FLORIDA PUBLIC SERVICE COMMISSION
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Tallahassee, Florida 32399-0850

M E M O R A N D U M

DECEMBER 23, 1997

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

FROM: DIVISION OF WATER & WASTEWATER (MANN, DAVIS)
DIVISION OF LEGAL SERVICES (VACCARO)

RE: DOCKET NO. 970633-WS - PARADISE LAKES UTILITY, LTD. - APPLICATION FOR A STAFF ASSISTED RATE CASE
COUNTY: PASCO

AGENDA: 1/6/98 - REGULAR AGENDA - PROPOSED AGENCY ACTION EXCEPT ISSUE NO. 10 - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: 15 MONTH STATUTORY DEADLINE IS 11/14/98

SPECIAL INSTRUCTIONS: I:\PSC\WAW\WP\970633WS.RCM

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CASE BACKGROUND

Paradise Lakes Utility, Ltd. (Paradise Lakes, PLU or utility) is a Class C water and wastewater utility serving approximately 345 water and wastewater customers in Pasco County. The service area and treatment facilities of Paradise Lakes are located at Dale Mabry Highway and Highway 41 North in southern Pasco County.

The Commission granted Paradise Lakes its original water and wastewater certificates in Order No. 15668, issued February 13, 1986 in Docket No. 850211-WS. Rate base, along with authorized water and wastewater rates and charges, was authorized in Order No. 16859, issued November 18, 1986 in Docket No. 850211-WS. The utility had a staff assisted rate case (SARC) in Docket No. 871005-WS, and a 1989 price index application in Docket No. 890599-WS. Paradise Lakes had a SARC in 1995 in Docket No. 950169-WS, Order No. PSC-95-1538-FOF-WS, issued December 13, 1995. The current rate case was filed on May 28, 1997, and the utility has paid the appropriate filing fee.

In preparation for this report, staff has audited the utility's records for compliance with Commission rules and orders and determined all components necessary for rate setting. The staff engineer conducted a field investigation of the utility's water plant, wastewater plant, water distribution system, wastewater collection system and utility service area. A review of the utility's operation expenses, maps, files, and rate application was also done to obtain information about the systems and operating costs.

Staff has selected an historical test year ended June 30, 1997. During that period, the utility's books reflected unaudited water operating revenues of $60,680 and unaudited wastewater operating revenues of $122,007 resulting in an operating income of $21,134 for water and an operating income of $31,520 for wastewater.

Water use in the utility's service area is under the jurisdiction of the Southwest Florida Water Management District. The utility is located within a critical water use caution area.

A customer meeting was conducted on October 29, 1997 in the utility's service area.

DISCUSSION OF ISSUES

QUALITY OF SERVICE

ISSUE 1: Is the quality of service provided by Paradise Lakes Utilities, Ltd. in Pasco County satisfactory?

RECOMMENDATION: The quality of service for both the water and the wastewater systems should be considered satisfactory. (DAVIS)

STAFF ANALYSIS: A customer meeting was held on October 29, 1997, in the Paradise Lakes Clubhouse which is located within the resort. Eleven (11) customers from the utility's 340 residential and five general service customers (estimated to be 311 equivalent residential connections (ERCs)) attended the meeting. Most issues discussed during the course of the meeting concerned rate setting, and how staff arrived at the proposed increase. One customer expressed a concern that the water pressure was not sufficient in her area of the resort. Another customer approached staff after the meeting and asked when the old wastewater treatment plant would be moved.

The overall quality of service provided by the utility is determined by the evaluation of three separate components of utility operations: (1) quality of utility's product (water and wastewater service provided); (2) operational conditions of utility's plant or facility; and (3) customer satisfaction of services rendered.

The quality of the utility's product is mainly determined by its compliance with other regulatory agencies. The Department of Environmental Protection (DEP) performs regular inspection visits to the service area to determine proper operations. Based on DEP's inspection, the water treatment plant is within compliance. DEP also reviews all test results for proper frequency and compliance parameters. Paradise has completed its necessary testing, and the analysis results indicate that the water served by Paradise Lakes meets or exceeds the parameters for safe drinking water. The utility is in the Southwest Florida Water Management District which is the agency that monitors the amount of water extracted from the ground water table. The utility's yearly, average per day usage is within satisfactory limits of the permitted extraction rate.

Since the wastewater treatment plant has been eliminated and Paradise Lakes purchases wastewater service from the county, all compliance responsibilities for wastewater treatment falls to the county.

Operational conditions are determined by diligence to routine maintenance of plant equipment, and the condition of the area around the plant-site(s). Since there is no wastewater treatment plant, the master lift station was reviewed. The master lift station has just been upgraded to meet the standards of interconnection with the county. A wood privacy fence was included in the upgrade to blend the site into the landscaping. Operational conditions for wastewater should be considered satisfactory. Operational conditions at the water treatment plant are also shielded from public view by a wood privacy fence. Upon inspection, the grounds appeared well maintained and all areas of the plant were easily accessible and without encumbrances. Extra parts were stored inside the maintenance building for easy access during an emergency. Operational conditions for the water plant should be considered satisfactory.

Those customers who spoke at the customer meeting were primarily concerned over the new rates and how the staff arrived at the proposed amounts. One customer mentioned having a problem with her water pressure. At the meeting, staff instructed both the customer and the utility to get together to resolve the problem. After the customer meeting, the utility installed a pressure gauge at the customer's residence and monitored the water pressure for 48 hours. The lowest pressure noted during the monitoring period was 40 pounds per square inch (psi), which is well above the required minimum of 20 PSI required by Rule 62-555.320(7), Florida Administrative Code. Upon further inspection, the utility noted that the customer had water saver faucet and shower heads that was restricting the volume of water flow. This issue is considered resolved.

After the meeting, another customer approached staff and asked when the old wastewater plant would be removed off the premises. Brian Spicher, President of Environmental Equipment Sales, Inc. (contractor for the upgrade and interconnect construction) was contacted to determine when the old plant would be removed. Under the agreement with the utility, Mr. Spicher has been given a year to remove the old plant. The project was completed during May of 1997. The old plant equipment remaining on the property will be removed before June of 1998.

The utility is in compliance with all regulatory agencies having jurisdiction over its operations. All chemical analysis is up-to-date and the analysis results are satisfactory, indicating, the utility is providing its customers with safe drinking water. Wastewater service is now purchased in bulk from Pasco County which relieves Paradise Lakes of regulatory obligations for wastewater treatment. By all appearances, the utility puts forth the effort to maintain its utility plant and equipment to match the aesthetics

of the resort. The one customer that went on record as having a water pressure problem is having a restricted flow due to devices designed to save water. All things considered, the quality of service provided by the utility should be considered satisfactory.

