

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for limited proceeding to implement two-step increase in wastewater rates in Pasco County by Lindrick Service Corporation.

DOCKET NO. 980242-SU  
ORDER NO. PSC-99-1883-PAA-SU  
ISSUED: September 21, 1999

The following Commissioners participated in the disposition of this matter:

J. TERRY DEASON  
SUSAN F. CLARK  
JULIA L. JOHNSON

NOTICE OF PROPOSED AGENCY ACTION ORDER APPROVING APPLICATION FOR LIMITED PROCEEDING FOR WASTEWATER, DENYING LIMITED PROCEEDING FOR WATER, AND APPROVING NEW WASTEWATER RATES  
AND  
FINAL ORDER APPROVING TEMPORARY WASTEWATER RATES SUBJECT TO REFUND IN EVENT OF PROTEST

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein, except for the temporary rates in the event of protest, is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code.

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I. BACKGROUND

Lindrick Service Corporation (Lindrick or utility) is a Class B utility located in Pasco County (County). According to the utility's annual report, for the year ended December 31, 1997, the utility provided water and wastewater services to approximately 2,283 water customers and 2,203 wastewater customers.

Lindrick's last rate case was finalized on November 16, 1983, by Order No. 12691, in Docket No. 830062-WS. By that order, rate base was established and the return on equity was set at 14.38 percent for both water and wastewater. In Docket No. 860089-SU, we initiated an overearnings investigation and lowered rates for the wastewater system only. Pursuant to Order No. 16142, issued May 23, 1986, the return on equity was lowered to 12.65 percent for the wastewater system. We approved index and pass-through increases in both March and December of 1995.

By Order No. PSC-97-1501-FOF-WS, issued November 25, 1997 in Docket No. 961364-WS, we addressed Lindrick's 1995 earnings level

and the disposition of wastewater revenues collected subject to refund. Based on the revenue deficiency of \$81,594 for the water system and the revenue excess of \$26,910 for the wastewater system, we found that on a combined basis the company had a \$54,684 revenue deficiency. The customers and service area are virtually the same for both water and wastewater, and Lindrick as a whole was earning below its authorized rate of return. Therefore, we found that the interest of both the customers and the utility would be best served by allowing the utility to offset the overearning in the wastewater system by the underearning in the water system.

On February 12, 1998, Lindrick filed an application, pursuant to Section 367.0822, Florida Statutes, for a limited proceeding to increase its wastewater rates. This requested increase in wastewater rates was based upon the Florida Department of Environmental Protection's (DEP) Notice of Violation and Orders for Corrective Action issued January 13, 1998 (Notice of Violation), and the resulting increase in cost of the wastewater operation. In the Notice of Violation, DEP ordered Lindrick to eliminate intrusion/infiltration into Lindrick's collection system and to meet the effluent limits of the permit or initiate actions that would cease surface water discharge into Cross Bayou.

Lindrick decided to take its wastewater treatment plant off line, ceasing surface water discharge, and send the raw effluent to the City of New Port Richey (City) in order to comply with DEP's requirements. The City then sends the treated wastewater to the County's reuse system. Effluent chloride is an inherent problem for Lindrick, given the location of its service area and the age of the system. The Gulf Harbors and Sea Forest communities were created over 40 years ago by dredging and filling in the Gulf of Mexico. The clay tile wastewater collection system is literally submerged in salt water under high tide conditions and infiltration of some salt water into the system through the aging pipes is unavoidable.

Because reuse water is primarily used for irrigation and excess chlorides are detrimental to plant life, the County's reuse system limits the chloride level of the water entering the system. In order to meet the required chloride level so that Lindrick's effluent treated by the City can be accepted into the County's reuse system, it was necessary for Lindrick to improve its collection system to further reduce the chloride level. Previous improvements have resulted in a reduction in effluent chlorides. However, the aging clay pipes are a limiting factor which needed to

be addressed to achieve additional significant improvement. Large sections of the collection system had to be relined or repaired to accomplish this reduction in infiltration.

In its original application, Lindrick requested an emergency rate increase of 47.13 percent effective immediately, and a second rate increase of 130.12 percent effective upon the completion of the interconnection with the City. At that time, Lindrick was still negotiating with the City for an agreement. On May 18, 1998, the New Port Richey City Council approved a Bulk Wastewater Agreement between the City and Lindrick. Under the terms of the Agreement, actual connection to the City was conditioned on proof that the chloride levels in Lindrick's wastewater system effluent do not exceed 600 mg/L.

On March 10, 1998, our staff requested an audit to determine the utility's earning level for the historical year ended December 31, 1997. The audit report dated August 18, 1998 and the revised audit report dated November 9, 1998 address the requested audit for this case.

On September 3, 1998, Lindrick filed its first revised application, which changed the emergency rate increase previously requested to a request for a non-emergency Phase-I increase of 84.95 percent to allow recovery of the cost of (a) collection system improvements necessary to reduce chloride level; and (b) the City's bulk wastewater treatment rate. The requested Phase-II rate increase was 131.55 percent to allow the recovery of (a) the remaining investments and costs associated with the interconnection, including the cost of collection system improvements necessary to further reduce the chloride level below 400mg/L; (b) the return on the investments based on the utility's approved rate of return; and (c) the additional contractual services expenses.

On February 17, 1999, a customer meeting was held in the utility's service area. Approximately 350 customers attended. The majority of customers stated that the utility's requested rate increase of 131.55 percent was too high. Customers stated that the utility, both currently and over the years, was managed poorly, and stated that the customers should not have to pay for the utility's negligence. Customers also stated that the quality of water is bad, and they addressed concerns about the utility's slow response to customer complaints, odor, frequent line breaks and low pressure. In addition, we have received and responded to

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approximately 150 written customer concerns since the customer meeting. We address customer concerns below.

During the customer meeting and in letters received from customers after the meeting, customers indicated that construction of high rise buildings had taken place after the audit's test year ended December 31, 1997. Customers wanted to know whether the new connections after 1997 would be included in the calculation of the increase required for the interconnection. During the processing of this case, our staff requested billing determinants to include customer growth after 1997.

On April 19, 1999, Lindrick submitted its second amended petition to request a Phase-I wastewater rate increase of 133.26 percent, and a Phase-II wastewater rate increase of 142.67 percent assuming no change in related party services. The requested Phase-II wastewater rate increase is 158.13 percent if all related party expenses are replaced with contract services from third parties. The second amended petition also adds a proposed water rate increase of 19.05 percent for Phase-II assuming no change in related party services. The requested Phase-II water rate increase is 40.64 percent if all related party expenses are replaced with contract services from third parties. The utility's petition represents that the water rate increase is requested due to underearning experienced by the water operation for the year ended December 31, 1997. The second amended petition also stated that "the required new transfer pumping facility would be completed prior to May 12, 1999. Under the Bulk Wastewater Agreement with the City, Lindrick was required to commence bulk wastewater treatment on or before May 12, 1999 or risk termination of the Agreement by the City." The petition stated that "Lindrick also faced substantial monetary penalties under the DEP Consent Order if bulk treatment service from the City was not commenced prior to May 19, 1999." Consequently, Lindrick requested an emergency, temporary increase in wastewater rates to recover the cost for the Phase-I wastewater revenue requirement prior to May 12, 1999.

By Order No. PSC-99-1010-PCO-SU, issued May 20, 1999, we approved emergency temporary rates designed to increase revenues by 59.89 percent. These rates were approved subject to refund pending our final decision. The utility provided an irrevocable letter of credit for security for a potential refund and the emergency temporary rates became effective May 27, 1999.

In its application for the rate increase, the utility requested an across the board percentage increase to existing rates. Its calculation included the increase in plant improvements required for the interconnection and changes for operating expenses affected by the interconnection. The utility interconnected with the City on May 28, 1999. We find that the increase for interconnection shall be calculated to determine a revenue requirement to allow the utility to recover the appropriate return on its investment and operating expenses based on a projected rate base and operating expenses after the interconnection. In addition, the rates shall be calculated to include projected customer growth. This Order addresses the utility's request for a limited proceeding, its earnings posture at December 31, 1997, and projected earnings posture at December 31, 1999.

## II. UTILITY'S POSTURE AT DECEMBER 31, 1997

The utility's wastewater rate base was established at December 31, 1995 by Order No. PSC-97-1501-FOF-WS, issued November 25, 1997, in Docket No. 961364-WS. We have completed an audit for this case using a test year ended December 31, 1997. Our calculations for the test year for wastewater are as follows:

### A. Rate Base

1. Utility Plant in Service (UPIS) - The utility recorded \$2,713,249 in this account at December 31, 1997. This account has been increased by \$12,990 to reconcile the utility's balance at December 31, 1995, with the balance approved in Order No. PSC-97-1501-FOF-WS. Audit Exception No. 2 states that the utility purchased a new ABS pump for \$4,203 in November, 1996. The utility capitalized the cost of this pump to Account No. 320 -- Water Treatment Equipment. The pump is used for one of the lift stations, and should be in wastewater. The utility stated that the cost of the replaced pump was \$1,047. Therefore, UPIS for wastewater has been increased by \$4,203 to reflect a reclassification from water UPIS and decreased by \$1,047 to reflect the retirement of the old pump.

Based on audit workpapers for wastewater, the utility recorded a plant cost of \$4,713 in Account No. 371 and an invoice was not available. This amount was not included in an audit disclosure, but an adjustment was made on the workpaper. UPIS has been decreased by \$4,713 to remove an undocumented cost of plant.



Audit Exception No. 2 states that the utility recorded two repair charges to plant Account Nos. 371 and 380, respectively in the amounts of \$453 and \$1,023. It also states that a sludge hauling expense of \$6,000 was recorded in Account No. 380. UPIS has been decreased by \$453 to reflect a reclassification from Account No. 371 to Account No. 775, a decrease of \$1,023 to reflect a reclassification from Account No. 380 to Account No. 775 and a decrease of \$6,000 to reflect a reclassification from Account No. 380 to Account No. 711.

Audit Exception No. 8 states that the utility's contract operator, H2O Utility Services, sent the utility two invoices totaling \$4,673 for improving the functionality of its Lift Station No. 2. Rule 25-30.140(1)(g), Florida Administrative Code, states that any replacement with a retirement unit that materially enhances the value, use, life expectancy or capacity of the asset prior to replacement shall be capitalized. Following this guideline, we have increased UPIS by \$4,673 to reflect a lift station improvement.

Audit Exception No. 2 and audit workpapers address blower filter silencers replacements costs of \$1,520 and repair expenses of \$102. UPIS has been decreased by \$1,520 and \$102 to reflect a reclassification of repair costs to Account No. 775. The total adjustment for UPIS is \$7,009.

The utility's recorded wastewater plant included a plant addition in 1995 of \$121,962 in Account No. 360. This amount was not included in the plant balance at December 31, 1995, which was approved by Order No. PSC-97-1501-FOF-WS. In Audit Exception No. 2, in the audit report dated November 9, 1998, it is stated that the cost for this plant was unsupported and it was recommended that this amount be removed from plant. However, the utility has responded to the audit and provided documentation of plant costs. A review of the utility's 1995 annual report shows this amount as an addition also. Therefore, no adjustment is necessary.

2. Contributions-in-Aid-of-Construction (CIAC) - The utility recorded \$2,455,018 in CIAC at December 31, 1997. Audit Exception No. 4 states that the utility made an unsupported credit adjustment in the amount of \$252,597 to wastewater CIAC. The utility's recorded amount has been decreased by \$252,597 to reflect the appropriate balance of \$2,202,421.

Order No. PSC-97-1501-FOF-WS established CIAC of \$2,220,281 at December 31, 1995. Audit Exception No. 4 states that the utility did not adjust its 1996 general ledger to agree with this Order. CIAC has been increased by \$26,430 to reconcile the utility's recorded balance with the Order. In addition, Audit Exception No. 4, states that the utility's recorded CIAC should be decreased by \$1,920 to reflect a reclassification to water CIAC. The total downward adjustment for this account is \$228,087, which results in a CIAC balance of \$2,226,931.

3. Accumulated Depreciation - The utility recorded \$1,282,793 in accumulated depreciation at December 31, 1997. Accumulated depreciation at December 31, 1995, pursuant to Order No. PSC-97-1501-FOF-WS, is \$1,148,686. Depreciation has been calculated using the rates prescribed by Rule 25-30.140, Florida Administrative Code, for the period January, 1996 through December 31, 1997. The calculated depreciation reflects all adjustments made to plant including the retirement of the pump. This account has been increased by \$52,228 to reflect accumulated depreciation at December 31, 1997. This account has also been decreased by \$1,047 to reflect the retirement of a pump. The total adjustment for this account is an increase of \$51,181.

