

Commissioners:
JULIA L. JOHNSON, CHAIRMAN
J. TERRY DEASON
SUSAN F. CLARK
JOE GARCIA
E. LEON JACOBS, JR.



DIVISION OF WATER & WASTEWATER
CHARLES H. HILL
DIRECTOR
(850) 413-6900

Public Service Commission

August 20, 1998

Mr. Tarver A. Kitchens, President > > >
Bayside Homeowners Association
1045 Bay Circle
Panama City Beach, Florida 32407-5501

Re: Docket No. 971401-WS, Application for a Staff Assisted Rate Case for Bayside Utilities, Inc. in Bay County

Dear Mr. Kitchens:

This is to follow up your request for written answers to the questions presented to staff at the July 29, 1998 customer meeting:

ILLEGAL PASS-THROUGH CHARGE OF \$16.16 - The utility attempted to pass through a surcharge of \$16.16 per customer in August, 1997 for repairs to one lift station. Once the Florida Public Service Commission (PSC) Staff learned of the illegal surcharge, the utility was told to refund the surcharge, with interest, which it did. Staff relayed its concerns over the wording of the utility's notice to you at the customer meetings. The phrases "One time Pass Through Charge" that will "permanently correct the problem" appear to be misleading. The surcharge the utility attempted to pass-through was for work done to one lift station. It would not have made the utility financially or physically viable. After the utility was forced to refund the surcharge, the utility stated to staff that it was continuing to operate at a loss and was unable to make its mortgage payments. Staff suggested the utility apply for a staff assisted rate case to remedy the situation, which it did on October 22, 1998.

EASTERN LIFT STATION ELECTRIC METER - Staff has acknowledged, through its investigation, that the eastern lift station electric meter is shared with at least one other non-utility user. For the recommendation, the staff engineer has calculated an estimated utility usage for the eastern lift station electric meter, and staff has included that amount in wastewater operation and maintenance expenses. The staff engineer is also recommending to the Commission that the utility be ordered to remove all non-utility related users from the eastern lift station electric meter within 90 days of the date of the Commission Order.

- ACK _____
- AFA _____
- APP _____
- CAF _____
- CMU _____
- CTR _____
- EAG _____
- LEG _____
- LIN _____
- OPC _____
- RCH _____
- SEC 1 _____
- WAS _____
- OTH _____

DOCUMENT NUMBER - DATE
09118 AUG 24 98
PSC-RECORDS/REPORTING

Mr. Tarver A. Kitchens, President

Page 2

August 20, 1998

As far as the water and sewer connections, the utility paid to run the lines to the mobile homes. The usage of the water and sewage for the mobile homes is paid for by the customers of record.

The approximately .8 mile force main which was installed in late 1997 was paid for by the utility, and is included in the utility's rate base. Questions as to the actual installation of the line, and its very existence, were raised by some customers at the customer meeting. To verify the existence of the line, a staff engineer, along with the utility manager, dug holes along the line to show the utility customer who made the allegations that the force main was actually installed.

VACANT LOTS - The utility recorded water revenues of \$52,199 and wastewater revenues of \$58,370 during the test period. These amounts did not include base facility charges on vacant lots which are connected in the mobile home park. Order No. 18624, issued January 4, 1988, stated: "The Office of Public Counsel has asked that this Order expressly confirm that, as indicated during our consideration of this matter at agenda conference, the park owner shall bear the cost of the base facility charges associated with all vacant lots that may be connected to the system. In any event, we confirm that such charges will not be borne by the general body of ratepayers. This has been accomplished in the Commission's design of rates approved in this order, so as to ensure that vacancy costs are charged to the park owner, rather than the utility."

Because the number of vacant lots was in question, Commission staff conducted a physical count of the vacant lots with the utility manager present. A total of 283 connected lots were counted. Staff auditors supplied a billing analysis for 1997 which showed an average of 228 customers for 1997. Staff imputed water revenues of \$7,418, and wastewater revenues of \$7,082, which included base facility charges for 55 additional connected vacant lots for the test year to insure vacant lot connections would be paid for by the park owner. Staff recommended test year water revenue of \$59,617 and test year wastewater revenue of \$65,452.

