

FLORIDA PUBLIC SERVICE COMMISSION
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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 & WASTEWATER (CASEY, EDWARDS) *W.A.S.*
DIVISION OF LEGAL SERVICES (VACCARO) *V.A.C.*

RE: DOCKET NO. 960523-WS - J & J WATER AND SEWER CORPORATION
- APPLICATION FOR A STAFF ASSISTED RATE CASE

COUNTY: CITRUS

AGENDA: 11/12/96 - REGULAR AGENDA - PROPOSED AGENCY ACTION EXCEPT
ISSUES NOS. 3 AND 15 - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: 9/13/97 - 15 MONTH STATUTORY DEADLINE

LOCATION OF FILE: S:\PSC\WAW\WP\960523WS.RCM

SPECIAL INSTRUCTIONS: NONE

DOCUMENT NUMBER-DATE

11656 OCT 31 96

FPSC-RECORDS/REPORTING

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CASE BACKGROUND

J & J Water and Sewer Corporation (J & J or utility) is a Class "C" water and wastewater utility providing service to approximately 51 residential customers and one church in the Meadows subdivision of Citrus County. The utility was granted certificate Nos. 361-W and 316-S by Order No. 11057, issued August 5, 1982, in Docket No. 810482-WS. The utility owner died on August 14, 1994 and the utility passed to the beneficiaries of the John Wilson Trust (Trust). On June 20, 1995, the Trust filed a Notice of Abandonment with the Commission on behalf of J & J. On November 15, 1995, the estate of the utility owner sold approximately 91 lots in the Meadows subdivision to Meadows Incorporated for \$17,500. Proceeds from this sale were to satisfy the outstanding debt of the utility, including Gator Water and Wastewater (the contract operator), accounting, legal and electrical bills. Also on November 15, 1995, the utility was sold to Meadows Utility Company, Incorporated, for \$1. On December 27, 1995, the abandonment was stayed and on January 24, 1996, an application to transfer J & J to Meadows Utility Company, Inc., was filed with the Commission.

Normally, staff would not process a staff assisted rate case (SARC) prior to the Commission approving a transfer of the certificate, but staff believes there are extenuating circumstances in this case. The Trust notified the Commission of its intent to abandon the utility because the utility was unable to generate sufficient funds to adequately maintain and expand its plant in accordance with its operating permits. The abandonment was stayed after the utility was purchased on November 15, 1995. Although the utility is being operated and maintained since the November 15, 1995 purchase, it is not receiving compensatory rates as provided for in Chapter 367.081(2)(a), Florida Statutes (F.S.). There may be a delay in the transfer application because of a verification of the transfer noticing requirements. Although the new owner is not in possession of a Commission certificate to provide water and wastewater service, he is acting as a utility as defined in Chapter 367.021(12), F.S. and should be entitled to compensatory rates. Staff believes the SARC rate case should proceed to provide the utility with compensatory rates.

The transfer application is being handled in Docket No. 951026-WS. Although the present owner of the utility did not purchase the utility until November 15, 1995, a statement submitted with the transfer application indicates that he is accepting the responsibility of any outstanding regulatory assessment fees (RAFs), fines, or refunds owed by the utility. By correspondence dated April 17, 1996, the utility owner requested a payment plan

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for the amounts owed for delinquent 1994 and 1995 RAFs. By Order No. PSC-96-0834-FOF-WS, issued July 1, 1996, in Docket No. 960540-WS, the Commission approved a payment plan for past due RAFs and the utility is current with the payments as outlined in the order.

The utility has not filed for an increase in its tariffed rates in the 14 years since its original certification. J & J filed this SARC application on April 19, 1996 and has paid the appropriate filing fee. The official filing date has been set as June 13, 1996.

A customer meeting was held September 25, 1996, in the utility's service area to receive quality of service testimony. Customers presented information questioning the ownership of the utility land and the ability of the new owner to provide quality service. Some customers stated they never received a copy of the original notice apprising them that the transfer of utility ownership was taking place and thus, were not allowed the opportunity to protest the transfer. These items are being taken up in the transfer docket. Although the transfer docket is being delayed for verification of data, staff believes the SARC docket should proceed since the utility is operating at a serious deficit using the existing tariffed rates.

Since the November 15, 1995 sale of the utility, a number of complaints have also been brought to the attention of staff. Among them were: the utility charged rates other than the approved J & J tariff; the utility did not give proper notice before shutting off customers' water; and the utility charged a reconnection charge which is not in the tariff. These complaints are addressed in Issues Nos. 1, 2, and 3 of this recommendation.

Staff has audited the utility's records and the staff engineer has conducted a field investigation of the utility's water plant, water distribution, wastewater plant, and wastewater collection system along with the service area. Staff selected an historical test year ended April 30, 1996.

Water use in the utility's service area is under the jurisdiction of the Southwest Florida Water Management District (SWFWMD). Because of the utility's size, the SWFWMD has not issued a consumptive use permit. The utility is not located within a critical water use caution area.

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DISCUSSION OF ISSUES

QUALITY OF SERVICE

ISSUE 1: Is the quality of service provided by J & J Water and Sewer Corporation satisfactory?

RECOMMENDATION: No. The quality of service provided by J & J Water and Sewer Corporation should be considered unsatisfactory. The utility should be ordered to install a water meter at the wastewater plant, submit nine additional months of monthly operation reports (MORs) to the Commission, install a meter box at one customer connection (church), and improve general customer relations. (EDWARDS, CASEY)

STAFF ANALYSIS: A review of the Department of Environmental Protection's (DEP) records reveals that the water and wastewater facilities are in compliance with the appropriate environmental regulations. The engineer also checked with the PSC's Division of Consumer Affairs for any registered complaints and none were found.

A review of the utility's MORs revealed that the data on the reports was questionable. Mr. McLaurin, an engineer representing the engineering firm of Berryman & Henigar, tested the wastewater treatment plant's meter (the meter that measures effluent). The meter was inaccurate and required calibration which was performed by the engineer. Because the meters for both water and wastewater facilities were not reading correctly and the plant flow data was erroneous, the test year data could not be used in this report. The data used in this report dates from June 1996 to present.

The utility has indicated that the following measures were taken to eliminate any questions of the accuracy of the MOR data:

- * A new four-inch master meter was installed at the water treatment plant.
- * Each customer meter has been tested for accuracy and any necessary corrective action(s) have been taken to insure the quality of service.
- * The Florida Rural Water Association was contracted to track the water flows, to locate leak(s) and to assist in solving the problem of unaccounted for water.

The utility's MORs indicate that the effluent treated daily at the wastewater treatment plant exceeds the DEP's allowable capacity. Staff is concerned about this situation, however, DEP,

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although aware of the situation, has not filed any enforcement action against the utility. Staff is also concerned about the limited available data used to construct the used and useful report. Because the used and useful calculations may be used in the future for index and pass-through applications, staff recommends that the utility be required to submit nine months of additional MORs to the Commission so a more accurate calculation can be determined. The utility should also install a meter box at the church's service connection and install a water meter at the wastewater plant to monitor water usage there.

There is no consent order or enforcement action filed against the utility by any government agency; however, a number of complaints have been received by staff regarding customer service. On September 25, 1996, a customer meeting was held in the utility's service area. A number of complaints were received at the customer meeting:

- 1) The utility was not charging tariffed rates. Utility customers were paying a \$42 flat rate until June 1995 when the utility filed a notice of abandonment. This \$42 rate included water and wastewater service, street lighting, garbage collection, mowing of the common areas, road maintenance, and maintenance of the clubhouse and pool. When the new owner purchased the utility November 15, 1995, he estimated that the water and wastewater charge should be \$34 per month and began charging that amount to utility customers without Commission approval;
- 2) The utility did not allow customers 20 days for payment of bills and did not give the proper 5 working days written notice to customers before turning off their water as required by Rules 25-30.335(4) and 25-30.320(2)(g), Florida Administrative Code, and as required in the utility's existing tariff. A copy of a utility letter to one of its customers shows the utility stated bills were due on the 1st of the month, past due on the 15th of the month, and shutoff for non-payment would occur on the 16th of the month;
- 3) The utility charged a reconnection fee to three residents whose water was shutoff for non-payment when there was no reconnection fee allowed in the utility's tariff. The utility charged two customers \$35 each and one customer \$34 for reconnection;
- 4) The utility owner tried to exchange past due water and wastewater bills from June 1, 1995 through November 15, 1995 for ownership of the subdivision clubhouse and pool. A letter

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from the utility owner to residents of the Meadows subdivision alleges when the new owner purchased the utility, he purchased all past due bills from the previous owner. Residents did not pay any utility bill from June 1, 1995 through November 15, 1995, when the new owner purchased the utility. Another letter from the utility owner to residents stated that he would waive past due utility bills (June 1, 1995 through November 15, 1995) if the residents surrendered common ownership of the clubhouse and pool. The utility owner subsequently sold the clubhouse and pool as a residence without approval of all residents. Residents of the subdivision then initiated a civil action;

5) The utility owner asked residents to comment (on their water and wastewater bill) on a civil action which one resident was pursuing regarding the clubhouse. An August 25, 1995 utility owner letter to residents of the subdivision stated the clubhouse was sold and past due water and wastewater bills (June 1, 1995 through November 15, 1995) had been waived. The letter further stated that one homeowner contacted an attorney about his rights to the clubhouse. The utility owner went on to ask residents "Are you going to let one power hungry individual dictate to you? I would like each and every home owner to let me know (via your water and sewer payments) whether you want to go along with Mr. Jones...."; and

6) The utility threatened to shutoff customers' water. An August 30, 1995 letter from the utility owner to the protesting resident's attorney stated if the resident did not go along with his proposal to exchange his ownership in the clubhouse and pool for past due water and wastewater bills from June 1, 1995 through November 15, 1995, he would shut his water off until he paid those past due water and wastewater bills.