4. Amortization of Acquisition Adjustment - A negative acquisition adjustment was approved in a rate proceeding for this utility's wastewater system by Order No. 8373. Order No. PSC-97-1501-FOF-WS established amortization of the acquisition adjustment of \$15,733 at December 31, 1995. Amortization has been updated through December 31, 1997 and the year-end amount is \$16,769. The utility recorded \$17,126 in this account. This account has been decreased by \$357 to reflect amortization of the acquisition adjustment at December 31, 1997 of \$16,769 for wastewater.

5. Amortization of CIAC - Order No. PSC-97-1501-FOF-WS, established amortization of CIAC for wastewater at December 31, 1995 of \$915,828. Amortization of CIAC has been updated through December 31, 1997, and accumulated amortization at December 31, 1997 is \$1,067,004. The utility recorded accumulated amortization of CIAC of \$1,225,302 at December 31, 1997. This account has been decreased by \$158,298 to reflect the appropriate amount of amortization of CIAC at December 31, 1997.

6. Working Capital Allowance - Consistent with Rule 25-30.433, Florida Administrative Code, we used the one-eighth of operation and maintenance (O&M) expense formula approach for

calculating working capital allowance. Applying that formula, we calculate a working capital allowance of \$68,537 (based on O&M of \$548,298).

7. Rate Base Summary - Based on the foregoing, the appropriate rate base for the utility's wastewater system at December 31, 1997 is \$306,115.

B. Test Year Revenue

The utility recorded test year revenue of \$656,313 for wastewater and provided billing determinants for calculating annualized revenue. These determinants included the number of bills and billed consumption for residential and general service customers based on meter-size. The utility was granted an increase in its wastewater rates through the application of a pass-through rate adjustment that became effective December 13, 1997. Using the billing determinants provided by the utility and the rates that became effective December 13, 1997, the annualized revenue for wastewater is calculated to be \$674,539.

C. Operating Expenses for 1997

The utility's operating expenses includes operation and maintenance expense, depreciation expense, amortization expense, and taxes other than income. The utility's test year expenses have been adjusted to include some adjustments from the staff audit and some adjustments requested by the utility.

1. Operation and Maintenance Expense (O&M)

a. (701) Salary and Wages - Employees - The utility recorded \$50,598 in this expense. Based on information received from the utility, it employed six employees during the test year. The six employees included a customer service manager, three licensed plant operators, a maintenance and repair supervisor and a maintenance and repair assistant. Some of these employees were hired during the year and were not on the payroll for a full year. Therefore, the recorded salaries are understated. The information the utility provided included the annual salary, the allocation of salaries for each system and the duties performed by each employee.

The customer service manager handles calls, customer billing input (meter readings and payments) and check and mail reports required by regulatory agencies. This employee is also responsible

for all other reports along with invoice transmittals and deposits. This employee earns \$22,880 annually. The utility allocates 50 percent, \$11,440 to water and wastewater each. We find that an annual salary of \$11,440 for the customer service manager for wastewater for 1997 is reasonable and this amount shall be allowed.

The three plant operators were responsible for duties required for operation and maintenance of the system. In addition, they handled sampling. The operators annual salaries were \$22,880, \$21,840, and \$24,960 for a total of \$69,600. The utility allocated 95 percent of the operators salaries to wastewater for a total of \$66,196. We find that an annual salary of \$66,196 for the three operators for 1997 is reasonable and this amount shall be allowed.

The maintenance supervisor supervises water and wastewater repair and replacements. This employee also re-reads meters and does final readings on meters. In addition, this employee maintains and checks lift stations and is on call twenty-four hours a day. The supervisor's annual salary is \$16,900. The utility allocated 50 percent, \$8,450 to wastewater for the supervisor for 1997. We find that an annual salary of \$8,450 for the maintenance supervisor for 1997 is reasonable and it shall be allowed.

The assistant supervisor assists with water and sewer repair and replacements. This employee also checks lift stations, re-reads meters and replaces meters. This employee's annual salary is \$13,104. The utility allocates 50 percent, \$6,552, of this salary to wastewater. We find that an annual salary of \$6,552 for the assistant supervisor for 1997 is reasonable and it shall be allowed.

Therefore, the total annualized salary for employees in 1997 is calculated to be \$92,638. The utility recorded \$50,598. This expense has been increased by \$42,040 to reflect annualized employee salaries for 1997.

b. (703) Salaries and Wages - Officers - The utility recorded \$46,590 in salaries for the utility's president and operations manager. This amount includes \$30,990 for the president and \$15,600 for the operations manager. Audit exception No. 5 states that the utility's general ledger included an unsupported year-end accrual for a salary increase of \$15,000, or \$7,500 each for water and wastewater. This exception states that the president's salary should be decreased by \$7,500.

In its response to the audit, the utility disagrees with this adjustment and states that Mr. Borda has been paid a salary of \$44,980 since the mid-1980's. It also stated that since that time, the president has had no salary increase even though his duties and time spent conducting utility business increased as the utility continued to grow. The utility stated that the utility's president annual compensation should be \$61,980 which includes \$59,980 in salary and \$2,000 for an individual retirement account (IRA).

However, the audit provided a schedule prepared by the utility that lists the annual salary for the president of \$60,000 annually with a 50 percent allocation to water and wastewater each. The utility's president oversees all operations of the utility. We find that \$60,000 for 1997 is reasonable for the duties performed by the president. This expense has been decreased by \$990 to reflect an annual salary with a 50 percent allocation to wastewater of \$30,000.

The operations manager is employed part-time and earns \$31,200 annually. The utility allocates 50 percent of this salary to water and wastewater each. The operations manager assists the president and staff daily, manages operations, bids out work to be performed and assists customers as required. We find that the recorded salary of \$31,200 is reasonable for 1997 for the duties performed by the operations manager; therefore, no adjustment is necessary.

c. (704) Pensions and Benefits - The utility recorded \$14,367 in this account. Audit Exception No. 5 states that this amount included \$1,000 that was charged to the utility for the president's IRA account. This exception recommends a decrease of \$1,000 to remove this non-utility expense. In its response to the audit, the utility states that the IRA is a part of the president's total compensation and this expense should not be decreased.

The National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts (USOA) states that employee pensions and benefits shall include all accruals under pension plans to which the utility has irrevocably committed such funds and payments for employee accident, sickness, hospital and death benefits or insurance therefor. It also includes expenses for medical, educational or recreational activities of employees. In addition, the utility requested the \$1,000 IRA as a part of the president's compensation as addressed in Account No. 703. This expense does not fall into the category of an employee pension and benefit and the salary of the president has been addressed

previously. Therefore, this expense has been decreased by \$1,000 to remove this non-utility expense.

d. (711) Sludge Removal - The utility recorded \$85,936 in this expense. Audit Exception No. 5 states that an out-of-period expense of \$1,715 was charged to this account. This expense has been decreased by \$1,715 to remove the out-of-period expense. It has been increased by \$6,000 to reflect a reclassification from plant Account No. 380. The total adjustment for this expense is an increase of \$4,285 to reflect annual sludge removal expense of \$90,221.

e. (715) Purchased Power - The utility recorded \$32,574 in this expense. Audit Exception No. 5 states that the utility allocated purchased power equally between water and wastewater. An analysis of the power bills indicates that the water utility was overcharged by \$20,885. This expense has been increased by \$20,885 to reflect the appropriate annual charge to the wastewater system.

f. (720) Materials and Supplies - The utility recorded \$27,517 in this expense. Audit Exception No. 5 states that the utility expensed materials for capital items in the amount of \$5,286. The costs are commingled and cannot be assigned to specific accounts. This expense has been decreased by \$5,286 to reflect a reclassification to Account No. 775.

Audit Exception No. 4 states that this expense includes a refund to the utility of \$1,018 for various operation and maintenance expenses. It also states that the expense includes expensed labor and materials for back flow prevention devices in the amount of \$3,592. This expense has been decreased by \$1,018 to remove a non-utility expense and decreased by \$3,592 to reflect a reclassification of back flow prevention devices costs to water plant. The total adjustment for this expense is a decrease of \$9,896.

g. Related Party Contractual Services - Borda Engineers and Energy Consultants (Borda), a related company, provides contractual engineering, accounting and management services for the utility. Based on the staff Audit Exception No. 5, some checks drawn by the utility to Borda were not supported by invoices or coding notes. The checks charged were: engineering, \$5,140 for water and \$45,371 for wastewater; accounting, \$27,662 for water and \$46,253 for wastewater; and management services, \$6,917 for water and \$11,563 for wastewater. The audit recommended that the

unsupported engineering, accounting and management expenses be removed from the utility's O&M expenses.

In its responses to staff's audit, dated September 24, 1998, the utility provided signed contracts, dated December 27, 1993, between the utility and Borda, for engineering and administrative services. The administrative services include management and accounting. Based on the contract, contractual services included the following for 1997:

1. Monitor all test reports and operating records as they relate to permit parameters.
2. Communicate as required with local operators, laboratories and regulatory agencies.
3. Prepare technical data required for Annual Reports and Rate Adjustment Applications.
4. Complete and file for permits with regulatory agencies;
5. Prepare bid documents, solicit and review bids for work performed for retrofit and repair programs;
6. Administer construction contracts;
7. Maintain records of maintenance and repairs;
8. Recommend improvements to operating and maintenance programs; and
9. Upon direction, undertake special studies, engineering analysis and design for capital improvement projects.

Borda provides administrative services for \$6,600 per month. Of this amount, \$1,320 is booked to management per month with an allocation of \$488 per month to water and \$832 to wastewater. Therefore, the annual management expense for wastewater is \$9,984. The annual accounting service is \$5,280 per month with a monthly allocation of \$1,954 for water and \$3,326 for wastewater. The annual accounting expense is \$39,912. Borda contractual services included the following administrative services in 1997:

1. Prepare monthly general ledger and compile financial statements;
2. Perform payroll functions for Lindrick Service personnel including tax payments and returns;
3. Track personnel vacation leave, sick time and personal leave accrual tracking;
4. Provide Accounts Payable and Accounts Receivable services;

5. Prepare Index Adjustment for Rate increases;
6. Prepare PSC Annual Report;
7. Provide individual cost tracking of any specific projects upon request;
8. Supervise purchasing procedures for equipment, supplies and related purchases;
9. Maintain accurate and complete records on Utility Operation and Maintenance; and
10. Ensure that all reporting requirements for Florida Administrative Code are met.

In addition, the utility provided copies of invoices for Borda engineering and administrative services for 1997. It also provided a schedule of hourly billing that included task codes and descriptions for each code.

While related party transactions require close scrutiny, the fact that the transaction is between related parties does not mean that the transaction is unreasonable. It is the utility's burden to prove that its costs are reasonable. Florida Power Corp. v. Cresse, 413 So. 2d 1187, 1191 (Fla. 1982). The burden is even greater when the transaction is between related parties. In GTE Florida Inc. v. Deason, 642 So. 2d 545 (Fla. 1994), the court established that the standard to use in evaluating affiliate transactions is whether those transactions exceed the going market rate or are otherwise inherently unfair.

The utility submitted copies of bids from other companies showing the costs they would charge for engineering, accounting, and management services. The costs were based on services provided by Borda in 1997. All of the costs in the bids from other companies exceed the amounts charged by Borda. In addition, the contractual services provided by Borda in 1997 appear to be reasonable for the services provided. Contractual services provided by Borda are addressed in Account Nos. 731, 732 and 734.

h. (731) Contractual Services (Engineering) - The utility recorded \$57,339 in this account. Audit Exception No. 5 states that the utility charged some 1996 expenses in the test year. The 1996 expenses include an engineering expense of \$3,283 and a \$6,000 expense for a valuation study dealing with the possible sale of the utility to the City of New Port Richey. The total expense for 1996 is \$9,282 with \$4,641 charged to water and wastewater each. This expense has been decreased by \$4,641 to remove the prior period expenses.



