

STATE OF FLORIDA

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



DIVISION OF LEGAL SERVICES
NOREEN S. DAVIS
DIRECTOR
(850) 413-6199

Public Service Commission

April 6, 1999

Ms. Connie Hurlburt, CPA, Treasurer
Tangerine Water Company, Inc.
P.O. Box 304
Tangerine, Florida 32777

Re: Staff Assisted Rate Case for Tangerine Water Company, Inc. in Pasco County, Docket No. 981663-WU

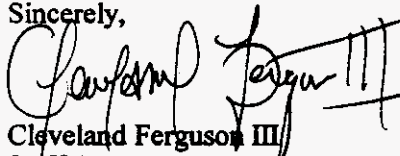
Dear Ms. Hurlburt:

This will confirm that Commission Staff will hold a customer meeting at 6:00pm on Wednesday, May 5, 1999. The location of the meeting will be the Tangerine Improvement Society Community Building, located at 7101 Wright Avenue, Tangerine, Florida 32777. We ask that, if at all possible, you or another knowledgeable representative of the utility attend the meeting in order to answer customer questions.

The original customer meeting notice is enclosed. Please note the date has been left blank so that you can fill in the date that the notice is sent to the customers. The customers must have at least 14 calendar days' notice of the meeting, calculated from the day that they receive the notice. Please furnish me with a copy of the notice, as reproduced at the time it is distributed to your customers, together with a cover letter indicating the exact date(s) on which the notice was mailed or otherwise delivered to the customers.

Two copies of the staff report dated March 29, 1999 are enclosed. Please ensure that a copy of the complete Application for Staff Assistance and the reports are available for review by all interested persons at the U.S. Post Office Lobby, 5424 Lake Street, Tangerine, Florida. The lobby is open 24 hours. If you have any questions, please do not hesitate to call.

Sincerely,


Cleveland Ferguson III
Staff Attorney

CF/lw
Enclosure

cc: **Division of Records and Reporting**
Division of Consumer Affairs (DeMello, Raspberry)
Office of Public Counsel
Division of Water and Wastewater (Willis, Rendell, Chu, Casey, T. Davis)

DOCUMENT NUMBER - DATE
04451 APR -69
PSC-RECORDS/REPORTING

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION
NOTICE OF CUSTOMER MEETING
TO THE CUSTOMERS OF TANGERINE WATER COMPANY, INC.

AND

ALL OTHER INTERESTED PERSONS

DOCKET NO. 981663-WU

APPLICATION OF TANGERINE WATER COMPANY, INC.

FOR A STAFF-ASSISTED RATE CASE IN
ORANGE COUNTY

Issued:

Notice is hereby given that the Staff of the Florida Public Service Commission will conduct a customer meeting to discuss the application of Tangerine Water Company, Inc. (Tangerine or utility) for a staff-assisted rate case in Orange County. The meeting will be held at the following time and place:

6:00 p.m., Wednesday, May 5, 1999
Tangerine Improvement Society Community Building
7101 Wright Avenue
Tangerine, Florida 32777

All persons who wish to comment are urged to be present at the beginning of the meeting, since the meeting may be adjourned early if no customers are present. The meeting will begin as scheduled and will continue until all the customers have been heard.

The Public Service Commission Staff is also attempting to meet with representatives of customer groups and homeowners associations on May 5, 1999 between 2:00pm and 4:00pm at the Tangerine Improvement Society Community Building. If you are a representative of a customer group or homeowners association and you have not been contacted by the Public Service Commission Staff, and wish to meet with staff, please contact Min Chu at (850) 413-6968 or Bob Casey at (850) 413-6974 of the Public Service Commission staff prior to May 5, 1999.

All persons who wish to participate in individual meetings are urged to make an appointment, since individual meetings may be canceled if no appointments are made.

Any person requiring some accommodation at the customer meeting because of a physical impairment should call the Division of Records and Reporting at (850)413-6770 at least five calendar days prior to the meeting. Any person who is hearing or speech impaired should contact the Florida Public Service Commission by using the Florida Relay Service, which can be reached at 1-800-955-8771 (TDD).

PURPOSE

The purpose of this meeting is to give customers and other interested persons an opportunity to offer comments to the Public Service Commission Staff regarding the quality of service the utility provides, the proposed rate increase, and to ask questions and comment on staff's preliminary rates included in this notice as well as other issues. Staff members will summarize Tangerine's proposed filing, the preliminary work accomplished, and answer questions to the extent possible. A representative from the utility has also been invited to respond to questions.

At the beginning of the meeting, procedures will be established for the order of comments. The Public Service Commission Staff will have sign-up sheets, and customers will be called to speak in the order that they sign-up. Public Service Commission Staff will be available to coordinate customers' comments and to assist members of the public.

Any person who wishes to comment or provide information to staff may do so at the meeting, orally or in writing. Written comments may also be sent to the Commission at the address given at the end of this notice. Your letter will be placed in the correspondence file of this docket. You may also submit comments through the Public Service Commission's toll-free facsimile line at 1-800-511-0809.

BACKGROUND

Tangerine is a Class C water only utility providing service to approximately 304 customers in Orange County. The utility's revenues for the test period are \$38,340, with adjusted operating expenses of \$85,817, resulting in a net operating loss of (\$47,477) for the test period. The test period for setting rates is the historical twelve month period ending December 31, 1998.

CURRENT AND PRELIMINARY RATES AND CHARGES

Staff has compiled the following rates and charges for the purpose of discussion at the customer meeting. These rates are preliminary and subject to change based on information gathered at the customer meeting, further staff review, and the final decision by the Commissioners. The utility's current and staff's preliminary rates and charges are as follows:

Residential Water Rates

<u>Base Facility Charge</u> <u>Meter Size</u>	Existing BFC Converted to a <u>Monthly Rate</u>	Preliminary <u>Monthly Rate</u>
5/8" x 3/4"	\$ 4.01	\$ 9.28
3/4"	6.01	13.92
1"	10.02	23.19
1-1/2"	20.03	46.39
2"	32.05	74.22
3"	N/A	148.44
4"	N/A	231.94
6"	N/A	463.87

Gallonage Charge

Per 1,000 gallons		
0 - 30,000 gallons	\$.54	\$ 1.10
Over 30,000 gallons	\$.54	\$ 2.20

Multi - Residential Water Rates

	Existing Unit Rate Converted to a <u>Monthly Rate</u>	Preliminary <u>Monthly Rate</u>
Per Unit	\$ 2.67	\$ 6.19
<u>Gallonage Charge</u> Per 1,000 gallons	\$.54	\$ 1.44

General Service Water Rates

<u>Base Facility Charge</u> <u>Meter Size</u>	Existing BFC Converted to a <u>Monthly Rate</u>	Preliminary <u>Monthly Rate</u>
5/8" x 3/4"	\$ 4.01	\$ 9.28
3/4"	6.01	13.92

1"	10.02	23.19
1-1/2"	20.03	46.39
2"	32.05	74.22
3"	N/A	148.44
4"	N/A	231.94
6"	N/A	463.87

Gallage Charge				
Per 1,000 gallons	\$.54	\$	1.44

MISCELLANEOUS SERVICE CHARGES

Currently, the utility's tariff has no provision for miscellaneous service charges. Staff's preliminary charges, below, are designed to more accurately defray the costs associated with each service and place the responsibility of the cost on the person creating it rather than on the ratepaying body as a whole.

	Preliminary Charges	
Initial Connection	\$15.00	(Normal Business Hours)
Normal Reconnection	\$15.00	(Normal Business Hours)
Premises Visit (in lieu of disconnection)	\$10.00	(Normal Business Hours)
Violation Reconnection	\$15.00	

LATE PAYMENT FEE

Staff's preliminary recommendation is that the utility should be allowed a late payment fee of \$3.75 for customer bills paid after the 20-day payment period provided in the utility's tariff.

SERVICE AVAILABILITY CHARGES

Currently, the utility's tariff has a provision for service availability charges for future customers. The utility has requested a change in its service availability charges. The utility's existing service availability policy includes a system capacity charge of \$100, a tap-in fee of \$100, and a main extension policy which states:

Service is provided as requested by customers within the water service territory. Mains are installed at the expense of the water company and remain the property of the water company.

Staff's preliminary recommendation is that the utility's service availability policy should be revised to allow refundable advance agreements for future installation of distribution lines. The existing system capacity charge of \$100 should be separated into a plant capacity charge of \$64 and a main extension charge of \$36, and the existing tap-in fee of \$100 should remain as is.

STAFF REPORTS AND UTILITY APPLICATION

The results of staff's preliminary investigation are contained in a staff report dated March 29, 1999. Copies of the report may be examined by interested members of the public 24 hours a day at the following location:

U.S. Post Office Lobby
5424 Lake Street
Tangerine, Florida 32777

PROCEDURES AFTER CUSTOMER MEETING

After the meeting, Public Service Commission Staff will prepare a recommendation which is scheduled to be submitted to the Public Service Commission on June 17, 1999. The Public Service Commission will then vote on staff's recommendation at its June 29, 1999 agenda conference. The Commission will thereafter issue a proposed agency action (PAA) order containing rates which may be different from those contained in staff's final recommendation. Substantially affected persons have 21 days from the date the PAA order is issued to protest the Commission's proposed agency action order. Five to ten customers or persons who attend the meeting and who wish to receive a copy of the recommendation and the order should so indicate at the meeting. Those individuals are expected to distribute the information in the recommendation and the order to other customers. Anyone who is unable to attend and who wishes to obtain a copy of the recommendation or the order may do so in writing to the Commission at the address at the end of this notice.

HOW TO CONTACT THE COMMISSION

Written comments regarding the utility and the proposed rates, and requests to be placed on the mailing list for this case, may be directed to this address:

NOTICE OF CUSTOMER MEETING
DOCKET NO. 981663-WU
PAGE 6

Director, Division of Records and Reporting
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

All correspondence should refer to "Docket No. 981663-WU,
Tangerine Water Company, Inc."