A number of other complaints were received by staff and corrected by the utility prior to the writing of this recommendation. Staff believes the actions of this utility owner should warrant a recommendation of unsatisfactory quality of service and the utility should be ordered to improve general customer relations. Further action by the Commission is recommended in Issues Nos. 2 and 3.

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ISSUE 2: Should the utility be required to make refunds to customers for charging unauthorized rates and unauthorized reconnection fees?

RECOMMENDATION: Yes, the utility should be required to refund \$3,044 in rate overcharges and \$104 in unauthorized reconnection fees. For the rate overcharges, customer accounts should be credited on a monthly basis over a period of 12 months and include interest in accordance with Rule 25-30.360, Florida Administrative Code. For the reconnection fees, customer accounts should be credited within 30 days of the issuance of the order and include interest in accordance with Rule 25-30.360, Florida Administrative Code. The utility should provide the Commission with proof of the customer credits on a monthly basis beginning with the first billing period after the issuance of the Order. (CASEY, VACCARO)

STAFF ANALYSIS: As detailed in Issue No. 1, the utility was not charging tariffed rates. When the new owner purchased the utility on November 15, 1995, he started charging a flat rate of \$34 per month without Commission approval, instead of charging the rates approved in Order No. 11057. Staff counsel notified the utility by letter, dated September 20, 1996, that the utility may only charge rates and charges approved by the Commission. The utility started charging tariffed rates in its September 25, 1996 billing which covered the August 26, 1996 to September 25, 1996 billing period.

Staff estimated that utility customers were charged \$7,346 in excess of the utility's tariff from the time of the utility purchase through August 25, 1996. Utility customers did not pay any utility bills from June 1, 1995 through November 15, 1995 even though they were receiving service. Despite the fact that there was a tariff in place during this time, the estate of the previous owner notified residents of their plans to file for abandonment and told them they did not have to pay for service.

Staff reviewed three possible options to handle the charges in excess of the tariffed rates. First, since the utility charged customers over \$7,346 in excess of the approved tariff, and Chapter 367.091(3), Florida Statutes, requires a utility to charge only rates and charges approved by the Commission, the total amount of \$7,346 could be refunded to customers.

Second, since the utility was not receiving compensatory rates as provided for in Chapter 367.081(2)(a), Florida Statutes, (even with the unapproved rate being charged), there could be no refund. This could be a valid option for a number of reasons: customers have been paying non-tariffed rates for a number of years and it was only brought to the attention of staff during this proceeding;

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the new owner "inherited" a rate of \$42 that was being charged by the previous owner for water and wastewater service, street lighting, garbage collection, mowing of common areas and maintenance of the clubhouse and pool. Since this rate had been in effect for a number of years, the new owner reasonably assumed that the rate was valid; after taking over the utility, the new owner reduced the \$42 rate to \$34 to establish what he believed to be the portion of that rate related to water and wastewater, however, the utility began charging the authorized tariffed rates after staff directed it to do so, which greatly increased the utility's unrecoverable losses until compensatory rates are set in this case; the trust sent a notice of abandonment to the Commission in June of 1995, and at the same time, notified customers they no longer had to pay for their water and sewer service. However, the utility had not been able to pay its operator in the months preceding abandonment and did not pay the operator for the accumulated bills (the operator continued to serve the utility even though they were not paid) until the November 1995 sale of the utility; and, based on the staff analysis, the \$34 rate established by the new owner was still non-compensatory, therefore, the utility has been incurring losses since the takeover. The rate staff is recommending is substantially higher than the \$34 rate.

The third option would be an offset of the estimated revenue which should have been paid by the customers at the lower tariffed rate, and which should have been received by the utility from June 1, 1995 to November 15, 1995 against the total amount of estimated refund. Section 367.111(1), Florida Statutes, requires a utility to provide service to the area described in its certificate of authorization or it risks deletion of the area from the certificate or revocation of its certificate. The Meadows residents were receiving service during that period. Staff believes that if the Meadows residents received service, the utility should receive compensation. Ratemaking is a matter of fairness in which "[e]quity requires that both ratepayers and utilities be treated in a similar manner." GTE v. Clark, 668 So. 2d 971, 972 (Fla. 1996).

Staff recommends that the amount of the refund should be offset by the estimated revenue which would have been received by the utility from June 1, 1995 to November 15, 1995. Staff believes that the offset is in the public interest because it helps to ensure the utility's viability. This, in turn, benefits the customers by helping to ensure continued service. Staff notes that an offset of this type is neither explicitly authorized nor prohibited by Chapter 367, Florida Statutes.

Staff estimates the amount of uncollected revenue for this period to be \$4,302 and recommends that this amount offset the

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\$7,346 overcharge figure which would result in a net refund of \$3,044. For the rate overcharges, customer accounts should be credited on a monthly basis over a period of 12 months and include interest in accordance with Rule 25-30.360, Florida Administrative Code.

The utility also charged a reconnection fee to three residents whose water was shutoff for non-payment when there was no reconnection fee allowed in the utility's tariff. The utility charged two customers \$35 each and one customer \$34 for reconnection. For the reconnection fees, customer accounts should be credited within 30 days of the issuance of the order and include interest in accordance with Rule 25-30.360, Florida Administrative Code.

The utility should provide staff with proof of the customer credits on a monthly basis beginning with the first billing period after the issuance of the Order.

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ISSUE 3: Should the Commission order J & J to show cause, in writing within twenty days, why it should not be fined an amount up to \$5,000 for each violation of Sections 367.081(1) and 367.091(3), Florida Statutes and Rules 25-30.320(2)(g) and 25-30.335(4), Florida Administrative Code?

RECOMMENDATION: No, show cause proceedings should not be initiated. However, the utility should be admonished that, pursuant to Sections 367.081(1) and 367.091(3), Florida Statutes, it may in the future only charge rates and charges approved by the Commission and must follow proper billing and shutoff procedures as provided in Rules 25-30.320(2)(g) and 25-30.335(4), Florida Administrative Code. (VACCARO)

STAFF ANALYSIS: As stated in the previous issue, staff discovered that the utility was not charging its tariffed rates, and charged a reconnection fee to three residents despite the absence of an approved reconnection fee in the utility's tariff. Sections 367.081 and 367.091(3), Florida Statutes, provide that a utility may only collect rates and charges approved by the Commission. It appears that J & J violated this statute.

Additionally, staff discovered that the utility did not allow customers 20 days for payment of bills and did not give 5 working days notice prior to discontinuing service. Rule 25-30.335(4), Florida Administrative Code, provides that a utility may not consider a customer delinquent in paying his or her bill until the 21st day after the utility has mailed or presented the bill for payment. Rule 25-30.320(2)(g), Florida Administrative Code, provides that a utility must give at least 5 working days notice prior to discontinuing service for non-payment. It appears that the utility violated both of these rules.

The utility's action is "willful" in the sense intended by Section 367.161, Florida Statutes. Section 367.161, Florida Statutes, authorizes the Commission to assess a penalty of not more than \$5,000 for each offense, if a utility is found to have knowingly refused to comply with, or to have willfully violated any provision of Chapter 367, Florida Statutes, or any lawful rule or order of the Commission. In Order No. 24306, issued April 1, 1991, in Docket No. 890216-TL, titled In Re: Investigation Into the Proper Application of Rule 25-14.003, F.A.C., Relating to Tax Savings Refund for 1988 and 1989 For GTE Florida, Inc., the Commission, having found that the company had not intended to violate the rule, nevertheless found it appropriate to order it to show cause why it should not be fined, stating that "[i]n our view, 'willful' implies an intent to do an act, and this is distinct from an intent to violate a statute or rule." Id. at 6.

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Although staff recognizes that the utility collected unauthorized rates and charges, and did not follow proper billing and shutoff procedures, staff believes that a show cause proceeding should not be initiated for four reasons. First, staff believes that a refund is the more appropriate method to remedy these violations. It assures that the customers receive the money to which they are entitled. Second, the utility is being adequately penalized through refunds. The utility was losing money even when charging the unauthorized rates. Requiring a refund increases that loss. Third, given that the utility was almost abandoned, it ensures that J & J's financial integrity is not further jeopardized by a fine imposed in this instance. Finally, staff has verified that the utility is now charging its appropriate rates and charges, has reconnected those customers whose service was disconnected and is following proper billing and shutoff procedures.

Therefore, staff recommends that the Commission not order J & J to show cause for violation of Section 367.081(1), Florida Statutes and Rules 25-30.320(2)(g) and 25-30.335(4), Florida Administrative Code. Staff also recommends that the utility be admonished that, pursuant to Section 367.081(1), Florida Statutes, it may in the future only collect rates and charges approved by the Commission and must follow proper billing and shutoff procedures as provided in Rules 25-30.320(2)(g) and 25-30.335(4), Florida Administrative Code.

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RATE BASE

ISSUE 4: What percentage of the utility's water and wastewater treatment system is used and useful?

