



Public Service Commission

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RECORDS AND REPORTING

DATE: SEPTEMBER 23, 1999

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

FROM: DIVISION OF WATER AND WASTEWATER (CHU, DEWBERRY, DAVIS, *and*)
GOLDEN *mas* *SW*
DIVISION OF LEGAL SERVICES (JAEBER, CIBULA) *S.M.C.* *ps*

RE: DOCKET NO. 980778-SU - APPLICATION FOR STAFF-ASSISTED RATE CASE IN POLK COUNTY BY CROOKED LAKE PARK SEWERAGE COMPANY. COUNTY: POLK

AGENDA: 10/05/99 - REGULAR AGENDA - PROPOSED AGENCY ACTION - EXCEPT ISSUE 19 - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE (15-MONTH STATUTORY DEADLINE HAS BEEN WAIVED)

SPECIAL INSTRUCTIONS: NONE

FILE NAME AND LOCATION: S:\PSC\WAW\WP\980778.RCM

DOCUMENT NUMBER-DATE

11473 SEP 23 99

FPSC-RECORDS/REPORTING

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CASE BACKGROUND

Crooked Lake Park Sewerage Company, Inc. (Crooked Lake or utility) is a Class C wastewater utility located in Polk County. On December 13, 1957, Polk County granted a franchise to Park Water Company to operate a water and wastewater system. In 1978 the wastewater treatment plant and collection system was sold to Warner Southern College and the name was changed to Crooked Lake Park Sewer Company. The current owner purchased this utility on September 30, 1988 under the name Crooked Lake Park Sewerage Company. Polk County came under the Commission's jurisdiction on July 11, 1996. By Order No. PSC-98-1247-FOF-SU, issued September 21, 1998, in Docket No. 961478-SU, the Commission granted the utility its grandfather certificate No. 517-S for wastewater.

On June 23, 1998, the utility filed an application for the staff-assisted rate case (SARC) and paid the appropriate filing fee. Staff has selected a historical test year ended July 31, 1998. In the preparation of this report, staff has audited the utility's records for compliance with Commission rules and orders and determined all components necessary for rate setting. The staff engineer has also conducted a field investigation of the utility's plant and service area. A review of the utility's operation expenses, maps, files and rate application was also performed to obtain information about the physical plant operating costs.

In its original application, the utility requested the recovery of cost for improvements for its collection system and relocation of two percolation ponds as required by the Department of Environmental Protection (DEP). However, the utility experienced problems in acquiring a loan for funding the improvements. By letter dated October 20, 1998, Crooked Lake waived the 15-month statutory time frame for completing this rate case to allow additional time for acquiring the loan and bids for plant improvements. The utility continued to experience difficulty in acquiring a loan for plant improvements and requested a six-month extension by letter dated November 6, 1998 and a 30-day extension by letters dated February 24, 1999 and April 6, 1999, respectively. In the letter dated April 6, 1999, the utility stated that it has decided not to include any cost associated with the possible relocation of the percolation ponds in this docket. The utility represents that if DEP insists that the percolation ponds be relocated, the utility will petition the Commission for a

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limited proceeding at that time. This recommendation includes pro forma costs for the collection system required to alleviate some of the inflow and infiltration problems in the calculation of rates as requested by the utility.

The utility provides wastewater service to approximately 308 residential customers, a master metered mobile home park, which has 97 units behind the master meter, a restaurant and a bank. The utility's adjusted test year revenues are \$59,648 its adjusted expenses are \$92,084, which results in an adjusted test year loss of \$32,436.

On June 23, 1999, a customer meeting was held in the utility's service area to allow customers the opportunity to address the utility's application for this rate case. Eighteen customers attended the meeting. The major concerns addressed were sewage overflows and dissatisfaction with the recommended percentage increase in rates. Sewage overflows are addressed in Issue 1.

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QUALITY OF SERVICE

ISSUE 1: Is the quality of service provided by Crooked Lake Park Sewerage Company, Inc. to its customers satisfactory?

RECOMMENDATION: The quality of service provided by the utility is considered unsatisfactory. The utility should be allowed a sufficient pro-forma plant allowance in this rate case to correct any and all infiltration problems, and be given 180 days from the date of the Order to have all scheduled work completed to correct the current infiltration problems. (DAVIS)

STAFF ANALYSIS: A customer meeting was held June 23, 1999, in the service area of Crooked Lake Park Sewerage Company, Inc. All valid quality of service issues raised by the customers at that meeting were investigated and addressed either below or personally during the investigative process. This final recommendation has been derived from an evaluation of three separate components of water and wastewater utility operations:

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

QUALITY OF UTILITY'S PRODUCT

In Polk County, the wastewater program is regulated by the Southwest Florida District of the DEP. The product of a wastewater treatment plant is determined by the results of required testing and analysis of the wastewater. According to the DEP, the utility is currently up to date with all of its testing requirements, and the results of those tests are satisfactory. By all indications, the utility is properly treating its effluent and the quality of the product is satisfactory.