If you wish to contact the Commission regarding complaints
about service, you may call the Commission's Division of Consumer
Affairs at the following toll-free number: 1-800-342-3552.

This notice was prepared by Commission Staff for distribution
by the utility to its customers.

State of Florida



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

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

DATE: MARCH 29, 1999

TO: TROY RENDELL, PUBLIC UTILITIES SUPERVISOR

FROM: DIVISION OF WATER AND WASTEWATER (CHU, CASEY, T. DAVIS) *ML* *PK*

RE: DOCKET NO. 981663-WU - APPLICATION FOR STAFF-ASSISTED
RATE CASE BY TANGERINE WATER COMPANY, INC.

COUNTY: ORANGE

STAFF REPORT

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CASE BACKGROUND

This Staff Report is a preliminary analysis of the utility prepared by the Florida Public Service Commission (PSC) staff to give utility customers and the utility an advance look at what staff may be proposing. The final recommendation to the Commission (currently scheduled to be filed June 17, 1999 for the June 29, 1999 Agenda Conference) will be revised as necessary using updated information and results of customer quality of service or other relevant comments received at the customer meeting.

Tangerine Water Company Inc. (Tangerine or utility) is a Class C utility providing water service to approximately 230 connections serving approximately 304 customers in Orange County. By Order No. 5446, issued June 8, 1972, the Commission issued Certificate No. 96-W to Tangerine. Tangerine has had three previous staff assisted rate cases (Order No. 6529, issued February 21, 1975, Order No. 8271, issued April 19, 1978, and Order No. 14376, issued May 16, 1985) and no price index or pass-through rate adjustments.

On November 20, 1998, the utility submitted an application for this staff assisted rate case. In preparation for this report, staff audited the utility's records for compliance with Commission rules and orders and examined all components necessary for rate setting. The staff engineer has also conducted a field investigation, which included a visual inspection of the water plant and water distribution facilities along with the service area. The utility's operating expenses, maps, files and rate application were also reviewed to determine reasonableness of maintenance expenses, regulatory compliance, utility plant in service, and quality of service. Staff selected a historical test year ending December 31, 1998.

Based on the staff analysis, the utility's test year revenue is \$38,340, and test year operating expense are \$85,817. This results in an operating loss of \$47,477 for the test year.

DISCUSSION OF ISSUES

ISSUE 1: Is the quality of service provided by Tangerine Water Company, Inc. considered satisfactory?

RECOMMENDATION: The quality of service appears to be satisfactory but the staff engineer reserves all quality of service determinations until after the scheduled May 5, 1999, customer meeting. (T.DAVIS)

STAFF ANALYSIS: A customer meeting is scheduled to be held May 5, 1999, in the service area of Tangerine Water Company. All valid quality of service issues raised by the customers at that meeting will be investigated and the final recommendation will be derived from an evaluation of three separate components of water utility operations:

- (1) Quality of Utility's Product (compliance with drinking water standards),
- (2) Operational Conditions of Utility's Plant or Facility, and
- (3) Customer Satisfaction of services rendered.

QUALITY OF UTILITY'S PRODUCT

In Orange County, the **potable water** program is regulated by the St. Johns River District of the Florida Department of Environmental Protection (DEP). According to the DEP, the utility is currently up-to-date with all chemical analysis and all test results are satisfactory. It appears that the utility serves water which meets or exceeds all standards for safe, potable water.

The utility did not have a Consumptive Use Permit (CUP) at the time of the engineering field investigation. However, the utility has subsequently applied to St. Johns Water Management District for a CUP which is currently being processed.

OPERATIONAL CONDITIONS AT THE PLANT

The quality of the utility's plant-in-service is generally in a state of transition. On January 28, 1998, the 23,000 gallon hydro-pneumatic tank at the Tangerine water treatment plant exploded. The tank ruptured with such a force that it shifted off it's concrete foundation and damaged all directly connected pipes and valves. All broken pipes, valves and up-rooted controls had to be repaired before the temporary tank could be installed. The tank replacement project lasted almost a year before the plant plumbing

could be retrofitted and the new tank could be delivered. By permission of the DEP, the utility replaced the old 23,000 gallon tank with a new 10,000 gallon tank. Being recently renovated, plant plumbing is considered satisfactory.

In 1987 the utility installed an auxiliary power generator in case of emergency outages. The wiring for an automatic switch over proved to be too extensive and costly a project due to the extensive network of electrical wiring that would have to be restructured/eliminated. Today, the generator must be engaged by manual controls which can be done by one of several individuals living in the community.

Electrical wiring and maintenance of the building which houses the primary well and pump at the water treatment plant is in serious need of upgrading. The building itself is old and needs some minor structural repairs (Door & window replacement, painting, etc.) The operator's work space inside the building is encumbered by the massive network of antiquated electric circuit and relay controls. The utility disinfects with gas chlorine that (technically) requires a chlorine alarm system.

Despite obvious needs for upgrades to comply with DEP Rules, it appears that the DEP inspectors have been lenient, and have not formally required major plant upgrades to comply with the letter of the law. The deficiencies in question are plant in service issues that have little impact on the quality of the product being served to the customers which is reflected by the satisfactory results of the water analysis.

All things considered, the quality of the water treatment plant-in-service is satisfactory.

CUSTOMER SATISFACTION

The staff engineer reserves any quality of service recommendation until after the customer meeting. This informal hearing is scheduled to take place on May 5, 1999, and will give the customers the opportunity to express their opinions, comments, and complaints. All valid quality of service complaints will be investigated and will be considered in staff's final recommendation to the Commissioners.

ISSUE 2: What portions of water treatment plant & water distribution system are used and useful?

RECOMMENDATION: The water treatment plant should be considered 100% used and useful, and the water distribution system should be considered 80.06% used and useful with the exception of Account No. 346, and Account No. 347, which should be considered 100% used and useful. (T. DAVIS)

STAFF ANALYSIS: Water Treatment Plant - The water treatment plant is a closed system operation that relies on two wells to meet instantaneous fluctuations in flow demands. Since the utility serves more than 350 people, it is required by DEP to have a second water source. The total current capacity of the two wells is 575 gpm. During the last two staff assisted rate cases, the used and useful percentage was evaluated to be 100%. This calculation was determined by a comparison study between the minimum standard of 1.1 gpm in accordance with General Waterworks Design Criteria, and the number of customer connections. Two changes have occurred to the plant since the last rate case. First, the 23,000 gallon hydro tank exploded and was replaced with a smaller, 10,000 gallon tank. The other change to plant was the replacement of a 10 hp pump (rated at 100 gpm) on one of the two wells with a 25 hp pump rated at 325 gpm.

The General Waterworks Design Criteria of a minimum 1.1 gpm per customer is backed by the American Water Works Association (AWWA), and, when properly calculated, is to be met by the lowest capacity well. Even with the recent upgraded capacity, it is obvious that the water production would risk complete exhaustion should the community need to fight a fire. What may be a saving grace for the community is the fact that Tangerine is nestled along the banks of three lakes, an alternate resource for fire fighting. By the approved formula, used as an indicator of useful plant, the water plant is still 100% used and useful. It is recommended that the water treatment plant be considered 100% used and useful (See Attachment "A".)

Water Distribution System - During the last rate case, the distribution system was also considered to be 100% used and useful. Since the 1984 docketed rate case, the utility has added approximately 5,425 linear feet of distribution mains. It is estimated that the utility's potential customer base; today, without construction of additional lines, is 300 connections estimated to be 321 ERCs. During the test year, the utility provided service to an average of 230 connections estimated to be 246 ERCs. Growth over the last five years was calculated, using

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the linear regression method, to be 7 ERCs. By formula approach (See Attachment "B"), the engineering staff recommends the distribution system be considered 80.06% used and useful for this rate proceeding. There are two exceptions to this: meters (Account No. 346), and meter installations (Account No. 347). It is the engineering staff's opinion that these accounts (No. 346 and No. 347) be considered 100% used and useful.

ISSUE 3: Should a margin reserve be included in the calculations of used and useful plant?

RECOMMENDATION: Yes. Staff recommends that a 22 gallon per minute (gpm) margin reserve be used for the water treatment plant and eleven (11) ERCs be used for the water distribution system.
(T. DAVIS)

STAFF ANALYSIS: Margin Reserve is the concept whereby the Commission recognizes certain costs the utility incurs in providing extra capacity sufficient to meet short term growth without impairing its ability to provide safe and adequate service to existing customers. Recognizing that plant facilities cannot be added on a day to day basis due to requirements for permits and easements, the Margin Reserve concept provides a reasonable avenue for the utility to serve new customers during the planning and construction period.

The construction period varies from utility to utility with Class C utilities typically requiring additional time to complete construction. It is recommended that an 18 month period be used in the calculation as an average construction period.

Staff calculations for Margin Reserve are based upon the average growth in ERCs over the last five years. Margin Reserve should not exceed 20% of the number of ERCs served at the end of the test year. Tangerine Water Company has shown an average yearly customer growth over the past five years of seven (7) ERCs which was calculated using the linear regression method. Based on this growth factor, staff recommends allowing a 22 gpm Margin Reserve for the water treatment plant and an eleven (11) ERC Margin Reserve for the water distribution system as shown in Attachments A and B.

ISSUE 4: What is the appropriate average amount of test year rate base?

RECOMMENDATION: The appropriate average amount of test year rate base for Tangerine should be \$87,506. (CHU, CASEY, T. DAVIS)

STAFF ANALYSIS: The appropriate components of Tangerine's rate base include depreciable plant in service, plant held for future use, contributions in aid of construction (CIAC), accumulated depreciation, accumulated amortization of CIAC, and working capital allowance. Utility plant, depreciation, CIAC, and amortization balances were last determined as of November 30, 1984 in the utility's last staff assisted rate case by Order No. 14376, issued May 16, 1985. Staff used the amounts set forth in that Order as a base for rate base components updated in this recommendation. Further adjustments are necessary to reflect test year changes. A discussion of each component follows.