The contractual cost for Borda's engineering service for wastewater is \$63,255 annually. This expense has been increased by \$10,557 to reflect the appropriate engineering expense for 1997. Therefore the total adjustment is an increase of \$5,916.

i. (732) Contractual Services (Accounting) - The utility recorded \$46,647 in this expense. The contractual cost for Borda accounting services is \$39,912 annually. This expense has been decreased by \$6,735 to reflect the appropriate accounting expense for 1997.

j. (733) Contractual Services (Legal) - Audit Exception No. 5 states that the utility paid a non-utility legal expense of \$1,527 and a prior-period legal expense of \$2,843 in 1997. One half of the total was allocated to water and wastewater each. The utility recorded \$6,484 in this expense. This expense has been decreased by \$1,421 to remove the non-utility expense and decreased by \$764 to remove the prior period expense. The total adjustment for this expense is a decrease of \$2,185.

k. (734) Contractual Services (Management) - The utility recorded contractual management service expense of \$11,152. The annual contractual amount is \$9,984. This expense has been decreased by \$1,168 to reflect the appropriate contractual management expense for 1997.

l. (736) Contractual Services (Other) - The utility recorded \$94,071 in this expense. Audit Exception No. 5 states that the utility's documentation for an accounting expense of \$6,277 for wastewater did not indicate any utility benefit. The exception also states that the expense should be decreased by \$6,277.

In its response to staff's audit, the utility states that this charge is for the outside Certified Public Accountant (CPA) for year-end adjusting entries, maintenance of book and tax depreciation schedules, preparation of financial statements and preparation of the state and federal income tax returns.

Because these accounting services are included as a service provided by Borda in its signed contract and we have allowed the full contractual amount for accounting and management services in Account Nos. 732 and 734, we have decreased this expense by \$6,277. This account is decreased further by \$7,414 to reflect a reclassification to Account No. 765.

In addition, Audit Exception No. 5 states that the utility expensed costs for various plant repairs and replacements totaling \$5,523 for wastewater. This expense has been decreased by \$5,523 to reflect a reclassification to Account No. 775. This expense has also been decreased by \$850 to reflect a reclassification to Account No. 775 per the audit.

m. (750) Transportation Expense - The utility recorded \$12,000 in this expense. Audit Exception No. 5 states that the utility incurred an expense of \$8,103 for a car lease, which had no utility identification. In its response to the staff audit, the utility stated that this lease amount was for the lease of a Lexus for the president. It further stated that although it agrees that the Commission probably would not approve the full lease expense for this type of automobile, there should be some provision for an automobile expense. The utility requested a transportation expense in the amount of \$3,840 based upon 12,000 miles per year times \$.32 per mile. This amount is reasonable, and the \$12,000 Lexus expense is decreased by \$8,103. This results in a balance of \$3,897 annually.

n. (765) Regulatory Commission Expense - The utility recorded \$6,000 in this expense. This expense has been increased by \$7,414 to reflect a reclassification of rate case expense from Account No. 736. Audit Exception No. 5 states that the utility charged both the 1997 and 1998 wastewater annual DEP fees to 1997 wastewater expenses at \$6,000 each. \$6,000 is included in this expense. This expense has been decreased by \$6,000 to remove a prior period expense. It has also been decreased by \$5,560 to reflect rate case expense amortized over four years. The total adjustment for this expense is a decrease of \$4,146.

o. (770) Bad Debt Expense - Per the audit, the utility wrote off 1994, 1995 and 1996 bad debts in the 1997 test year. The utility charged \$7,997 bad debt to wastewater. There were no bad debts charged during the test year. Since the expense per year data was not available, we find that an average of one-third of each amount is reasonable and it shall be allowed. Therefore, this expense has been decreased by \$5,332 and we have allowed \$2,665 annually.

p. (775) Miscellaneous Expense - The utility recorded \$859 in this expense. This expense has been increased to reflect reclassifications from Account No. 735 by \$5,523, by \$5,286 from Account No. 720, by \$850 from Account No. 735 and by \$3,098 from

plant Account Nos. 371, 380 and 397. Total reclassifications equal \$14,757. The majority of the reclassified expenses are for repairs and maintenance. Repair costs should decrease after the interconnection with the City. We believe it is appropriate to amortize the total reclassified expenses over 5 years and to allow an annual expense for these reclassified expenses of only \$2,951. Therefore, the \$14,757 for reclassified expenses has been decreased by \$11,806. With this \$2,951 increase the total annual expense is \$3,810.

q. Operation and Maintenance Expenses (O&M) Summary - Total operation and maintenance expense adjustments are an increase of \$16,458, and O&M expenses are calculated to be \$548,298.

2. Depreciation Expense (Net of Amortization of CIAC)

The utility recorded depreciation expense of \$13,002 on its books for wastewater. Using the rates prescribed by Rule 25-30.140, Florida Administrative Code, depreciation expense is \$93,165. The amortization of CIAC is calculated to be \$75,938. Depreciation expense net of amortization of CIAC is \$17,227. Therefore, this expense has been increased by \$4,225 to reflect net depreciation for 1997.

3. Amortization of Acquisition Adjustment

The utility did not record amortization of our approved negative acquisition adjustment. This expense has been adjusted to reflect test year amortization of \$518.

4. Taxes Other Than Income

The utility recorded \$50,525 in this account. This expense has been increased by \$2,394 to reflect the appropriate regulatory assessment for annualized revenue for 1997. It has also been increased by \$16,455 to reflect payroll taxes on salaries. Audit Exception No. 6 states that the utility's recorded total includes penalties totaling \$2,047 for wastewater. This expense has been decreased by \$220 to remove a non-utility property tax expense and decreased by \$1,827 to remove a tax penalty for a total decrease of \$2,047. The total adjustment for this expense is an increase of \$16,802.

5. Income Tax Expense

The utility is an 1120 Corporation, and did not record an income tax expense. For the purpose of determining whether the utility is overearning, we have calculated an income tax expense consistent with the capital structure approved in Order No. PSC-97-1501-FOF-WS. The calculated income tax expense is \$42,659 for wastewater operation on a stand-alone basis. A copy of the utility's 1996 tax return was included in the audit workpapers. Base on this tax return, the utility has a tax loss carryforward of \$254,566 for 1996. This loss carryforward is based on the combined earning and income for water and wastewater. Therefore, we have calculated income and income tax expense for water and wastewater combined for 1997, using the staff audit to determine an income tax expense for the total company. The annual income tax expense for the total company for 1997 is \$6,808. The tax carryforward loss for 1996 will allow an offset for total income for 1997, and we have allowed no income tax expense for 1997.

6. Operating Expenses Summary

The application of the above adjustments to the utility's recorded operating expenses results in operating expenses of \$632,334.

D. Overearnings Position for 1997

Based on the above-noted rate base, test year revenues and operating expenses, the utility's wastewater system's net operating income was \$42,205 and its achieved rate of return was 13.79 percent for 1997. The utility's most recent authorized return on equity for wastewater was approved by Order No. PSC-97-1501-FOF-WS, issued November 25, 1998. The capital structure in this order includes 39.95 percent debt with a cost of 9.75 percent and a weighted cost of 3.90 percent. It also includes 60.05 percent of equity with a cost of 9.77 percent and a weighted cost of 5.86 percent. The range for the return on equity is 8.77-10.77 percent. Using the high range of the return on equity approved in the above referenced order, we calculate an overall rate of return of 10.37 percent to determine the utility's wastewater overearnings posture.

Our calculation is as follows:

Achieved Rate of Return	13.79%
Overall Rate of Return (incl. high end of ROE)	<u>(10.37)%</u>
Overearnings Posture for 1997	3.42%

Based on the above, Lindrick's wastewater system earned in excess of its authorized rate of return for the year ended December 31, 1997. However, the utility's water system is operating at a loss. The utility's customers and service area are virtually the same for water and wastewater and the utility as a whole is earning below its authorized rate of return. Therefore, consistent with our decision in Order No. PSC-97-1501-FOF-WS, in Docket No. 961364-WS, although the wastewater system appears to be overearning for 1997, the overearnings are more than offset by the underearnings in water, and the utility, as a whole, did not overearn.

### III. QUALITY OF SERVICE

The evaluation on the overall quality of service provided by the utility is derived from the evaluation of three separate components of water utility operations:

- (1) Quality of the utility's product (water and/or wastewater);
- (2) Operational condition of the utility's plant or facilities; and
- (3) Customer satisfaction

#### A. Quality of the Utility's Product

This evaluation consists of a review of the utility's current compliance with DEP and Health Department (water and wastewater) standards.

In August 1997, DEP conducted an inspection and a number of violations were discovered. Subsequent inspections revealed other violations, the result of which was the January 13, 1998 Consent Order (OGC File No. 98-0025, DOAH Case No. 98-1226) which listed 13 counts on which the order was based. The thirteen counts are as follows:

1. failure to obtain a permit to build the collection system for The Landings of St. Andrews;

2. failure to maintain The Landings collection as to standards required for flood events;
3. failure to maintain The Lindrick Collection System to prevent inflow/infiltration which introduced excessive chlorides to the plant;
4. failure to meet effluent standards for nitrogen, total chloride, dissolved oxygen and copper;
5. use of inaccurate test methods;
6. failure to use prescribed testing procedures in testing for chemicals found in Count IV;
7. submitting inaccurate and incomplete effluent reports;
8. discharging effluent that is chronically toxic;
9. failure to meet standards for repeat testing for *M. Bahia* after a failed test;
10. failure to submit the September 1997 DMR form in the specified time;
11. failure to have a Class B licensed operator on duty as required at the time of DEP inspections;
12. failure to commence construction required by their permit; and
13. DEP incurred excessive cost investigating this matter.

The conclusion of the Consent Order was that Lindrick be required to perform extensive repair to the collection system and repair its plant to meet standards or interconnect with a regional facility. As pointed out in the Consent Order, Counts 1 - 13, Lindrick was not meeting DEP standards for effluent. Although the utility is now taking steps to correct these problems, the utility has allowed these conditions to exist for at least ten years. Therefore, we find that the quality of the utility's product is unsatisfactory.

B. Operational Condition of the Utility's Plant or Facilities

Evaluation of the utility's plant or facilities includes a review of the utility's compliance with DEP standards of operation as well as an analysis of proper system design. For example, among other standards of evaluation, water treatment plants and distribution systems are reviewed for compliance with permit standards and minimum operator requirements as well as standards regarding the location of wells with regard to potential sources of pollution. Wastewater treatment plants and collection systems are reviewed for compliance with permit standards, minimum operator

requirements and lift station location and reliability among other standards.

As previously stated, the utility is under a Consent Order for its collection system and plant effluent. This alone indicates that the DEP standards were not being met by the utility. Among the 13 counts in the Consent Order, were failure to maintain the collection system as to prevent inflow/infiltration which caused excessive corrosion and deterioration of the wastewater facility, failure of effluent levels for total nitrogen, inaccurate effluent testing, procedural violations of testing, discharge of effluent that is chronically toxic into surface water, and operation of the facility without proper licensed personnel present. In the corrective actions, DEP required the collection system be repaired and the plant be repaired or taken off line. Therefore, we find that the operational condition of the utility's plant and facilities is unsatisfactory.

C. Customer Satisfaction

The final component of the overall quality of service which must be assessed is the level of customer satisfaction which results from the utility's relations with its customers. A qualitative evaluation of these relations includes a review of notification requirements between the utility and its customers as well as a review of action taken by the utility regarding customer complaints. For example, utility policies are reviewed in order to insure that customers have been properly notified of scheduled service interruptions.

A customer meeting was held in the West Pasco Government Center on Wednesday, February 17, 1999. There were numerous complaints as to utility responsiveness to calls for service and the quality of the product for both water and wastewater from the 350 plus customers in attendance. This prompted further investigation.

Rule 25-30.130, Florida Administrative Code, sets the standard for the complaint log which is to be maintained by a utility. The utility's complaint log was found to be substandard, which made verification of complaints difficult. In addition to the complaint log being inadequate, one of the most obvious problems was the utility's response time to situations which exceed its expertise. The response time was delayed because of an awkward, time consuming purchase order system. The utility must obtain a purchase order

from its accounting department, which is not on site. Also there were no provisions for after hours and weekend service work requiring a purchase order.

The utility is cooperating with our staff to improve in this area. The complaint system has been computerized, new maintenance practices should cut response time, and the utility is working on a customer feedback system to evaluate these changes. Also, a flushing program for the water system is under consideration as a result of the numerous complaints heard at the customer meeting. These changes should improve customer service. However, based on the foregoing, we find that customer satisfaction is unsatisfactory at this time.

Based on the above, all three components reviewed for quality of service are unsatisfactory, and the quality of service is found to be unsatisfactory. Therefore, the changes and improvements already initiated shall continue to be monitored, and the utility shall respond in writing in six months as to the progress made in the area of complaint responsiveness.