OPERATIONAL CONDITIONS AT THE PLANT

The quality of the utility's plant-in-service is generally reflected in lab tests of the effluent. In this case, the DEP finds the quality of the utility's effluent being discharged as satisfactory, but, has several outstanding citations against the utility for plant-in-service violations. On March 25, 1998, DEP

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issued Warning Letter No. WL980009DW53SWD to the utility which cited the utility for:

- A) Effluent being discharged off utility property,
- B) Failure to use its south percolation pond,
- C) Overflow of raw wastewater from plant tanks,
- D) Failure to report its discharge violations to the Department, and
- E) Influent flows exceeding permitted capacity.

The utility's operating permit expired on July 31, 1999. Before the operating permit for Crooked Lake can be reissued, the utility must satisfy all of the current violations and bring the plant up to current regulatory standards. This means that the utility will need to upgrade the capacity of the percolation ponds and construct the new ponds a minimum of 100 feet from the wet edge of the pond to any adjacent property in accordance with Chapter 62-610.521(6), Florida Administrative Code (F.A.C.). In addition, the DEP continues to look into the utility's need for additional capacity at the plant. The utility's consultant (Hartman & Associates, Inc.) is convinced that the high volume of flows experienced at the plant is due to excessive infiltration, and once the infiltration problems are under control, the need for additional plant capacity will be resolved. The matter is still under investigation.

All things considered, the quality of the wastewater service is considered unsatisfactory. It is for this reason that a pro forma amount has been included in this rate proceeding.

CUSTOMER SATISFACTION

The customer meeting was held on June 2, 1999, in the Fulton Chapel of Southern Warner College at 6:30 p.m. The utility serves 311 customers estimated to be 353 ERCs. Out of that customer base, eighteen customers attended the customer meeting held in the service area of Crooked Lake. Six of those customers voiced their concerns about the staff assisted rate case. Two quality of service complaints were brought to staff's attention. Ms. Meadows lives next to the treatment plant, and when the ponds overflowed, her property was flooded. For several weeks after, her yard was mushy while it was drying out. Ms. Stroud stated that she has a gurgling sound in her drain pipes while using the washing machine that results in some backups in her bathtub.

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It is staff's opinion that both situations are a result of the infiltration problem that has resulted in the violation discussed above. When the utility corrects its infiltration problems, at least, these two complaints will be rectified.

All things considered, the utility's quality of service is considered to be unsatisfactory. The utility should be granted sufficient pro-forma plant allowance in this rate case to correct the infiltration problem, and be given 180 days from the date of the Order to have all scheduled work completed to correct the current infiltration problems.

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USED AND USEFUL

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

RECOMMENDATION: The wastewater plant should be considered 100% used and useful. The collection system should be 100% used and useful due to assets being contributed property. (DAVIS)

STAFF ANALYSIS:

The wastewater treatment plant has a permitted capacity of 60,000 gallons per day (gpd). The average number of customers during the test year was 311 customers which are estimated to be 353 Equivalent Residential Connections (ERCs). The average daily flow for the months of August 1997, December 1997, January 1998, February 1998, and March 1998 exceeded the plant's capacity.

In a more recent review of the utility's flows, the average daily flow for the months of September 1998, October 1998, January 1999, and February 1999 also contained maximum daily flows that exceeded the plant capacity. Apparently, these excessive flows caused the ponds to overflow, resulting in citations by the DEP. The utility's consultants have been hired to assist the utility in resolving its compliance problems with the DEP. It is Hartman and Associates' position that the violations concerning the percolation ponds are due to infiltration trouble spots. The DEP does not agree, the ponds were allowed under a "grandfather" clause when the utility was experiencing typical flows around 35,000 gpd. With the current number of connections (311), the ponds are failing and need to be upgraded to current standards. By the approved formula method, used as an indicator of used and useful plant, the utility is considered 100% used and useful without the consideration for margin reserve (See Attachment "A"). Therefore, staff recommends that the wastewater treatment plant be considered 100% used and useful.

Collection mains in the Crooked Lake service area are available to 468 platted lots, which is calculated to be 406 ERCs. The utility currently serves 308 residential customers and three (3) general service customers which is calculated to be 353 ERCs. Because the collection system is totally contributed, a calculation of useful plant is not necessary, and the collection

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system should be considered 100% used and useful. (See Attachment "B").

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

PRIMARY RECOMMENDATION: No. The wastewater treatment plant is 100% used and useful without a margin reserve which should not be included in the used and useful calculation. A margin reserve for the wastewater collection system is not applicable due to the system being contributed property. (DAVIS)

STAFF ANALYSIS: Margin Reserve is the concept whereby the Commission recognizes certain costs incurred by the utility in providing extra capacity sufficient to meet short term growth. Short term growth during planning and construction phases should continue without impairing the utility's ability to provide safe and adequate service to existing customers. Recognizing that plant facilities cannot be added on a day to day basis, the Margin Reserve concept provides a reasonable avenue for the utility to serve new customers during the planning, permitting, and construction period. The construction period varies from utility to utility with Class C utilities typically requiring additional time to complete construction.