Depreciable Plant in Service: The utility recorded utility plant in service balances of \$167,963 at the end of the test year. Staff calculated utility plant by starting with Order No. 14376, which established utility plant of \$78,163 as of November 30, 1984. Staff made adjustments of: \$500 to capitalize labor for installation of a computer program; \$602 to adjust utility plant to staff's recommended balance; \$1,345 to include DEP required chlorine alarm; (\$637) to retire the existing chlorine alarm; \$2,405 to include a DEP required transfer switch; \$14,159 to include DEP required electrical work; \$4,650 for repair of the number one pump; \$948 for a hand held computer for meter reading; \$2,125 to include a DEP required air pack; and (\$8,649) to reflect an averaging adjustment. Total adjustments amount to \$17,448, which results in staff's recommended test year utility plant in service of \$185,411.

Land: The utility has a long term land lease with the property owner, Tangerine Improvement Society. The annual lease payment equals the annual charges for water service to the Tangerine Improvement Society buildings and park facilities which for 1998 were \$186.79. Staff verified that the utility included the \$186.79 in test year revenues, and recorded the same amount in Account No. 640 in operation and maintenance expenses (Refer to Issues Nos. 6 and 7.)

Non-Used and Useful Plant: As discussed in Issue No. 2 of this recommendation, the utility's water treatment plant should be considered 100% used and useful, and the utility's distribution

system should be considered 80.06% used and useful with the exception of account No. 346 and account No. 347 which should be considered 100% used and useful. In the utility's last SARC, its distribution system was considered 100% used and useful. All lines added since that time have been donated. Therefore, for bookkeeping purposes, no used and useful adjustment is necessary to the distribution lines.

Contributions in Aid of Construction: The utility books showed a CIAC balance of (\$58,198) at the end of the test year. Staff made an adjustment of (\$1,100) to include CIAC for margin reserve, and made an averaging adjustment of \$500. Staff recommends test year CIAC of (\$58,798).

Accumulated Depreciation: The utility books reflected an accumulated depreciation balance of (\$86,800) at the end of the test year. Staff calculated accumulated depreciation starting with balances from Order No. 14376 and used the depreciation rates set forth in that Order to calculate depreciation up to the test year. Staff calculated test year depreciation expense using the rates prescribed in Rule 25-30.140, Florida Administrative Code. Staff made adjustments of: \$4,508 to bring the utility's figure to staff's calculated amount; \$637 to reflect the retirement of a chlorine alarm; (\$79) to reflect depreciation expense on the proforma chlorine alarm; (\$141) to reflect depreciation on the proforma transfer switch; (\$833) to reflect depreciation on the proforma electrical plant; (\$172) to reflect depreciation on the number one pump repair; (\$125) to reflect depreciation on the proforma air pack; (\$158) to reflect depreciation on the hand held computer; and \$12,491 to reflect an averaging adjustment. Staff recommends test year accumulated depreciation of (\$70,672).

Accumulated Amortization: The utility books reflected an accumulated amortization balance of \$23,791 at the end of the test year. Staff made adjustments of: (\$177) to reflect staff's calculated amortization of CIAC; \$61 to reflect amortization of CIAC for margin reserve; and (\$1,063) to reflect an averaging adjustment. Staff recommends test year CIAC accumulated amortization of \$22,612.

Working Capital Allowance: Consistent with Rule 25-30.443, Florida Administrative Code, staff recommends that the one-eighth of operation and maintenance expense formula approach be used for calculating working capital allowance. Applying that formula, staff recommends a working capital allowance of \$8,953 (based on O&M of \$71,621.)

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Rate Base Summary: Based on the foregoing, the appropriate balance of Tangerine's test year rate base should be \$87,506. Rate base is shown on Schedule No. 1, and adjustments are shown on Schedule No. 1A.

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

RECOMMENDATION: The appropriate rate of return on equity should be 8.98% with a range of 7.98% - 9.98% and the appropriate overall rate of return should be 9.08% with a range of 8.40% - 9.75%. (CHU, CASEY)

STAFF ANALYSIS: Based on the staff audit, the utility's capital structure consists of common equity of \$54,674 along with \$5,925 of customer deposits. The utility has also provided copies of a proposed loan for proforma plant in the amount of \$20,000 at a cost of 10.25%. The cost of common equity capital should be established using the leverage formula in effect at the time of the Commission decision in this case. Using the current leverage formula approved under Docket No. 980006-WS, Order No. PSC-98-0903-FOF-WS, issued July 6, 1998, the rate of return on common equity should be 8.98% with a range of 7.98% - 9.98%.

Applying the weighted average method to the total capital structure yields an overall rate of return of 9.08% with a range of 8.40% - 9.75%. The company's test year capital structure balance has been adjusted to match the total of the water rate base.

Tangerine's return on equity and overall rate of return are shown on Schedule No. 2.

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

RECOMMENDATION: The appropriate test year operating revenue should be \$38,340. (CHU, CASEY)

STAFF ANALYSIS: Tangerine Water Company, Inc.'s records indicated revenues of \$45,746 for the test year ending December 31, 1998. These revenues were derived using a cash basis of accounting for federal income tax purposes. Staff auditors examined billing registers and other utility records to calculate test year revenue of \$38,340 using the accrual method of accounting per the uniform system of accounts. This amount includes revenues for the land lease (\$186.79) with the Tangerine Improvement Society. Staff made an adjustment of (\$7,406) to reflect the utility's test year revenues using the accrual method of accounting. Staff recommends test year revenues of \$38,340.

ISSUE 7: What is the appropriate amount of operating expense?

RECOMMENDATION: The appropriate amount of operating expense should be \$88,428. (CHU, CASEY, T. DAVIS)

STAFF ANALYSIS: The utility recorded operating expenses of \$39,067 for the test year. The components of these expenses include operation and maintenance expenses, depreciation expense (net of related amortization of CIAC), taxes other than income taxes, and income taxes. The utility's test year operating expenses have been reviewed and invoices and other supporting documentation have been examined. 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 \$31,707 to O & M expenses during the test year. A summary of adjustments that were made to the utility's recorded expenses follows:

(601) Salaries and Wages - Employees - The utility recorded employee salaries and wages of \$11,212 for the test year. Staff made an adjustment of (\$500) to capitalize labor for installation of a new computer program. A check with the utility's treasurer/bookkeeper showed the utility is Y2K compliant and not anticipating any computer problems in the year 2000. Staff prepared an analysis of the existing employee wages along with time spent by them on utility functions.

The president of the utility devotes 20 hours per month to utility duties. The duties are: to insure required reports, records, statements, and certificates are properly made and filed according to the law; to co-sign all stock certificates and loans or notes; to sign all contracts approved by the board; to schedule and conduct all board and the annual shareholders meetings; and to conduct other duties incident to the position. Staff recommends an annual salary of \$2,400 for the president.

The vice president of operations spends 20 hours per week performing utility duties. He is the chief operating officer with overall responsibility for: operation of the pumping station and water distribution system; assuring that supplies are on hand and maintenance of equipment and lines are performed; new line extensions; meters added, replaced and read; seeing that environmental water samples and tests are taken and reported; seeing that leaks are repaired; seeing that water service is

disconnected or turned-off in accordance with statutes; and seeing that new customers submit an application for water service. He also performs other duties as required by law to include monitoring of the class C operator. Staff recommends an annual salary of \$18,972 for the vice president.

The treasurer of the utility, who is also a C.P.A., handles the day-to-day bookkeeping and customer relations for the utility and devotes approximately 15 hours per week performing utility duties. Duties include customer billing, collection and deposits; responsibility for all funds and securities of the corporation, including customer security deposits; making, signing and endorsing all company checks; maintaining a correct book of accounts of all company business and transactions; rendering financial statements of condition as required by the Board; and preparation of corporation filings and reports as required. Staff recommends an annual salary of \$16,000 for the treasurer.

The secretary of the corporation has duties which include taking minutes of the Board and Shareholders meeting; serving of all notices of the Corporation; being the custodian of the records and seal; maintaining the stock record and transfer books as required; signing of all certificates of stock; and performing other duties incident to the office of secretary. Staff recommends an annual salary of \$150 for her duties.

Staff recommends employee salaries and wages of \$37,522.

(616) Fuel for Power Production - The utility recorded \$43 in this account during the test year. Since the last rate case the utility has purchased an emergency generator which is required by DEP. Periodic start-ups and idling are necessary for proper maintenance which requires the utility to purchase fuel on a regular basis. Staff made an adjustment of \$207 to reflect the staff engineer's recommended annual allowance of \$250 for emergency power production.

(618) Chemicals - The utility recorded a chemical expense of \$2,182 during the test year. Staff made an adjustment of (\$112) to reflect a refund of sales tax, and made an adjustment of (\$251) to remove an out of test year expense. Staff recommends test year chemical expense of \$1,819.

(620) Materials and Supplies - The utility recorded materials and supplies expenses of \$2,107 for the test year. Staff made an adjustment of (\$39) to remove non-utility expenses, and made an adjustment of (\$43) to remove an out of period expense. Staff

recommends a materials and supplies expense of \$2,025 for the test year.

(635) Contractual Services - Testing - The utility recorded water testing expenses of \$420 for the test year. Staff annualized the testing costs based on the required testing frequency. Staff made an adjustment of \$775 to reflect the annualized water testing cost for the test year. The required tests and frequency at which those test must be repeated are:

<u>Test</u>	<u>Required Water Testing Frequency</u>	<u>Annualized Cost</u>
Microbiological	Monthly	\$ 315
Lead and Copper	Biannual	\$ 225
Primary Inorganics	36 months	\$ 35
Secondary Inorganics	36 months	\$ 30
Asbestos	1/9 years	\$ 30
Nitrate and Nitrite	12 months	\$ 20
Volatle Organics	qtr'ly/1st yr/36 mos. Subsequent/Annual	\$ 130
Pesticides & PCB	36 months	\$ 160
Radionuclides		
Group I	36 months	\$ 45
Group II	36 months	\$ 45
Unregulated Organics		
Group I	qtr'ly/1st yr/9yr.	\$ 90
Group II	36 months	\$ 20
Group III	36 months	\$ 50
	Annual Cost	<u>\$ 1,195</u>

Staff recommends contractual services - testing expense of \$1,195 for the test year.