#### IV. REQUEST FOR A LIMITED PROCEEDING FOR WATER

In its original application the utility requested a limited proceeding to implement a two-step increase in wastewater rates and paid the appropriate filing fees for its wastewater system only. In its second amended petition filed April 19, 1999, the utility requested a water rate increase based on the underearning experienced in the utility's water operations for the year ended December 31, 1997.

Limited proceedings generally address a specific or significant change that would adversely affect the normal operating income of the utility. They are usually narrow in scope. It appears that a full review of the utility's earnings posture would be required to determine whether a water rate increase is warranted. Therefore, we find that a limited proceeding is an inappropriate vehicle by which the utility should seek general rate relief, and the utility's request for a limited proceeding for its water system is denied. However, in accordance with Section 367.081, Florida Statutes, the utility may apply for a rate proceeding to increase its water rates to earn the authorized rate of return.



V. REQUEST FOR A LIMITED PROCEEDING FOR WASTEWATER

In early 1996 Lindrick applied for a renewal of its DEP wastewater treatment plant permit. DEP denied the permit renewal application based on new operational and discharge requirements. Lindrick could not meet these requirements without major changes to the plant and personnel. Since the cost of these changes would be extreme, DEP and Lindrick entered into a lengthy period of negotiations. A permit was finally issued on May 29, 1997 with the provision that Lindrick examine options for plant operation. These options were plant modification or interconnection.

A plan by the engineering firm H2O to modify the existing plant at an estimated cost of \$2,916,820 and repair the collection system at an estimated cost of \$2,800,000 was rejected by DEP, and Lindrick began a period of negotiations with the City and the County for interconnection of the wastewater system. These negotiations lasted some six months until December of 1997.

Negotiations with the County involved another treatment study performed by Hartman & Associates for an Effluent Reverse Osmosis (R/O) Treatment system. With a cost that ranged from \$1,135,000 to \$1,633,000, plus collection system costs of \$2,800,000 and an unknown cost of disposing of the R/O by-products, this plan was rejected by DEP.

A third plan was researched and found to be the least expensive. It was also the only one which was acceptable to DEP. Pursuant to a Consent Order entered into by DEP and Lindrick, the wastewater treatment plant would be taken off line and Lindrick would interconnect with the City. Repair of the collection system in order to reduce the chlorides caused by the salt water infiltration was still required.

The Consent Order called for repair of the collection system and the chloride level caused by infiltration to below 600 mg/L reducing by May 19, 1999. This was to be accomplished by testing to establish repair priorities followed by pressure cleaning and televising of the collection lines. The repairs consisted of grouting, slip lining or replacement of lines as required. In addition, lift stations were to be repaired by the application of a sealant. The Consent Order also established a goal of a chloride level below 400 mg/L by May 19, 2000.

The existing treatment plant would be converted and become a master lift station. Because this lift station was in close proximity to customers, DEP required pretreatment, odor control and a covering for the structure.

DEP granted an extension to the May 19, 1999, interconnection deadline because the City delayed the final approval for the interconnection. The interconnection finally occurred on May 28, 1999. To determine the appropriate rates subsequent to the interconnection, we have used a projected year ended December 31, 1999.

A. Rate Base

1. Request for Recovery of Interest During Construction - In its original application filed January 28, 1998, the utility requested a plant improvement cost of \$2,814,844 for the interconnection with the City of New Port Richey. This amount includes the engineer's estimated cost of \$2,179,874, engineering, contingencies and permitting of \$544,970, and construction management of \$90,000. In its second amended application filed April 13, 1999, the utility requested a plant improvement cost of \$3,078,645 for the interconnection with the City. This amount includes actual and estimated cost of \$2,544,217, engineering, construction management and permitting of \$411,365, contingency of \$23,000, and interest during construction of \$100,063.

Pursuant to Rule 25-30.116, Florida Administrative Code, no utility may charge or change its Allowance for Funds Used During Construction (AFUDC) rate without prior Commission approval. Since the utility does not have a Commission approved AFUDC rate, we find that the utility should not be allowed to recover the requested interest during construction in the cost of the plant.

In Order No. 22150, issued November 6, 1989, in Docket No. 890233-WS, we denied Southern States Utilities, Inc.'s request for AFUDC because the utility "did not request it prior to or at the time of construction". As discussed below, the utility's long-term debts are included in the capital structure, together with its equity and advances from its affiliates. The utility is allowed a return on the long-term debts when the overall rate of return is calculated. Based on the above analysis, the utility shall not be allowed to recover the requested interest during construction in the cost of plant.

2. Additional Utility Plant-In-Service (UPIS) - As stated above, the utility explored three options under the guidance of DEP. The first option had the highest initial costs of the three options and left the utility at risk from the uncertainties of future environmental regulation changes. The second option was to keep the plant on-line, but eliminate surface water discharge by sending the plant effluent to the Pasco County reuse system. The third option was to take the utility's plant off-line, ceasing surface water discharge, and send the raw influent to the City for treatment. The third option appears to be the least costly, and the only option acceptable to DEP. The utility obtained four bids after it solicited ten companies regarding the construction costs for the interconnection. Among the four bids, H2O had the lowest costs overall.

The utility has provided copies of invoices and estimated costs for plant improvements required for the interconnection with the City. We have reviewed the plant costs and determined the costs to be reasonable. In its second amended application filed April 13, 1999, the utility estimated that the interconnection with the City would cost an additional \$3,078,645. This amount includes \$2,544,217 actual and estimated cost; \$411,365 engineering, construction management, and permitting cost; \$100,063 interest during construction cost; and \$23,000 contingency cost. Pursuant to a review of the actual invoices for the work already completed and the estimates of future costs, the utility has provided sufficient justification for the cost of the interconnection. However, we have removed the \$100,063 interest during construction cost, and we find the cost of additional plant to be \$2,978,582.

After the interconnection with the City, the utility's remaining wastewater treatment plant was retrofitted into a flow equalization transfer pumping station with overflow capability and back-up storage tanks. As requested, the utility provided the original cost of plant that was retired after the interconnection. In its letter dated May 27, 1999, the utility stated that the total plant retired is \$68,214 with a zero salvage value. The utility also requested a debit to accumulated depreciation with no gain or loss. UPIS has been decreased by \$68,214 to reflect the retirement of the plant. The net adjustment for UPIS is \$2,910,368 to reflect UPIS of \$5,630,626 at December 31, 1999.

3. Land - The land upon which the utility's wastewater plant is located will remain in service. Therefore, no adjustment is

necessary for land value. Land value at December 31, 1999 is \$19,353.

4. Acquisition Adjustment - There is no change in the negative acquisition adjustment. The appropriate negative acquisition adjustment at December 31, 1999 is \$24,901.

5. Contributions-in-Aid-of-Construction (CIAC) - The CIAC as of December 31, 1997, is \$2,226,931. Based on the utility's 1998 annual report, the utility collected \$4,200 in CIAC, which represents 12 connections based on its existing service availability charge of \$350 per connection. Based on projected billing determinants provided by the utility for 1999, the utility will add 25 customer in 1999. Total projected customer additions from 1998-1999 is 37. Therefore, CIAC is increased by \$12,950 to reflect CIAC through December 31, 1999.

6. Accumulated Depreciation - In its filing, Lindrick proposed a service life of 12 years, resulting in a depreciation rate of 8.33 percent. In response to a staff data request concerning this claim, the utility stated that the sealed manholes and grouted pipes have a life expectancy of 10 years. The utility states that some of the lines are 35 to 40 years old, and this accounts for the 10 year life expectancy. It also stated that the limited areas which were slip lined should last for 20 years, and that areas where pipe was replaced should last 25 to 30 years.

After reviewing hours of the TV tape which shows the condition of lines in the collection system and consulting with H2O engineers who conducted the rehab project, our staff engineer determined that an 18-year life was more appropriate. Further, the grouting material that was used in the collection system repair was AV-118 DURAFLEX. The manufacturer specifies a service life of 15 to 18 years. Because the other repair methods represent a smaller percentage but at greater cost, we find that an 18-year service life shall be used, and the resulting depreciation rate is 5.86 percent.

Using this service life, we have calculated depreciation on the plant improvements required for the interconnection through December, 1999. In addition, depreciation on existing plant at December 31, 1997, has been calculated through December 31, 1999. Based on these calculations, accumulated depreciation at December 31, 1997, is \$1,333,974. This account has been increased by \$157,702 to reflect depreciation on plant improvements for the

interconnection. It has also been increased by \$184,195 to reflect accumulated depreciation on plant prior to the interconnection through December 31, 1999. This account has been decreased by \$68,214 to remove depreciation associated with retired plant. The net adjustment for this account is an increase of \$273,683.

7. Amortization of Acquisition Adjustment - The amortization of the acquisition adjustment at December 31, 1997, is \$16,769. This account has been increased by \$1,036 to reflect amortization through December 31, 1999 of \$17,805.

8. Amortization of CIAC - Amortization of CIAC at December 31, 1997, is \$1,067,004. This account has been increased by \$155,830 to reflect amortization of CIAC of \$1,222,834 at December 31, 1999.

9. Working Capital Allowance - Consistent with Rule 25-30.433, Florida Administrative Code, we have used the one-eighth of operation and maintenance expense formula approach to calculate the working capital allowance. The working capital allowance for 1997 is \$68,537. This account has been increased by \$32,509 to reflect one-eighth of the O&M expense of \$808,364 for the projected test year December 31, 1999, for a working capital allowance of \$101,046.

10. Rate Base Summary - Based on the foregoing, the appropriate projected rate base at December 31, 1999, for Lindrick's wastewater system subsequent to the improvements and interconnection with the City is \$3,119,225. Rate base is shown on Schedule No. 1 and adjustments are shown on Schedule No. 1-A.

B. Cost of Capital

1. Return on Equity (ROE) - Based upon our finding that the quality of service is unsatisfactory, we further find that the ROE should be reduced. Lindrick's complaint log was substandard, and there was evidence of communications break down, causing unacceptable response times. In addition, the DEP Consent Order shows maintenance and operational deficiencies. Although the utility is now taking steps to correct these problems and appears to have corrected many of the DEP problems, we still find the quality of service to be unsatisfactory.

In the past, we have reduced utilities' return on equity to the minimum of the range for poor quality of service by reducing

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the return on equity by up to 100 basis points. In a rate proceeding for Consolidated Utilities Company in Docket No. 840267-WS, we determined that there was an "apparent lack of concern by the utility for the customers' service problems", and that the utility failed to properly respond to customer calls, and failed to maintain its books and records. Therefore, we reduced the utility's return on equity by one percentage (100 basis) point. Order No. 14931, issued September 11, 1985. In Docket No. 850646-SU, we found that Ocean Reef Club, Inc.'s quality of service was only marginally satisfactory, and reduced the utility's return on equity by 50 basis points. Order No. 17760, issued June 29, 1987.

In the case of Gulf Power v. Wilson, 597 So. 2d 270 (Fla. 1992), we determined that Gulf Power's fair rate of return was between 11.75 percent and 13.50 percent. However, because of several years of corrupt practices such as theft and misuse of company property and inappropriate political contributions, we reduced Gulf Power's rate of return by 50 basis points to 12.05 percent. The court held, so long as it remains within the authorized range, that we may adjust a utility's rate of return for mismanagement.

Lindrick's collection system and plant have had problems for at least 10 years, and the utility did not take action to correct the problems until forced to do so by DEP. In addition, the service provided to the customers is deficient in areas of response time and the complaint log. For these reasons, the ROE shall be reduced by fifty basis points.

The utility's last rate case was finalized in Docket No. 830062-WS, by Order No. 12691, issued November 16, 1983. In that Order, rate base was established and the return on equity was set at 14.38 percent for both water and wastewater. In Docket No. 860089-SU, we initiated an overearnings investigation and lowered rates for the wastewater system only. Pursuant to Order No. 16142, issued May 23, 1986, the return on equity was lowered to 12.65 percent for the wastewater system. Since that time the utility has been authorized to increase its rates annually in price index and pass through rate adjustment procedures. The utility was under an overearnings investigation in Docket No. 961364-WS, which culminated with the issuance of Order No. PSC-97-1501-FOF-WS on November 25, 1997, and found that the utility was not overearning. By that order, we authorized a return on equity of 9.77 percent for both water and wastewater.

For this case, the cost of capital has changed since the return on equity was last established in 1997. Therefore, we shall reestablish the utility's return on equity in this limited proceeding and on a going-forward basis.