CUSTOMER DEPOSITS - If the Commission approves staff's recommendation to initiate customer deposits, it does not mean that all customers would have to put-up a customer deposit. Pursuant to Rule 25-30.311(5), Florida Administrative Code, if a customer has established a satisfactory payment record, and has had continuous service for a period of 23 months, the deposit shall be refunded. Therefore, for those customers who meet this requirement, the utility should not charge any additional deposit. Rule 25-30.311, Florida Administrative Code is designed to allow the utility to require a deposit of new customers. It also allows the utility to require a new or additional deposit from existing customers when it was previously waived, as in the case of Bayside. This new or additional deposit would occur if the utility has experienced payment problems with a customer. There are a number of requirements the utility must fulfill if it requires an existing customer to put-up a deposit. For your information, I have enclosed a copy of Rule 25-30.311, Florida Administrative Code, which outlines the customer deposit procedures.

MAINTAINING UTILITY RECORDS IN ACCORDANCE WITH THE NARUC SYSTEM OF ACCOUNTS - During the test year, the utility did not maintain its books in accordance with the 1984 NARUC uniform system of accounts. This is the same accounting system that the utility was

Mr. Tarver A. Kitchens, President

Page 3

August 20, 1998

required to use after the 1988 rate case, and the utility was allowed an expense to complete it. The credibility of the utility's records and books is always examined when staff auditors and engineers complete their analysis of the utility. If errors or omissions are found, adjustments are made to the utility's books and records in the staff audit. Staff bases the recommended rates on the staff audit of the utility's books and records.

DESTRUCTION OF UTILITY RECORDS - Staff auditors discovered that all utility records prior to November 1995 were destroyed by Hurricane Opal and the Commission was not notified. Staff did include a "show cause" issue in its recommendation to the Commission. However, staff believes that a show cause proceeding in this case is not warranted and should not be initiated at this time. While it is true that the utility did not notify the Commission of the loss of its books and records within 90 days, it was due to the amount of destruction caused by Hurricane Opal. The utility's office was flooded by saltwater due to the force of the hurricane, and all utility efforts after the hurricane were geared to restoring utility operations.

RULES REGULATIONS AND ORDERS OF THE COMMISSION - As mentioned above, staff did include a show cause action against the utility in Issue No. 16 of staff's recommendation, but recommended not fining the utility at this time. However, staff did recommend in the same issue that the utility be placed on a monitor status, and that staff auditors review the utility's books and records within 12 months to verify the utility is following the 1996 National Association of Regulatory Utility Commissioners (NARUC) System of Accounts.

RATE CASE EXPENSE - The staff assisted rate case process was developed by the Florida Legislature to assist customers of small water and wastewater customers such as Bayside. Instead of the utility having to retain outside accountants and engineers to process a rate case, Florida Public Service Commission (PSC) staff do the work and normally saves customers thousands of dollars in costs which would have been passed on to customers of the utility through rates. The only rate case expense for this staff assisted rate case is a filing fee of \$1,000 per system which we amortize over 4 years and include in the utility's revenue requirement.

The following two items are answers to your e-mail of August 17, 1998 to Mr. Marshall Willis:

ABANDONED PLANT - The \$41,250 figure on Page F-4 of the utility's 1997 annual report represents the loss on wastewater plant which was abandoned when the utility interconnected with the City of Panama City Beach. The utility has been carrying that amount on its books, but has not been earning a rate of return on it, since it was not included in the last rate case. Issue No. 3 of staff's recommendation discusses the interconnection and the loss experienced by retiring the wastewater plant early.

UNACCOUNTED FOR WATER - The staff engineer has reviewed the amount of water purchased versus the amount of water sold, and determined the utility has an unacceptable amount of unaccounted-for water. Historically, an unaccounted for water percentage of 10% has been acceptable to the PSC. Bayside's unaccounted for water exceeds 10% by 435,000 gallons per year.

Mr. Tarver A. Kitchens, President

Page 4

August 20, 1998

Normally, staff would make adjustments to electric power and chemical expense for unaccounted for water. In this case, Bayside is a reseller which does not pump or chemically treat its water. As discussed in Issue Nos. 1, and 7 of staff's recommendation, an adjustment of \$635 (435,000 gallons x \$1.46/1,000 gallons cost) was made to purchased water to reflect the unaccounted for water.

A recommendation to the Commission was filed today for consideration by Commissioners at the September 1, 1998 Agenda Conference. You are welcome to attend the Agenda Conference and relay your concerns to the Commissioners. Once the Commissioners vote on staff's recommendation at Agenda, a Proposed Agency Action (PAA) Order will be prepared and issued within 20 days. Any substantially affected party may protest this PAA Order within a 20 day protest period after the Order issued. If there is no protest of the PAA Order, the Order becomes final.