RATE BASE

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

RECOMMENDATION: The water treatment and the water distribution system should be considered 100% used and useful. The used and useful for the wastewater plant should be considered not applicable. The collection system should be 100% used and useful. (DAVIS)

STAFF ANALYSIS: The water treatment plant serves a development that is considered "built-out", and was considered to be 100 percent used and useful in the last rate case. The water plant is a closed system operation designed to accommodate the existing 340 residential and five general service customers. The capacity of the plant is rated at 550 gallons per minute which equals a per customer share of 1.6 gallons per minute per customer. The General Waterworks Design Criteria set forth by the AWWA requires a minimum of 1.1 gallons per minute per customer based on average daily flow. The utility meets the minimum standards for sufficient quantity. Fire flow is independent of the water system and while it is a sufficient system, is not included in the used and useful formula. The two general service connections (travel trailer park and motel) have been included in the calculation. The remaining general service customers (club house, restaurant, and office) exist to provide services to the residential customers already included in the ERC calculation and, therefore, are not included in the used and useful calculation. By the approved formula, used as an indicator for staff to determine useful plant, the water plant was found to be 100% used and useful (See Attachment A). It is recommended that the water treatment plant be considered 100% used and useful.

During the last rate case, it was established that the water distribution system was 100% used and useful. This was based on information received during the investigation verifying that the service territory is "built-out." Therefore, it is considered that no less of a distribution system could serve the existing customers. By formula calculation, the water distribution system is verified to be 100 used and useful (See Attachment B). It is recommended that the water distribution system be considered 100% used and useful.

There is no existing wastewater plant. All in-house wastewater facilities are to be removed by Environmental Equipment Sales, Inc., and during May, 1997, the utility made final its interconnection with Pasco County. The calculation of a used and useful for the wastewater treatment plant is not applicable.

The wastewater collection system was also established in the last rate case as being 100% used and useful. Again, this is based on information verifying that the system is "built-out." The approved formula method, used as an indicator of useful plant, supports the wastewater collection system to be 100% use and useful (See Attachment C). It is recommended that the collection system be considered 100% used and useful.

ISSUE 3: 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 Paradise Lakes should be $115,803 for water and $417,515 for wastewater. (MANN, DAVIS)

STAFF ANALYSIS: The appropriate components of Paradise Lakes' rate base include depreciable plant-in-service, land, contributions in aid of construction (CIAC), accumulated depreciation, accumulated amortization of CIAC, and working capital allowance. Plant, land, depreciation, and CIAC balances were determined as of December 31, 1994 in the utility's last staff assisted rate case through Order No. PSC-95-1538-FOF-WS, issued December 13, 1995. Staff has 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 Paradise Lakes water treatment plant is a typical, simple closed system and currently has two wells. The original well, completed in 1985, is a six inch, steel encased, 350 feet deep unit, with a rated capacity of 250 gallons per minute. A new, second well was completed in 1991. It too, is a six inch, steel encased well but is dug to a depth of 450 feet and has a rated capacity of 300 gallons per minute. The raw water is disinfected by gas chlorination just prior to entry into a new 10,000 gallon tank. The utility also has a new standby electrical generator that is fueled by liquid gas.

With the completion of Phase III of the resort, the water distribution system added 1,600 linear feet of four inch and 939 feet of three inch PVC to the existing plant. As with the original mains, the system is constructed as a loop system to provide for optimum dispersion and pressure equalization.

The wastewater treatment facility has been retired during the test year, and the utility now purchases wastewater treatment from Pasco County through an interconnection to the county system. The wastewater collection system, like the water distribution system, has been expanded due to the completion of Phase III of the resort. A total of four lift stations are in use to collect effluent.

The utility recorded utility plant in service balances of $195,600 for water and $653,843 for wastewater at the end of the test year. Staff made no adjustment to water plant in service balances. Staff adjusted wastewater plant to reflect a reduction of $109,214 for the reuse plant that had been written off in the

last rate case and not booked, a reduction of $156,602 for the retirement of the wastewater treatment plant as a consequence of the interconnection with Pasco County, a reduction of $2,226 for miscoded expense, and lastly, an averaging adjustment of $17,803.

Total recommended utility plant in service is $195,600 for water and $371,998 for wastewater.

Land: The utility recorded $7,800 for water land in service and $36,000 for wastewater land in service. Staff has adjusted the wastewater land account by ($23,000) to reflect the thirty five percent used and useful component of the wastewater land account. A corresponding adjustment was made to the CIAC account balance to reflect the fully contributed nature of the wastewater land.

Total recommended utility land in service is $7,800 for water and $12,600 for wastewater.

Non-Used and Useful Plant: In Issue No. 2, the staff engineer recommended that the water treatment plant, water distribution system, and wastewater collection system should be considered 100% used and useful since the utility is "built out". Therefore, there would be no non-used and useful plant.

Contributions in Aid of Construction (CIAC): The utility CIAC balances at the end of the test year were ($27,600) for water and ($55,920) for wastewater. The water CIAC balance includes $7,800 in land, and the wastewater CIAC balance includes $31,200 that represents donated land. Staff calculated CIAC since Commission Order No. PSC-95-1538-FOF-WS, issued December 13, 1995, and agrees with the utility reported balances. No new customers were added since the last rate case, and, therefore, no averaging adjustment was necessary. Staff has removed $23,400 of the contributed land to reflect the retirement of the wastewater plant.

Staff recommends CIAC balances of ($27,600) for water and ($32,520) for wastewater.

Accumulated Depreciation: The utility books reflected accumulated depreciation balances of ($72,807) for water and ($234,086) for wastewater at the end of the test year. Consistent with Commission practice, staff calculated accumulated depreciation using the prescribed rates described in Rule 25-30.140, Florida Administrative Code. Staff made adjustments of $1,969 to water accumulated depreciation to correct the balance. Staff also adjusted wastewater accumulated depreciation by $234,086 to account for the retirement of the wastewater plant(see amortization expense for additional clarification). These adjustments resulted from the retirement of the wastewater treatment plant, incorrect inclusion

of depreciation on retired reuse plant, and averaging adjustments.

Staff recommends accumulated depreciation balances of ($70,838) for water and $0 for wastewater.

Accumulated Amortization: The utility recorded accumulated amortization balances of $4,643 for water and $7,402 for wastewater at the end of the test year. Staff calculated amortization of CIAC by computing and using the appropriate yearly composite rate. Adjustments of $1,130 for water and $3,968 for wastewater were made to bring the utility balances to the NARUC calculated amount. Averaging adjustments of ($279) for water and ($542) for wastewater brings the total recommended accumulated CIAC amortization balances to $5,494 for water and $10,828 for wastewater.

Miscellaneous Deferred Debit: Staff has amortized the loss on the retirement of the wastewater plant, $51,200, over a ten year period (the remaining useful life). This amortization results in test year expense of $5,120 and a miscellaneous deferred debit of $46,080 that is included in rate base.

Working Capital Allowance: Following current Commission practice and consistent with Rule 25-30.443, Florida Administrative Code (Form PSC/WAS 18), staff recommends that the one-eighth of operation and maintenance expense formula approach be used for calculating working capital allowance. Applying that formula, staff recommends a working capital allowance of $5,347 for water and $8,529 for wastewater (based on operation and maintenance expense of $42,774 for water and $68,230 for wastewater).