The utility's capital structure includes 6.97 percent common equity. Based on the current leverage formula established in Order No. PSC-99-1224-PAA-WS, and finalized in Order No. PSC-99-1382-CO-WS, in Docket No. 990006-WS, the return on common equity is capped at 10.12 percent for all water and wastewater utilities with equity ratios less than 40 percent. Therefore, the utility's authorized return on equity would be 10.12 percent. However, because of mismanagement and unsatisfactory quality of service, we reduce that return by 50 basis points to 9.62 percent with a range of 9.12 percent to 11.12 percent. This return on equity shall be effective as of the date our Order becomes final, and shall be applied to any future proceedings of this utility, including, but not limited to, price indexes and interim rates.

2. Adjustments to Capital Structure - By a loan agreement with Republic Bank dated November 16, 1998, the utility received a loan in the amount of \$4,000,000 to provide funding for the improvement of its wastewater system. The interest rate of this loan is 1.00 percent above the base rate of Citibank, and it is adjusted daily. The current base rate is 8.25 percent. Therefore, the interest rate of this loan is 9.25 percent.

Based on the audit report, the utility also received an advance from its affiliates for \$279,759 without a stated interest rate. We have assigned the midpoint of the cost of equity to this advance from affiliates, which is 10.12 percent for this utility based on the current leverage formula. The utility's capital structure has been reconciled with our calculation of the utility's rate base. The overall rate of return has been calculated based on the pro rata share of each capital component times the cost of each component. Based on all the above, the overall rate of return is calculated to be 9.30 percent with a range of 9.27 percent to 9.41 percent.

C. Projected Test Year Revenue for 1999

At the customer meeting held on February 17, 1999, customers questioned whether customer growth for the newly constructed high rise buildings located in the utility's service area would be included in this rate proceeding. To take this growth into

account, our staff requested and the utility provided projected billing determinants for 1999 and 2000. All plant improvements associated with the interconnection with the City are scheduled to be completed by August 31, 1999. We have used a projected test year ended December 31, 1999 to include customer growth.

At the August 31, 1999 Agenda Conference, the utility requested that the 1999 billing determinants used for calculating annualized revenue for 1999 and setting rates be corrected. The utility had apparently forgotten to take into account that residential customers who used more than 10,000 gallons would not be charged for those gallons.

We have used the corrected projected billing determinants to set rates and project revenues. Based on the corrected 1999 projected billing determinants, factored ERCs include 27,328 for residential customers and 4,339 for multi-family and general service customers. Total factored ERCs are 31,667. The projected number of gallons of wastewater treatment is 141,707,000 for residential customers and 47,581,000 for multi-family and general service customers, for a total of 189,288,000. Using these determinants and the projected additional growth, we have determined that the utility would collect \$747,728 in annualized revenues for 1999 charging the rates in effect prior to the implementation of the emergency rates. This is an increase of \$73,189 over the annualized revenue for 1997 of \$674,539. Revenue is shown on Schedule No. 3 and adjustments are shown on Schedule No. 3-A.

D. Operating Expenses for 1999

The utility's operating expenses include operation and maintenance expense, depreciation expense, amortization of acquisition adjustment, and taxes other than income. The utility's prospective operating expenses have been adjusted to reflect the amounts after the interconnection with the City and the improvements to its collection system.

1. Operation and Maintenance (O&M) - A discussion of our adjustments to reflect O&M expense after the interconnection follows:

a. (701) Salaries and Wages -- Employees - For the year ended December 31, 1997, total salary for employees was \$92,638. This amount includes a salary of \$11,440 for the customer service



manager, \$66,196 for three operators, \$8,450 for a maintenance supervisor and \$6,552 for a maintenance and repair assistant.

After the interconnection with the City, the utility's wastewater treatment plant is off-line, which reduces the operator service required by DEP. After the interconnection with the City, H2O will provide operator service for the utility. The annual amount for H2O service is addressed in Account No. 736 - Contractual Services (Other). Therefore, the amount of salaries and wages for employees has been decreased by \$66,196 to remove salaries for the three operators that are no longer needed.

The utility requested an annual salary of \$27,040 for the customer service manager and \$18,700 for the maintenance supervisor. The requested allocation to wastewater is \$13,520 for the customer service manager and \$9,350 for the maintenance supervisor. A review of the duties performed by these two employees shows that the requested salaries are reasonable. Therefore, we have increased salaries by \$2,080 for the customer service manager and by \$900 for the maintenance supervisor.

The total adjustment for this expense is a decrease of \$63,216 to reflect employee salaries totaling \$29,422. This includes an annual salary of \$13,520 for the customer service manager, \$9,350 for the maintenance and repair supervisor, and \$6,552 for the maintenance and repair assistant.

b. (703) Salaries and Wages - Officers - After the interconnection, some duties performed by the utility's president will be reduced. In its original filing, the utility requested a decrease of \$11,577 in the president's salary. This reduction is appropriate and we have adjusted this account accordingly. The annual salary for the president for wastewater operation in 1997 is \$30,000. This expense has been decreased by \$11,577 allowing an annual salary of \$18,423 for the president for wastewater operation.

The utility's operation manager, a half-time employee, earns \$31,200 annually with an allocation of \$15,600 for wastewater operation. The utility requested an annual increase in salary of \$2,600 for this employee. The utility represents that this employee's salary has been in effect since 1987 without an increase, and requested the increase equating to approximately 1.4 percent increase for each year since 1987. We find that this employee's existing salary is appropriate for the duties performed.

In addition, some of the existing duties should be reduced after the interconnection with the City. Therefore, we shall allow no change in the operation manager's salary.

Based on the above, officers salaries are \$18,423 for the president and \$15,600 for the operation's manager for a total of \$34,023.

c. (704) Pensions and Benefits - The utility's recorded pension and benefits expense includes medical and life insurance cost of \$3,996 for one operator. The utility requested a decrease of \$3,996 for the one operator in this account. This reduction is appropriate and this account is reduced by \$3,996 to match the amount of the salary allowed. Therefore, the balance of this account shall be \$9,371.

d. (710) Purchased Sewage Treatment - The utility interconnected with the City on May 28, 1999. Based on the utility's agreement with the City, the bulk wastewater treatment rate is \$2.89 per 1,000 gallons. The utility also provided the projected amount of wastewater treated and sold for 1999. The utility calculated the projected cost for wastewater treatment for 1999 to be \$447,629 (154,889,000 gallons x \$2.89 per 1,000 gallons). This amount is appropriate, and this expense shall be increased by \$447,629 to reflect annualized purchased wastewater treatment costs for 1999.

e. (711) Sludge Removal Expense - After the interconnection, the utility is sending wastewater to the City for treatment, and will no longer have to remove sludge. Annual sludge removal cost for 1997 was \$90,221. This expense has been decreased by \$90,221 since the utility will not incur this expense. Therefore, this account shall be reduced by \$90,221 to a zero balance.

f. (715) Purchased Power Expense - Purchased power expense for 1997 is \$53,459. This expense has been decreased by \$43,276 to reflect purchased power expense of \$10,183 after the inter-connection as requested by the utility.

g. (718) Chemicals - The facility is located adjacent to a residential community. After the interconnection, raw sewage detention times may increase to the point that some septicity may be experienced. The utility estimated that there will be an increase of \$8,257 in chemical expense for odor control after the

interconnection. We have determined that this amount is reasonable. Therefore, chemical expense is increased by \$8,257 as requested by the utility. The annual amount for chemicals shall be \$16,584.

h. (731) Contractual Services (Engineering) - We have encountered some difficulty in determining the amount to allocate to Borda Engineering after the plant was interconnected. A document was provided on January 20, 1999 which contained job codes, hours allotted and hourly rates. The document also stated that the job code E07 would be modified to reflect the change of the plant to a master lift station. In analyzing the work codes it was discovered that there was a problem: some codes were wastewater specific, others were water specific and the remainder applied to both water and wastewater.

After our staff received a service agreement for H2O Utility Services which detailed their responsibilities in the operation of the lift station, our staff requested Borda Engineering to provide a list of work codes, with the modified E07, and the hours allocated to each with water and wastewater separated.

A document was received July 20, 1999. There were some notable changes to the information provided: (1) the total billable hours had increased by 54 hours; (2) there were changes to not one but two work codes; and (3) the rates for the billable hours had increased. No information was provided in the document to substantiate the changes. Although Borda Engineering offered justification in a call received the day after the document arrived, the justification was inadequate to warrant any further changes to the hours and rates.

Therefore, we have reduced the engineering hours by 54 and used the hourly rates provided in the January 20 document. This results in a \$37,913 per year allocation to Borda Engineering for wastewater engineering services after the interconnection with the City.

i. (732) Contractual Services (Accounting) and (734) Contractual Services (Administrative) - The accounting expense for wastewater for 1997 is \$39,912, and the administrative expense for wastewater for 1997 is \$9,984. Pursuant to the utility's current contract with Borda Engineering, the utility had \$79,200 accounting and administrative expense for water and wastewater for 1997. The utility has requested a \$12,000 annual increase for Borda

Engineering to continue to provide its services, resulting in a total of \$91,000 accounting and administrative costs for water and wastewater. The utility states that this increase equates to approximately a 2.5 percent increase for each year since 1987. The utility requested that this amount be allocated by an increase of \$16,296 for water and a decrease of \$4,296 for wastewater. However, the utility did not provide an updated signed contract, nor a break down of the requested changes between Account No. 732 - Contractual Accounting Services, and Account No. 734 - Contractual Administrative Services. We do not believe that it is appropriate to address this requested increase at this time. Further analysis would be required to determine if this requested increase would be appropriately included in prospective rates. Since the utility states that this increase is for previous periods, we find that the request would be properly addressed in the utility's next full rate case. Therefore, we have made no change to these accounts.

j. (735) Contractual Services (Testing) - The testing cost for 1997 is \$10,065. Subsequent to the interconnection, the utility submitted additional test costs. These costs appear to be reasonable and are approved. A schedule of tests and costs follow:

<u>Description</u>	<u>Annual Cost</u>
Chlorine Testing (Test for Aerobic Bacteria)	\$12,132
Chloride Testing (Test for Salts)	<u>25,800</u>
Total after interconnection	<u>\$37,932</u>

Therefore, the \$10,065 expense has been increased by \$27,867 to reflect annual testing expense of \$37,938 after the interconnection.

k. (736) Contractual Services (Other) - The Contractual Services(other) expense is \$74,007 for 1997. This expense includes \$54,709 paid to H2O. Based on a signed contract, H2O provides operators and maintenance service related to the operation of the utility's transfer wastewater lift station that delivers wastewater to the City of New Port Richey for \$2,513.16 monthly, or \$30,158 annually. It also provides billing service for \$2,715 per month, or \$32,580 annually. The total contractual charges for H2O appear reasonable for the service provided. Therefore, this expense has been increased by \$8,029 to reflect the appropriate contractual operation and maintenance and billing services after the interconnection.

The utility's recorded expense also includes \$5,918 for contractual billing service provided by Avatar in 1997. This company will no longer provide billing service and this account has been decreased by \$5,918.

The total adjustment for this expense is an increase of \$2,111, allowing \$76,118 annually.

1. (755) Insurance Expense - The utility recorded insurance expense of \$3,120 in 1997 of which \$1,244 was worker's compensation insurance expense. The worker's compensation insurance expense shall be reduced to be consistent with the reduction of operator's service as requested by the utility. The balance of this account shall be \$1,876.

m. (765) Regulatory Commission Expense (Rate Case Expense) - The utility submitted a schedule of rate case expense that includes \$31,124 accounting expense, \$18,621 legal expense and a filing fee of \$1,750 for a total of \$51,495. The utility provided copies of invoices for \$22,774 accounting expense and estimated accounting expense of \$8,350 for services that will be rendered through the review of the PAA order. It provided copies of invoices for \$8,671 legal expense and estimated \$9,950 for legal services rendered through the completion of the procedure. The invoices for accounting and legal appear to be reasonable for the services provided. The estimated costs were also reviewed and were determined to be reasonable for the services that will be required to complete this case.

The utility also provided a receipt for the cost of \$800 for noticing customers of our approved emergency temporary rate increase. The total rate case expense for the limited proceeding is \$52,295. This amount has been amortized over 4 years allowing \$13,074 for the limited proceeding.

For rate case expense for wastewater for 1997 the cost was \$7,414. This amount includes accounting rate case expense incurred in the prior overearnings Docket No. 961364-WS. When this amount is amortized over 4 years, the cost is \$1,854. This amount has not been included in the calculation of rates prior to this proceeding, and, when added to this proceeding, the total rate case expense for wastewater is \$59,709 (\$52,295 + \$7,414). The annual amortization amount shall be \$14,928 (\$13,074 + \$1,854), to reflect a four-year amortization period.

n. Operation and Maintenance Expense (O&M) Summary - Total operation and maintenance expense adjustments are \$260,066. Based on these adjustments, the O&M expense is \$808,364.