Contractual Services - Other - The utility recorded a contractual services - other amount of \$818 for the test year. Staff made adjustments to this account to: remove \$150 of unsupported repair expense; to include \$2,408 for major repair expenses amortized over five years; to include \$126 for 40 yards of rock for the plant grounds amortized over five years; to include \$237 for normal yearly repair and maintenance; to include \$948 for annual emergency generator maintenance; to include \$150 for annual line flushing; to allow \$540 for water plant grounds keeping; and to include \$825 for an annual meter change-out program. The manufacturer's recommended life of a 5/8" x 3/4" meter is 17 years. The meter change-out program staff is recommending will allow the utility to annually replace 14 of the 230 meters through an annual replacement program.

Total adjustments amount to \$5,084 which result in staff's recommended contractual services-other amount of \$5,902.

(640) Rents - The utility recorded \$199 in the rent account for the test year which includes \$187 for the land lease with the Tangerine Improvement Society, and \$12 for rental of a post office box. The utility office is located in the personal residence of the utility treasurer. She has one room of her home set aside as office space with all the necessary office equipment and supplies. The staff auditor made an office allocation based on the treasurer's personal federal tax deduction for operating a business in her home. The office allocation includes the use of her home as the utility's office and the use of all office equipment such as: computers, copiers, local phone service, miscellaneous office supplies, etc. to perform utility business. Staff made an adjustment of \$3,000 to include annual utility office rent. Staff recommends rent expense of \$3,199 for the test year.

(650) Transportation Expense - The utility books reflected \$865 of transportation expense for the test year. In the performance of utility duties, the officers use their personal vehicles to monitor the service area, attend meetings with regulatory personnel, make bank deposits, pick up parts for repairs, run utility related errands, pick up supplies, etc. Since the service is in a remote area (twenty-five miles north of Orlando) it is estimated an average of 100 miles per week is required in travel. In accordance with allowances for state travel, an allowance of twenty-nine cents per mile is considered reasonable and prudent. Staff made an adjustment of \$643 to reflect an annual transportation expense of \$1,508 (100 mi X 52 wks X \$.29) for officers of the corporation as recommended by the staff engineer. Staff also made an adjustment of \$600 to allow for a golf cart used for meter reading. Staff recommends an annual transportation expense of \$2,108 for the test year.

(655) Insurance - The utility recorded insurance expense of \$1,900 for the test year. Staff made a \$455 adjustment to reflect an increase in general liability coverage to one million dollars, made an adjustment of \$3,758 to include directors and officers liability coverage, and made an adjustment of (\$935) to remove an out of period expense. Staff recommends a test year insurance expense of \$5,178.

(665) Regulatory Commission Expense - The utility recorded \$1,000 of regulatory commission expense for test year. Staff made an adjustment of (\$750) to reflect the SARC filing fee (\$1,000) amortized over four years as required by Section 367.0816, Florida

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Statutes. Staff also made an adjustment of \$142 to include the utility's CPA rate case expense (\$568) amortized over four years. Staff recommends a regulatory commission expense of \$392.

(670) Bad Debt Expense - The utility recorded no bad debt for the test year. Staff auditors analyzed the utility's records and determined that an annual allowance of \$613 would be appropriate for this utility. Staff is also recommending the utility initiate customer deposits (Issue No. 12), and initiate a late payment fee (Issue No. 14) to reduce the amount of bad debt expense. Therefore, staff recommends a bad debt expense of \$613 for the test year.

(675) Miscellaneous Expense - The utility books reflected \$215 of miscellaneous expenses for the test year. Staff made an adjustment of (\$106) to remove an out of period expense, and made an adjustment of \$80 to include the cost of a consumptive use permit amortized over five years.

The vice president of operations carries a cell phone which benefits the utility since it allows him to be on call 24 hours a day for utility emergencies. Since the utility began this service, the average monthly billing has been \$40.23 for the cell phone. Staff made an adjustment of \$483 (\$40.23 x 12 months) to include emergency cell phone service for the utility. Staff recommends test year miscellaneous expenses of \$672.

Operation and Maintenance Expenses (O & M) Summary: Total operation and maintenance adjustments are \$39,914. Staff recommends operation and maintenance expenses of \$71,621. Operation and maintenance expenses are shown in Schedule No. 3B.

Depreciation Expense (Net of Amortization of CIAC): The utility recorded \$1,562 of depreciation expense on its books for the test year. Staff calculated test year depreciation expense using the rates prescribed in Rule 25-30.140, Florida Administrative Code. Staff made adjustments of: \$4,668 to bring the utility balance to staff's recommended amount; \$79 to reflect depreciation expense on the pro forma chlorine alarm; \$141 to include depreciation on the DEP required transfer switch; \$833 to include depreciation on the DEP required electrical work; \$344 to include the average depreciation cost for the number pump repair; \$125 to reflect the depreciation expense on the pro forma air pack; \$316 to include depreciation expense on the pro forma hand held computer; (\$37) to reflect the retirement of the existing chlorine alarm; and (\$2,126) to reflect staff's test year amortization expense. Total

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adjustments amount to \$4,343. Staff recommends depreciation expense net of CIAC amortization of \$5,905 for the test year.

Taxes Other Than Income Taxes: The utility recorded taxes other than income of \$5,798 for the test year. Staff made an adjustment of \$308 to increase regulatory assessment fees to reflect regulatory assessment fees on staff's recommended test year revenue, made an adjustment of (\$1,498) to remove out of period real estate taxes, and made an adjustment of \$3,683 to allow for payroll taxes on staff's recommended salaries. Staff recommends test year taxes other than income of \$8,291.

Operating Revenues: Revenues have been adjusted by \$58,030 to reflect the increase in revenue required to cover expenses and allow the utility the opportunity to earn the recommended rate of return on investment.

Taxes Other Than Income Taxes: This expense has been increased by \$2,611 to reflect the regulatory assessment fee of 4.5% on staff's recommended increase in revenue.

Income Taxes: This utility is an 1120 corporation. However, staff is not recommending inclusion of any income tax expense since the utility has a loss carryover of \$35,176 listed on its 1997 IRS tax return.

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 \$88,428.

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

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ISSUE 8: What is the appropriate revenue requirement?

RECOMMENDATION: The appropriate revenue requirement should be \$96,370. (CHU, CASEY)

STAFF ANALYSIS: The utility should be allowed an annual increase in revenue of \$58,030 (151.36%). This will allow the utility the opportunity to recover its expenses and earn the recommended 9.08% return on its investment. The calculations are as follows:

	<u>Water</u>
Adjusted Rate Base	\$ 87,506
Rate of Return	x .0908
Return on Investment	\$ 7,942
Adjusted Operation Expenses	71,621
Depreciation Expense (Net)	5,905
Taxes Other Than Income Taxes	<u>10,902</u>
Revenue Requirement	<u>\$ 96,370</u>
Annual Revenue Increase	\$ 58,030
Percentage Increase/(Decrease)	<u>151.36%</u>

The revenue requirement and resulting annual increase are shown on Schedules Nos. 3.

ISSUE 9: What is the appropriate conservation rate structure for this utility?

RECOMMENDATION: The inclining-block rate structure is the appropriate conservation rate structure that should be implemented for this utility. Staff recommends that the utility be required to file, on a quarterly basis, reports containing the number of customer bills, gallons billed, and revenues billed. This information should be provided for each customer class, meter size and usage block. These reports should be required for a period of two years, commencing on the first billing cycle in which the proposed rates go into effect. (GILCHRIST, GOLDEN, RIEGER)

STAFF ANALYSIS: Although Tangerine Water Company (Tangerine) is located in a Water Use Caution area, the utility was not aware that it was supposed to have its system reviewed for a consumptive use permit. Staff contacted the St. Johns River Water Management District (SJRWMD) and informed them that Tangerine did not have a consumptive use permit. The SJRWMD has advised staff that a field inspection has been conducted and the utility has subsequently filed an application with the SJRWMD for a consumptive use permit.

The utility's current rate structure consists of a base facility and uniform gallonage charge rate structure. The estimated total average consumption per customer is 12,302 gallons per month (gpm) and the total average residential consumption per customer is 14,250 gpm. To discourage high water usage, and to promote conservation, staff believes a more aggressive conservation rate structure should be implemented for this utility. Based on our preliminary analysis, staff is recommending that the inclining-block rate structure be implemented for this utility. An inclining-block rate structure is comprised of two or more usage blocks, with the price per unit increasing in each block and the goal of this rate structure is to reduce average demand.

Based on staff's analysis of the consumption data for residential customers, 10,000 gpm or 30,000 gallons per quarter (gpq) is the level or breakpoint at which the conservation rates should be implemented. The consumption data revealed that approximately 56% of all bills rendered to the residential customers are captured in the 0 - 10,000 gallon usage block (30,000 gpq). However, this only represents 15% of total residential consumption. Since usage below 10,000 per gpm (30,000 gpq) is relatively nondiscretionary, the rate in this usage block should be kept as low as possible. Residential customers using more than 10,000 gpm (30,000 gpq) account for 85% of the utility's total residential consumption. As a result, staff believes it is

necessary to send a stronger price signal to the customers using more than 10,000 gpm (30,000 gpq).

For the purpose of calculating conservation rates, any gallonage over the 10,000 gpm (30,000 gpq) breakpoint should be adjusted to reflect the reduced consumption level which is expected to occur following the implementation of conservation rates. This is necessary in order to calculate rates which will achieve the revenue requirement. Based upon our initial review, staff believes a reduction of 9,081,000 gallons to consumption over the 10,000 gpm (30,000 gpq) breakpoint is appropriate in this case. This represents a consumption reduction of approximately 30%. However, it should be noted that this recommendation is preliminary in nature. Staff is still evaluating the need for an inclining-block rate structure in this case. A thorough analysis will be conducted and discussed in more detail in staff's final recommendation.

