



Public Service Commission

-M-E-M-O-R-A-N-D-U-M-

DATE: April 4, 1997
TO: Division of Records and Reporting
 Division of Legal Services (Crosby)
FROM: Division of Water and Wastewater (Walker) *MD*
RE: Docket No. 961334-WS - Application for Grandfather Certificates to Operate a Water and Wastewater Utility in Polk County by Cypress Lakes Association, Ltd.

Please file the attached document in Docket No. 961334-WS. This information was received from the applicant in response to staff's notification of deficiencies with respect to the original application. Revisions to the tariff worksheets were retained by this division.

cc. Division of Water and Wastewater (Redemann)

Attachment

- ACK _____
- AFA _____
- APP _____
- CAF _____
- CMU _____
- CTR _____
- EAG _____
- LEG _____
- LIN _____
- OPC _____
- RCV _____
- SEL
- WAS _____
- OTH _____

DOCUMENT NUMBER-DATE
03612 APR-85
 FPSC-RECORDS/REPORTING

Regulatory Consultants, Inc.

401 Interstate Boulevard Sarasota, Florida 34240
Telephone (941) 371-8499 • Fax (941) 379-2828

March 6, 1997

Mr. Norvell D. Walker
Division of Water and Wastewater
Florida Public Service Commission
Capital Circle Office Center
2540 Shumard Oak Blvd
Tallahassee, FL 32399-0850

RECEIVED

MAR 07 1997

Florida Public Service Commission
Division of Water and Wastewater

RE: Docket No. 961334-WS - Application for Grandfather Certificates to Operate a Water and Wastewater Utility in Polk County by Cypress Lakes Association, Ltd - Request for Supplemental Information

Dear Mr. Walker:

I am writing this letter in response to your request for supplemental information dated January 28, 1997. Your letter identified four areas in the Utility's billing and accounting practices in which you sought additional information. The following responses to your inquiries are set forth in the same sequence as they were enumerated in your correspondence.

First, I have attached hereto the revisions of Water Tariff Original Sheet No. 23.0 to Original Sheet No. 31.0 inclusive and Wastewater Tariff Original Sheet No. 21.0 to Original Sheet 26.1 inclusive, indicating the effective date as August 6, 1996. In the original filing the effective date was indicated as "Applied For".

Second, Cypress Lakes Associates, Ltd. (Cypress Lakes) is requesting permission to collect a customer deposit from a new customer or from a customer who has been disconnected for non-payment, previously paid with a check refused by a bank, has tampered at any time with the meter or used service in a fraudulent or unauthorized manner, or has been charged a premise visit charge anytime in the proceeding twelve months. Unfortunately, Mr. Sheahan's rate recommendations were different than those requested by Cypress Lakes in its original Franchise Application. Polk County did approve Mr. Sheahan's recommended rates and miscellaneous charges, however, the correct amount of the deposit was not specifically addressed. In the Application, Cypress Lakes did request a deposit equal to the average of two monthly billing periods which, when estimated at the following usages, would amount to a deposit as follows:

	Water	Wastewater
Residential - 5/8" x 3/4" (6M)	\$ 17.00	\$ 43.00
Commercial - 5/8" X 3/4" (6M)	\$ 17.00	\$ 43.00
1.0" (15M)	\$ 43.00	\$ 107.00
1/5" (30M)	\$ 85.00	\$ 215.00
2.0" (48M)	\$ 135.00	\$ 340.00

Mr. Norvell D. Walker
March 6, 1997
Page 2

Cypress Lakes does not intend to charge a deposit to any existing customer unless the customer is disconnected and has previously demonstrated a problem paying for the service utilized as set forth in the explanation above. For your information, I have attached a Water Tariff Original Sheet No. 27 0 and a Wastewater Tariff Original Sheet No. 24 0 with the deposit amounts included in the appropriate places.