Rate Base Summary: Based on the foregoing, the appropriate balance of Paradise Lakes' test year rate base is $115,803 for water and $417,515 for wastewater. Rate base is shown on Schedules Nos. 1 and 1A and adjustments are shown on Schedule No. 1B.

COST OF CAPITAL

ISSUE 4: 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 is 10.70% with a range of 9.70% - 11.70% and the appropriate overall rate of return is 10.46% with a range of 9.78% - 11.15%. (MANN)

STAFF ANALYSIS: Based on the staff audit, the utility's capital structure consists of $111,900 of long-term debt with an imputed interest rate of 10.00%, short term debt of $70,307, and common equity of $395,521. Using the current leverage formula, the rate of return on common equity is 10.70% with a range of 9.70% - 11.70%.

Applying the weighted average method to the total capital structure yields an overall rate of return of 10.46% with a range of 9.78% to 11.15%. Staff made pro rata adjustments to reconcile the capital structure downward to match the recommended rate base.

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

NET OPERATING INCOME

ISSUE 5: What are the appropriate test year operating revenues for each system?

RECOMMENDATION: The appropriate test year operating revenues should be $60,203 for water and $126,794 for wastewater. (MANN)

STAFF ANALYSIS: The utility recorded water revenues of $60,680 and wastewater revenues of $122,007 during the test period. A review of the test year billing analysis showed these test year revenues were overstated for water by $447 and understated for wastewater by $4,787. Staff has adjusted the test year amounts by a corresponding amount and the appropriate test year operating revenues should be $60,203 for water and $126,794 for wastewater. Operating revenues are shown on Schedules Nos. 3 and 3A.

ISSUE 6: What are the appropriate amounts for operating expense for each system?

RECOMMENDATION: The appropriate amounts for operating expense should be $52,775 for water and $88,508 for wastewater. (MANN, DAVIS)

STAFF ANALYSIS: The utility recorded operating expenses of $39,546 for water and $90,487 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 $29,347 to water O & M and $55,984 to wastewater O & M during the test year. A summary of adjustments that were made to the utility's recorded expenses follows:

1) Sludge Removal Expense - As the wastewater treatment plant was retired during the test year, staff recommends that $3,380 be reduced from this expense. The result of this reduction is to allow an expense of $600 for sludge hauling associated with maintenance of the lift stations. Staff recommends sludge removal expense of $600.

2) Purchased Power - The utility recorded $2,516 in water purchased power and $5,918 in wastewater purchased power. Staff made adjustments of ($8) to water purchased power and ($4,467) to wastewater purchased power to correct the amounts spent and to account for the retirement of the wastewater treatment plant. Staff recommends water purchased power of $2,508 and wastewater purchased power of $1,451.

3) Chemicals - The utility recorded $649 for water chemical expense and $9,517 for wastewater chemical expense during the test year. Staff made adjustments of $431 to water chemical expense and ($8,767) to wastewater chemical expense to correct the balances to levels recommended by the staff engineer and to account for the retirement of the wastewater treatment plant. Staff recommends chemical expense of $1,080 for water and $750 for wastewater.

4) Materials and Supplies - The utility recorded a materials and supplies expense of $233 for water and $1,666 for wastewater. Staff made adjustments of $1,250 to water and ($391) to wastewater to reclassify expenses to contractual services, to plant in service, and to true the expense to the level approved in the last rate case. Staff recommends materials and supplies expense of $1,483 for water and $1,275 for wastewater.

5) Contractual Services - The utility recorded contractual services expenses of $22,795 for water and $31,748 for wastewater during the test year. Staff made adjustments to the water contractual services account to: a) reclassify $1,193 from material and supplies; b) reclass $775 from the wastewater system to the water system; c) to adjust for an item that was paid out of the test year of $360; d) adjust to prior Order amounts factored for index increases of $6,903; h) adjust testing costs by $2,879 to allow proper expense for required testing and lastly; i) adjust transportation expense to the prescribed level through an adjustment of $974.

Staff made adjustments to the wastewater contractual services account to: b) reclassify ($775) of expense to the water system; c) to adjust for an item that was paid out of the test year of $360; d) adjust to prior Order amounts factored for index increases of $889; e) to adjust for an item that was paid out of the test year of $126; f) to adjust ($5,272) for contractual expense related to the retired wastewater treatment plant; g) to adjust $36,147 for the cost of purchased wastewater treatment from Pasco County; h) adjust testing costs by ($1,312) to allow proper expense for required testing and lastly; i) adjust transportation expense to the prescribed level through an adjustment of $418.

Paradise Lakes, Ltd., the parent company, handles all management services for the utility. The president's salary was based on the percentage of time spent on utility business times his total salary. Staff indexed up the president's previously approved salary using the Commission approved yearly index figures and came up with a staff recommended president's salary of $10,361 for the water system and $7,156 for the wastewater system. Staff believes this reflects his responsibilities for this size and type utility.

Clerical costs were also based on percentage of time spent on utility business times the salary of the bookkeeper in the previous rate case. The utility has stated that it now has a full time bookkeeper handling utility business. Staff recommends clerical expense of $11,654 for the water system and $8,448 for the wastewater system.

Office expenses include telephone, rent, electricity, taxes,

office supplies, postage and use of the office equipment. Staff recommends office expense of $6,606, split 50/50 between water and wastewater.

Accounting and legal expense include contracted services for litigation and preparation of accounting reports for regulatory and tax purposes. Staff believes the amount included by the utility, $3,604, to be reasonable and recommends that it be split 50/50 between water and wastewater.

Based on expenses allowed in the last rate case and index increases from that time, staff recommends maintenance expense of $3,092 for the water system and $4,637 for the wastewater system.

In accordance with the review and recommendation of the staff engineer, staff recommends $974 in transportation expense for the water system and $418 for the wastewater system.

Also in accordance with the review and recommendation of the staff engineer, staff recommends $3,719 in testing costs for the water system.

Lastly, staff recommends that $36,147 be allowed as the cost of purchased wastewater treatment expense, based on the consumption recorded in the test year.

Total adjustments are $12,110 for water contractual services and $30,163 for wastewater contractual services. Staff recommends $34,905 for water contractual services and $61,911 for wastewater contractual services.

6) Insurance Expense - The utility recorded $2,500 of insurance expense for water and $2,500 of insurance expense for wastewater. The staff auditor discovered these figures were not expensed during the test year and that an adjustment should be made to reflect the retirement of the wastewater treatment plant. Adjustments of ($1,580) for water and ($1,580) for wastewater were made to reflect the current policy and the amount of plant currently insured. Staffs recommends insurance expense of $920 for water and $920 for wastewater.

7) Regulatory Commission Expense - The utility recorded $250 of water and $250 of wastewater regulatory commission expense in this account. These amounts represent $250 for water and $250 for wastewater for the staff assisted rate case filing fee ($1,000 per system) amortized over 4 years. Staff recommends no adjustment.