Under staff's recommended rate structure, water users with low monthly usage would benefit, while water users with high monthly use would pay increasingly higher rates. Thus, the high water users have a greater incentive to conserve. It is difficult to charge conservation rates to multi-family units served by a single meter due to the inability to measure each unit's individual usage. Also, it is difficult to charge conservation rates to general service customers because these customers are not homogeneous and they have a tendency to use only the amount of water needed for operating their businesses. Therefore, the inclining-block rates should apply to the residential customers only.

Staff believes it would be beneficial to monitor the effect the proposed inclining-block rates will have on consumption. Therefore, we recommend that the utility be required to file, on a quarterly basis, reports containing the number of customer bills, gallons billed, and revenues billed. This information should be provided for each customer class, meter size and usage block. These reports should be required for a period of two years, commencing on the first billing cycle in which the proposed rates go into effect. A comparison of rates is as follows:

Residential

<u>Base Facility Charge</u> <u>Meter Size</u>		<u>Existing</u> <u>QUARTERLY</u> <u>Rate</u>	<u>Preliminary</u> <u>QUARTERLY</u> <u>Rate</u>
5/8" x 3/4"	\$	12.02	\$ 27.84
3/4"		18.03	41.76
1"		30.05	69.57
1-1/2"		60.10	139.17

Residential (cont'd)

<u>Base Facility Charge</u> <u>Meter Size</u>	<u>Existing</u> <u>QUARTERLY</u> <u>Rate</u>	<u>Preliminary</u> <u>QUARTERLY</u> <u>Rate</u>
2"	96.16	222.66
3"	N/A	445.32
4"	N/A	695.82
6"	N/A	1,391.61

<u>Gallorage Charge</u> Per 1,000 gallons		
0 - 30,000 gallons	\$.54	\$ 1.10
Over 30,000 gallons	\$.54	\$ 2.20

The average monthly consumption for residential customers in the 0-10,000 gpm block is 4,040 gpm, which equates to an average of 12,120 gpq. Using the above rates and the average monthly usage of 4,040 gpm (12,120 gpq), the quarterly residential bills would reflect the following:

<u>Residential</u>	<u>Average</u> <u>QUARTERLY</u> <u>Bill Using</u> <u>Existing</u> <u>Rates</u>	<u>Average</u> <u>QUARTERLY</u> <u>Bill Using</u> <u>Preliminary</u> <u>Rates</u>	<u>Percent</u> <u>Increase</u>
Base Facility Charge	\$ 12.02	\$ 27.84	
Gallorage Charge	<u>6.54</u>	<u>13.33</u>	
Total	\$ 18.56	\$ 41.17	121.82%

The average monthly consumption in the over 10,000 gpm block is 27,840 gpm, or 83,520 gpq. Using the above rates and the average monthly usage of 27,840 gpm (83,520 gpq), the quarterly residential bills would reflect the following:

<u>Residential</u>	<u>Average</u> <u>QUARTERLY</u> <u>Bill Using</u> <u>Existing</u> <u>Rates</u>	<u>Average</u> <u>QUARTERLY</u> <u>Bill Using</u> <u>Preliminary</u> <u>Rates</u>	<u>Percent</u> <u>Increase</u>
Base Facility Charge	\$ 12.02	\$ 27.84	
Gallorage Charge	<u>45.10</u>	<u>150.74</u>	
Total	\$ 57.12	\$ 178.58	212.64%

ISSUE 10: What are the recommended rates for this utility?

RECOMMENDATION: The recommended rates should be as shown in the staff analysis. The utility should bill its customers on a monthly basis rather than on a quarterly basis. The approved rates should 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. The rates should not be implemented until proper notice has been received by the customers. The utility should provide proof of the date notice was given within 10 days after the date of the notice. (CHU, CASEY)

STAFF ANALYSIS: During the test year, Tangerine provided water service to approximately 230 connections serving approximately 304 customers. Approximately 33% (or \$31,602) of the revenue requirement is associated with the fixed costs of providing service. Fixed costs are recovered through the base facility charge based on annualized number of factored Equivalent Residential Connections (ERC's). The remaining 67% (or \$64,768) of the revenue requirement represents the consumption charge based on the estimated number of gallons consumed during the test period.

The utility is presently billing on a quarterly basis and has requested that it be allowed to convert to monthly billing to increase utility cash flow and make the utility bills smaller and more manageable for the customer. Staff calculated the revenue requirement based on the increased cost of labor, materials, and postage for monthly billing. Schedules of the utility's existing quarterly rates (shown on a monthly basis for comparison) and staff's preliminary monthly rates follow.

Residential Water Rates

<u>Base Facility Charge</u> <u>Meter Size</u>	<u>Existing BFC</u> <u>Converted to a</u> <u>Monthly Rate</u>	<u>Preliminary</u> <u>Monthly</u> <u>Rate</u>
5/8" x 3/4"	\$ 4.01	\$ 9.28
3/4"	6.01	13.92
1"	10.02	23.19
1-1/2"	20.03	46.39
2"	32.05	74.22
3"	N/A	148.44
4"	N/A	231.94
6"	N/A	463.87

Residential Water Rates (cont'd)

Gallonge Charge

Per 1,000 gallons			
0 - 30,000 gallons	\$.54	\$ 1.10
Over 30,000 gallons	\$.54	\$ 2.20

Multi - Residential Water Rates

	Existing Unit Rate	Preliminary
	Converted to a	<u>Monthly</u>
	<u>Monthly Rate</u>	<u>Rate</u>
Per Unit	\$ 2.67	\$ 6.19
Gallonge Charge		
Per 1,000 gallons	\$.54	\$ 1.44

General Service Water Rates

Base Facility	Existing BFC	Preliminary
<u>Charge</u>	Converted to a	<u>Monthly</u>
<u>Meter Size</u>	<u>Monthly Rate</u>	<u>Rate</u>
5/8" x 3/4"	\$ 4.01	\$ 9.28
3/4"	6.01	13.92
1"	10.02	23.19
1-1/2"	20.03	46.39
2"	32.05	74.22
3"	N/A	148.44
4"	N/A	231.94
6"	N/A	463.87
Gallonge Charge		
Per 1,000 gallons	\$.54	\$ 1.44

The rates should be effective for service rendered as of the stamped approval date on the tariff sheets provided the customers have received notice. The utility should bill its customers on a monthly basis rather than on a quarterly basis. The tariff sheets should 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 should be

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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 11: 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: The rates should be reduced as shown on Schedule No. 4 to remove rate case expense grossed-up for regulatory assessment fees and amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the four-year recovery period, pursuant to Section 367.0816, Florida Statutes. The utility should be required to file revised tariff sheets and a proposed customer notice setting forth the lower rates and the reason for the reduction not later than one month prior to the actual date of the required rate reduction.
(CHU, CASEY)

STAFF ANALYSIS: Section 367.0816, Florida Statutes requires that the rates be reduced immediately following the expiration of the four-year period by the amount of the rate case expense previously included in the rates. The reduction will reflect the removal of revenues associated with the amortization of rate case expense and the gross-up for regulatory assessment fees which is \$410 annually. The reduction in revenues will result in the rates recommended by staff on Schedule No. 4.

The utility should be required to file revised tariff sheets no later than one month prior to the actual date of the required rate reduction. The utility also should be required to file a proposed customer notice setting forth the lower rates and the reason for the reduction.

If the utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data shall be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense.

ISSUE 12: What should be the appropriate amount of customer deposits, should the utility be required to pay interest on customer deposits collected since 1992, and should customers who have established a satisfactory payment record, and have had continuous service for a period of 23 months, have their deposit refunded?

RECOMMENDATION: The appropriate amount of residential customer deposits should be \$27.00. The utility should file revised tariff sheets which are consistent with the Commission's vote. Staff should be given administrative authority to approve the revised tariff sheets upon staff's verification that the tariffs are consistent with the Commission's decision. If revised tariff sheets are filed and approved, the customer deposits should become effective for connections made on or after the stamped approval rate of the revised tariff sheets, if no protest is filed. The utility should be ordered to pay interest on all customer deposits, including those collected since 1992, as required by Rule 25-30.311, Florida Administrative Code. Past due monies should include interest calculated in accordance with Rule 25-30.360, Florida Administrative Code. The utility should refund deposits of all customers who have established a satisfactory payment record and have had continuous service for a period of 23 months. Past due interest should be paid and eligible deposits should be refunded within 90 days of the effective date of the Commission order. (CHU, CASEY)

STAFF ANALYSIS: Customer Deposits - The utility's existing tariff states:

Before rendering service, the company will require a deposit or guarantee satisfactory to the company to secure the payment of the bills; and the company shall give the customers a non-negotiable and non-transferable deposit receipt. The amount of such deposit shall be NONE or an amount necessary to cover minimum charges for service for three billing periods, whichever is greater.

Because of the vague wording of the existing tariff, the utility believed it was authorized to collect deposits in the amount equal to three billing periods. The utility started collecting deposits in 1992. This tariff became effective over 20 years ago (November 21, 1978), and staff believes the customer deposit amounts should be updated. Rule 25-30.311(1), Florida Administrative Code states "Each utility may require an applicant for service to satisfactorily establish credit, but such

establishment of credit shall not relieve the customer from complying with utilities' rules for prompt payment of bills." Rule 25-30.311(7), Florida Administrative Code, states:

A utility may require, upon reasonable written notice of not less than 30 days, such request or notice being separate and apart from any bill for service, a new deposit, where previously waived or returned, or an additional deposit, in order to secure payment of current bills; provided, however, that the total amount of the required deposit shall not exceed an amount equal to the average actual charge for water and/or wastewater service for two billing periods for the 12-month period immediately prior to the date of notice. In the event the customer has had service less than 12 months, then the utility shall base its new or additional deposit upon the average monthly billing available.