RECOMMENDATION: The water treatment plant should be considered 14% used and useful, the water distribution system should be considered 36% used and useful, the wastewater treatment plant should be considered 100% used and useful, and the wastewater collection system should be considered 36% used and useful. (EDWARDS)

STAFF ANALYSIS: The utility records for the test year could not be utilized because the accuracy of the data proved to be questionable. Therefore, the staff engineer acquired the most current data (June 1996 to present) from the utility to calculate the used and useful percentages. The engineering investigation revealed that the meters were not calibrated and the records contained erroneous data. J & J consists of a water treatment plant with a capacity to process 90,000 gallons of water per day and a wastewater treatment plant with the capacity to process 10,000 gallons of wastewater per day. Presently, the utility's record indicated that the system is operating properly. It is recommended that the water treatment plant be considered 14% used and useful, the water distribution system be considered 36% used and useful, the wastewater treatment plant be considered 100% used and useful, and the wastewater collection system be considered 36% used and useful.

Water Treatment Plant: The plant has a source supply design and permit capacity of 90,000 gallons per day. The utility's water treatment plant consists of two four-inch (4") cased wells, a one (1) horse power pump, a five (5) horse power pump, a 3,000 gallon hydroneumatic galvanized steel tank, a liquid chlorine injection pump, and a two-inch (2") master meter. At the time of the engineering investigation, the water treatment plant appeared to be operating properly.

Water Distribution System: The water distribution system is comprised of 5,000 feet of six-inch (6") PVC pipe, 8,000 feet of four-inch (4) inch PVC pipe and 9,000 feet of two-inch (2") inch PVC pipe. At the time of the engineering investigation, the distribution system appeared to be operating properly.

Wastewater Treatment Plant: The plant has a design flow capacity of 10,000 gallons per day. The design components consist of an inflow chamber, a sludge collection chamber, a digester, an effluent chlorination chamber, a liquid chlorine injection pump, and two percolation ponds (system of 2,320

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square feet total bottom area). At the time of the engineering investigation, the wastewater treatment facility appeared to be operating properly. NOTE: The plant's MORs indicate that the level of inflow exceeds the maximum daily capacity (10,000 gpd) which was permitted by DEP. Although DEP is aware of the problem, no enforcement action has been taken.

Wastewater Collection System: The wastewater collection system is comprised of 8,000 feet of six-inch (6") PVC pipe, two manholes, and two lift stations. At the time of the engineering investigation, the collection system appeared to be operating properly.

Because of the utility's operating capacities, staff recommends that the water treatment plant be considered 14% used and useful (Attachment A), the water distribution system be considered 36% used and useful (Attachment B), the wastewater treatment plant be considered 100% used and useful (Attachment C), and the wastewater collection system be considered 36% used and useful (Attachment D).

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ISSUE 5: What is the appropriate average amount of test year rate base for each system?

RECOMMENDATION: The appropriate average amount of test year rate base for J & J Water and Sewer Company, Inc. should be \$15,458 for water and \$23,210 for wastewater. (CASEY, EDWARDS)

STAFF ANALYSIS: The appropriate components of J & J's rate base include depreciable plant in service, land, non-used and useful plant, contributions in aid of construction (CIAC), accumulated depreciation, accumulated amortization of CIAC, and working capital allowance. Utility plant, land, depreciation, and CIAC balances were determined as of April 30, 1982 in the utility's application for water and wastewater certificates through Order No. 11057. Staff used the amounts set forth in that Order as a base for rate base components updated in this recommendation. Further adjustments are necessary to reflect test year changes and used and useful determinations of the staff engineer. A discussion of each component follows.

Depreciable Plant in Service: The utility's water treatment facilities consist of two four-inch (4") cased wells, a one (1) horse power pump, a five (5) horse power pump, a 3,000 gallon hydroneumatic galvanized steel tank, a liquid chlorine injection pump, and a two-inch (2") master meter. The water distribution system is comprised of 5,000 feet of six-inch (6") PVC pipe, 8,000 feet of four-inch (4") PVC pipe, and 9,000 feet of two-inch (2") PVC pipe.

The wastewater treatment facilities consist of an inflow chamber, a sludge collection chamber, a digester, an effluent chlorination chamber, a liquid chlorine injection pump and two percolation ponds (system of 2,320 square feet total bottom area). The wastewater collection system is comprised of 8,000 feet of six-inch (6") PVC pipe, two manholes and two lift stations.

The utility recorded utility plant in service balances of \$70,500 for water and \$70,501 for wastewater at the end of the test year. Staff calculated utility plant by starting with Order No. 11057, issued August 5, 1982, which established utility plant of \$66,642 for water and \$148,237 for wastewater as of May 2, 1982, and added plant additions through the test year. Staff made an adjustment of \$1,762 to water plant and \$91,019 to wastewater plant to bring the utility balances to staff's recommended test year balances.

Staff made water plant pro forma adjustments to: include \$750 for 50% of the transfer certificate filing fee; include \$1,664 for

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the installation of a four-inch (4") master meter; include \$5,000 for a fence installed around the water plant property; include \$516 for installation of 7 customer water meters; include \$1,363 for 50% of the legal fees associated with the transfer application; include \$2,250 for 50% of the cost of a tractor with mower; retire the two-inch (2") master meter (\$1,097); and retire 7 customer water meters (\$196).

Wastewater utility plant pro forma adjustments were made to: include \$750 for 50% of the transfer certificate filing fee; include \$1,363 for 50% of the legal fees associated with the transfer application; and include \$2,250 for 50% of the cost of a tractor with mower.

The utility purchased a 1995 Chevrolet pick-up truck for \$10,774 and submitted a letter stating it would be used 100% for utility business. Staff believes this to be an imprudent purchase since the utility has a contract operator who provides all required maintenance and 24 hour emergency service, and the economic impact of the truck would be approximately \$4.72/month for each of the utility's 52 customers. Staff has not included the truck in rate base but has provided a transportation expense in operation and maintenance expenses for employee travel in the utility area.

An attorney for the utility has estimated legal fees will total approximately \$8,000 for the transfer docket. Staff has included only \$2,726 in rate base for legal fees associated with the transfer application. Staff believes legal fees incurred after the original filing date of the transfer recommendation (August 22, 1996) should not be included as they are for corrections to information submitted in the application and for legal actions taken by residents.

No plant was added during the test year, therefore, no averaging adjustments were needed. Total recommended adjustments are \$12,012 for water and \$95,382 for wastewater. Total recommended utility plant in service is \$82,512 for water and \$165,883 for wastewater.

Land: The utility books did not include a land cost during the test year. Order No. 11057 established a land cost of \$2,739 for the water system and \$3,539 for the wastewater system. Staff made adjustments of \$2,739 to water and \$3,539 to wastewater to reflect the Commission approved land costs.

Non-Used and Useful Plant: The utility books did not show any non-used and useful plant. According to the approved formulas, the staff engineer calculated that the water treatment plant should be

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considered 14% used and useful, the water distribution system should be considered 36% used and useful, the wastewater treatment plant should be considered 100% used and useful, and the wastewater collection system should be considered 36% used and useful. Average non-used and useful plant has been calculated based on the non-used and useful percentages times average plant and average accumulated depreciation.

Adjustments were made to the water system to reflect non-used and useful plant of (\$53,683), reflect average non-used and useful accumulated depreciation associated with non-used and useful plant of \$27,580, reflect average non-used and useful CIAC of \$20,999, and reflect average accumulated amortization of non-used and useful CIAC of (\$7,860). The total adjustment for the non-used and useful water plant account should be (\$12,964).

Adjustments were made to the wastewater system to reflect non-used and useful plant of (\$29,420), reflect average non-used and useful accumulated depreciation associated with non-used and useful plant of \$15,735, reflect average non-used and useful CIAC of \$29,420, and reflect average accumulated amortization of non-used and useful CIAC of (\$15,735). The net adjustment for the non-used and useful wastewater plant is -0-.

Contributions in Aid of Construction: The utility recorded no CIAC balances at the end of the test year. Order No. 11057 established water CIAC of (\$39,656) and wastewater CIAC of (\$101,980). No additions have been made since that order, therefore, staff recommends water CIAC of (\$39,656) and wastewater CIAC of (\$101,980).

Accumulated Depreciation: The utility books reflected accumulated depreciation balances of (\$49,663) for water and (\$49,665) for wastewater at the end of the test year. Staff used a 2 1/2% depreciation rate starting with balances from Order No. 11057, issued August 5, 1982 through March of 1984 when the National Association of Regulatory Utility Commissioners (NARUC) system of accounts was initiated. From that date forward, staff calculated accumulated depreciation using the prescribed rates described in Rule 25-30.140, Florida Administrative Code. Staff made adjustments of \$12,173 to water and (\$67,503) to wastewater to bring the utility's figures to staff's calculated amount. Averaging adjustments of \$1,461 for water and \$4,689 for wastewater were also done. Staff also made an adjustment of \$1,097 to retire a two-inch (2") master meter and made an adjustment of \$196 to retire 7 customer meters.

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Staff recommends accumulated depreciation balances of (\$34,736) for water and (\$112,479) for wastewater.

Accumulated Amortization: The utility did not record any accumulated amortization balances at the end of the test year. Staff calculated amortization of CIAC by separating identifiable CIAC and using the appropriate depreciation rates for those accounts. The remaining CIAC was amortized by using a yearly composite rate. Adjustments of \$16,574 for water and \$69,856 for wastewater were made to bring the utility balances to staff's calculated amount. An averaging adjustment of (\$386) for water and (\$3,686) for wastewater brings the total recommended balances to \$16,188 for water and \$66,170 for wastewater.

Working Capital Allowance: 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 \$1,375 for water and \$2,077 for wastewater (based on O&M of \$11,002 for water and \$16,619 for wastewater).