Staff recommends $250 of water and $250 of wastewater regulatory commission expense.

8) Miscellaneous Expense - The utility recorded $404 of water and $405 of wastewater miscellaneous expenses. Staff recommends no adjustment.

Staff recommends $404 for water miscellaneous expenses and $405 for wastewater miscellaneous expenses.

Operation and Maintenance Expenses(O&M) Summary: Total O&M adjustments are $14,427 for water and $10,746 for wastewater. Staff recommends O&M expenses of $43,774 for water and $66,730 for wastewater. O&M expenses are shown in Schedules Nos. 3C and 3D.

Depreciation Expense (Net of Amortization of CIAC): The utility recorded $7,898 of water and $30,091 of wastewater depreciation expense during the test year. Consistent with Commission practice, staff calculated test year depreciation expense using the prescribed rates described in Rule 25-30.140, Florida Administrative Code. Staff made an adjustment of ($18,825) to wastewater depreciation expense to bring the utility balances to the correct amount, and to recognize the retirement of the wastewater treatment plant and the disallowance of depreciation on the reuse facility that should have been retired as a result of the findings in the last rate case. In addition, staff has corrected the amount of amortization by ($446) for the water system and by ($1,486) for the wastewater system to agree with prescribed rates. The staff has also amortized an extraordinary loss on retirement of the wastewater treatment plant of $5,120. Below is further explanation of this adjustment and the utility interconnection with Pasco County.

To understand the reason why the utility decided to interconnect with Pasco County for the provision of wastewater treatment, one must understand some of the history of the utility. Due to rapid growth in this residential community, the wastewater facility has been at full capacity for several years, and expansion of the wastewater facility is not a viable option. For these reasons, Paradise Lakes has long been faced with the problem of effluent disposal. In an attempt to deal with this problem, Paradise Lakes entered into an arrangement to pump effluent to an adjoining property for reuse. This agreement provided a temporary solution. Since the last rate case, the adjoining property owner has decided to terminate this agreement and is no longer receiving effluent from Paradise Lakes. As the Paradise Lakes wastewater system was already beyond maximum capacity, and there is no available land for sewer plant expansion, the utility was forced to interconnect with Pasco County. A victim of its own success in developing the community and a lack of land upon which the sewer

plant could be expanded, the utility was forced to turn wastewater treatment over to the county. As a consequence of this interconnection, the utility is now faced with retirement of the sewer plant.

In accordance with the instructions in the 1984 Uniform System of Accounts, a retirement should be handled as follows:

> 4.D. When an item of plant is retired, account 108- Accumulated Depreciation and Amortization of Utility Plant in Service, shall be charged and the appropriate plant accounts shall be credited with the entire recorded original cost of plant retired regardless of the amount of depreciation which has been accumulated for this particular item of plant,...

Staff has followed these instructions and has reduced the accumulated depreciation for the wastewater plant to $0. Having completely reduced this amount, there is a resultant loss of $51,200 on the wastewater plant in service. In accordance with the next instruction in the Uniform System of Accounts, staff has recognized the loss, amortized over ten years (the remaining life of the retired plant), and accounted for the miscellaneous deferred debit in rate base of $46,080. Staff relies on the following instruction for this treatment;

> 4.E. In rare instances the unexpected early retirement of a major unit of property, which would eliminate or seriously delete the existing depreciation reserve, may require accounting treatment which differs from that described in paragraph D above. In such instances the Commission may authorize or order the loss on retirement (less any tax savings) to be charged to income in the current year or transferred to account 186- Miscellaneous Deferred Debits, and amortized in future periods. Such accounting treatment shall be used only when specifically authorized or directed by the Commission.

In addition to the Uniform System of Accounts, the following Rule 25-30.433(9), Florida Administrative Code, details the accounting treatment for the prudent retirement of plant in service:

> (9) The amortization period for forced abandonment or the prudent retirement, in accordance with the National Association of Regulatory Utility Commissioners Uniform System of Accounts, of plant assets prior to the end of

> their depreciable life shall be calculated by taking the ratio of the net loss (original cost less accumulated depreciation and contributions-in-aid-of-construction (CIAC) plus accumulated amortization of CIAC plus any costs incurred to remove the asset less any salvage value) to the sum of the annual depreciation expense, net of amortization of CIAC, plus an amount equal to the rate of return that would have been allowed on the net invested plant that would have been included in rate base before the abandonment or retirement. This formula shall be used unless the specific circumstances surrounding the abandonment or retirement demonstrate a more appropriate amortization period.

Staff has followed these accounting instructions and included a deferred debit in the rate base and amortized a portion of the loss on retirement. 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 $6,957 for water and $10,975 for wastewater during the test year.

Taxes Other Than Income Taxes: The utility recorded $2,796 of water and $5,075 of wastewater taxes other than income in this account. Staff made adjustments to increase regulatory assessment fees by $248 for water and $966 for wastewater to match test year revenue.

Staff recommends $3,044 of water and $6,041 of wastewater taxes other than income, prior to any increase for regulatory assessment fees associated with a general rate increase.

Operating Revenues: Revenues have been adjusted by $4,909 for water and $5,653 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 $221 for water and $254 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 $52,996 for water and $88,762 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 7: What is the appropriate revenue requirement for each system?

RECOMMENDATION: The appropriate revenue requirement is $65,112 for water and $132,447 for wastewater. (MANN)

STAFF ANALYSIS: The utility should be allowed an annual increase in revenue of $4,909 (8.15%) for water and an annual increase of $5,653 (4.46%) for wastewater. This will allow the utility the opportunity to recover its expenses and earn a 10.46% return on its investment. The calculations are as follows:

	Water	Wastewater
Adjusted Rate Base	$115,803	$ 417,515
Rate of Return	x .1046	x .1046
Return on Investment	$ 12,116	$ 43,685
Adjusted Operation Expenses	42,774	68,230
Depreciation Expense (Net)	6,957	14,237
Taxes Other Than Income Taxes	3,265	6,295
Revenue Requirement	$ 65,112	$132,447
Annual Revenue Increase	$ 4,909	$ 5,653
Percentage Increase/(Decrease)	8.15%	4.46%

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

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RATES AND CHARGES

ISSUE 8: 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 $65,112 for water and $132,447 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. (MANN)

STAFF ANALYSIS: During the test year, Paradise Lakes provided water and wastewater service to approximately 59 metered residential customers, 3 general service metered customers, 277 flat rate residential customers and 2 flat rate general service customers.

The Commission has traditionally applied the base facility/gallonage charge rate structure for all customers which would require meters at each point of delivery. In the previous rate case, the Commission found that metering the existing customers was neither economically feasible nor necessary for water conservation. By Order No. 19276, issued May 3, 1988, the Commission did require that future development at Paradise Lakes be metered. Water use in the utility's service area is under the jurisdiction of the Southwest Florida Water Management District (SWFWMD), and the utility is located within a critical water use caution area. Residential consumption averages approximately 2,744 gallons per month, which is not considered excessive. Therefore, staff is not recommending a change in rate structure.