Staff believes the utility's existing amounts for customer deposits should be updated to an amount equal to the average charge for water service for two billing periods. Staff's preliminary recommendation is to approve residential customer deposits of \$27.00 for water service. The utility should file revised tariff sheets which are consistent with the Commission's vote. Staff should be given administrative authority to approve the revised tariff sheets upon staff's verification that the tariffs are consistent with the Commission's decision. If revised tariff sheets are filed and approved, the customer deposits should become effective for connections made on or after the stamped approval rate of the revised tariff sheets, if no protest is filed.

Interest on Customer Deposits - The utility started collecting customer deposits in 1992. It was discovered during the audit that the utility has not paid any interest on the customer deposits it has received. Rule 25-30.311(4)(a), Florida Administrative Code, states:

Each public utility which requires deposits to be made by its customers shall pay a minimum interest on such deposits of 6 percent per annum. The utility shall pay an interest rate of 7 percent per annum on deposits of nonresidential customers qualifying under subsection (5) below when the utility elects not to refund such a deposit after 23 months.

The utility books showed customer deposits of \$5,925 for the test year. Staff's preliminary recommendation is that the utility be ordered to pay interest on all customer deposits, including those collected since 1992, as required by Rule 25-30.311, Florida Administrative Code. Past due monies should include interest calculated in accordance with Rule 25-30.360, Florida Administrative Code, and be paid within 90 days of the effective date of the Commission order. Further discussion of interest on customer deposits is included in Issue No. 16 of this recommendation.

Refund of Customer Deposits - Rule 25-30.311(5), Florida Administrative Code, states:

After a customer has established a satisfactory payment record and has had continuous service for a period of 23 months, the utility shall refund the residential customer's deposits and shall, at its option, either refund or pay the higher rate of interest specified above for nonresidential deposits, providing the customer has not, in the preceding 12 months, (a) made more than one late payment of a bill (after the expiration of 20 days from the date of mailing or delivery by the utility), (b) paid with check refused by a bank, © been disconnected for nonpayment, or at any time, (d) tampered with the meter, or (e) used service in a fraudulent or unauthorized manner. Nothing in this rule shall prohibit the company from refunding at any time a deposit with any accrued interest.

The utility should investigate and determine if customers with deposits being held over 23 months have established a satisfactory payment record as described above. If so, the utility should refund those customer deposits to those customers within 90 days of the effective date of the Commission order.

ISSUE 13: What should the appropriate miscellaneous service charges be for Tangerine?

RECOMMENDATION: The appropriate miscellaneous service charges should be those recommended in the staff analysis. The utility should file revised tariff sheets which are consistent with the Commission's vote. Staff should be given administrative authority to approve the revised tariff sheets upon staff's verification that the tariffs are consistent with the Commission's decision. If revised tariff sheets are filed and approved, the miscellaneous service charges should become effective for service rendered on or after the stamped approval date of the revised tariff sheets, if no protest is filed. (CHU, CASEY)

STAFF ANALYSIS: The utility's existing tariff does not currently provide for miscellaneous service charges. Staff recommends that the following miscellaneous service charges be authorized:

	Preliminary Charges	
Initial Connection	\$15.00	(Normal Business Hours)
Normal Reconnection	\$15.00	(Normal Business Hours)
Premises Visit (in lieu of disconnection)	\$10.00	(Normal Business Hours)
Violation Reconnection	\$15.00	

The four types of miscellaneous service charges are:

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

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

These charges are designed to more accurately reflect the costs associated with each service and to place the burden of payment on the person who causes the cost to be incurred (the "cost causer"), rather than on the entire ratepaying body as a whole.

Therefore, staff recommends that the utility's tariff be revised to incorporate the charges discussed above. The utility should file revised tariff sheets which are consistent with the Commission's vote. Staff should be given administrative authority to approve the revised tariff sheets upon staff's verification that the tariffs are consistent with the Commission's decision. If revised tariff sheets are filed and approved, the miscellaneous service charges should become effective for service rendered on or after the stamped approval date of the revised tariff sheets, if no protest is filed.

ISSUE 14: Should the utility be allowed to initiate a late payment fee for bills?

RECOMMENDATION: Yes, the utility should be allowed a late payment fee of \$3.75 for customer bills paid after the 20-day payment period provided in the utility's tariff. The utility should file a revised tariff sheet which is consistent with the Commission's vote. Staff should be given administrative authority to approve the revised tariff sheet upon staff's verification that the tariff is consistent with the Commission's decision. If a revised tariff sheet is filed and approved, the late payment fee should become effective for service rendered on or after the stamped approval date of the revised tariff sheet, if no protest is filed. (CHU, CASEY)

STAFF ANALYSIS: The utility provided information to staff that 31% of the utility customers consistently pay their water bills after the due date. The utility has requested it be allowed to impose a late fee of \$3.75 for customer bills paid after the 20-day payment period. The Commission has previously approved late payment charges based on the rationale that the general body of rate payers should not shoulder the burden of costs caused by those customers who do not timely pay their bills. Absent a breakdown of actual utility costs, the Commission has normally approved a flat \$3.00 late fee. In this instance, the utility has provided staff with an actual breakdown of costs as follows:

Clerical Charges

8 minutes @ \$15/hour	\$2.00
Payroll taxes @ .0845	.17
Supplies & postage:	
Card & tracking sheet	.07
Postage-card	.20
Postage	<u>.33</u>
	.60
Travel - 2 trips @ 1.5 miles/trip	
@ \$.325/mile	<u>.98</u>
	<u>\$3.75</u>

Staff believes the utility requested late payment charge of \$3.75 is fair and reasonable, and should be allowed for customer bills paid after the 20-day payment period provided in the utility's tariff. The utility should file a revised tariff sheet which is consistent with the Commission's vote. Staff should be given administrative authority to approve the revised tariff sheet upon staff's verification that the tariff is consistent with the Commission's decision. If a revised tariff sheet is filed and

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approved, the late payment fee should become effective for service rendered on or after the stamped approval date of the revised tariff sheet, if no protest is filed.

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

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

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

The utility should be authorized to collect the temporary rates upon the staff's approval of security for both the potential refund and a copy of the proposed customer notice. The security should be in the form of a bond or letter of credit in the amount of \$39,932. Alternatively, the utility could establish an escrow agreement with an independent financial institution.

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

- 1) The Commission approves the rate increase; or
- 2) If the Commission denies the increase, the utility shall refund the amount collected that is attributable to the increase.

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

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

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 should 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

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

ISSUE 16: Should the utility's existing service availability policy be revised?

RECOMMENDATION: Yes, the utility's service availability policy should be revised to allow refundable advance agreements for future installation of distribution lines. The existing system capacity charge of \$100 should be separated into a plant capacity charge of \$64, and a main extension charge of \$36. The existing tap-in fee of \$100 should remain as is. If the Commission approves this new policy, the utility should file revised tariff sheets which are consistent with the Commission's vote. Staff should be given administrative authority to approve the revised tariff sheets upon staff's verification that the tariffs are consistent with the Commission's decision. If revised tariff sheets are filed and approved, the revised service availability charges should become effective for connections made on or after the stamped approval date of the revised tariff sheets, if no protest is filed. (CHU, CASEY)

STAFF ANALYSIS: The utility's existing service availability policy includes a system capacity charge of \$100, a tap-in fee of \$100, and a main extension policy which states:

Service is provided as requested by customers within the water service territory. Mains are installed at the expense of the water company and remain the property of the water company.

The utility has requested that the service availability policy be revised to reflect that new distribution lines be installed by way of refundable advance agreements. As defined by Rule 25-30.515, Florida Administrative Code:

Refundable Advance means money paid or property transferred to a utility by the applicant for the installation of facilities which may not be used and useful for a period of time. The advance is made so that the proposed extension may be rendered economically feasible. The advance is returned to the applicant over a specified period of time in accordance with a written agreement as additional users connect to the system.

Refundable advance agreements provide that the customer requesting the new line, pay the cost of the line. As new customers hook-up to that line, the original customer who paid for the line would receive a pro rata refund of the cost of the line from the new

customer. The utility believes that if it is required to extend lines to all applicants, the utility could end up with large amounts of stranded investment, thus putting the utility's financial stability at risk. The use of refundable advance agreements would eliminate that problem. The total potential customer base of the certified territory is estimated to be 300 connections (estimated to be 321 ERCs), and growth is minimal. There are presently approximately 238 ERCs.

Rule 25-30.580(1)(b), Florida Administrative Code, provides that:

(b) The minimum amount of contributions in aid of construction should not be less than the percentage of such facilities and plant that is represented by the water transmission and distribution and sewage collection systems.

The utility is presently 39.86% contributed. Since this amount is less than the maximum 75% recommended amount of CIAC recommended by Rule 25-30.580(1)(a), Florida Administrative Code, staff is recommending the utility be allowed to fund future distribution lines through refundable advance agreements.

By Order No. 14376, issued May 16, 1985, the Commission approved a system capacity charge of \$100 for the utility. A system capacity charge includes a portion of the cost of the plant, as well as a portion of the cost of the lines. Current Commission practice is to separate system capacity charges into a plant capacity charge and a main extension charge when calculating service availability charges. This allows the utility to charge for only a plant capacity charge when a refundable advance agreement is used. Allowing a system capacity charge and a refundable advance agreement would result in double charging on the cost of the mains. Staff is recommending a plant capacity charge of \$64, and a main extension charge of \$36. By Order No. 14376, the Commission also approved a \$100 tap-in charge. Staff is recommending retaining this charge.

Staff recommends: that the utility's service availability policy should be revised to allow refundable advance agreements for future installation of distribution lines; that the existing system capacity charge of \$100 should be separated into a plant capacity charge of \$64, and a main extension charge of \$36; and that the existing tap-in fee of \$100 should remain as is. If the Commission approves this new policy, the utility should file revised tariff sheets which are consistent with the Commission's vote. Staff should be given administrative authority to approve the revised

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tariff sheets upon staff's verification that the tariffs are consistent with the Commission's decision. If revised tariff sheets are filed and approved, the revised service availability charges should become effective for connections made on or after the stamped approval date of the revised tariff sheets, if no protest is filed.