Rate Base Summary: Based on the foregoing, the appropriate balance of J & J's test year rate base should be \$15,458 for water and \$23,210 for wastewater. Rate base is shown on Schedules Nos. 1 and 1A and adjustments are shown on Schedule No. 1B.

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ISSUE 6: Should a negative acquisition adjustment be approved?

RECOMMENDATION: No, a negative acquisition adjustment should not be included in the calculation of rate base for this utility. (CASEY)

STAFF ANALYSIS: An acquisition adjustment results when the purchase price differs from the original cost calculation. The acquisition adjustment resulting from the 1995 purchase of J & J Water and Sewer Company would be calculated as follows:

Purchase Price (11/15/95):	(\$ 1)
Staff Calculated Water Rate Base: (as of 12/31/95)	\$ 15,669*
Staff Calculated Wastewater Rate Base: (as of 12/31/95)	<u>\$ 17,066*</u>
Negative Acquisition Adjustment:	<u>\$ 32,734</u>

* Rate Base calculated for transfer purposes and does not include normal ratemaking adjustments for non-used and useful plant or working capital.

This utility filed for abandonment on June 20, 1995. The new owner purchased the utility on November 15, 1995 and the abandonment was stayed on December 27, 1995. Staff calculated rate base based on the original cost of the property when first dedicated to public service.

In the absence of extraordinary circumstances, it has been Commission policy that a purchase of a utility system at a premium or discount shall not affect the rate base calculation. The circumstances in this case do not appear to be extraordinary. Therefore, staff recommends that a negative acquisition adjustment should not be included in the calculation of rate base.

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COST OF CAPITAL

ISSUE 7: What is the appropriate rate of return on equity and the appropriate overall rate of return for this utility?

RECOMMENDATION: The appropriate rate of return on equity should be 11.88% with a range of 10.88% - 12.88% and the appropriate overall rate of return should be 10.65% with a range of 10.31% - 11.00%. (CASEY)

STAFF ANALYSIS: Based on the staff audit and subsequent information submitted by the utility, the utility's capital structure consists of \$61,540 of long-term debt with an interest rate of 10.00% along with common equity of \$32,734. Using the current leverage formula approved under Docket No. 960006-WS, Order No. PSC-96-0729-FOF-WS, issued May 31, 1996, the rate of return on common equity is 11.88% with a range of 10.88% - 12.88%.

Applying the weighted average method to the total capital structure yields an overall rate of return of 10.65% with a range of 10.31% to 11.00%. The company's test year capital structure balance has been adjusted down to match the total of the water and wastewater rate bases.

The J & J Water and Sewer Company return on equity and overall rate of return are shown on Schedule No. 2.

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NET OPERATING INCOME

ISSUE 8: What are the appropriate test year operating revenues for each system?

RECOMMENDATION: The appropriate test year operating revenue should be \$5,079 for water and \$4,695 for wastewater. (CASEY)

STAFF ANALYSIS: Order No. 11057 established a \$5.27 base facility charge (BFC) and a rate of \$.46 per 1,000 gallons of water for the water system. The Order also established a \$2.50 BFC with a rate of \$1.00 per 1,000 gallons of wastewater (maximum 10,000 gallons per month) for the wastewater system.

The previous owner was not charging tariffed rates for water and wastewater service. A flat monthly fee of \$42.00 was charged to residents of the Meadows subdivision, and included water and sewer service, street lighting, garbage collection, mowing of common areas and maintenance of the clubhouse and pool. When the new owner purchased the utility, he estimated that water and wastewater rates were approximately \$34.00 combined and started charging that amount to utility customers without Commission approval. Refunds and a show cause action against the utility for not charging tariffed rates, not giving customers proper notice before shutting off customers water and charging a reconnect fee when there is no approved reconnect fee in the existing tariff are discussed in Issue No. 2 and Issue No. 3. On September 20, 1996, staff counsel notified the new owner by letter that the only rates the utility is authorized to charge are the rates approved in the utility's tariff. Customer bills dated September 26, 1996 showed the utility started charging the approved tariffed rates for the August 26, 1996 to September 25, 1996 billing period.

The utility recorded water revenues, when annualized, of \$10,384 and wastewater revenues of \$10,016 during the test period. By annualizing the available meter readings and using the existing tariff, staff calculated test year revenue of \$5,079 for water and \$4,695 for wastewater. Staff made adjustments of (\$5,305) to water and (\$5,321) to wastewater to adjust test year revenue to staff's recommended amount using tariffed rates.

Operating revenues are shown on Schedules Nos. 3 and 3A.

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ISSUE 9: What are the appropriate amounts for operating expense for each system?

RECOMMENDATION: The appropriate amounts for operating expense should be \$13,728 for water and \$21,635 for wastewater. (CASEY, EDWARDS)

STAFF ANALYSIS: The utility recorded operating expenses of \$11,050 for water and \$16,639 for wastewater. The components of these expenses include operation and maintenance expenses, depreciation expense (net of related 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 to reflect recommended allowances for plant operations.

Operation and Maintenance Expenses(O & M): The utility charged \$10,222 to water O & M and \$15,827 to wastewater 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 recorded employee salaries and wages of \$733 for water and \$733 for five months. Staff made an adjustment of \$844 to water and \$532 to wastewater employee salaries and wages to: allow \$2,080 for a bookkeeper (4 hours per week at \$10.00 per hour split 50% water and 50% wastewater); allow \$312 per year for water meter reading (100% water); and allow \$450 for mowing of the utility grounds (split 50% water and 50% wastewater). Staff recommends employee salaries and wages of \$1,577 for water and \$1,265 for wastewater.

2) **Salaries and Wages - Officers** - The utility recorded officer salaries and wages of \$1,500 for water and \$1,500 for wastewater for five months. When annualized, officers salaries would be \$7,200. Staff made an adjustment of (\$460) to water and (\$460) to wastewater officer salaries and wages to allow 2 hours per week at \$20.00 per hour for an officers salary. Staff recommends officer salaries and wages of \$1,040 for water and \$1,040 for wastewater.

3) **Sludge Removal Expense** - The utility recorded \$4,894 for sludge removal expense during the test year. Invoices reflect a total of \$4,344 was paid for sludge removal during the test year. Staff made an adjustment of (\$550) to decrease

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sludge removal expense to staff's recommended amount of \$4,344.

4) Purchased Power - The utility recorded purchased power expense of \$450 for water and \$680 for wastewater during the test year. These amounts only covered a five month period of the test year. Staff made an adjustment of \$630 to water and \$953 to wastewater to annualize the expenses. Staff also reduced water purchased power expense by \$358 due to excessive amounts of water being pumped but not used by customers. Staff used the ratio of customer water consumption to total water pumped to determine the reduction. Staff recommends purchased power expense of \$722 for water and \$1,633 for wastewater.

5) Chemicals - The utility recorded chemical expense of \$630 for water and \$630 for wastewater during the test year. Invoices show a total of \$1,324 was spent for chemicals during the test year. Staff changed the chemical expense allocation to 60% for water and 40% for wastewater. Staff also made an adjustment to reduce water chemical expense by \$263 due to excessive amounts of water being chlorinated but not used by customers. Staff used the ratio of customer water consumption to total water pumped to determine the reduction. Staff recommends water chemical expense of \$531 and wastewater chemical expense of \$530.

6) Contractual Services - The utility recorded contractual services expenses of \$4,864 for water and \$5,415 for wastewater during the test year. Staff made adjustments to the water contractual services account to: a) annualize and allocate the operator contract 40% to water, (\$654); b) include costs for all DEP required testing, \$230; c) remove the lawn maintenance contract since utility purchased a tractor mower, (\$675); and d) include costs for a meter change-out program \$480.

Staff made adjustments to the wastewater contractual services account to: a) annualize and allocate the operator contract 60% to wastewater, \$690; b) include costs for all DEP required wastewater testing, (\$300); and c) remove the lawn maintenance contract since utility purchased a tractor mower, (\$675).

Gator Water and Wastewater Management Company is the operator of this utility. Invoices reflect that a total of \$6,684 was paid during the test year for these services. The cost of the contract was increased from \$542/month to

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\$560/month during the test year. Staff annualized the contract and allocated the costs 40% (\$2,688) to water and 60% (\$4,032) to wastewater.

The Department of Environmental Protection requires the following testing and sampling be conducted by the utility:

WATER

Items	Required Frequency	Costs
Total Coliform	-- monthly --	\$ 21.00 *
Nitrates/Nitrites	-- yearly --	\$ 35.00
Lead & Copper	-- yearly --	\$ 35.00 **
VOC's	-- yearly --	\$ 125.00
Gross Alpha	-- 3 years --	\$ 50.00
P & S Inorganic	-- 3 years --	\$ 300.00
VOC's	-- 3 years --	\$ 340.00

WASTEWATER

Sludge Analysis	-- yearly --	\$ 195.00
CBOD	-- monthly *	
TSS	-- monthly *	
Nitrates	-- monthly *	
Fecal Coli	-- monthly *	
RPZ test	-- yearly --	\$ 100.00

* The cost of this test is included in the monthly service charge.

** per sample (10 samples required).

The utility recorded DEP testing of \$510 for water and \$595 for wastewater during the test year. Staff made an adjustment of \$230 to water contractual services and (\$300) to wastewater contractual services to bring the utility balances to staff's recommended amounts of \$740 for water testing and \$295 for wastewater testing.