Schedules of the utility's existing rates and staff's recommended rates follow.

RESIDENTIAL WATER RATES

	Existing Monthly Rates	Recommended Monthly Rates
Monthly Flat Charge		
Single Family Homes	$ 10.79	$ 11.67
Double-Wide Mobile Homes	$ 10.79	$ 11.67

RESIDENTIAL WATER RATES (cont'd)

Monthly Metered Rates

Base Facility Charge Meter Size		
5/8" x 3/4"	$ 5.68	$ 6.14
3/4"	8.51	9.21
1"	14.19	15.35
1-1/2"	28.38	30.70
2"	45.41	49.12
3"	90.82	98.24
4"	141.91	153.50
6"	283.81	307.00
Gallonage Charge Per 1,000 gallons	$ 1.67	$ 1.81

WATER RATES
GENERAL SERVICE

	Existing Monthly Rates	Recommended Monthly Rates
Monthly Flat Rates Clubhouse, Pool, Guardhouse, Maintenance Building (31.5 ERC's)	$ 340.24	$ 367.89
Recreational Vehicle Park (31.5 ERC's)	$ 340.24	$ 367.89

Monthly Metered Rates

Base Facility Charge Meter Size		
5/8" x 3/4"	$ 5.68	$ 6.14
3/4"	8.51	9.21
1"	14.19	15.35
1-1/2"	28.38	30.70
2"	45.41	49.12
3"	90.82	98.24
4"	141.91	153.50
6"	283.81	307.00
Gallonage Charge Per 1,000 gallons	$ 1.67	$ 1.81

MULTI-RESIDENTIAL WATER RATES

	Existing Monthly Rates	Recommended Monthly Rates
Monthly Flat Charge		
Three Bedroom Condominiums	$ 10.79	$ 11.67
Two Bedroom Condominiums	$ 10.79	$ 11.67
One Bedroom Condominiums	$ 10.79	$ 11.67
Monthly Metered Rates		
Base Facility Charge		
Meter Size		
5/8" x 3/4"	$ 5.68	$ 6.14
3/4"	8.51	9.21
1"	14.19	15.35
1-1/2"	28.38	30.70
2"	45.41	49.12
3"	90.82	98.24
4"	141.91	153.50
6"	283.81	307.00
Gallonage Charge		
Per 1,000 gallons	$ 1.67	$ 1.81

RESIDENTIAL WASTEWATER RATES

	Existing Monthly Rates	Recommended Monthly Rates
Monthly Flat Charge		
Single Family Homes	$ 22.48	$ 23.48
Double-Wide Mobile Homes	$ 22.48	$ 23.48
Monthly Metered Rates		
Base Facility Charge		
Meter Size		
5/8" x 3/4"	$ 8.35	$ 8.72
3/4"	12.53	13.08
1"	20.88	21.80
1-1/2"	41.77	43.60
2"	66.83	69.76
3"	133.65	139.52
4"	208.83	218.00
6"	417.67	436.00
Gallonage Charge		
Per 1,000 gallons (Maximum of 3,000 gallons per month)	$ 4.62	$ 4.82

GENERAL SERVICE WASTEWATER RATES

	Existing Monthly Rates	Recommended Monthly Rates
Monthly Flat Rates		
Clubhouse, Pool, Guardhouse, Maintenance Building (31.5 ERC's)	$ 708.36	$ 740.05
Recreational Vehicle Park (31.5 ERC's)	$ 708.36	$ 740.05
Monthly Metered Rates		
Base Facility Charge		
Meter Size		
5/8" x 3/4"	$ 8.35	$ 8.72
3/4"	12.53	13.08
1"	20.88	21.80
1-1/2"	41.77	43.60
2"	66.83	69.76
3"	133.65	139.52
4"	208.83	218.00
6"	417.67	436.00
Gallonage Charge		
Per 1,000 gallons (No Maximum)	$ 4.62	$ 4.82

MULTI-RESIDENTIAL WASTEWATER RATES

	Existing Monthly Rates	Recommended Monthly Rates
Monthly Flat Charge		
Three Bedroom Condominiums	$ 22.48	$ 23.48
Two Bedroom Condominiums	$ 22.48	$ 23.48
One Bedroom Condominiums	$ 22.48	$ 23.48
Monthly Metered Rates		
Base Facility Charge		
Meter Size		
5/8" x 3/4"	$ 8.35	$ 8.72
3/4"	12.53	13.08
1"	20.88	21.80
1-1/2"	41.77	43.60
2"	66.83	69.76
3"	133.65	139.52
4"	208.83	218.00
6"	417.67	436.00

MULTI-RESIDENTIAL WASTEWATER RATES (cont'd)

Gallonage Charge Per 1,000 gallons (Maximum of 3,000 gallons per month)	$ 4.62	$ 4.82

Using test year residential water customers with an average estimated use of 2,744 gallons/month per customer, an average residential monthly water bill comparison for metered customers would be as follows:

	Average Monthly Bill Using Existing Rates	Average Monthly Bill Using Recommended Rates	Percent Increase
Base Facility Charge	$ 5.68	$ 6.14	
Gallonage Charge	$ 4.58	$ 4.96	
Total	$10.26	$ 11.10	8.16%

Using test year residential wastewater customers with usage of 1,935 gallons/month per customer, an average residential monthly wastewater bill comparison would be as follows:

	Average Monthly Bill Using Existing Rates	Average Monthly Bill Using Recommended Rates	Percent Increase
Base Facility Charge	$ 8.35	$ 8.72	
Gallonage Charge	$ 8.94	$ 9.33	
Total	$17.29	$ 18.05	4.41%

In accordance with Rule 25-30.475, Florida Administrative Code, the rates shall 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.

ISSUE 9: 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 $262 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 Schedules 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. (MANN)

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 $262 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 should 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.

OTHER ISSUES

ISSUE 10: Should the recommended rates be approved for the utility on a temporary basis in the event of a timely protest filed by a party other than the utility?

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

STAFF ANALYSIS: This recommendation proposes an increase in water and wastewater rates. A timely protest might delay what may be a justified rate increase resulting in an unrecoverable loss of revenue to the utility. Therefore, in the event of a timely protest filed by a party other than the utility, staff recommends that the recommended rates be approved as temporary rates. The recommended rates collected by the utility shall be subject to the refund provisions discussed below.

The utility should be authorized to collect the temporary rates upon the staff's approval of the security for potential refund and the proposed customer notice. The security should be in the form of a bond or letter of credit in the amount of $7,301. Alternatively, the utility could establish an escrow agreement with an independent financial institution.

If the utility chooses a bond as security, the bond should contain wording to the effect that it will be terminated only under the following conditions:

1) The Commission approves the rate increase; or

2) If the Commission denies the increase, the utility shall refund the amount collected that is attributable to the increase.