ISSUE 17: Should the utility be fined for violations of Rule 25-30.115(1), Florida Administrative Code, for failure to maintain its accounts and records in conformity with the National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts, for violation of Rule 25-30.311(4)(a), Florida Administrative Code, for failure to pay interest on customer deposits, and for violation of Rule 25-30.311(5), Florida Administrative Code for failure to refund customer deposits?

RECOMMENDATION: No, the utility should not be fined for violations of Rule 25-30.115(1), Florida Administrative Code, for failure to maintain its accounts and records in conformity with the NARUC Uniform System of Accounts, for violation of Rule 25-30.311(4)(a), Florida Administrative Code, for failure to pay interest on customer deposits, and for violation of Rule 25-30.311(5), Florida Administrative Code for failure to refund customer deposits. However, the utility should be ordered to maintain its accounts and records in conformity with the NARUC Uniform System of Accounts. (FERGUSON, CHU, CASEY)

STAFF ANALYSIS: Utility Records - Rule 25-30.115(1), Florida Administrative Code, states "Water and wastewater utilities shall, effective January 1, 1998, maintain their accounts and records in conformity with the 1996 NARUC Uniform Systems of Accounts (USOA) adopted by the National Association of Regulatory Utility Commissioners."

During the staff audit, the auditors discovered the utility's general ledgers were being maintained on a cash basis for income tax purposes. Its general ledger accounting system does not readily reconcile to the USOA because of multiple differences in accounting methods and treatments between income tax basis and the USOA/Commission basis of accounting for utility operations. However, staff was able to audit the books and believes a show-cause action for failure to maintain the utility books in accordance with the USOA is not warranted in this instance.

Customer Deposits - The utility started collecting customer deposits in 1992. It was discovered during the audit that the utility has not paid interest on the customer deposits it has received. Rule 25-30.311(4)(a), Florida Administrative Code, states:

"Each public utility which requires deposits to be made by its customers shall pay a minimum interest on such deposits of 6 percent per annum. The utility shall pay an interest rate of 7 percent per

annum on deposits of nonresidential customers qualifying under subsection (5) below when the utility elects not to refund such a deposit after 23 months."

The utility books showed customer deposits of \$5,925 for the test year. Staff believes a show cause action for failure to pay interest on customer deposits is not warranted in this case, and customers would be better served by receiving the past due interest. In Issue No. 12 staff's preliminary recommendation is to order the utility pay all monies due customers, plus interest calculated in accordance with Rule 25-30.360, Florida Administrative Code.

Refunds - Issue No. 12 recommends that the utility investigate and determine which customers with deposits being held over 23 months have established a satisfactory payment record as described above. For those who have a satisfactory payment record, staff is recommending that the utility refund the customer deposits to those customers within 90 days of the effective date of the Commission order. Staff believes a show cause action for not refunding customer deposits held over 23 months for those customers who have established a satisfactory payment record is not warranted. Staff believes the refund of customer deposits for those customers who qualify, along with interest as recommended in Issue No. 12 is the proper action.

Section 367.161, Florida Statutes, authorizes the Commission to assess a penalty of not more than \$5,000 per day for each offense, if a utility is found to have knowingly refused to comply with, or to have willfully violated any Commission rule, order, or provision of Chapter 367, Florida Statutes. Utilities are charged with the knowledge of the Commission's rules and statutes. Additionally, "[i]t is a common maxim, familiar to all minds that 'ignorance of the law' will not excuse any person, either civilly or criminally." Barlow v. United States, 32 U.S. 404, 411 (1833). Thus, any intentional act, such as the utility's continuing to charge the final rates and failing to file a motion to vacate the stay, would meet the standard for a "willful violation." In Order No. 24306, issued April 1, 1991, in Docket No. 890216-TL, entitled In Re: Investigation Into The Proper Application of Rule 25-14.003, F.A.C., Relating To Tax Savings Refund for 1988 and 1989 For GTE Florida, Inc., the Commission, having found that the company had not intended to violate the rule, nevertheless found it appropriate to order it to show cause why it should not be fined, stating that "'willful' implies an intent to do an act, and this is distinct from an intent to violate a statute or rule." Id. at 6.

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Staff's preliminary recommendation is that the Commission not order Tangerine to show cause for violation of Rules 25-30.115(1), 25-30.311(4)(a), and 25-30.311(5), Florida Administrative Code. However, the utility should be ordered to maintain its accounts and records in conformity with the NARUC Uniform System of Accounts.

TANGERINE WATER COMPANY, INC.
 SCHEDULE OF WATER RATE BASE
 TEST YEAR ENDING DECEMBER 31, 1998

SCHEDULE NO. 1
 DOCKET NO. 981663-WU

	<u>TEST YEAR PER AUDIT</u>	<u>STAFF ADJUST. TO UTIL. BAL.</u>	<u>BALANCE PER STAFF</u>
UTILITY PLANT IN SERVICE	\$ 167,963	\$ 17,448 A	\$ 185,411
LAND/NON-DEPRECIABLE ASSETS	0	0	0
NON-USED AND USEFUL PLANT	0	0	0
CIAC	(58,198)	(600) B	(58,798)
ACCUMULATED DEPRECIATION	(86,800)	16,128 C	(70,672)
AMORTIZATION OF CIAC	23,791	(1,179) D	22,612
WORKING CAPITAL ALLOWANCE	<u>4,399</u>	<u>4,554</u> E	<u>8,953</u>
WATER RATE BASE	\$ 51,155	\$ 36,351	\$ 87,506

TANGERINE WATER COMPANY, INC.
 ADJUSTMENTS TO RATE BASE
 TEST YEAR ENDING DECEMBER 31, 1998

SCHEDULE NO. 1A
 DOCKET NO. 981663-WU

<u>A. UTILITY PLANT IN SERVICE</u>	<u>WATER</u>
1. To capitalize labor for installation of computer program.	\$ 500
2. To adjust utility plant to staff's recommended balance.	602
3. To reflect an averaging adjustment.	(8,649)
4. To include DEP required chlorine alarm.	1,345
5. To retire existing chlorine alarm.	(637)
6. To include DEP required transfer switch.	2,405
7. To include DEP required electrical work.	14,159
8. To include average cost for #1 pump repair.	4,650
9. To include hand held computer for meter reading.	948
10. To include DEP required air pack.	2,125
	<u>\$ 17,448</u>
<u>B. CONTRIBUTIONS IN AID OF CONSTRUCTION</u>	
1. To include CIAC for margin reserve.	\$ (1,100)
2. To reflect an averaging adjustment.	500
	<u>\$ (600)</u>
<u>C. ACCUMULATED DEPRECIATION</u>	
1. To reflect staff calculated accumulated depreciation.	\$ 4,508
2. To reflect the retirement of chlorine alarm.	637
3. To reflect depreciation on pro forma chlorine alarm.	(79)
4. To include DEP required transfer switch depreciation.	(141)
5. To include DEP required electrical work depreciation.	(833)
6. To include average depreciation cost for #1 pump repair .	(172)
7. To reflect depreciation on pro forma air pack.	(125)
8. To reflect depreciation on pro forma hand held computer.	(158)
9. To reflect averaging adjustment.	12,491
	<u>\$ 16,128</u>
<u>D. AMORTIZATION OF CIAC</u>	
1. To reflect staff calculated amortization of CIAC.	\$ (177)
2. To reflect amortization of CIAC for margin reserve.	61
3. To reflect averaging adjustment.	(1,063)
	<u>\$ (1,179)</u>
<u>E. WORKING CAPITAL ALLOWANCE</u>	
1. To reflect 1/8 of operation and maintenance expenses.	<u>\$ 4,554</u>

TANGERINE WATER COMPANY, INC.
 SCHEDULE OF CAPITAL STRUCTURE
 TEST YEAR ENDING DECEMBER 31, 1998

SCHEDULE NO. 2
 DOCKET NO. 981663-WU

	<u>PER AUDIT</u>	<u>SPECIFIC ADJUSTMENTS</u>	<u>BALANCE BEFORE PRO RATA ADJUSTMENTS</u>	<u>PRO RATA ADJUSTMENTS</u>	<u>BALANCE PER STAFF</u>	<u>PERCENT OF TOTAL</u>	<u>COST</u>	<u>WEIGHTED COST</u>
COMMON EQUITY	\$ 54,674	\$ 0	\$ 54,674	\$ 4,685	\$ 59,359	67.83%	8.98%	6.09%
LONG TERM DEBT	0	20,000	20,000	1,714	21,714	24.81%	10.25%	2.54%
CUSTOMER DEPOSITS	\$ 0	\$ 5,925	\$ 5,925	\$ 508	\$ 6,433	7.35%	6.00%	0.44%
TOTAL	\$ 54,674	\$ 25,925	\$ 80,599	\$ 6,907	\$ 87,506	100.00%		9.08%