Because the original water meters are approximately 13 years old, staff is recommending a meter change-out program. The manufacturer's recommended life of a 5/8" x 3/4" meter is 17 years which is above normal for meters exposed to Florida waters. It is recommended that the utility begin a program of meter replacement for its metered customers. This program

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should have an amortization schedule of approximately 10 years which allows the utility to replace five (5) old meters with new meters, each year. The estimated cost to replace an old meter is \$96 per meter for this utility. The total expense for this program is \$480 per year which is considered reasonable for a meter change-out program.

Total adjustments are (\$619) for water contractual services and (\$285) for wastewater contractual services. Staff recommends \$4,245 for water contractual services which includes \$2,688 for contractor services, \$337 for repairs and maintenance, \$740 for required DEP testing, and \$480 for the meter change-out program.

Staff recommends \$5,130 for wastewater contractual services which include \$4,032 for contractor services, \$803 for repairs and maintenance, and \$295 for DEP required testing.

7) Rent Expense - The utility recorded rent expense of \$229 for water and \$229 for wastewater which covered only a partial year. Staff made adjustments of \$321 to water rent expense and \$321 to wastewater rent expense to annualize those costs. Rent expense includes utilities, heating and air conditioning and local phone expense. Staff recommends rent expense of \$550 for water and \$550 for wastewater.

8) Transportation Expenses - The utility recorded transportation expense of \$1,365 for water and \$1,365 for wastewater. These amounts are for a partial year only. When staff annualized these amounts, the yearly transportation expense calculated to \$1,911 for water and \$1,911 for wastewater or \$3,822 combined for the year. Staff made adjustments of (\$1,087) to water transportation expense and (\$1,087) to wastewater transportation expense to reduce the utility balances to staff's recommended transportation expenses of \$278 for water and \$278 for wastewater or \$556 combined for the year. Staff based these figures on 160 miles of travel per month times \$.29 per mile allocated 50% to water and 50% to wastewater, which we believe is more reasonable for this size utility.

9) Insurance Expense - The utility did not record any cost for insurance during the test year. The utility purchased insurance coverage effective August 1, 1996 at an annual cost of \$1,944. Staff made adjustments of \$972 to water insurance expense and \$972 to wastewater insurance expense to allocate the expense 50% to water and 50% to wastewater.

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10) Regulatory Commission Expense - The utility recorded \$156 of water and \$156 of wastewater regulatory Commission expense in this account which was for consultant fees for the filing of this SARC. Subsequent invoices show the total consultant fees to be \$620. The filing fee for this SARC amounted to \$500 for water and \$500 for wastewater. Staff made adjustments to: a) amortize the consultant fee over 4 years by making an adjustment of (\$78) for water and (\$78) for wastewater; and b) include \$125 for water and \$125 for wastewater for the staff assisted rate case filing fee amortized over 4 years. Staff recommends Regulatory Commission Expense of \$203 for water and \$203 for wastewater.

11) Miscellaneous Expense - The utility recorded \$295 of water and \$225 of wastewater miscellaneous expenses for a partial year. Staff made adjustments of \$589 to water and \$449 to wastewater to annualize the miscellaneous expenses. Staff recommends miscellaneous expenses of \$884 for water and \$674 for wastewater.

Operation and Maintenance Expenses (O & M) Summary: Total operation and maintenance adjustments are \$780 for water and \$792 for wastewater. Staff recommends O & M expenses of \$11,002 for water and \$16,619 for wastewater. Operation and maintenance expenses are shown in Schedule Nos. 3C and 3D.

Depreciation Expense (Net of Amortization of CIAC): The utility recorded no depreciation expense on their books for the test year. Staff calculated test year depreciation expense using the prescribed rates described in Rule 25-30.140, Florida Administrative Code. Staff made a \$688 adjustment to water depreciation expense and \$8,130 adjustment to wastewater depreciation expense to bring the utility balances to the staff's recommended amounts. Staff also made adjustments of \$625 to water and \$278 to wastewater to include depreciation expense on pro forma plant. Applying the prescribed depreciation rates to the appropriate used and useful plant in service account balances, and then offsetting that by applying the composite depreciation rates to the appropriate CIAC account balances yields the appropriate depreciation expenses net of CIAC of \$515 (\$1,313-\$798) for water and \$2,286 (\$8,408-\$6,122) for wastewater during the test year.

Taxes Other Than Income Taxes: The utility recorded taxes other than income of \$828 for water and \$812 for wastewater. Staff made adjustments to water taxes other than income to: 1) increase real estate tax by \$222; 2) include tangible tax of \$888; 3) adjust regulatory assessment fees by (\$238) to reflect regulatory assessment fees on staff's recommended test year revenue; and 4)

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adjust payroll tax by \$48 to reflect payroll taxes on staff's recommended salaries and wages.

Staff made adjustments to wastewater taxes other than income to: 1) increase real estate tax by \$258; 2) include tangible tax of \$1,020; 3) adjust regulatory assessment fees by (\$240) to reflect regulatory assessment fees on staff's recommended test year revenue; and 4) adjust payroll tax by \$6 to reflect payroll taxes on staff's recommended salaries and wages.

Staff recommends taxes other than income of \$1,748 for water and \$1,856 for wastewater.

Operating Revenue: Revenues have been adjusted by \$10,296 for water and \$19,412 for wastewater to reflect the increase in revenue required to cover expenses and allow the recommended rate of return on investment.

Taxes Other Than Income Taxes: This expense has been increased by \$463 for water and \$874 for wastewater 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 \$13,728 for water and \$21,635 for wastewater.

Operating expenses are shown on Schedules Nos. 3 and 3A. Adjustments are shown on Schedule No. 3B.

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REVENUE REQUIREMENT

ISSUE 10: What is the appropriate revenue requirement for each system?

RECOMMENDATION: The appropriate revenue requirement should be \$15,375 for water and \$24,107 for wastewater. (CASEY)

STAFF ANALYSIS: The utility should be allowed an annual increase in revenue of \$10,296 (202.72%) for water and an annual increase of \$19,412 (413.46%) for wastewater. This will allow the utility the opportunity to recover its expenses and earn a 10.65% return on its investment. The calculations are as follows:

	<u>Water</u>	<u>Wastewater</u>
Adjusted Rate Base	\$ 15,458	\$ 23,210
Rate of Return	x .1065	x .1065
Return on Investment	\$ 1,647	\$ 2,472
Adjusted Operation Expenses	11,002	16,619
Depreciation Expense (Net)	515	2,286
Taxes Other Than Income Taxes	<u>2,211</u>	<u>2,730</u>
Revenue Requirement	<u>\$ 15,375</u>	<u>\$ 24,107</u>
Annual Revenue Increase	\$ 10,296	\$ 19,412
Percentage Increase/(Decrease)	<u>202.72%</u>	<u>413.46%</u>

The revenue requirements and resulting annual increases are shown on Schedules Nos. 3 and 3A.

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RATES AND CHARGES

ISSUE 11: What is the appropriate rate structure and what are the recommended rates for this utility?

RECOMMENDATION: The recommended rates should be designed to produce revenues of \$15,375 for water and \$24,107 for wastewater. The approved rates will be effective for service rendered on or after the stamped approval date on the tariff sheet pursuant to Rule 25-30.475(1), Florida Administrative Code, provided the customers have received notice. 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 within 10 days after the date of the notice. (CASEY)

STAFF ANALYSIS: During the test year, J & J provided water and wastewater service to approximately 51 residential customers and 1 church. As discussed previously, the utility was not charging tariffed rates. When the new owner purchased the utility November 15, 1995, he estimated that the water and wastewater charge should be \$34 per month and began charging that amount to utility customers without Commission approval.

The utility's tariff provides for a base facility/gallonge charge rate structure for all customers. The Commission has a memorandum of understanding with the Florida Water Management Districts. This memorandum recognizes that a joint cooperative effort is necessary to implement an effective, state wide water conservation policy. Water use in the utility's service area is under the jurisdiction of the Southwest Florida Water Management District (SWFWMD). Because of the utility's size, the SWFWMD has not issued a consumptive use permit to the utility. The utility is not located within a critical water use caution area. The customers average consumption is approximately 5,689 gallons per month, which is not considered excessive, therefore, staff is not recommending a change in rate structure.

Staff has calculated a recommended base facility / gallonge charge for water and wastewater customers based on test year data. The base facility / gallonge charge rate structure is the preferred rate structure because it is designed to provide for the equitable sharing by the rate payers of both the fixed and variable costs of providing service. The base facility charge is based upon the concept of readiness to serve all customers connected to the system. This ensures that rate payers pay their share of the costs of providing service (through the consumption or gallonge charge) and also pay their share of the fixed costs of providing service (through the base facility charge).

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Approximately 61% (or \$9,404) of the water revenue requirement and 47% (or \$11,414) of the wastewater revenue requirement are associated with the fixed costs of providing service. Fixed costs are recovered through the base facility charge based on annualized number of factored equivalent residential connections (ERC's). The remaining 39% (or \$5,970) of the water revenue requirement and 53% (or \$12,693) of the wastewater revenue requirement represent the consumption charge based on the estimated number of gallons consumed during the test period. Schedules of the utility's existing rates and staff's recommended rates follow.