If the utility chooses a letter of credit as security, it should contain the following conditions:

1) The letter of credit is irrevocable for the period it is in effect.

2) The letter of credit will be in effect until final Commission order is rendered, either approving or denying the rate increase.

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 should indicate the amount of revenue collected under the increased rates.

ISSUE 11: Should this docket be closed?

RECOMMENDATION: Yes, upon expiration of the protest period, if no timely protest is received from a substantially affected person within 21 days from the issuance of the Order, this docket should be closed administratively. (MANN, DAVIS, VACCARO)

STAFF ANALYSIS: Upon expiration of the protest period, if no timely protest is received within 21 days from the issuance of the Order, this docket should be closed administratively.

SCHEDULE NO. 1
DOCKET NO. 970633-WS

PARADISE LAKES UTILITIES, LTD.
TEST YEAR ENDING JUNE 30, 1997
SCHEDULE OF WATER RATE BASE

	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.		BALANCE PER STAFF
UTILITY PLANT IN SERVICE	$ 195,600	$ 0	A	$ 195,600
LAND/NON-DEPRECIABLE ASSETS	7,800	0		7,800
PLANT HELD FOR FUTURE USE	0	0		0
CWIP	0	0		0
CIAC	(27,600)	0		(27,600)
ACCUMULATED DEPRECIATION	(72,607)	1,969	B	(70,838)
AMORTIZATION OF ACQUISITION ADJUSTMENT	0	0		0
AMORTIZATION OF CIAC	4,643	851	C	5,494
WORKING CAPITAL ALLOWANCE	0	5,347	D	5,347
WATER RATE BASE	$ 107,636	$ 8,167		$ 115,803

PARADISE LAKES UTILITIES, LTD.
TEST YEAR ENDING JUNE 30, 1997
SCHEDULE OF WASTEWATER RATE BASE

SCHEDULE NO. 1A
DOCKET NO. 970633-WS

	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
UTILITY PLANT IN SERVICE	$ 653,843	$ (281,845) A	371,998
LAND/NON-DEPRECIABLE ASSETS	36,000	(23,400)	12,600
PLANT HELD FOR FUTURE USE	0	0	0
CWIP	0	0	0
CIAC	(55,920)	23,400 F	(32,520)
ACCUMULATED DEPRECIATION	(234,086)	234,086 B	0
AMORTIZATION OF ACQUISITION ADJUSTMENT	0	0	0
AMORTIZATION OF CIAC	7,402	3,426 C	10,828
MISCELLANEOUS DEFERRED DEBIT	0	46,080 E	46,080
WORKING CAPITAL ALLOWANCE	0	8,529 D	8,529
WASTEWATER RATE BASE	$ 407,239	$ 10,276	$ 417,515

PARADISE LAKES UTILITIES, LTD.
TEST YEAR ENDING JUNE 30, 1997
ADJUSTMENTS TO RATE BASE

SCHEDULE NO. 1B
DOCKET NO. 970633-WS

		WATER	WASTEWATER
A.	UTILITY PLANT IN SERVICE		
1.	Retirement of reuse plant from last Order	$ 0	$ (109,214)
2.	Retirement of wastewater treatment plant	0	(152,602)
3.	Adjust for non-recurring miscoded expense	0	(2,226)
4.	To reflect averaging adjustment	0	(17,803)
		$ 0	$ (281,845)
B.	ACCUMULATED DEPRECIATION		
1.	To bring accumulated depreciation to correct amount	$ 0	$ 230,132
2.	To reflect averaging adjustment	1,969	3,954
		$ 1,969	$ 234,086
C.	AMORTIZATION OF CIAC		
1.	To bring CIAC amortization to correct amount	$ 1,130	$ 3,968
2.	To reflect averaging adjustment	(279)	(542)
		$ 851	$ 3,426
D.	WORKING CAPITAL ALLOWANCE		
1.	To reflect 1/8 of test year O & M expenses	$ 5,347	$ 8,529
E.	LAND		
1.	To reflect retirement of wastewater system	$ 0	$ (23,400)
F.	CIAC		
1.	To reflect retirement of wastewater system	$ 0	$ 23,400

PARADISE LAKES UTILITIES, LTD.
TEST YEAR ENDING JUNE 30, 1997
SCHEDULE OF CAPITAL STRUCTURE

SCHEDULE NO. 2
DOCKET NO. 970633-WS

	PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST
LONG-TERM DEBT	$ 111,900	$ (8,602)	$ 103,298	19.37%	10.00%	1.94%
SHORT TERM DEBT	50,000	(3,844)	46,156	8.65%	10.00%	0.87%
COMMON EQUITY	395,521	(30,404)	365,117	68.46%	10.70%	7.33%
SHORT TERM DEBT	20,307	(1,561)	18,746	3.51%	9.50%	0.33%
TOTAL	$ 577,728	$ (44,411)	$ 533,318	100.00%		10.46%
RATE BASE			533,318			

RANGE OF REASONABLENESS	LOW	HIGH
RETURN ON EQUITY	9.70%	11.70%
OVERALL RATE OF RETURN	9.78%	11.15%

PARADISE LAKES UTILITIES, LTD.
TEST YEAR ENDING JUNE 30, 1997
SCHEDULE OF WATER OPERATING INCOME

SCHEDULE NO. 3
DOCKET NO. 970633-WS

	TEST YEAR PER UTILITY	STAFF ADJ. TO UTILITY		STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE		TOTAL PER STAFF
OPERATING REVENUES	60,680	$ (477)	A	$ 60,203	$ 4,909 (8.15%)	F	$ 65,112
OPERATING EXPENSES:							
OPERATION AND MAINTENANCE	29,347	13,427	B	42,774	0		42,774
DEPRECIATION	7,898	0	C	7,898	0		7,898
AMORTIZATION	(495)	(446)	D	(941)	0		(941)
TAXES OTHER THAN INCOME	2,796	248	E	3,044	221	G	3,265
INCOME TAXES	0	0		0	0		0
TOTAL OPERATING EXPENSES	39,546	$ 13,229		$ 52,775	$ 221		$ 52,996
OPERATING INCOME/(LOSS)	$ 21,134			$ 7,428			$ 12,116
WATER RATE BASE	$ 107,636			$ 115,803			$ 115,803
RATE OF RETURN	19.63%			6.41%			10.46%