A background or history of the Utility is necessary to answer your third and fourth inquiries. The Park and the Utility are owned by the same entity. The users within the park can be divided into three types of customers:

- 1) Residential customers (manufactured home owners) who own their homes and have purchased their lot (Residential Service)
- 2) Residential customers (manufacture homes owners) who own their own homes but lease their lots pursuant to a lease agreement with the Park owner (Multi-residential Service).
- 3) Customers who are within the park and generally are engaged in commercial activities or are engaged in services which support the park's operations such as the clubhouse, the sales office, etc. (General Service)

At the present time the Park owner owns and/or controls both the leased lots and the general service customers. The initial phases of the Park were developed as lots for lease on which manufactured homes would be placed. However, the Park management also recognized the demand for lots by persons who desired to own the land beneath their manufactured home. Therefore, Phase IIA which is comprised of 96 "for sale" lots was developed. As soon as the 96 lots were developed and the first lot sold, the Utility which previously had been exempt for regulation (landlord supplying service to its tenants) became subject to regulation.

When a utility becomes subject to regulation in this manner it creates some interesting problems. The initial phases of the water and wastewater treatment plant had been built and subsequently expanded to serve the needs of both the currently connected customers and a portion of the anticipated future customers. Both the water distribution and wastewater collection system had been constructed to serve Phase I, Phase IIA, Phase IIB and Phase IV. At the time of Mr. Sheahan's report, Phase V was under construction. The combined systems were going to serve over 1,000 developed lots plus five general service type of customers. However, since the original development plan didn't anticipate the need for a separate charge for water and wastewater services to an individual customer or group of customers, water meters were not installed on every customer connected to the system. Recognizing the difference in types of customers and the fact that each customer did not have a meter, it was decided that the rates for water and wastewater service would be established based on the following plant costs: the water and wastewater treatment plants which were constructed, the back bone water and sewage collection lines which were constructed along Big Cypress Blvd., all sewage lift stations and force mains because they should be controlled by the Utility; and, finally, all the water distribution and sewage collection lines which serve the 96 "for sale" lots in Phase IIA.

Mr. Norvell D. Walker

March 6, 1997

Page 3

After it was decided what assets would be the responsibility of the Utility, the problem with metering the water consumption was addressed. The water treatment plant has a flow meter which is used to measure the total treated water in 1,000's of gallons pumped into the system. Since the potable water has to physically flow through Phase I to reach the backbone system along Big Cypress Blvd, master meters would have to be placed at the two places where Phase I interconnects the 8" water main along Big Cypress Blvd. Initially, it was anticipated that a master meter would also have to be installed easterly of lot 55 in Phase I to measure the water used by the first 54 lots in Phase I and the service center. Subsequently, individual meters were installed on the first 54 lots and the service center because it was less expensive than installing a large master meter. However, a master meter needs to be installed just west of the clubhouse on Big Cypress Blvd., which will measure water usage for Phase IIB, Phase IV and Phase V. Individual meters (5/8" x 3/4") have been installed on all the connected (sold) lots in Phase IIA. Additionally, individual meters (5/8" x 3/4") will be installed on the clubhouse, tennis courts, sewer lift stations, etc. which are located within the Park. Once these meters are installed and being read on a monthly basis, the Utility can account for the total water produced and used by the various customer groups within the Park.

Besides the Utility's cost of plant which was utilized in the determination of the rates, the only other capital cost that the Utility had to address in its rates is the cost of leasing from the Park a portion of the 8" and 6" water mains located within Phase I serving lots 55 through 387. These water mains are the conduit for the potable water to flow into the rest of the water system. The lease cost was established by Mr. Sheahan based on the original construction cost of the mains and the number of lots the entire water system was expected to serve.

Keeping in mind the rather lengthy explanation of the background of the Utility above, the answer to your third inquiry is the Utility has not and is not seeking to collect, nor has it charged, a main extension or plant capacity charge. The contributions in aid of construction (CIAC) which was reflected in Mr. Sheahan's rate study resulted from an imputation of CIAC because the former Park owner was expensing the development costs for the "for sale" lots on its tax return. The costs of the water distribution and sewage collection systems which were constructed to serve the 96 lots in Phase IIA were included as part of the development costs, which were expensed as cost of goods sold on the former owner's tax returns as the lots were sold. Therefore, the costs associated with the water distribution and sewage collection lines were recorded on the Utility's books as an increase in the cost of the assets with a related increase in the CIAC balance.