<u>RANGE OF REASONABLENESS</u>	<u>LOW</u>	<u>HIGH</u>
RETURN ON EQUITY	7.98%	9.98%
OVERALL RATE OF RETURN	8.40%	9.75%

TANGERINE WATER COMPANY, INC.
 SCHEDULE OF WATER OPERATING INCOME
 TEST YEAR ENDING DECEMBER 31, 1998

SCHEDULE NO. 3
 DOCKET NO. 981663-WU

	<u>TEST YEAR PER UTILITY</u>	<u>STAFF ADJ. TO UTILITY</u>	<u>STAFF ADJUSTED TEST YEAR</u>	<u>ADJUST. FOR INCREASE</u>	<u>TOTAL PER STAFF</u>
OPERATING REVENUES	\$ <u>45,746</u>	\$ <u>(7,406) A</u>	\$ <u>38,340</u>	\$ <u>58,030 E</u>	\$ <u>96,370</u>
				151.36%	
OPERATING EXPENSES:					
OPERATION AND MAINTENANCE	\$ <u>31,707</u>	\$ <u>39,914 B</u>	\$ <u>71,621</u>	\$ <u>0</u>	\$ <u>71,621</u>
DEPRECIATION (NET)	<u>1,562</u>	<u>4,343 C</u>	<u>5,905</u>	<u>0</u>	<u>5,905</u>
AMORTIZATION	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TAXES OTHER THAN INCOME	<u>5,798</u>	<u>2,493 D</u>	<u>8,291</u>	<u>2,611 F</u>	<u>10,902</u>
INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL OPERATING EXPENSES	\$ <u>39,067</u>	\$ <u>46,750</u>	\$ <u>85,817</u>	\$ <u>2,611</u>	\$ <u>88,428</u>
OPERATING INCOME/(LOSS)	\$ <u>6,679</u>		\$ <u>(47,477)</u>		\$ <u>7,942</u>
WATER RATE BASE	\$ <u>51,155</u>		\$ <u>87,506</u>		\$ <u>87,506</u>
RATE OF RETURN	<u>13.06%</u>		<u>-54.26%</u>		<u>9.08%</u>

TANGERINE WATER COMPANY, INC.
 ADJUSTMENTS TO OPERATING INCOME
 TEST YEAR ENDING DECEMBER 31, 1998

SCHEDULE NO. 3A
 PAGE 1 OF 2
 DOCKET NO. 981663-WU

<u>A. OPERATING REVENUES</u>	<u>WATER</u>
1. To reflect revenues using the accrual method of accounting.	\$ <u>(7,406)</u>
<u>B. OPERATION AND MAINTENANCE EXPENSES</u>	
1. (601) Salaries and Wages - Employees	
a. To capitalize labor for new billing system.	\$ (500)
b. To increase salaries to staff's recommended amounts.	26,810
	<u>\$ 26,310</u>
2. (616) Fuel for Power Production	
a. To increase to engineer's recommended amount.	<u>\$ 207</u>
3. (618) Chemicals	
a. To adjust for refund of sales tax.	\$ (112)
b. To remove out of test year expense	(251)
	<u>\$ (363)</u>
4. (620) Materials and Supplies	
a. To remove out of period expense.	\$ (43)
b. To remove non-utility expenses.	(39)
	<u>\$ (82)</u>
5. (635) Contractual Services - Testing	
a. To allow for all DEP required water testing.	<u>\$ 775</u>
6. (636) Contractual Services - Other	
a. To remove unsupported repair expense.	\$ (150)
b. To include major repair expenses amortized over five years.	2,408
c. To include 40 yards of rock for plant grounds amortized over 5 years.	126
d. To include normal yearly repair and maintenance.	237
e. To include annual maintenance on emergency generator.	948
f. To include line flushing expense.	150
g. To allow for water plant grounds keeping.	540
h. To include meter change-out program.	825
	<u>\$ 5,084</u>
7. (640) Rent	
a. To include staff recommended office rent.	<u>\$ 3,000</u>
8. (650) Transportation Expense	
a. To include engineer recommended transportation expense.	\$ 643
b. To include golf cart expense for meter reading.	600
	<u>\$ 1,243</u>
9. (655) Insurance Expense	
a. To increase general liability coverage to \$1M.	\$ 455
b. To include Directors and Officers liability coverage.	3,758
c. To remove out of period expense.	(935)
	<u>\$ 3,278</u>
10. (665) Regulatory Commission Expenses	
a. To reflect \$1,000 rate case filing fee amortized over 4 years.	\$ (750)
b. To include CPA's rate case expense.	142
	<u>\$ (608)</u>
11. (670) Bad Debt Expense	
a. To allow auditor's recommended bad debt expense.	<u>\$ 613</u>
12. (675) Miscellaneous Expenses	
a. To remove out of period expense.	\$ (106)
b. To include 5 year amortized consumptive use permit fee.	80
c. To allow emergency pager service.	483
	<u>\$ 457</u>
TOTAL O & M ADJUSTMENTS	\$ <u>39,914</u>

TANGERINE WATER COMPANY, INC.
ADJUSTMENTS TO OPERATING INCOME
TEST YEAR ENDING DECEMBER 31, 1998

SCHEDULE NO. 3A
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WATER

C. DEPRECIATION EXPENSE

1.	To reflect staff's calculated test year depreciation expense.	\$ 4,668
2.	To reflect depreciation expense on pro forma chlorine alarm.	79
3.	To include DEP required transfer switch depreciation.	141
4.	To include DEP required electrical work depreciation.	833
5.	To include average depreciation cost for #1 pump repair .	344
6.	To reflect depreciation expense on pro forma air pack.	125
7.	To include depreciation expense on pro forma computer unit.	316
8.	To retire existing chlorine alarm.	(37)
9.	To reflect staff's calculated test year amortization expense.	(2,126)
		<u>\$ 4,343</u>

D. TAXES OTHER THAN INCOME

1.	To reflect regulatory assessment fees on staff's recommended test year revenue.	\$ 308
2.	To remove out of period real estate taxes.	(1,498)
3.	To allow for payroll taxes on staff's recommended salaries.	3,683
		<u>\$ 2,493</u>

E. OPERATING REVENUES

1.	To reflect increase in revenue required to cover expenses and allow recommended rate of return.	<u>\$ 58,030</u>
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F. TAXES OTHER THAN INCOME

1.	To reflect regulatory assessment fee at 4.5% on increase in revenue.	<u>\$ 2,611</u>
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TANGERINE WATER COMPANY, INC.
 ANALYSIS OF WATER OPERATION AND
 MAINTENANCE EXPENSE
 TEST YEAR ENDING DECEMBER 31, 1998

SCHEDULE NO. 3B
 DOCKET NO. 981663-WU

	<u>TOTAL PER UTIL.</u>	<u>STAFF ADJUST.</u>	<u>TOTAL PER STAFF</u>
(601) SALARIES AND WAGES - EMPLOYEES	\$ 11,212	\$ 26,310 [1]	\$ 37,522
(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	7,826	0	7,826
(616) FUEL FOR POWER PRODUCTION	43	207 [2]	250
(618) CHEMICALS	2,182	(363)[3]	1,819
(620) MATERIALS AND SUPPLIES	2,107	(82)[4]	2,025
(630) CONTRACTUAL SERVICES - BILLING	0	0	0
(631) CONTRACTUAL SERVICES - PROFESSIONAL	2,920	0	2,920
(635) CONTRACTUAL SERVICES - TESTING	420	775 [5]	1,195
(636) CONTRACTUAL SERVICES - OTHER	818	5,084 [6]	5,902
(640) RENTS	199	3,000 [7]	3,199
(650) TRANSPORTATION EXPENSE	865	1,243 [8]	2,108
(655) INSURANCE EXPENSE	1,900	3,278 [9]	5,178
(665) REGULATORY COMMISSION EXPENSE	1,000	(608)[10]	392
(670) BAD DEBT EXPENSE	0	613 [11]	613
(675) MISCELLANEOUS EXPENSES	215	457 [12]	672
	\$ 31,707	\$ 39,914	\$ 71,621

TANGERINE WATER COMPANY, INC.
 SCHEDULE OF RATE CASE EXPENSE RATE
 REDUCTION AFTER FOUR YEARS
 TEST YEAR ENDING DECEMBER 31, 1998

SCHEDULE NO. 4
 DOCKET NO. 981663-WU

MONTHLY RATES

<u>RESIDENTIAL AND GENERAL SERVICE</u>	<u>PRELIMINARY RATES</u>	<u>RATE DECREASE</u>
BASE FACILITY CHARGE:		
Meter Size:		
5/8" x 3/4"	\$ 9.28	\$ 0.01
3/4"	13.92	0.02
1"	23.19	0.03
1-1/2"	46.39	0.06
2"	74.22	0.10
3"	148.44	0.20
4"	231.94	0.32
6"	463.87	0.63
RESIDENTIAL GALLONAGE CHARGE PER 1,000 GALLONS	\$ 1.44	\$ 0.00

WATER TREATMENT PLANT

USED AND USEFUL DATA

Docket No. 981663-WU

Utility: Tangerine Water Company

Date 02/19/99

- 1) Capacity of Plant
= 575 GPM *
- 2) Maximum Daily Flow
(1.1 X 2 X 230 avg. customers) = 506 GPM *
- 3) Average Daily Flow
(1.1 X 230 avg. customers)
= 253 GPM *
- 4) Fire Flow Capacity
= 500 GPM *

5) Margin Reserve (not to exceed 20% of Average GPM):

- a) Average number of customers (ERCs) = 234
 - b) Average Customer Growth in ERCs
for most Recent 5 Years = 7
 - c) Construction Time for
Additional Capacity = 1.5 Years
- 2
- Margin Reserve = 5b X 5c X (---) = 22 GPM •
5a

6) Excessive Unaccounted for Water = none GPM *

- a) Total Amount -0- GPM = N/A % of Av. GPM Flow
- b) Reasonable Amount -0- GPM = N/A % of Av. GPM Flow

PERCENT USED AND USEFUL FORMULA

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

* This is a closed system. To evaluate its readiness to serve on a gallon per minute (GPM) basis is more appropriate.

Robert T. Davis - Engineer

WATER DISTRIBUTION SYSTEMUSED AND USEFUL DATADocket No. 981663-WUUtility: Tangerine Water CompanyDate 02/19/99

- 1) Capacity 321 ERCs (Number of potential customers without expansion)
- 2) Average number of TEST YEAR Connections 246 ERCs
- 3) Margin Reserve (Not to exceed 20% of present ERCs)
- a) Average yearly customer growth in ERCs
for most recent 5 Years 7 ERCs
- b) Construction Time for Additional Capacity 1.5 Years
- (3a) x (3b) = 11 ERCs Margin Reserve

PERCENT USED AND USEFUL FORMULA

$$\frac{(2 + 3)}{1} = \underline{80.06} \% \text{ Used and Useful}$$

Robert T. Davis - Engineer