PARADISE LAKES UTILITIES, LTD.
TEST YEAR ENDING JUNE 30, 1997
SCHEDULE OF WASTEWATER OPERATING INCOME

SCHEDULE NO. 3A
DOCKET NO. 970633-WS

	TEST YEAR PER UTILITY	STAFF ADJ. TO UTILITY		STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE		TOTAL PER STAFF
OPERATING REVENUES	122,007	$ 4,787	A	$ 126,794	$ 5,653 F 4.46%		$ 132,447
OPERATING EXPENSES:							
OPERATION AND MAINTENANCE	55,984	12,246	B	68,230	0		68,230
DEPRECIATION	30,091	(18,825)	C	11,266	0		11,266
AMORTIZATION	(663)	3,634	D	2,971	0		2,971
TAXES OTHER THAN INCOME	5,075	966	E	6,041	254	G	6,295
INCOME TAXES	0	0		0	0		0
TOTAL OPERATING EXPENSES	90,487	$ (1,979)		$ 88,508	$ 254		$ 88,762
OPERATING INCOME/(LOSS)	31,520			$ 38,286			$ 43,685
WASTEWATER RATE BASE	$ 407,239			$ 417,515			$ 417,515
RATE OF RETURN	7.74%			9.17%			10.46%

PARADISE LAKES UTILITIES, LTD.
TEST YEAR ENDING JUNE 30, 1997
ADJUSTMENTS TO OPERATING INCOME

SCHEDULE NO. 3B
DOCKET NO. 970633-WS

		WATER	WASTEWATER
A.	OPERATING REVENUES		
1.	To adjust test year revenue to test year customers and consumption through billing analysis.	$ (447)	$ 4,827
B.	OPERATION AND MAINTENANCE EXPENSES		
1.	Sludge Removal Expense		
a.	Adjust for retirement of wwtp	$ 0	$ (3,380)
2.	Purchased Power		
a.	Correction and adjust for retirement of wwtp	$ (8)	$ (4,467)
3.	Chemicals		
a.	Correction and adjust for retirement of wwtp	$ 431	$ (8,767)
4.	Materials and Supplies		
a.	To reclassify to water contractual services	$ 0	$ (1,193)
b.	To reclassify to utility plant	0	(448)
c.	To adjust to levels approved in the last Order	1,250	1,250
		$ 1,250	$ (391)
5.	Contractual Services		
a.	To reclassify to material and supplies	$ 1,193	$ 0
b.	To reclassify from wastewater to water system	775	(775)
c.	To adjust for out of period item	360	360
d.	Adjust to prior Order and Index	6,903	889
e.	To adjust for out of period item	0	126
f.	Adjust out operator charges to reflect retirement of wwtp	0	(5,272)
g.	Adjust for wastewater treatment charges by county	0	36,147
h.	Adjust testing costs	2,879	(1,312)
i.	Adjust transportation costs	974	418
		$ 13,084	$ 30,581
6.	Insurance Expenses		
a.	Adjust for change in coverage	$ (1,580)	$ (1,580)
7.	Regulatory Commission Expense		
a.	To include filing fee amortized over 4 years.	$ 250	$ 250
b.		0	0
		$ 250	$ 250
8.	Miscellaneous Expenses		
a.		$ 0	$ 0
b.		0	0
c.		0	0
		$ 0	$ 0
	TOTAL O & M ADJUSTMENTS	$ 13,427	$ 12,246
C.	DEPRECIATION EXPENSE		
1.	To adjust utility balance to match depreciation rates set forth in Rule 25-30.140.	$ 0	$ (18,825)
D.	AMORTIZATION EXPENSE		
1.	To adjust utility balance to staff calculated balance.	(446)	(1,486)
2.	To amortize loss on retirement of utility plant	0	5,120
		$ (446)	$ 3,634
E.	TAXES OTHER THAN INCOME		
1.	To bring RAF's match test year revenue.	$ 248	$ 966
2.		0	0
3.		0	0
		$ 248	$ 966
F.	OPERATING REVENUES		
1.	To reflect staff's recommended increase in revenue	$ 4,909	$ 5,653
G.	TAXES OTHER THAN INCOME		
1.	To reflect additional regulatory assessment fee associated with recommended revenue requirement	$ 221	$ 254

PARADISE LAKES UTILITIES, LTD.
TEST YEAR ENDING JUNE 30, 1997
ANALYSIS OF WATER OPERATION AND
MAINTENANCE EXPENSE

SCHEDULE NO. 3C
DOCKET NO. 970633-WS

	TOTAL PER UTIL.	STAFF ADJUST.	TOTAL PER STAFF
(601) SALARIES AND WAGES - EMPLOYEES	$ 0	$ 0	$ 0
(603) SALARIES AND WAGES - OFFICERS	0	0	0
(604) EMPLOYEE PENSIONS AND BENEFITS	0	0	0
(610) PURCHASED WATER	0	0	0
(615) PURCHASED POWER	2,516	(8) [2]	2,508
(616) FUEL FOR POWER PRODUCTION	0	0	0
(618) CHEMICALS	649	431 [3]	1,080
(620) MATERIALS AND SUPPLIES	233	1,250 [4]	1,483
(630) CONTRACTUAL SERVICES	22,795	12,110 [5]	34,905
(640) RENTS	0	0	0
(650) TRANSPORTATION EXPENSE	0	974	974
(655) INSURANCE EXPENSE	2,500	(1,580) [6]	920
(665) REGULATORY COMMISSION EXPENSE	250	250 [7]	500
(670) BAD DEBT EXPENSE	0	0	0
(675) MISCELLANEOUS EXPENSES	404	0 [8]	404
	$ 29,347	$ 13,427	$ 42,774

PARADISE LAKES UTILITIES, LTD.
TEST YEAR ENDING JUNE 30, 1997
ANALYSIS OF WASTEWATER OPERATION AND MAINTENANCE EXPENSE

SCHEDULE NO. 3D
DOCKET NO. 970633-WS

	TOTAL PER UTIL.	STAFF ADJUST.	TOTAL PER STAFF
(701) SALARIES AND WAGES - EMPLOYEES	$ 0	$ 0	$ 0
(703) SALARIES AND WAGES - OFFICERS	0	0	0
(704) EMPLOYEE PENSIONS AND BENEFITS	0	0	0
(710) PURCHASED SEWAGE TREATMENT	0	0	0
(711) SLUDGE REMOVAL EXPENSE	3,980	(3,380) [1]	600
(715) PURCHASED POWER	5,918	(4,467) [2]	1,451
(716) FUEL FOR POWER PRODUCTION	0	0	0
(718) CHEMICALS	9,517	(8,767) [3]	750
(720) MATERIALS AND SUPPLIES	1,666	(391) [4]	1,275
(730) CONTRACTUAL SERVICES	31,748	30,163 [5]	61,911
(740) RENTS	0	0	0
(750) TRANSPORTATION EXPENSE	0	418	418
(755) INSURANCE EXPENSE	2,500	(1,580) [6]	920
(765) REGULATORY COMMISSION EXPENSES	250	250 [7]	500
(770) BAD DEBT EXPENSE	0	0	0
(775) MISCELLANEOUS EXPENSES	405	0 [8]	405
	$ 55,984	$ 12,246	$ 68,230