RESIDENTIAL AND GENERAL SERVICE WATER RATES

<u>Base Facility Charge</u> <u>Meter Size</u>	<u>Tariffed Rate</u>	<u>Recommended Monthly Rate</u>
5/8" x 3/4"	\$ 5.27	\$ 14.79
1"	13.18	36.97
1-1/2"	26.35	73.93
2"	42.16	118.29
3"	84.32	236.59
4"	N/A	369.67
6"	N/A	739.33
Gallage Charge Per 1,000 gallons	\$.46	\$ 1.65

RESIDENTIAL WASTEWATER RATES

<u>Base Facility Charge</u> <u>Meter Size</u>	<u>Tariffed Rate</u>	<u>Recommended Monthly Rate</u>
5/8" x 3/4"	\$ 2.50	\$ 17.95
1"	13.18	44.87
1-1/2"	26.35	89.73
2"	42.16	143.57
3"	84.32	287.15
4"	N/A	448.67
6"	N/A	897.34
Gallage Charge Per 1,000 gallons (10,000 gallon max. per month)	\$ 1.00	\$ 4.13

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GENERAL SERVICE WASTEWATER RATES

Base Facility Charge

Base Facility Charge Meter Size	Tariffed Rate	Recommended Monthly Rate
5/8" x 3/4"	\$ 2.50	\$ 17.95
1"	13.18	44.87
1-1/2"	26.35	89.73
2"	42.16	143.57
3"	84.32	287.15
4"	N/A	448.67
6"	N/A	897.34
Gallonage Charge Per 1,000 gallons (No Maximum)	\$ 1.00	\$ 4.95

Using the 53 test year water customers with an estimated average use of 5,689 gallons/month per customer, an average residential MONTHLY water bill comparison would be as follows:

	Average <u>MONTHLY</u> Bill Using Tariffed Rates	Average <u>MONTHLY</u> Bill Using Recommended Rates	Percent Increase
Base Facility Charge	\$ 5.27	\$ 14.79	
Gallonage Charge	<u>2.62</u>	<u>\$ 9.39</u>	
Total	\$ 7.89	\$ 24.18	206.46%

Using the 53 test year wastewater customers with an estimated average use of 4,835 gallons/month (based on 85% of water usage) per customer, an average residential MONTHLY wastewater bill comparison would be as follows:

	Average <u>MONTHLY</u> Bill Using Existing Rates	Average <u>MONTHLY</u> Bill Using Recommended Rates	Percent Increase
Base Facility Charge	\$ 2.50	\$ 17.95	
Gallonage Charge	<u>4.84</u>	<u>\$ 19.97</u>	
Total	\$ 7.34	\$ 37.92	416.62%

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The rates should be effective for service rendered as of the stamped approval date on the tariff sheets provided the customers have received notice. The tariff sheets will be approved upon staff's verification that the tariffs are consistent with the Commission's decision, that the customer notice is adequate, and that any required security has been provided. The utility should provide proof of the date notice was given within 10 days after the date of the notice.

If the effective date of the new rates falls within a regular billing cycle, the initial bills at the new rate may be prorated. The old charge should be prorated based on the number of days in the billing cycle before the effective date of the new rates. The new charge should be prorated based on the number of days in the billing cycle on or after the effective date of the new rates.

In no event should the rates be effective for service rendered prior to the stamped approval date.

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ISSUE 12: 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 \$213 annually for each water and wastewater system 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 4A. 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. (CASEY)

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 \$213 annually for each water and wastewater system. The reduction in revenues will result in the rates recommended by staff on Schedules Nos. 4 and 4A.

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.

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ISSUE 13: What are the appropriate service availability charges for this utility?

RECOMMENDATION: The appropriate service availability charge is the existing water meter installation charge of \$120 for a 5/8" meter or 3/4" meter. (CASEY)

STAFF ANALYSIS: The Commission approved the existing service availability policy in Order No. 11057 during J & J Water and Sewer Company's original certification. The utility's current tariff contains provisions for a \$120 water meter installation charge for a 5/8" meter or 3/4" meters.

Staff is recommending no changes to the existing service availability charges.

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ISSUE 14: Should the Commission approve miscellaneous service charges for J & J Water and Sewer Company, Inc?

RECOMMENDATION: Yes, the Commission should approve miscellaneous service charges as outlined Staff Advisory Bulletin (SAB) 13, Second Revised. (CASEY)

STAFF ANALYSIS: The utility's current tariff does not include miscellaneous service charges. Staff is recommending initiation of miscellaneous service charges in accordance with Staff Advisory Bulletin (SAB) 13, Second Revised, as follows:

	<u>Water</u>	<u>Wastewater</u>
Initial Connection	\$15.00	\$15.00
Normal Reconnection	\$15.00	\$15.00
Violation Reconnection	\$15.00	Actual Cost
Premises Visit (in lieu of disconnection)	\$10.00	\$10.00

Staff Advisory Bulletin No. 13 (Second Revision) entitled "Tariff Provisions for Miscellaneous Service Charges," defines the four categories of charges, contains an example of an approved level of charges (listed above), and provides guidance as to the timing and procedures for including or revising the tariff provisions for these items.

The four types of miscellaneous service charges are:

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

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representative visits a premises for the purpose of discontinuing service for nonpayment of a due and collectible bill, but does not discontinue service because the customer pays the service representative or otherwise makes satisfactory arrangements to pay the bill.

These charges are designed to more accurately reflect the costs associated with each service and to place the burden of payment on the person who causes the cost to be incurred (the "cost causer"), rather than on the entire ratepaying body as a whole. Therefore, staff recommends that the utility's tariff be revised to incorporate these charges.

DOCKET NO. 960523-WS
DATE: OCTOBER 31, 1996

OTHER ISSUES

ISSUE 15: Should the recommended rates be approved for the utility on a temporary basis in the event of a protest filed by a party other than the utility?

RECOMMENDATION: Yes, the recommended rates should be approved for on a temporary basis in the event of a 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, a copy of the proposed customer notice, and revised tariff sheets. (CASEY)

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 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 \$20,521. 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 affect 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.

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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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DATE: OCTOBER 31, 1996

ISSUE 16: Should the utility be required to maintain its books and records in conformity with the 1984 NARUC Uniform System of Accounts (USOA)?

RECOMMENDATION: Yes, the utility should be required to maintain its books and records in conformity with the 1984 NARUC Uniform System of Accounts. (CASEY)

STAFF ANALYSIS: During the test year, the utility's books were not maintained in conformity with the USOA.

Paragraph (1) of Rule 25-30.115, Florida Administrative Code, entitled "Uniform System of Accounts for Water and Sewer Utilities", states:

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

Staff believes the utility has the expertise necessary to convert and maintain the utility's records in conformity with Rule 25-30.115, Florida Administrative Code. Therefore, staff recommends that the utility be required to maintain its books and records in conformity with the 1984 NARUC Uniform System of Accounts.

DOCKET NO. 960523-WS
DATE: OCTOBER 31, 1996

ISSUE 17: Should this docket be closed?

RECOMMENDATION: No, if no timely protest is received upon expiration of the protest period, this docket should remain open for an additional ninety days from the effective date of the Order to allow staff to verify that pro forma plant has been completed and refunds of overcharges are taking place. If the utility fails to timely complete the pro forma and/or initiate refunds, staff will prepare a follow-up recommendation and show cause proceedings may be initiated. (VACCARO, CASEY, EDWARDS)

STAFF ANALYSIS: Staff has included pro forma items and recommended refunds for overcharges. If no timely protest is received upon expiration of the protest period, this docket should remain open for an additional ninety days from the effective date of the order to allow staff to verify that the pro forma has been completed and refunds are in process. If the utility fails to timely complete these items, staff will prepare a follow-up recommendation and show cause proceedings may be initiated.

J & J WATER AND SEWER COMPANY, INC.
 TEST YEAR ENDING APRIL 30, 1996
 SCHEDULE OF WATER RATE BASE

SCHEDULE NO. 1
 DOCKET NO. 960523-WS

	<u>BALANCE PER UTILITY</u>	<u>STAFF ADJUST. TO UTIL. BAL.</u>	<u>BALANCE PER STAFF</u>
UTILITY PLANT IN SERVICE	\$ 70,500	\$ 12,012 A	\$ 82,512
LAND/NON-DEPRECIABLE ASSETS	0	2,739 B	2,739
NON-USED AND USEFUL PLANT	0	(12,964) C	(12,964)
CIAC	0	(39,656) D	(39,656)
ACCUMULATED DEPRECIATION	(49,663)	14,927 E	(34,736)
AMORTIZATION OF CIAC	0	16,188 F	16,188
WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>1,375 G</u>	<u>1,375</u>
WATER RATE BASE	\$ 20,837	\$ (5,379)	\$ 15,458

J & J WATER AND SEWER COMPANY, INC.
 TEST YEAR ENDING APRIL 30, 1996
 SCHEDULE OF WASTEWATER RATE BASE

SCHEDULE NO. 1A
 DOCKET NO. 960523-WS

	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
UTILITY PLANT IN SERVICE	\$ 70,501	\$ 95,382 A	\$ 165,883
LAND/NON-DEPRECIABLE ASSETS	0	3,539 B	3,539
NON-USED AND USEFUL PLANT	0	0 C	0
CIAC	0	(101,980) D	(101,980)
ACCUMULATED DEPRECIATION	(49,665)	(62,814) E	(112,479)
AMORTIZATION OF CIAC	0	66,170 F	66,170
WORKING CAPITAL ALLOWANCE	0	2,077 G	2,077
WASTEWATER RATE BASE	\$ 20,836	\$ 2,374	\$ 23,210