If you have any further questions, or if we can be of any further service, please don't hesitate to contact Mr. Troy Rendell (850)413-6934, or myself at (850)413-6974. Thank You.

Sincerely,



Robert J. Casey
Professional Accountant Specialist

RC

cc: Division of Water and Wastewater (Hill, Willis, Rendell, Crouch, T. Davis)
Division of Legal Services (Fleming, Jaeger)
Division of Records and Reporting (971401-WS)
Bayside Homeowners Association (Wharton, Pattillo)

RE: DOCKET NO. 971401-WS

AUGUST 97, PER ITS OWN LETTER, THE UTILITY NEEDED A ONE TIME PASS THROUGH CHARGE OF 16.16, BASED ON 228 CUSTOMERS, THIS COMES TO \$3,684.48.

IF THIS WAS ALL THAT WAS NEEDED IN AUGUST OF 1997, TO FIX FINANCIAL PROBLEMS, WHY IS SO MUCH MORE NEEDED NOW?

PAGE 14, 1ST PARAGRAPH

THE THIRD (EASTERN) LIFT STATION DRAWS POWER THROUGH A METER THAT IS COMMON WITH AT LEAST ONE OTHER USER (5 C/MPING TRAILERS) AND 1 MOBILE HOME.

YOUR REPORT ACKNOWLEDGES THAT ELECTRICITY WAS BEING DIVERTED TO OTHER PARTIES FOR THEIR OWN USE, THAT WAS CHARGED TO US, THE CUSTOMERS OF THE UTILITY. WHAT WAS THE TRUE READING OF THIS METER?

WHO PAID TO RUN WATER AND SEWER CONNECTIONS TO THESE TRAILERS? WHO PAID FOR THE WATER AND SEWAGE USE OF THESE TRAILERS ?.

WHO PAID FOR THE EXPANSION LINES THAT WERE RUN FOR APPROXIMATELY .8 OF A MILE FROM THE WEST END OF BIG DADDY EASTWARD TO THE UN-PLATED AREA WHERE THESE CAMPERS ARE LOCATED?

PAGE 21, PARAGRAPH 3-

DURING THE TEST YEAR, BAYSIDE PROVIDED SERVICE TO APPROX. 218 RESIDENTIAL AND 11 CAMPERS.

DID BAYSIDE MOBILE HOME PARK PAY THE BASE FACILITY RATE OF ALL THE EMPTY LOTS TO THE UTILITY?

PAGE 26 LAST PARAGRAPH

THE UTILITY HAS EXPERIENCED A HIGH AMOUNT OF BAD DEBT

EXPENSE OVER THE PAST FEW YEARS, LARGLEY DUE TO LOSS OF CUSTOMERS FROM HURRICANE OPAL AND ITS TRANSIENT CUSTOMER BASE. STAFF IS RECOMMENDING THE UTILITY INITIATE A CUSTOMER DEPOSIT PROVISION IN ITS TARIFF TO REDUCE THE AMOUNT OF BAD DEBT EXPENSE-IF THE UTILITY CHOSE TO HAVE A LOWER THAN NEEDED DEPOSIT POLICY, WHY ARE THE CUSTOMERS PENALIZED BY THIS BAD MANAGEMENT DECISION?

PAGE 32 ISSUE 16

STAFF ANALYSIS: DURING THE TEST YEAR THE UTILITIES BOOKS WERE NOT MAINTAINED IN CONFORMITY WITH THE UAOA.AS REQUIRED BY THE ORDER ISSUED IN 1988.

ON PAGE 10, LAST PARAGRAPH OF THE ORIGINAL ORDER, THE UTILITY WAS ALLOWED AN EXPENSE TO SET UP ITS BOOKS IN COMPLIANCE WITH COMMISSION REQUIREMENTS.

PAGE 32, OF THE CURRENT RATE CASE ANALYSIS , STATES THAT FOR THE 1997 TEST YEAR, THE UTILITY **DID NOT** MAINTAIN ITS BOOKS CONSISTANT WITH THE PRIOR 1984 NARU8 SYSTEM OF ACCOUNTS. WAS THIS THE SAME SYSTEM THAT IT WAS GIVEN AN EXPENSE ALLOWANCE FOR IN 1988? IF THE UTILITY DID NOT MAINTAIN THESE BOOKS IN THE PROPER SYSTEM OF ACCOUNTS, WHAT CREDIBILITY DO THESE BOOKS HAVE AND HOW COULD YOU USE THEM TO DETERMINE NEW RATES?