RECOMMENDED RATE REDUCTION SCHEDULE

PARADISE LAKES UTILITIES, LTD.
TEST YEAR ENDING JUNE 30, 1997

SCHEDULE NO. 4
DOCKET NO. 970633-WS

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

MONTHLY WATER RATES

RESIDENTIAL AND GENERAL SERVICE	MONTHLY RECOMMENDED RATES	MONTHLY RATE REDUCTION
BASE FACILITY CHARGE:		
Meter Size:		
5/8" x 3/4"	$ 6.14	$ 0.02
3/4"	9.21	0.04
1"	15.35	0.06
1-1/2"	30.70	0.12
2"	49.12	0.20
3"	98.24	0.39
4"	153.50	0.62
6"	307.00	1.23
RESIDENTIAL GALLONAGE CHARGE PER 1,000 GALLONS	$ 1.81	$ 0.01
RESIDENTIAL FLAT RATE	$ 11.67	$ 0.05
GENERAL SERVICE FLAT RATE	$ 367.89	$ 1.48

RECOMMENDED RATE REDUCTION SCHEDULE

PARADISE LAKES UTILITIES, LTD.
TEST YEAR ENDING JUNE 30, 1997

SCHEDULE NO. 4A
DOCKET NO. 970633-WS

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

MONTHLY WASTEWATER RATES

RESIDENTIAL AND GENERAL SERVICE	MONTHLY RECOMMENDED RATES	MONTHLY RATE REDUCTION
BASE FACILITY CHARGE:		
Meter Size:		
5/8" x 3/4"	$ 8.72	$ 0.02
3/4"	13.08	0.03
1"	21.80	0.04
1-1/2"	43.60	0.09
2"	69.76	0.14
3"	139.52	0.28
4"	218.00	0.43
6"	436.00	0.86
RESIDENTIAL GALLONAGE CHARGE PER 1,000 GALLONS (3,000 GALLON MAX. PER MONTH)	$ 4.82	$ 0.01
GENERAL SERVICE GALLONAGE CHARGE PER 1,000 GALLONS	$ 4.82	$ 0.01
RESIDENTIAL FLAT RATE	$ 23.48	$ 0.05
GENERAL SERVICE FLAT RATE	$ 740.05	$ 1.46

DOCKET NO. 970633-WS
DECEMBER 23, 1997

ATTACHMENT A

WATER TREATMENT PLANT — USED AND USEFUL DATA

Docket No. 970633-WS Utility Paradise Lakes Utility, Ltd. Date 09/15/97

1) Capacity of Plant 550 gallons per min

2) Maximum Daily Flow 748 gallons per min

3) Average Daily Flow 374 gallons per min

4) Fire Flow Capacity 0 gallons per min

   a) Needed Fire Flow None, lake can be utilized. gallons per min

5) Margin Reserve 490 gallons per min
   *Not to exceed 20% of present customers

   a) Test Year Customers in ERC's - Begin 340 End 340 Av. 340

   b) Customer Growth Using Regression Analysis in ERC's for Most Recent 5 Years Including Test Year 3 ERC's

   c) Construction Time for Additional Capacity 2.0 Years

$$(b) \times \odot \times \left[\frac{2}{(a)} \right] = 13 \text{ gallons per min Margin Reserve}$$

6) Excessive Unaccounted for Water None 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

$$\left[\frac{(2 + 5) + 4a - 6}{1} \right] = 100 \%$$ Used and Useful

DOCKET NO. 970633-WS
DECEMBER 23, 1997

ATTACHMENT B
USED AND USEFUL DATA

WATER DISTRIBUTION SYSTEM

Docket No. 970633-WS Utility Paradise Lakes Utilities, Ltd. Date 9/15/97

1) Capacity 341 ERC's (Number of potential customers without expansion)

2) Number of TEST YEAR Connections 341 ERC's day

a) Begin Test Year 341 ERC's

b) End Test Year 341 ERC's

c) Average Test Year 341 ERC's

3) Margin Reserve 6 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 3 ERC's

c) Construction Time for Additional Capacity 2 Years

(a) x (b) = 6 ERC's Margin Reserve

PERCENT USED AND USEFUL FORMULA

$$\frac{(2 + 3)}{1} = 100\%$$

NOTE: All curb stops are in place, the entire system is considered "built out," therefore we consider the entire system as 100 percent used and useful.

DOCKET NO. 970633-WS
DECEMBER 23, 1997

ATTACHMENT C

WASTEWATER COLLECTION SYSTEM — USED AND USEFUL DATA

Docket No. 970633-WS Utility Paradise Lakes Utilities, Ltd. Date 9/15/97

1) Capacity 341 ERC's (Number of potential customers without expansion)

2) Number of TEST YEAR Connections 341 ERC's day

a) Begin Test Year 341 ERC's

b) End Test Year 341 ERC's

c) Average Test Year 341 ERC's

3) Margin Reserve 6 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 3 ERC's

c) Construction Time for Additional Capacity 2 Years

(a) x (b) = 6 ERC's Margin Reserve

PERCENT USED AND USEFUL FORMULA

$$\frac{(2 + 3)}{1} = 100\%$$

NOTE: All construction is completed, the entire system is considered to be "built out," therefore, staff considers the entire system to be 100 percent used and useful.

DOCKET NO. 970633-WS
DECEMBER 23, 1997

ISSUE AND RECOMMENDATION SUMMARY

ISSUE 1: Is the quality of service provided by Paradise Lakes Utilities, Ltd. in Pasco County satisfactory?

RECOMMENDATION: The quality of service for both the water and the wastewater systems should be considered satisfactory. (DAVIS)

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

RECOMMENDATION: The water treatment and the water distribution system should be considered 100% used and useful. The used and useful for the wastewater plant should be considered not applicable. The collection system should be 100% used and useful. (DAVIS)

ISSUE 3: 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 Paradise Lakes should be $115,803 for water and $417,515 for wastewater. (MANN, DAVIS)

ISSUE 4: 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 is 10.70% with a range of 9.70% - 11.70% and the appropriate overall rate of return is 10.46% with a range of 9.78% - 11.15%. (MANN)

ISSUE 5: What are the appropriate test year operating revenues for each system?

RECOMMENDATION: The appropriate test year operating revenues should be $60,203 for water and $126,794 for wastewater. (MANN)

ISSUE 6: What are the appropriate amounts for operating expense for each system?

RECOMMENDATION: The appropriate amounts for operating expense should be $52,775 for water and $88,508 for wastewater. (MANN, DAVIS)

ISSUE 7: What is the appropriate revenue requirement for each system?

RECOMMENDATION: The appropriate revenue requirement is $65,112 for water and $132,447 for wastewater. (MANN)

ISSUE 8: 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 $65,112 for water and $132,447 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. (MANN)

ISSUE 9: 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 $262 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 Schedules 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. (MANN)

ISSUE 10: Should the recommended rates be approved for the utility on a temporary basis in the event of a timely protest filed by a party other than the utility?

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

ISSUE 11: Should this docket be closed?

RECOMMENDATION: Yes, upon expiration of the protest period, if no timely protest is received from a substantially affected person within 21 days from the issuance of the Order, this docket should be closed administratively. (MANN, DAVIS, VACCARO)