J & J WATER AND SEWER COMPANY, INC.
 TEST YEAR ENDING APRIL 30, 1998
 ADJUSTMENTS TO RATE BASE

SCHEDULE NO. 1B
 DOCKET NO. 960523-WS

	<u>WATER</u>	<u>WASTEWATER</u>
A. <u>UTILITY PLANT IN SERVICE</u>		
1. To bring utility balance to staff's recommended amount.	\$ 1,762	\$ 91,019
2. To include pro forma:		
a) Filing fee for transfer certificate.	750	750
b) Installation of 4" master meter.	1,664	0
c) 756' of 8" high chain link fence around water plant.	5,000	0
d) Installation of 7 customer water meters.	516	0
e) Legal fees for transfer docket.	1,363	1,363
e) 1978 Ford 4000 Tractor with Mower.	2,250	2,250
3. To retire 2" master meter.	(1,097)	0
4. To retire 7 customer water meters.	(196)	0
	<u>\$ 12,012</u>	<u>\$ 95,382</u>
B. <u>LAND</u>		
1. To include land cost allowed in Order No. 11057.	\$ 2,739	\$ 3,539
C. <u>NON-USED AND USEFUL PLANT</u>		
1. To reflect non-used and useful plant.	\$ (53,653)	\$ (29,420)
2. To reflect average non-used and useful accumulated depreciation.	27,580	15,735
3. To reflect average non-used and useful CIAC.	20,999	29,420
4. To reflect average non-used and useful accumulated amortization.	(7,860)	(15,735)
	<u>\$ (12,964)</u>	<u>\$ 0</u>
D. <u>CIAC</u>		
1. To bring utility balance to staff's recommended amount.	\$ (39,656)	\$ (101,980)
E. <u>ACCUMULATED DEPRECIATION</u>		
1. To bring utility balance to staff's recommended amount.	\$ 12,173	\$ (67,503)
2. To reflect averaging adjustment	1,461	4,689
3. To retire 2" master meter.	1,097	0
4. To retire 7 customer water meters.	196	0
	<u>\$ 14,927</u>	<u>\$ (62,814)</u>
F. <u>AMORTIZATION OF CIAC</u>		
1. To bring utility balance to staff's recommended amount.	\$ 16,574	\$ 69,856
2. To reflect averaging adjustment	(386)	(3,686)
	<u>\$ 16,188</u>	<u>\$ 66,170</u>
G. <u>WORKING CAPITAL ALLOWANCE</u>		
1. To reflect 1/8 of test year O & M expenses	\$ 1,375	\$ 2,077

J & J WATER AND SEWER COMPANY, INC.
 TEST YEAR ENDING APRIL 30, 1996
 SCHEDULE OF CAPITAL STRUCTURE

SCHEDULE NO. 2
 DOCKET NO. 960523-WS

	<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>
COMMON EQUITY	\$ 0	\$ 32,734	\$ 13,427	34.72%	11.88%	4.12%
NOTES PAYABLE	0	61,540	25,242	65.28%	10.00%	6.53%
CUSTOMER DEPOSITS	0	0	0	0.00%	6.00%	0.00%
TOTAL	\$ 0	\$ 94,274	\$ 38,669	100.00%		10.65%

<u>RANGE OF REASONABLENESS</u>	<u>LOW</u>	<u>HIGH</u>
RETURN ON EQUITY	10.88%	12.88%
OVERALL RATE OF RETURN	10.31%	11.00%

J & J WATER AND SEWER COMPANY, INC.
 TEST YEAR ENDING APRIL 30, 1996
 SCHEDULE OF WATER OPERATING INCOME

SCHEDULE NO. 3
 DOCKET NO. 960523-WS

	TEST YEAR PER UTILITY	STAFF ADJ. TO UTILITY	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	TOTAL PER STAFF
OPERATING REVENUES	\$ 10,384	\$ (5,305) A	\$ 5,079	\$ 10,296 F	\$ 15,375
OPERATING EXPENSES:					
OPERATION AND MAINTENANCE	10,222	780 B	11,002	0	11,002
DEPRECIATION	0	1,313 C	1,313	0	1,313
AMORTIZATION	0	(798) D	(798)	0	(798)
TAXES OTHER THAN INCOME	828	920 E	1,748	463 G	2,211
INCOME TAXES	0	0	0	0	0
TOTAL OPERATING EXPENSES	\$ 11,050	\$ 2,215	\$ 13,265	\$ 463	\$ 13,728
OPERATING INCOME/(LOSS)	\$ (666)		\$ (8,186)		\$ 1,647
WASTEWATER RATE BASE	\$ 20,837		\$ 15,458		\$ 15,458
RATE OF RETURN	<u>-3.20%</u>		<u>-52.96%</u>		<u>10.65%</u>

J & J WATER AND SEWER COMPANY, INC.
 TEST YEAR ENDING APRIL 30, 1996
 SCHEDULE OF WASTEWATER OPERATING INCOME

SCHEDULE NO. 3A
 DOCKET NO. 960523-WS

	TEST YEAR PER UTILITY	STAFF ADJ. TO UTILITY	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	TOTAL PER STAFF
OPERATING REVENUES	\$ 10,016	\$ (5,321) A	\$ 4,695	\$ 19,412 F	\$ 24,107
OPERATING EXPENSES:					
OPERATION AND MAINTENANCE	15,827	792 B	16,619	0	16,619
DEPRECIATION	0	8,408 C	8,408	0	8,408
AMORTIZATION	0	(6,122) D	(6,122)	0	(6,122)
TAXES OTHER THAN INCOME	812	1,044 E	1,856	874 G	2,730
INCOME TAXES	0	0	0	0	0
TOTAL OPERATING EXPENSES	\$ 16,639	\$ 4,122	\$ 20,761	\$ 874	\$ 21,635
OPERATING INCOME/(LOSS)	\$ (6,623)		\$ (16,066)		\$ 2,473
WASTEWATER RATE BASE	\$ 20,836		\$ 23,210		\$ 23,210
RATE OF RETURN	<u>-31.79%</u>		<u>-69.22%</u>		<u>10.65%</u>

J & J WATER AND SEWER COMPANY, INC.
 TEST YEAR ENDING APRIL 30, 1996
 ADJUSTMENTS TO OPERATING INCOME

SCHEDULE NO. 3B (Page 1 of 2)
 DOCKET NO. 960523-WS

A. OPERATING REVENUES	<u>WATER</u>	<u>WASTEWATER</u>
1. To adjust test year revenue to reflect tariffed rates.	\$ <u>(5,305)</u>	\$ <u>(5,321)</u>
B. OPERATION AND MAINTENANCE EXPENSES		
1. Salaries and Wages - Employees		
a. To bring employee salaries to staff's recommended amount.	\$ <u>844</u>	\$ <u>532</u>
2. Salaries and Wages - Officers		
a. To bring officers salary to staff's recommended amount.	\$ <u>(460)</u>	\$ <u>(460)</u>
3. Sludge Removal Expense		
a. To reflect recommended test year sludge expense.	\$ <u>0</u>	\$ <u>(550)</u>
4. Purchased Power		
a. To annualize purchased power expense.	\$ <u>272</u>	\$ <u>953</u>
5. Chemicals		
a. To reflect test year chemicals purchased.	\$ <u>(99)</u>	\$ <u>(100)</u>
6. Contractual Services		
a. To reflect annualized operator contract.	\$ (654)	\$ 690
b. To include cost of all DEP required testing.	230	(300)
c. To remove lawn maintenance contract.	(675)	(675)
d. To include meter changeout program (5 meters per year).	480	0
	\$ <u>(619)</u>	\$ <u>(285)</u>
7. Rent		
a. To annualize rent expense.	\$ <u>321</u>	\$ <u>321</u>
8. Transportation Expenses		
a. To reflect recommended transportation expense.	\$ <u>(1,087)</u>	\$ <u>(1,087)</u>
9. Insurance Expense		
a. To include annual insurance expense.	\$ <u>972</u>	\$ <u>972</u>
10. Regulatory Commission Expense		
a. To annualize \$620 rate case legal expense over 4 years.	\$ (78)	\$ (78)
b. To include \$1,000 filing fee amortized over 4 years.	125	125
	\$ <u>47</u>	\$ <u>47</u>
11. Miscellaneous Expenses		
a. To annualize miscellaneous expenses.	\$ <u>589</u>	\$ <u>449</u>
TOTAL O & M ADJUSTMENTS	\$ <u>780</u>	\$ <u>792</u>

J & J WATER AND SEWER COMPANY, INC.
 TEST YEAR ENDING APRIL 30, 1996
 ADJUSTMENTS TO OPERATING INCOME

SCHEDULE NO. 3B (Page 2 of 2)
 DOCKET NO. 960523-WS

C. DEPRECIATION EXPENSE

	<u>WATER</u>	<u>WASTEWATER</u>
1. To adjust utility balance to match depreciation rates set forth in Rule 25-30.140.	\$ 688	\$ 8,130
2. To include depreciation expense on pro forma.	625	278
	<u>\$ 1,313</u>	<u>\$ 8,408</u>

D. AMORTIZATION EXPENSE

1. To adjust utility balance to staff calculated balance.	\$ (798)	\$ (6,122)
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E. TAXES OTHER THAN INCOME

1. To reflect Citrus County real estate tax.	\$ 222	\$ 258
2. To reflect Citrus County tangible tax.	888	1,020
3. To reflect regulatory assessment fees on test year revenue.	(238)	(240)
4. To include payroll tax on recommended salaries.	48	6
	<u>\$ 920</u>	<u>\$ 1,044</u>

F. OPERATING REVENUES

1. To reflect staff's recommended increase in revenue	\$ 10,296	\$ 19,412
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G. TAXES OTHER THAN INCOME