2. Depreciation Expense (Net of Amortization of CIAC) - The net depreciation expense for the utility for the year 1997 is \$17,227. Since 1997, the utility has been improving its wastewater system for the interconnection. Using the depreciation rates prescribed by Rule 25-30.140, Florida Administrative Code, and the service life provided by manufacturers for Account 361 as addressed above, we calculate depreciation expense to be \$163,365. The amortization of CIAC is \$8,282. Therefore, depreciation expense net of amortization of CIAC shall be increased by \$155,083 to reflect net depreciation after the interconnection, the balance of this account shall be \$172,310.

3. Taxes Other Than Income - Taxes other than income were \$67,327 in 1997. This account shall be reduced by \$8,827 to remove payroll taxes associated with reduced salaries after interconnection and increased by \$3,294 to reflect the appropriate regulatory assessment fee on annualized revenue after interconnection. The accumulated plant after interconnection is projected to be \$5,630,626 for the year ended December 31, 1999. The projected accumulated depreciation on the plant is \$1,607,657 for the year ended December 31, 1999, which results in the plant net of depreciation of \$4,023,164 (\$5,630,626 - \$1,607,657).

The utility provided that the current millage rate for its property is 0.021841, which results in property taxes of \$87,870 (\$4,023,164 x 0.021841) after the interconnection for the year ended December 31, 1999. The utility's historical property tax was \$20,518; therefore, the property tax has been increased by \$67,352.

Based on the above adjustments, the total adjustments of this account shall be \$61,819, and the balance of this account shall be \$129,146.

4. Income Tax Expense - This utility is an 1120 corporation. As discussed above, the utility had a tax loss carryforward of \$254,566 for 1996, and we allowed no income tax expense for 1997. The income tax returns for 1997 and 1998 are not available. Therefore, the current loss carryforward amount is not available. Using our calculated income tax expense for 1997 with no change in the utility's water underearning posture, we believe that the tax carryforward loss for 1996 will allow an offset for total income

taxes through at least 1999, if not further. Therefore, we shall allow no income tax expense for the utility.

5. Taxes Other Than Income (Regulatory Assessment Fee) - Based on the existing rates, the utility's projected operating revenue for the utility for the year ended December 31, 1999 is \$747,728 for the wastewater system, which would result in an operating loss of \$361,574. The operating revenue shall be increased by \$682,369, or 91.26 percent to allow the utility the opportunity to earn the authorized rate of return after the interconnection and the improvements to its collection system. With this increase, the utility shall be allowed the opportunity to generate annual operating revenues of \$1,430,097 for its wastewater operation. Therefore, taxes other than income have been increased by \$30,707 to reflect the regulatory assessment fee of 4.5 percent on the increase in revenue.

6. Operating Expense Summary - The application of our adjustments to the utility's operating expense results in operating expenses of \$1,140,009.

D. Wastewater Revenue Requirement

Based on the existing rates, the utility's projected operating revenue for the utility for the year ended December 31, 1999 is \$747,728 for the wastewater system, which would result in an operating loss of \$361,574. The operating revenue shall be increased by \$682,369, or 91.26 percent to allow the utility the opportunity to earn the authorized rate of return after the interconnection and the improvements to its collection system. With this increase, the utility shall be allowed the opportunity to generate annual operating revenues of \$1,430,097 for its wastewater operation.

In its most recent filing, dated April 13, 1999, the utility requested an increase in revenue of \$1,111,459 (142.67 percent) with no change in related party services. It requested an increase in revenue of \$1,231,859 (158.13 percent) if all related party expenses are replaced with contract services from third parties.

As stated above, the utility shall be allowed a revenue increase of \$682,369 (91.26 percent). This will allow the utility the opportunity to recover its expenses and earn a 9.30 percent return on its investment. The calculation is as follows:

Adjusted Rate Base	\$3,119,225
Rate of Return	<u>x .0930</u>
Return on Investment	\$ 290,088
Adjusted Operation Expenses	808,364
Net Depreciation Expense	172,310
Amortization of Acquisition Adj.	(518)
Taxes Other Than Income	<u>159,853</u>
Revenue Requirement	<u>\$1,430,097</u>
Annualized Revenue Increase	\$ 682,369
Percentage Increase	<u>91.26%</u>

The revenue requirement is shown on Schedule No. 3.

VI. WASTEWATER RATES

In this filing, the utility requested an across the board percentage increase to rates that were in effect prior to the implementation of the emergency temporary rates. This methodology was used in the calculation of the emergency temporary rates. We do not believe that this methodology will capture the effect of customer growth from 1983, when the utility had its last rate case, through the projected test year ended December 31, 1999. Therefore, we have calculated final rates to include customer growth through the projected test year, and the revenue requirement has been spread over the projected customer base for 1999.

The rates are be designed to allow the utility the opportunity to generate annual operating revenues of \$1,430,097 for wastewater. Rates have been calculated using the number of bills and the number of gallons of wastewater billed during the test year, adjusted for future growth. The utility's prior rates and approved rates are as follows:

Monthly Wastewater Rates

<u>Residential</u>	<u>Prior to Filing</u>	<u>Approved</u>
Base Facility Charge		
<u>All meter sizes</u>	\$ 10.76	\$ 16.92
Gallonage Charge		
<u>per 1,000 gallons</u>	\$ 2.15	\$ 4.50
(Maximum - 10,000 gallons)		



Multi-residential and General Service

Base Facility Charge

<u>Meter size</u>	<u>Prior to Filing</u>	<u>Approved</u>
5/8" x 3/4"	\$ 10.76	\$ 16.92
3/4"	N/A	25.38
1"	26.92	42.31
1-1/2"	53.78	84.61
2"	86.15	135.38
3"	172.30	270.77
4"	269.21	423.07
6"	538.40	846.14
8" (Compound)	861.04	1,353.83
8" (Turbine)	968.76	1,523.05

Gallonge Charge

<u>Per 1,000 gallons</u>	\$ 2.15	\$ 5.40
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The rates shall be effective for service rendered as of the stamped approval date on the tariff sheets, provided the customers have received notice. The tariff sheets shall be approved upon our staff's verification that the tariffs are consistent with our decision and the customer notice is adequate. The utility shall 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 shall be prorated. The old charge shall be prorated based on the number of days in the billing cycle before the effective date of the new rates. The new charge shall 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 shall the rates be effective for service rendered prior to the stamped approval date.

VII. STATUTORY RATE REDUCTION

Section 367.0816, Florida Statutes (1997), 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 \$15,631 annually for wastewater. Using the utility's current revenues, expenses, capital structure and customer base the reduction in revenues will result in the rate decreases as shown on Schedule No. 4.

The utility shall file revised tariff sheets no later than one month prior to the actual date of the required rate reduction. The utility shall also 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.

Senate Bill 1352 amended Section 367.0816, Florida Statutes, and eliminated the requirement for decreasing rates by the rate case expense included in the rate calculation immediately following the expiration of the four-year rate case expense recovery period. However, this change does not apply to rate cases pending on March 11, 1999. The utility filed its application for this rate case on February 12, 1998. Therefore, the changes in Senate Bill 1352 are not applicable, and the utility is required to decrease its rates after the four-year recovery period as stated above.

#### VIII. TEMPORARY RATES IN EVENT OF PROTEST

By this Order, we propose an increase in wastewater rates. A timely protest might delay what may be a justified rate increase resulting in an unrecoverable loss of revenue to the utility. Therefore, the proposed rates shall be approved as temporary rates in the event of a protest. If there is a protest, and the utility chooses to implement temporary rates, the rates collected by the utility shall be subject to the refund provisions discussed below.

The utility shall provide an appropriate security for a potential refund prior to any rate increase. The security shall be in the form of a bond or letter of credit in the amount of \$716,569 for this proceeding. Alternatively, the utility could establish an escrow agreement with an independent financial institution.

Currently the utility has a letter of credit in the amount of \$480,000 pursuant to Order No. PSC-99-1010-PSC-SU, issued May 20, 1999, in this docket. This letter of credit provides security for the emergency temporary rates and expires on May 11, 2000. If the utility chooses a letter of credit as the security in this case, the utility may use its current letter of credit providing that the utility extends the effective period and increases the amount by \$396,569 to reflect a total of \$876,569 (\$160,000 + \$716,569). This amount includes four months of security for a potential refund of emergency temporary rates and 12 months plus interest for a potential refund for this proceeding.

If the utility chooses a letter of credit as a security, it shall 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 the utility chooses a bond as security, the bond shall 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 security is provided through an escrow agreement, the following conditions shall 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.

Further, the utility shall provide a copy of the proposed customer notice, and revised tariff sheets for our staff's approval.

In no instance shall the maintenance and administrative costs associated with the refund be borne by the customers. These costs are the responsibility of, and shall 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 shall be maintained by the utility. This account shall specify by whom and on whose behalf such monies were paid. If a refund is ultimately required, it shall be paid with interest calculated pursuant to Rule 25-30.360(4), Florida Administrative Code.

The utility shall maintain a record of the amount of revenues that are subject to refund. In addition, pursuant to Rule 25-30.360(6), Florida Administrative Code, the utility shall file a report with the Division of Water and Wastewater no later than the 20th day of each month indicating in detail the total amount of revenues collected under the temporary rates from its wastewater customers on a monthly and total basis.

#### IX. REFUND OF EMERGENCY TEMPORARY RATES

By Order No. PSC-99-1010-PCO-SU, issued May 20, 1999, we allowed the utility to implement emergency temporary rates, subject to refund. The approved emergency rates generated additional revenues of \$480,394 and the rates became effective May 27, 1999. We have determined that the additional revenue necessary for the interconnection with the City is greater than the revenue increase granted for the emergency temporary rates. Therefore, a refund is not required.

#### X. CLOSING OF DOCKET

If no timely protest is received upon the expiration of the protest period, the Order shall become final and effective upon the issuance of a Consummating Order and this docket shall be closed. If a protest is filed within 21 days of the issuance of the Order, the approved temporary rates shall become effective as set forth in the body of this Order pending resolution of the protest.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the request of Lindrick Service Corporation for a limited proceeding to increase its wastewater rates is hereby granted in part as set forth in the body of this Order. It is further

ORDERED that the request of Lindrick Service Corporation for a limited proceeding to increase its water rates is hereby denied. It is further

ORDERED that the provisions of this Order, except for the provision of temporary rates in event of protest, are issued as proposed agency action, and shall become final and effective upon the issuance of a Consummating Order unless an appropriate petition, in the form provided by Rule 28-106.201, Florida Administrative Code, is received by the Director, Division of Records and Reporting, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings" attached hereto. It is further

ORDERED that each of the findings made in the body of this Order is hereby approved in every respect. It is further

ORDERED that all matters contained in the schedules attached hereto are incorporated herein by reference. It is further

ORDERED that Lindrick Service Corporation is hereby authorized to charge the new rates as set forth in the body of this Order. It is further

ORDERED that prior to its implementation of the rates approved herein, Lindrick Service Corporation shall submit and have approved revised tariff pages. The revised tariff pages shall be approved upon our staff's verification that the pages are consistent with our decision herein, that the protest period has expired, that the customer notice is adequate and that any required security has been provided. It is further

ORDERED that Lindrick Service Corporation's rates shall be effective for service rendered on or after the stamped approval date on the tariff sheet pursuant to Rule 25-30.475(1), Florida Administrative Code, provided that the customers have received proper notice. It is further

ORDERED that Lindrick Service Corporation shall provide proof that the customers have received notice within ten days of the date of the notice. It is further

ORDERED that no refund of the emergency temporary rates is required. It is further

ORDERED that the quality of service provided by Lindrick Service Corporation is unsatisfactory. It is further

ORDERED that Lindrick Service Corporation shall respond in writing in six months from the date of this Order as to the progress made in the area of complaint responsiveness. It is further

ORDERED that in the event of a protest by any substantially affected person, Lindrick Service Corporation is authorized to collect the rates approved on a temporary basis, subject to refund in accordance with Rule 25-30.360, Florida Administrative Code, provided that Lindrick Service Corporation first furnishes and has approved by our staff, adequate security for any potential refund and a proposed customer notice. It is further

ORDERED that the rates shall be reduced at the end of the four-year rate case expense amortization period, consistent with our decision herein. Lindrick Service Corporation shall file revised tariff sheets no later than one month prior to the actual date of the reduction and shall file a customer notice. It is further

ORDERED that in the event of a protest, prior to its implementation of the rates on a temporary basis, Lindrick Service Corporation shall submit and have approved a bond or letter of credit in the amount of \$876,569 as a guarantee of any potential refund of revenues collected pursuant to the previous emergency temporary rates and the temporary rates approved in this Order. Alternatively, the utility may establish an escrow account with an independent financial institution as set forth in the body of this Order. It is further

ORDERED that Lindrick Service Corporation shall maintain, as set forth in the body of this Order, a record of the amount of revenues that are subject to refund. It is further

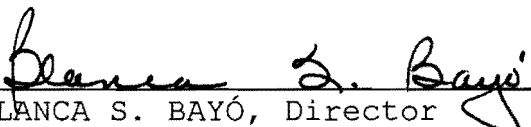
ORDERED that in the event of a protest, Lindrick Service Corporation shall submit monthly reports no later than the 20th day of each month indicating in detail the total amount of revenues

ORDER NO. PSC-99-1883-PAA-SU  
DOCKET NO. 980242-SU  
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collected under the temporary rates from its wastewater customers on a monthly and total basis subject to refund. It is further

ORDERED that in the event this Order becomes final and effective upon issuance of a Consummating Order, this Docket shall be closed.

