718)
TAXES OTHER THAN INCOME	4,894	3,330 E	8,224	1,204 H	9,428
INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL OPERATING EXPENSES	<u>183,100</u>	\$ <u>13,186</u>	\$ <u>196,286</u>	\$ <u>(4,429)</u>	\$ <u>191,857</u>
OPERATING INCOME/(LOSS)	<u>(74,364)</u>		\$ <u>(22,063)</u>		\$ <u>9,127</u>
WATER RATE BASE	\$ <u>76,528</u>		\$ <u>96,366</u>		\$ <u>96,366</u>
RATE OF RETURN	<u>-97.17%</u>		<u>-22.90%</u>		<u>9.47%</u>

BUCCANEER WATER SERVICE
TEST YEAR ENDING DECEMBER 31, 1995
ADJUSTMENTS TO OPERATING INCOME

SCHEDULE NO. 3A
DOCKET NO. 960133-WU

	<u>WATER</u>
A. OPERATING REVENUES	
1. To adjust test year revenue to test year customers and consumption through billing analysis.	\$ <u>65,487</u>
B. OPERATION AND MAINTENANCE EXPENSES	
1. Salaries and Wages - Employees	
a. To reduce annual salary for the bookkeeper.	\$ (5,857)
b. To reduce annual salary for the maintenance person.	(3,851)
	<u>\$ (9,708)</u>
2. Contractual Service	
a. To adjust management fees for the test year.	\$ 4,058
b. To reclassify accounting fees to regulatory commission expense.	(369)
c. To record contractual service for billing cost for the test year.	2,653
	<u>\$ 6,342</u>
3. Regulatory Commission Expense	
a. To include rate case expense amortized over 4 years.	\$ 2,494
	<u>\$ 2,494</u>
4. Miscellaneous Expense	
a. To increase water line repairs for historical cost.	\$ 14,000
	<u>14,000</u>
TOTAL O & M ADJUSTMENTS	<u>\$ 13,128</u>
C. DEPRECIATION EXPENSE	
1. To adjust utility balance to match depreciation rates set forth in Rule 25-30.140.	\$ <u>(2,672)</u>
D. AMORTIZATION EXPENSE	
1. To adjust utility balance to staff calculated balance.	\$ <u>(600)</u>
E. TAXES OTHER THAN INCOME	
1. To reflect payroll taxes on recommended salaries.	\$ 384
2. To reflect regulatory assessment fees @ 4.5% on test year revenue.	2,946
	<u>\$ 3,330</u>
F. OPERATING REVENUES	
1. To reflect staff's recommended increase in revenue.	\$ <u>26,761</u>
G. OPERATION AND MAINTENANCE	
1. To adjust test year purchase water expense to reflect reduction in wastewater treatment plant water consumption.	\$ <u>(5,633)</u>
H. TAXES OTHER THAN INCOME	
1. To reflect additional regulatory assessment fee associated with recommended revenue requirement.	\$ <u>1,204</u>

BUCCANEER WATER SERVICE
 TEST YEAR ENDING DECEMBER 31, 1995
 ANALYSIS OF WATER OPERATION AND
 MAINTENANCE EXPENSE

SCHEDULE NO. 3B
 DOCKET NO. 960133-WU

	<u>TOTAL PER UTIL.</u>	<u>STAFF ADJUST.</u>	<u>TOTAL PER STAFF</u>
(601) SALARIES AND WAGES - EMPLOYEES	\$ 28,648	\$ (9,708)[1]	18,940
(603) SALARIES AND WAGES - OFFICERS	0	0	0
(604) EMPLOYEE PENSIONS AND BENEFITS	0	0	0
(610) PURCHASED WATER	133,972	(5,633)[G]	128,339
(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	7,480	6,342 [2]	13,822
(640) RENTS	0	0	0
(650) TRANSPORTATION EXPENSE	0	0	0
(655) INSURANCE EXPENSE	0	0	0
(665) REGULATORY COMMISSION EXPENSE	0	2,494 [3]	2,494
(670) BAD DEBT EXPENSE	0	0	0
(675) MISCELLANEOUS EXPENSES	1,161	14,000	15,161
	<u>\$ 171,261</u>	<u>\$ 7,495</u>	<u>\$ 178,756</u>

RECOMMENDED RATE REDUCTION SCHEDULE

BUCCANEER WATER SERVICE
 TEST YEAR ENDING DECEMBER 31, 1995

SCHEDULE NO. 4
 DOCKET NO. 960133-WU

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

MONTHLY WATER RATES

RESIDENTIAL AND GENERAL SERVICE	MONTHLY RECOMMENDED RATES	MONTHLY RATE REDUCTION
BASE FACILITY CHARGE:		
Meter Size:		
5/8"X3/4"	\$ 8.05	0.10
3/4"	12.07	0.16
1"	20.12	0.26
1-1/2"	40.24	0.52
2"	64.38	0.84
3"	128.76	1.67
4"	201.18	2.61
6"	402.37	5.23
GALLONAGE CHARGE PER 1,000 GALLONS	 \$ 3.46	 0.04