1. To reflect additional regulatory assessment fee associated with recommended revenue requirement	\$ 463	\$ 874
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J & J WATER AND SEWER COMPANY, INC.
 TEST YEAR ENDING APRIL 30, 1996
 ANALYSIS OF WATER OPERATION AND
 MAINTENANCE EXPENSE

SCHEDULE NO. 3C
 DOCKET NO. 960523-WS

	<u>TOTAL PER UTIL.</u>	<u>STAFF ADJUST.</u>	<u>TOTAL PER STAFF</u>
(601) SALARIES AND WAGES - EMPLOYEES	\$ 733	\$ 844 [1]	\$ 1,577
(603) SALARIES AND WAGES - OFFICERS	1,500	(460) [2]	1,040
(604) EMPLOYEE PENSIONS AND BENEFITS	0	0	0
(610) PURCHASED WATER	0	0	0
(615) PURCHASED POWER	450	272 [4]	722
(616) FUEL FOR POWER PRODUCTION	0	0	0
(618) CHEMICALS	630	(99) [5]	531
(620) MATERIALS AND SUPPLIES	0	0	0
(630) CONTRACTUAL SERVICES	4,864	(619) [6]	4,245
(640) RENTS	229	321 [7]	550
(650) TRANSPORTATION EXPENSE	1,365	(1,087) [8]	278
(655) INSURANCE EXPENSE	0	972 [9]	972
(655) REGULATORY COMMISSION EXPENSE	156	47 [10]	203
(670) BAD DEBT EXPENSE	0	0	0
(675) MISCELLANEOUS EXPENSES	295	589 [11]	884
	<u>\$ 10,222</u>	<u>\$ 780</u>	<u>\$ 11,002</u>

J & J WATER AND SEWER COMPANY, INC.
 TEST YEAR ENDING APRIL 30, 1996
 ANALYSIS OF WASTEWATER OPERATION AND
 MAINTENANCE EXPENSE

SCHEDULE NO. 3D
 DOCKET NO. 960523-WS

	TOTAL PER UTIL.	STAFF ADJUST.	TOTAL PER STAFF
(701) SALARIES AND WAGES - EMPLOYEES	\$ 733	\$ 532 [1]	\$ 1,265
(703) SALARIES AND WAGES - OFFICERS	1,500	(460) [2]	1,040
(704) EMPLOYEE PENSIONS AND BENEFITS	0	0	0
(710) PURCHASED SEWAGE TREATMENT	0	0	0
(711) SLUDGE REMOVAL EXPENSE	4,894	(550) [3]	4,344
(715) PURCHASED POWER	680	953 [4]	1,633
(716) FUEL FOR POWER PRODUCTION	0	0	0
(718) CHEMICALS	630	(100) [5]	530
(720) MATERIALS AND SUPPLIES	0	0	0
(730) CONTRACTUAL SERVICES	5,415	(285) [6]	5,130
(740) RENTS	229	321 [7]	550
(750) TRANSPORTATION EXPENSE	1,365	(1,087) [8]	278
(755) INSURANCE EXPENSE	0	972 [9]	972
(765) REGULATORY COMMISSION EXPENSES	156	47 [10]	203
(770) BAD DEBT EXPENSE	0	0	0
(775) MISCELLANEOUS EXPENSES	225	449 [11]	674
	\$ 15,827	\$ 792	\$ 16,619

RECOMMENDED RATE REDUCTION SCHEDULE

J & J WATER AND SEWER COMPANY, INC.
 TEST YEAR ENDING APRIL 30, 1996

SCHEDULE NO. 4
 DOCKET NO. 960523-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"X3/4"	\$ 14.79	0.28
3/4"	22.18	0.42
1"	36.97	0.70
1-1/2"	73.93	1.41
2"	118.29	2.26
3"	236.59	4.51
4"	369.67	7.05
6"	739.33	14.10
RESIDENTIAL GALLONAGE CHARGE PER 1,000 GALLONS	\$ 1.65	0.03

RECOMMENDED RATE REDUCTION SCHEDULE

J & J WATER AND SEWER COMPANY, INC.
 TEST YEAR ENDING APRIL 30, 1996

SCHEDULE NO. 4A
 DOCKET NO. 960523-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"X3/4"	\$ 17.95	0.22
3/4"	26.92	0.33
1"	44.87	0.55
1-1/2"	89.73	1.09
2"	143.57	1.75
3"	287.15	3.49
4"	448.67	5.46
6"	897.34	10.91
RESIDENTIAL GALLONAGE CHARGE PER 1,000 GALLONS (10,000 GALLON MAX. PER MONTH)	 \$ 4.13	 0.05
GENERAL SERVICE GALLONAGE CHARGE PER 1,000 GALLONS	 \$ 4.95	 0.06

DOCKET NO. 960523-WS
DATE: OCTOBER 31, 1996

Attachment A
USED AND USEFUL DATA

WATER TREATMENT PLANT

Docket No. 960523-WS Utility J & J WATER AND SEWER CORP. Date JULY 1996

- 1) Capacity of Plant 90,000 gallons per day
2) Maximum Daily Flow 12,400 gallons per day
3) Average Daily Flow 11,353 gallons per day
4) Fire Flow Capacity 0 gallons per day
a) Needed Fire Flow NOT APPLICABLE gallons per day
5) Margin Reserve 0 gallons per day
*Not to exceed 20% of present customers

a) Test Year Customers in ERC's - Begin 52 End 52 Av. 52

b) Customer Growth Using Regression Analysis in ERC's for Most Recent 5 Years Including Test Year 0 ERC's

c) Construction Time for Additional Capacity 2 Years

(b) x (c) x $\left[\frac{\quad}{(a)} \right] = \underline{0}$ gallons per day Margin Reserve

6) Excessive Unaccounted for Water N/A gallons per day

a) Total Amount gallons per day % of Av. Daily Flow

b) Reasonable Amount gallons per day % of Av. Daily Flow

c) Excessive Amount gallons per day % of Av. Daily Flow

PERCENT USED AND USEFUL FORMULA

$$\left[\frac{(2 + 5) + 4a - 6}{1} \right] = \underline{14} \% \text{ Used and Useful}$$

GERALD D. EDWARDS Engineer

DOCKET NO. 960523-WS
DATE: OCTOBER 31, 1996

WATER DISTRIBUTION SYSTEM

Attachment B
USED AND USEFUL DATA

Docket No. 960523-WS Utility J & J WATER AND SEWER CORP. Date JULY 1996

- 1) Capacity 141 ERC's (Number of potential customers without expansion)
- 2) Number of TEST YEAR Connections 52 ERC's day
- a) Begin Test Year 52 ERC's
- b) End Test Year 52 ERC's
- c) Average Test Year 52 ERC's
- 3) Margin Reserve 0 ERC's
*Not to exceed 20% of present customers
- a) Customer Growth Using Regression Analysis in ERC's for Most Recent 5 Years Including Test Year 0 ERC's
- c) Construction Time for Additional Capacity 2 Years
- (a) x (b) = 0 ERC's Margin Reserve

PERCENT USED AND USEFUL FORMULA

$$\frac{(2 + 3)}{1} = \underline{36} \% \text{ Used and Useful}$$

GERALD D. EDWARDS Engineer

DOCKET NO. 960523-WS
DATE: OCTOBER 31, 1996

WASTEWATER TREATMENT PLANT

Attachment C
USED AND USEFUL DATA

Docket No. 960523-WS Utility J & J WATER AND SEWER CORP. Date JULY 1996

- 1) Capacity of Plant 10,000 gallons per day
2) Maximum Daily Flow 12,750 gallons per day
3) Average Daily Flow 9,650 gallons per day
4) Fire Flow Requirements NOT APPLICABLE gallons per day
5) Margin Reserve 0 gallons per day
*Not to exceed 20% of present customers

a) Test Year Customers in ERC's - Begin 52 End 52 Av. 52

b) Customer Growth Using Regression Analysis in ERC's
for Most Recent 5 Years Including Test Year 0 ERC's

c) Construction Time for Additional Capacity 1.5 Years

$$(b) \times (c) \times \left[\frac{\quad}{(a)} \right] = \quad \text{gallons per day}$$

6) Excessive Infiltration gallons per day

a) Total Amount gallons per day % of Av. Daily Flow

b) Reasonable Amount gallons per day % of Av. Daily Flow

c) Excessive Amount gallons per day % of Av. Daily Flow

PERCENT USED

AND USEFUL FORMULA

$$\frac{[(3) + (5)] - 6}{1} = \underline{100} \% \text{ Used and Useful}$$

GERALD D. EDWARDS Engineer

DOCKET NO. 960523-WS
DATE: OCTOBER 31, 1996

WASTEWATER COLLECTION SYSTEM

Attachment D
USED AND USEFUL DATA

Docket No. 960523-WS Utility J & J WATER AND SEWER CORP. Date JULY 1996

- 1) Capacity 141 ERC's (Number of potential customers without expansion)
 - 2) Number of TEST YEAR Connections 52 ERC's day
 - a) Begin Test Year 52 ERC's
 - b) End Test Year 52 ERC's
 - c) Average Test Year 52 ERC's
 - 3) Margin Reserve 0 ERC's
 - a) Customer Growth Using Regression Analysis in ERC's for Most Recent 5 Years Including Test Year 0 ERC's
 - c) Construction Time for Additional Capacity 2 Years
- (a) x (b) = 0 ERC's Margin Reserve

PERCENT USED AND USEFUL FORMULA

$$\frac{(2 + 3)}{1} = \underline{36} \% \text{ Used and Useful}$$

GERALD D. EDWARDS Engineer