By ORDER of the Florida Public Service Commission this 21st day of September, 1999.

  
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BLANCA S. BAYÓ, Director  
Division of Records and Reporting

( S E A L )

RRJ

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

As identified in the body of this order, our actions, except for the approval of temporary rates in event of protest, are preliminary in nature. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Director, Division of Records and Reporting, at 2540 Chambered Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on October 12, 1999. If such a petition is filed, mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing. In the absence of such a petition,

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this order shall become effective and final upon the issuance of a Consummating Order.

Any objection or protest filed in this docket before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

Any party adversely affected by the Commission's final action concerning temporary rates in this matter may request: (1) reconsideration of the decision by filing a motion for reconsideration with the Director, Division of Records and Reporting within fifteen (15) days of the issuance of this order in the form prescribed by Rule 25-22.060, Florida Administrative Code; or (2) judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or the First District Court of Appeal in the case of a water or wastewater utility by filing a notice of appeal with the Director, Division of Records and Reporting and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days after the issuance of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.



LINDRICK SERVICE CORPORATION  
SCHEDULE OF WASTEWATER RATE BASE  
PROJECTED TEST YEAR ENDED DECEMBER 31, 1999

SCHEDULE NO. 1  
DOCKET NO. 980242-SU

	BALANCE PER UTILITY	COMM. ADJ.		COMM. ADJUSTED BAL. 1997	COMM. ADJ. FOR INTERCONNECT		COMM. APPROVED BAL. @ 12/99
UTILITY PLANT IN SERVICE	\$ 2,713,249	\$ 7,009	A	\$ 2,720,258	\$ 2,910,368	G	\$ 5,630,626
LAND/NON-DEPRECIABLE ASSETS	19,353	0		19,353	0		19,353
NON-USED AND USEFUL PLANT	0	0		0	0		0
ACQUISITION ADJUSTMENT	(24,901)	0		(24,901)	0		(24,901)
CWIP	0	0		0	0		0
CIAC	245,501	228,087	B	(2,226,931)	(12,950)	H	(2,239,881)
ACCUMULATED DEPRECIATION	128,279	(51,181)	C	(1,333,974)	(273,683)	I	(1,607,657)
AMORTIZATION OF ACQUISITION ADJ.	17,126	(357)	D	16,769	1,036	J	17,805
AMORTIZATION OF CIAC	122,530	(158,298)	E	1,067,004	155,830	K	1,222,834
WORKING CAPITAL ALLOWANCE	0	68,537	F	68,537	32,509	L	101,046
WASTEWATER RATE BASE	<u>\$212,318</u>	<u>\$93,797</u>		<u>\$306,115</u>	<u>\$2,813,110</u>		<u>\$3,119,225</u>

LINDRICK SERVICE CORPORATION  
ADJUSTMENTS TO RATE BASE  
PROJECTED TEST YEAR ENDED DECEMBER 31, 1999

SCHEDULE NO. 1A  
DOCKET NO. 980242-SU

WASTEWATER

A. UTILITY PLANT IN SERVICE

1. To adjust beginning balance of account No. 370,371 and 380 to amount approved by Order No. 97-1501	\$	12,990
2. Reclassification from water plant account No. 320 per audit		4,203
3. Retirement of pump		(1,047)
4. To remove undocumented cost per audit		(4,713)
5. Reclassification from account 371 to account 775		(453)
6. Reclassification from account 380 to accounts 775		(1,023)
7. Reclassification from account 380 to account 711		(6,000)
8. To reflect lift station improvement per audit		4,673
9. Reclassification from account 380 to account 775		(1,520)
10. Reclassification from account 397 to account 775		(102)
Total Test Year Adjustment		<u>7,009</u>

B. CONTRIBUTIONS IN AID OF CONSTRUCTION(CIAC)

1. To reverse unsupported credit adjustment	\$	252,597
2. To agree util. CIAC balances with order no. 97-1501		(26,430)
3. To reflect reclassification to water CIAC		1,920
	\$	<u>228,087</u>

C. ACCUMULATED DEPRECIATION

1. To reflect accumulated depreciation at 12/31/97	\$	(52,228)
2. To adjust accumulated depreciation for retirement		1,047
	\$	<u>(51,181)</u>

D. AMORTIZATION OF ACQUISITION ADJUSTMENT

1. To reflect amortization of acquisition adj. at 12/31/97	\$	<u>(357)</u>
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E. AMORTIZATION OF CIAC

1. Amortization of CIAC @ 12/31/97	\$	<u>(158,298)</u>
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F. WORKING CAPITAL ALLOWANCE

1. To reflect 1/8 of O&M expense for test year	\$	<u>68,537</u>
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G. UTILITY PLANT IN SERVICE PHASE-II ADDITION

1. To include estimated cost for 2nd phase coll. system improvements	\$	2,978,582
2. To reflect plant retirement after the interconnection		(68,214)
	\$	<u>2,910,368</u>

H. CONTRIBUTIONS IN AID OF CONSTRUCTION(CIAC)

1. To reflect CIAC for 1998 per the utility annual report	\$	(4,200)
2. To reflect CIAC for 1999 based on projected growth per the utility		(8,750)
	\$	<u>(12,950)</u>

I. ACCUMULATED DEPRECIATION

1. To reflect accumulated deprec. on plant improvement for the interconnection	\$	(157,702)
2. To reflect accumulated depreciation on existing plant through 12/31/99		(184,195)
3. To remove accumulated depreciation on retired plant		68,214
	\$	<u>(273,683)</u>

J. AMORTIZATION OF ACQUISITION ADJUSTMENT

1. To reflect amortization through 12/31/99	\$	<u>1,036</u>
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K. AMORTIZATION OF CIAC

1. To reflect amortization of CIAC through 12/31/99	\$	<u>155,830</u>
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L. WORKING CAPITAL ALLOWANCE

1. 1/8 of O&M expense after interconnection	\$	<u>32,509</u>
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LINDRICK SERVICE CORPORATION  
 SCHEDULE OF CAPITAL STRUCTURE  
 PROJECTED TEST YEAR ENDED DECEMBER 31, 1999

SCHEDULE NO. 2  
 DOCKET NO. 980242-SU

	<u>PER UTILITY</u>	<u>COMM. ADJ.</u>	<u>ADJUSTED BALANCE PER COMM.</u>	<u>PRO RATA ADJUST. PER COMM.</u>	<u>RECONCILIATION TO RATE BASE</u>	<u>PERCENT OF TOTAL</u>	<u>COST</u>	<u>WEIGHTED COST</u>
COMMON EQUITY	\$328,236	\$0	\$328,236	\$110,767	\$217,469	6.97%	9.62%	0.67%
LONG-TERM DEBT	100,000	0	100,000	(33,746)	66,254	2.12%	8.00%	0.17%
LONG-TERM DEBT	0	4,000,000	4,000,000	13,498	265,015	84.96%	9.25%	7.86%
LONG-TERM DEBT	0	0	0	0	0	0.00%	0.00%	0.00%
ADVANCES	279,759	0	279,759	(94,408)	185,351	5.94%	10.12%	0.60%
CAPITAL STOCK	0	0		0		0.00%	0.00%	0.00%
PAID IN CAPITAL	0	0		0		0.00%	0.00%	0.00%
OTHER	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	0.00%	0.00%	<u>0.00%</u>
TOTAL	<u>\$707,995</u>	<u>\$4,000,000</u>	<u>\$4,707,995</u>	<u>\$15,887</u>	<u>\$311,922</u>	100.00%		<u>9.30%</u>

<u>RANGE OF REASONABLENESS</u>	<u>LOW</u>	<u>HIGH</u>
RETURN ON EQUITY	9.12%	11.12%
OVERALL RATE OF RETURN	9.27%	9.41%

LINDRICK SERVICE CORPORATION  
SCHEDULE OF WASTEWATER OPERATING INCOME  
PROJECTED TEST YEAR ENDED DECEMBER 31, 1999

SCHEDULE NO. 3  
DOCKET NO. 980242-SU

	PER UTILITY	COMM. ADJ.	COMM. ADJUSTED BAL. 1997	COMM. ADJ. FOR INTERCONNECT	COMM. PROJECTED BAL. AT 12/31/99	COMM. ADJ. FOR INCREASE	TOTAL PER COMM.
OPERATING REVENUES	\$ 656,313	\$ 18,226 A	\$ 674,539	\$ 73,189 F	\$ 747,728	\$ 682,369 J	\$ 1,430,097
						91.26%	
OPERATING EXPENSES:							
OPERATION AND MAINTENANCE	\$ 531,840	16,458 B	\$ 548,298	\$ 260,066 G	\$ 808,364	\$ 0	808,364
DEPRECIATION (NET)	13,002	4,225 C	17,227	155,083 H	172,310	0	172,310
AMORT. OF ACQUISITION ADJ.	0	(518) D	(518)	0	(518)	0	(518)
TAXES OTHER THAN INCOME	50,525	16,802 E	67,327	61,819 I	129,146	30,707 K	159,853
INCOME TAXES	0	0	0	0	0	0	0
TOTAL OPERATING EXPENSES	\$ 595,367	\$ 36,967	\$ 632,334	\$ 476,968	\$ 1,109,302	\$ 30,707	\$ 1,140,009
OPERATING INCOME/(LOSS)	\$ 60,946		\$ 42,205		\$ (361,574)		\$ 290,088
WASTEWATER RATE BASE	\$ 212,318		\$ 306,115		\$ 3,119,225		\$ 3,119,225
RATE OF RETURN	28.71%		13.79%		-11.59%		9.30%

LINDRICK SERVICE CORPORATION  
 ADJUSTMENTS TO OPERATING INCOME  
 PROJECTED TEST YEAR ENDED DECEMBER 31, 1999

SCHEDULE NO. 3A  
 PAGE 1 OF 4  
 DOCKET NO. 980242-SU

		<u>TEST YEAR</u>
<b>A. OPERATING REVENUES</b>		
1. To reflect annualized revenue for 1997	\$	<u>18,226</u>
<b>B. OPERATION AND MAINTENANCE EXPENSES</b>		
1. <u>Salaries and Wages - Employees</u>		
a. To annualize salaries: cust serv. manager, 2 maint. employees & 3 operators.	\$	<u>42,040</u>
2. <u>Salaries and Wages - Officers</u>		
a. To reflect annual salary for president and operations manager	\$	<u>(990)</u>
3. <u>Employee Benefits</u>		
a. To remove IRA fund for utility's president per audit	\$	<u>(1,000)</u>
4. <u>Sludge Removal Expense</u>		
a. To remove out of period expense	\$	(1,715)
b. Reclassification from plant account no. 380		<u>6,000</u>
	\$	<u>4,285</u>
5. <u>Purchased Power</u>		
a. To reflect appropriate annual expense per audit	\$	<u>20,885</u>
6. <u>Materials and Supplies</u>		
a. To reflect reclassification to account No. 775 per audit	\$	(5,286)
b. To remove a non-utility expense per audit		(1,018)
c. To reflect reclass of back flow prevention devices to water plant per audit		<u>(3,592)</u>
	\$	<u>(9,896)</u>
7. <u>Contractual Service (Engineering)</u>		
a. To remove a prior period expense per audit	\$	(4,641)
b. To reflect annual contractual engineering service		<u>10,557</u>
	\$	<u>5,916</u>
8. <u>Contractual Service (Accounting)</u>		
b. To reflect contractual accounting expense per invoices	\$	<u>(6,735)</u>
9. <u>Contractual Service (Legal)</u>		
a. To remove a prior period expense	\$	(1,421)
b. To remove a non-utility expense		(764)
	\$	<u>(2,185)</u>
10. <u>Contractual Service (Management)</u>		
a. To reflect contractual management fee per audit	\$	<u>(1,168)</u>
11. <u>Contractual Service (Other)</u>		
a. To remove a non-utility expense per audit	\$	(6,277)
b. Reclassification of rate case expense to account No.765		(7,414)
c. To reflect reclassification to account No. 775		(5,523)
d. To reflect reclassification to account No. 775		(850)
	\$	<u>(20,064)</u>
12. <u>Transportation Expense</u>		
a. To remove a non-utility expense per audit	\$	<u>(8,103)</u>