PAGE 33, PARAGRAPH 4

PARAGRAPH 4 STATES: THE UTILITY **SHALL** PROVIDE REASONABLE PROTECTION FOR RECORDS SUBJECT TO THE REGULATIONS IN THIS PART FROM DAMAGES BY FIRE AND **FLOODS** AND OTHER HAZARDS. ISN'T A HURRICANE A HAZZARD?

PARAGRAPH 17 PAGE 33

SHOULD THE UTILITY BE FINED FOR VIOLATIONS OF RULE 25-30.110(1) (A), FLORIDA ADMINISTRATIVE CODE, FOR DESTRUCTION OF UTILITY RECORDS AND FAILURE TO NOTIFY THE COMMISSION OF SUCH WITHIN 90 DAYS?

QUESTION:

WHY NOT???

ALL UTILITY RECORDS PRIOR TO NOVEMBER 1995 WERE DESTROYED BY HURRICANE OPAL AND THE COMMISSION WAS NOT NOTIFIED. THE UTILITY'S OFFICE WAS FLOODED BY SALTWATER DUE TO THE FORCE OF THE HURRICANE. ALL UTILITY EFFORTS AFTER THE HURRICANE WERE GEARED TO RESTORING UTILITY OPERATIONS. BECAUSE OF THE EXTRAORDINARY CIRCUMSTANCES AND DESTRUCTIVE FORCE OF THIS HURRICANE, THE UTILITY SHOULD NOT BE FINED FOR FAILURE TO NOTIFY THE COMMISSION OF THE DESTRUCTION OF UTILITY RECORDS.

QUESTION?

AS PER YOUR REPORTS THIS UTILITY HAS VIOLATED VARIOUS RULES REGULATIONS AND ORDERS SOME APPARANTLY FOR AS LONG AS 10 YEARS. IN THAT YOU CHOOSE NOT TO IMPOSE ANY PUNITIVE MEASURES ON THIS UTILITY, HOW THEN WILL THEY BE CAUSED TO ACT IN ACCORDANCE WITH SAID RULES AND REGULATIONS?

IN AS MUCH AS THE COMMISSION HAS BEEN INVOLVED IN THIS CASE SINCE LAST OCTOBER 1997, WHO IS BEARING THE EXPENSE OF THIS RATE CASE?

WE ARE :

**TARVER KITCHENS, PRESIDENT BAYSIDE HOMEOWNERS
ASSOC.**

JIM WHARTON, HOMEOWNER

BOBBY PATTILLO, HOMEOWNER

From: LINDAINP @ SMTP (lindainpc@beaches.net)
To: Marshall Willis
Subject: fwd: ANSWER TO HOMEOWNERS QUESTIONS.

-----8/17/98==2:49pm-----
Return-Path: <lindainpc@beaches.net>
Received: from wave.beaches.net (12.6.76.10)
by mail.psc.state.fl.us (Connect2-SMTP 4.30A.1000128)
for <MWILLIS@PSC.STATE.FL.US>; Mon, 17 Aug 1998 14:49:43 -0400
Received: from lingag.beaches.net (plis04.beaches.net [12.6.76.37])
by wave.beaches.net (9.8.5/8.8.5) with ESMTP id NAA15666
for <MWILLIS@PSC.STATE.FL.US>; Mon, 17 Aug 1998 13:51:05 -0500 (CDT)
Message-ID: <35D87B3D.A46A53EF@beaches.net>
Date: Mon, 17 Aug 1998 13:49:33 -0500
From: lindainpc@beaches.net
X-Mailer: Mozilla 4.01 [en] (Win95; I)
MIME-Version: 1.0
To: MWILLIS@PSC.STATE.FL.US
Subject: ANSWER TO HOMEOWNERS QUESTIONS.
X-Priority: 3 (Normal)
Content-Type: text/plain; charset=us-ascii
Content-Transfer-Encoding: 7bit