Unlike the Florida Public Service Commission (FPSC), Polk County did not have a rule, standard or required range relating to the proposed balances for CIAC. However, the rates as determined include only the costs for the supply wells, the water and wastewater treatment plants, the lift stations and related force mains and the backbone water transmission/distribution main costs and sewage collection main costs along Big Cypress Blvd. If you compare all the costs of the plant in

Mr. Norvell D. Walker
March 6, 1997
Page 4

service to the costs of the distribution and collection mains, the mains represent a small percentage of the net investment which has been included by the Utility in its total cost of plant in service. Therefore, the Utility did not request a main extension charge nor a plant capacity charge. Referencing the FPSC's guidelines for designing service availability (FAC, Rule 25-30.580), Cypress Lakes only exceeds the minimum standard for designing service availability charges, assuming the inclusion of the 8" water main and the 12" sewer collection main (the backbone system) which is installed along Big Cypress Blvd., by a small percentage. Excluding pump stations and the related force mains, the combined water transmission and distribution system and the sewage collection system represent 19.45% of the total cost of the combined water and wastewater plant in service. The current CIAC balance as a percentage represents 11.68% of the total cost of the combined water and wastewater plant in service. The less than 8% difference represents approximately \$105,000 out of \$1,353,206 of total combined plant in service. The \$105,000 spread over the 1,000 developed lots represents a rather minimal investment of \$105 per developed lot. Given the number of customers which are currently receiving service, the creation of a service availability charge to meet the minimum guideline wouldn't provide substantial benefit for the cost involved. Currently, the rates, as designed, include only those plant costs which are universally shared by both the current and future customers of the Utility.

Fourth, meters have been installed on all the residential units within the Park. However, the Utility still must install three master meters. Two master meters will have to be installed on the lines from Phase I and one master meter will have to be installed westerly of the clubhouse. Since lots 1 through 54 in Phase I have meters installed on them, no master meter is needed for this location. As the Park is presently constructed, the water consumption for Phase I lots 55 through 387, will be the difference resulting from the water produced at the plant, as measured by water plant flow meter, less the amount of water which flows into the backbone system as measured by the two master meters in Phase I. The individual meters will be read for Phase I lots 1 through 54 and the appropriate bill rendered. Separate meters will be read for the 96 residential lots in Phase IIA (the "for sale" lots) and the general service customers (i.e. clubhouse, tennis courts, etc.). Finally, the master meter which must be installed westerly of the clubhouse will record the usage for Phase IIB, Phase IV and Phase V. As of December 31, 1996, there were 63 connected lots in Phase IIA and 752 lots connected in the balance of the Park.

Since the consumption for multi-residential units in most of Phase I and all Phase IIB, Phase IV and Phase V will be master metered, the Utility will charge for the increasing block rate for consumption in excess of 6,000 gallons per month per unit connected, which is the allowance per dwelling unit as set forth in the Tariff. If all 588 lots in Phase IIB, Phase IV and Phase V were connected to the water lines in their particular phases, the usage as measured by the master meter would have to exceed a total monthly consumption of 3,528M (588 lots x 6M) gallons before the next block rate of \$1.20 per thousand gallons would apply. Accordingly, the total monthly consumption for the 588 lots would have to exceed 7,056M (588 lots X 12M) gallons before the

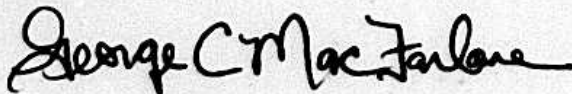
Mr. Norvell D. Walker
March 6, 1997
Page 5

over 12,000 gallons block rate of \$1.60 per thousand gallons would apply. The Tariff also allows the Utility to charge a base facility charge for each connected residential unit behind each master meter because the revenue requirements were spread over all the connected residential living units in the entire park. Finally, the appropriate deferred standby fee will be determined based on the month and year that a residential unit actually connects to either the water distribution system controlled by the Utility or the water distribution system controlled by the Park.

Currently, the Park is considering filing for an exemption pursuant to Section 367.022(8), Florida Statutes, as a reseller of service at a rate which does not exceed the actual purchase price. The Park owner believes that such a charge to the individual lessee will make people aware of both their monthly consumption of water and the costs associated with the water consumed which should result in conservation of the water by everyone within the Park.

Mr. Walker, I believe the above responds to your inquiries as set forth in your letter dated January 28, 1997. If you should have any questions or comments, please don't hesitate to call.

Sincerely,



George C. MacFarlane
President

GCM/nlg
cc: Chris Rupel
Fred Babb