LINDRICK SERVICE CORPORATION  
ADJUSTMENTS TO OPERATING INCOME  
PROJECTED TEST YEAR ENDED DECEMBER 31, 1999

SCHEDULE NO. 3A  
PAGE 2 OF 4  
DOCKET NO. 980242-SU

13. <u>Regulatory Commission Expense</u>	
a. To reflect reclassification from account 736	\$ 7,414
b. To reflect rate expense amortized over four years	(5,560)
c. To remove a prior period expense	(6,000)
	\$ <u>(4,146)</u>
14. <u>Bad Debt Expense</u>	
a. To allow recovery of old debt expense over five years	\$ <u>(5,332)</u>
15. <u>Miscellaneous Expense</u>	
a. Reclassification of misc. repair and maintenance costs from account No. 735	\$ 5,523
b. Reclassify repair and maintenance cost from account No. 720	5,286
c. Reclassify repair cost from account No. 735	850
d. Reclassify repair cost from plant account No. 371, 380 and 397	3,098
e. Repair and maintenance expense amortized over five years	(11,806)
	\$ <u>2,951</u>
Total O & M	<u>16,458</u>
C. <u>DEPRECIATION EXPENSE</u>	
1. Test year depreciation	\$ 80,163
2. Test year amortization of CIAC	(75,938)
	\$ <u>4,225</u>
D. <u>AMORTIZATION OF ACQUISITION ADJ.</u>	
1. To reflect test year amortization of acquisition adj.	\$ <u>(518)</u>
E. <u>TAXES OTHER THAN INCOME</u>	
1. To reflect regulatory assessment fee @ 4.5% on test year revenue	\$ 2,394
2. To reflect payroll taxes on annualized salaries	16,455
3. To remove non-utility property taxes expense	(220)
4. To remove tax penalty	1,827
	\$ <u>16,802</u>
Total Operating Expenses Adjustment	\$ <u>36,967</u>

LINDRICK SERVICE CORPORATION  
ADJUSTMENTS TO OPERATING INCOME  
PROJECTED TEST YEAR ENDED DECEMBER 31, 1999

SCHEDULE NO. 3A  
PAGE 3 OF 4  
DOCKET NO. 980242-SU

WASTEWATER  
AFTER  
INTERCONNECTION

F. <u>OPERATING REVENUE</u>	
1. To reflect annualized revenue to include growth for 1999	\$ <u>73,189</u>
G. <u>OPERATION AND MAINTENANCE EXPENSES</u>	
1. <u>Salaries and Wages - Employees</u>	
a. To remove salaries for three operators	\$ (66,196)
b. To reflect requested salary for customer service manager	2,080
c. To reflect requested salary for maintenance supervisor	<u>900</u>
	\$ <u>(63,216)</u>
2. <u>Salaries and Wages - Officers</u>	
a. To remove salary for utility's president after the interconnection as requested by the utility	\$ <u>(11,577)</u>
3. <u>Employee Benefits</u>	
a. To remove pensions and benefits associated with reduced salary for the operators as requested by utility	\$ <u>(3,996)</u>
4. <u>Purchased Sewage Treatment</u>	
a. To reflect annualized purchased wastewater treatment using 1999 cost and estimated number of gallons of wastewater treated	\$ <u>447,629</u>
5. <u>Sludge Removal Expense</u>	
a. To remove 1997 sludge removal expense	\$ <u>(90,221)</u>
6. <u>Purchased Power</u>	
a. To remove 1997 purchased power expense	\$ <u>(43,276)</u>
7. <u>Chemicals</u>	
a. To reflect chemical expense after interconnection	\$ <u>8,257</u>
8. <u>Contractual Service (Engineering)</u>	
a. To reduce engineering service after interconnection	\$ <u>(25,342)</u>
9. <u>Contractual Service (Testing)</u>	
a. To reflect testing expense after interconnection	\$ <u>27,867</u>

LINDRICK SERVICE CORPORATION  
ADJUSTMENTS TO OPERATING INCOME  
PROJECTED TEST YEAR ENDED DECEMBER 31, 1999

SCHEDULE NO. 3A  
PAGE 4 OF 4  
DOCKET NO. 980242-SU

10. <u>Contractual Service (Other)</u>		
a. To reflect contractual services provided by H2O	\$	8,029
b. To remove cost for billing service that is now being provided by H2O		<u>(5,918)</u>
	\$	<u>2,111</u>
11. <u>Insurance Expense</u>		
a. To remove workman's compensation insurance expense for reduction of operators' services	\$	<u>(1,244)</u>
12. <u>Regulatory Commission Expense</u>		
a. To reflect rate case expense amortized over four years	\$	<u>13,074</u>
 Total O & M		 <u>260,066</u>
H. <u>DEPRECIATION EXPENSE</u>		
1. To reflect depreciation expense on plant for interconnection	\$	163,365
2. To reflect test year amortization of CIAC for 1999		<u>(8,282)</u>
	\$	<u>155,083</u>
I. <u>TAXES OTHER THAN INCOME</u>		
1. To remove payroll taxes associated with reduced salaries after interconnection	\$	(8,827)
2. To reflect increase in property tax based on Pasco County's millage rate times staff's recommended net plant at 12/31/99		67,352
3. To reflect additional reg. fees on annualized revenue		<u>3,294</u>
	\$	<u>61,819</u>
 Total Operating Expenses Adjustment for Projected Balance	\$	 <u>476,968</u>
J. <u>OPERATING REVENUES</u>		
1. To reflect increase in revenue to allow the Utility to recover its expenses and allow recommended return on investment for the phase-II plant improvement.	\$	<u>682,369</u>
K. <u>TAXES OTHER THAN INCOME</u>		
1. To reflect additional regulatory assessment fee on increase in revenue	\$	<u>30,707</u>



LINDRICK SERVICE CORPORATION  
 ANALYSIS OF WASTEWATER OPERATION  
 AND MAINTENANCE EXPENSE  
 PROJECTED TEST YEAR ENDED DECEMBER 31, 1999

SCHEDULE NO. 3B  
 DOCKET NO. 980242-SU

	BAL. PER UTILITY	COMM. ADJ.	COMM. ADJUSTED BAL. 1997	PHASE-II ADJUST.	COMM. APPROVED BAL. PHASE-II
#701 SALARIES AND WAGES - EMPLOYEES	\$50,598	\$42,040	\$92,638	(\$63,216)	\$29,422
#703 SALARIES AND WAGES - OFFICERS	46,590	(990)	45,600	(11,577)	34,023
#704 PENSIONS AND BENEFITS	14,367	(1,000)	13,367	(3,996)	9,371
#710 PURCHASED SEWAGE TREATMENT	0	0	0	447,629	447,629
#711 SLUDGE REMOVAL	85,936	4,285	90,221	(90,221)	0
#715 PURCHASED POWER	32,574	20,885	53,459	(43,276)	10,183
#718 CHEMICALS	8,327	0	8,327	8,257	16,584
#720 MATERIALS AND SUPPLIES	27,517	(9,896)	17,621	0	17,621
#731 CONTRACTUAL SERVICES (ENGINEERING)	57,339	5,916	63,255	(25,342)	37,913
#732 CONTRACTUAL SERVICES (ACCT)	46,647	(6,735)	39,912	0	39,912
#733 CONTRACTUAL SERVICES (LEGAL)	6,484	(2,185)	4,299	0	4,299
#734 CONTRACTUAL SERVICES (ADMIN.)	11,152	(1,168)	9,984	0	9,984
#735 CONTRACTUAL SERVICES (TESTING)	10,065	0	10,065	27,867	37,932
#736 CONTRACTUAL SERVICES (OTHER)	94,071	20,064	74,007	2,111	76,118
#740 RENTS	10,097	0	10,097	0	10,097
#750 TRANSPORTATION EXPENSE	12,100	(8,103)	3,997	0	3,997
#755 INSURANCE EXPENSE	3,120	0	3,120	1,244	1,876
#765 REGULATORY COMMISSION EXPENSE	6,000	(4,146)	1,854	13,074	14,928
#770 BAD DEBT EXPENSE	7,997	(5,332)	2,665	0	2,665
#775 MISCELLANEOUS EXPENSES	859	2,951	3,810	0	3,810
	<u>\$531,840</u>	<u>\$16,458</u>	<u>\$548,298</u>	<u>\$260,066</u>	<u>\$808,364</u>

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LINDRICK SERVICE CORPORATION  
 SCHEDULE OF RATE CASE EXPENSE RATE  
 REDUCTION AFTER FOUR YEARS  
 PROJECTED TEST YEAR ENDED DECEMBER 31, 1999

SCHEDULE NO. 4  
 DOCKET NO. 980242-SU

MONTHLY RATES

<u>RESIDENTIAL</u>	COMM. APPROVED	COMM. APPROVED <u>RATE DECREASE</u>
<u>BASE FACILITY CHARGE:</u>		
<u>METER SIZE:</u>		
ALL SIZES	\$ 16.92	\$ 0.18
<u>RESIDENTIAL GALLONAGE CHARGE</u>		
PER 1,000 GALLONS	\$ 4.50	\$ 0.05
<u>GENERAL SERVICE</u>		
<u>BASE FACILITY CHARGE:</u>		
<u>Meter</u>		
<u>Size:</u>		
5/8"	\$ 16.92	\$ 0.18
3/4"	\$ 25.38	\$ 0.28
1"	\$ 42.31	\$ 0.46
1 1/2"	\$ 84.61	\$ 0.92
2"	\$ 135.38	\$ 1.48
3"	\$ 270.77	\$ 2.96
4"	\$ 423.07	\$ 4.62
6"	\$ 846.14	\$ 9.25
8" (Compound)	\$ 1,353.83	\$ 14.79
8" (Turbine)	\$ 1,523.05	\$ 16.64
<u>GENERAL SERVICE GALLONAGE</u>		
PER 1,000 GALLONS	\$ 5.40	\$ 0.06

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Lindrick Service Corporation

Schedule No. 5  
Docket No. 980242-SU

Utility Proposed Final Increase (Completion of Phase I&II)  
If No Change in Related Party Services  
Projected Test Year Ended 12/31/99

Component		<u>Requested Increase</u>
Operation and Maintenance Expense	\$	383,198
Depreciation (net)		241,434
Taxes Other Than Income		59,594
Income Taxes		100,305
Additional Operating Expenses	\$	784,531
Return on Investment (0.0976 x \$2,837,211 net increase in plant)	\$	276,912
Total Additional Expenses and Return on Investment	\$	1,061,443
Divided by Regulatory Assessment Fee Expansion Factor		0.955
Total Revenue Increase	\$	1,111,459
Divided by Projected Annualized Revenue		779,021
Percentage Increase in Revenue		142.67%

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Lindrick Service Corporation

Schedule No. 5-A  
Docket No. 980242-SU

Utility Proposed Final Increase (Completion of Phase I&II)  
If the Related Party Expenses Are Replaced with  
Contract Services from Third Party  
Projected Test Year Ended 12/31/99

<u>Component</u>	<u>Requested Increase</u>
Operation and Maintenance Expense	\$ 501,061
Depreciation (net)	241,434
Taxes Other Than Income	56,713
Income Taxes	100,305
Additional Operating Expenses	\$ 899,513
Return on Investment (0.0976 x \$2,837,211 net increase in plant)	\$ 276,912
Total Additional Expenses and Return on Investment	\$ 1,176,425
Divided by Regulatory Assessment Fee Expansion Factor	0.955
Total Revenue Increase	1,231,859
Divided by Projected Annualized Revenue	779,021
Percentage Increase in Revenue	158.13%