mr. willis, with the 20th of august fast approaching, we, the homeowners
assoc, were wondering if our previously written questions would be
answered prior to you making your recommendations to the commission. In
addition, we have two other questions to submit for your consideration:
page f-4 of bayside utilities 1997 annual report shows under assets,
"abandoned plant" \$41,250, the same figure was shown for the previous
year. does this relate to the 1988 original order that shows on page 7,
last paragraph, "the sewage treatment plant will be retired with an
estimated salvage value of \$2500.00. also page w-4 of the annual report
shows total water purchased of 13,515,000 gallons and 11,787,000 gallons
sold to customers. where did the other 1,787,000 gallons go? if this is
attributed to leakage, is 13.2% an acceptable loss of product ratio? we
would appreciate it if you would answer these 2 and the other questions
given to you at the customer meeting in writing, before the hearing on
september 1, 1998. thank you, jim wharton, tarver kitchen, bob pattillo.

Mr. Tarver A. Kitchens, President

Page 2

August 24, 1998

For your convenience, I am enclosing another copy of the August 20th letter. If you have any questions after reading the letter or recommendation, please don't hesitate to contact Mr. Troy Rendell (850) 413-6934, or Bob Casey at (850) 413-6974. Thank You.

Sincerely,



bill lowe
Assistant Director

BL:nc

cc: Division of Water and Wastewater (Hill, Willis, Rendell, Crouch, Casey, T. Davis, Roland)
Division of Legal Services (Fleming, Jaeger)
Division of Records and Reporting (971401-WS)

**BAYSIDE
HOMEOWNERS
ASSOCIATION**

Fax

To: MARSHALL WILLIS

From: BAYSIDE HOMEOWNERS
ASSOCIATION

Fax: 850 233 9192

Pages: 2

Phone: 850 233 6698

Date: 08/20/98

Re: BAYSIDE UTILITIES

CC: [Click here and type name]

Urgent For Review Please Comment Please Reply Please Recycle

• **Comments:** MR. WILLIS, WE SENT AN E MAIL 2 DAYS AGO, AND HAVE NOT HEARD ANYTHING. HERE IS A COPY OF THE E MAIL LETTER, THERE ARE ONLY 10 DAYS BEFORE THE NEXT HEARING, AND WE REALLY NEED ANSWERS TO THE QUESTIONS WE SUBMITTED ON JULY 29, 1998. AND ALSO 2 ADDITIONAL QUESTIONS ON THE E MAIL. THANK YOU FOR YOUR HELP. TARVER KITCHENS, BOB PATTILLO, JIM WHARTON ALL GAVE THEIR NAMES AND ADDRESSES TO RECEIVE THE ANSWERS.

AUGUST 17, 1998

RE: BAYSIDE UTILITIES RATE CASE DOCKET # 971-01-WS

DEAR MR. WILLIS,

WITH THE 20TH OF AUGUST FAST APPROACHING, WE (THE HOMEOWNERS ASSOC.) WERE WONDERING IF OUR PREVIOUSLY WRITTEN QUESTIONS WOULD BE ANSWERED PRIOR TO YOU MAKING YOUR RECCOMENDATIONS TO THE COMMISSION.

IN ADDITION, WE HAVE TWO OTHER QUESTIONS TO SUBMIT FOR YOUR CONSIDERATION: PAGE F-4 OF BAYSIDE UTILITIES 1997 ANNUAL REPORT SHOWS UNDER ASSETS, "ABANDONED PLANT", \$41,250 , THE SAME FIGURE WAS SHOWN FOR THE PREVIOUS YEAR. DOES THIS RELATE TO THE 1988 ORIGINAL ORDER THAT SHOWS ON PAGE 7, LAST PARAGRAPH, "THE SEWAGE TREATMENT PLANT WILL BE RETIRED WITH AN ESTIMATED SALVAGE VALUE OF \$2500.00?

ALSO, PAGE W-4 OF THE ANNUAL REPORT SHOWS TOTAL WATER PURCHASED OF 13,515,000 GALLONS, AND 11,737,000 GALLONS SOLD TO CUSTOMERS. WHERE DID THE OTHER 1,787,000 GALLONS GO? IF THIS IS ATTRIBUTED TO LEAKAGE, IS 13.2% AN ACCEPTABLE LOSS OF PRODUCT RATIO?

SINCERELY

JAMES A. WHARTON

BOBBY PATTILLO

TARVER KITCHENS

JERRY AUSTIN

PLEASE REPLY!!!