The Crooked Lake wastewater treatment plant is 100% used and useful with or without a margin reserve. The wastewater collection system was found to be contributed and should be considered 100% used and useful without consideration for margin reserve. In both calculations, a margin reserve is not applicable.

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ISSUE 4: Should an acquisition adjustment be approved in the determination of the utility's rate base at the date of purchase?

RECOMMENDATION: No, an acquisition adjustment should not be approved in the determination of the utility's rate base at the date of purchase. (DEWBERRY, CHU)

STAFF ANALYSIS: An acquisition adjustment occurs when the purchase price differs from the original cost.

The current owner purchased this utility for \$20,000 on September 30, 1988. When the utility was purchased, the prior owner did not provide original cost documentation for plant to the current owner. As addressed in Issue 5, in instances where original cost documentation for plant cannot be provided, an original cost study is completed to determine plant value. In addition, the utility's current owner was not provided with contributions-in-aid-of-construction (CIAC) balances at the date of purchase. Following the guidelines of Rule 25-30.570(1), F.A.C., CIAC has been imputed based on the cost of the collection system as determined by the original cost study. Using the original cost study, staff's calculated rate base at September 30, 1988 is \$28,949. The calculation is as follows:

Plant in Service at 09/30/88	\$ 161,297
Accum. Depre. @ 09/30/88	(88,416)
Net Plant @ 09/30/88	<u>\$ 72,881</u>
CIAC @ 09/30/88	\$ (101,536)
Amort. of CIAC @ 09/30/88	<u>51,409</u>
	<u>\$ (50,129)</u>
Net Plant	\$ 72,881
Net CIAC	(50,129)
Depreciable Rate Base @9/30/88	22,752
Land	<u>6,197</u>
Rate Base @ 09/30/88	<u>\$ 28,949</u>

In the absence of extraordinary circumstances, it has been Commission practice that the purchase of a utility system at a premium or discount shall not affect the rate base calculation. The circumstances in this case do not appear to be extraordinary. Therefore, staff recommends that an acquisition adjustment should

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not be approved in the determination of the utility's rate base at the date of purchase.

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ISSUE 5: What is the appropriate average test year rate base for the utility?

RECOMMENDATION: The appropriate average test year rate base for Crooked Lake should be \$163,436. (DEWBERRY, CHU, DAVIS)

STAFF ANALYSIS: Crooked Lake Park Sewerage Company came under the Commission's jurisdiction on July 11, 1996. By Order No. PSC-98-1247-FOF-SU, issued September 21, 1998, the Commission granted the utility a grandfather certificate. On June 23, 1998, the utility filed the application for this staff-assisted rate case. Rate base has never been established for this utility by the Commission. The appropriate components of Crooked Lake's rate base include depreciable plant in service, land, non-used and useful plant, contributions in aid of construction (CIAC), accumulated depreciation, accumulated amortization of CIAC, and a working capital allowance.

Plant in Service (UPIS): As addressed in Issue 4, the utility's current owner purchased this utility on September 30, 1988 and the prior owner did not provide original cost documentation for plant. Following Commission practice, an original cost study was done to determine plant value prior to September, 1988. The original cost study provides plant additions from 1960 through 1988. Plant value as determined by the original cost study is \$161,295. UPIS has been increased by \$161,295 to reflect plant value determined by the original cost study.

The utility recorded \$42,391 in UPIS. This amount is for plant additions for the period October, 1988 through July 31, 1998. Plant has been increased by \$9,549 to reflect organization cost incurred during the certification case in Docket No. 961478-SU.

DEP has required the utility to upgrade its collection system to alleviate some of its inflow and infiltration problems. H&A, the utility's consultant, provided services to assist the utility with the DEP required rehabilitation of its collection system. The utility did not record the capital costs on its books for this service. H&A provided copies of invoices listing the costs for the rehabilitation of the collection system of \$13,170 and for the relocation of the percolation pond of \$8,168. The utility has informed staff that it has decided not to include any cost associated with the possible relocation of the percolation ponds in this docket. The utility also stated that it will petition the

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Commission for a limited proceeding at a later date if DEP insists that the percolation ponds must be relocated. Therefore, the unrecorded cost of \$8,168 for the percolation pond is not included in plant for this case. Since the percolation ponds have not been relocated, the \$8,168 should be recorded on the utility's books as construction work in progress (CWIP) until all of the required improvements have been completed and are in service.

The unrecorded cost for the rehabilitation of the collection system of \$13,170 seems reasonable and UPIS has been increased by this amount.

The utility submitted an estimated cost of \$126,665 for collection system improvements that are required by DEP. Signed contracts for plant improvements have not been provided by the utility. However, the staff engineer has determined that the plant improvements are required by DEP and the costs are reasonable. Since signed contracts have not been provided, staff is recommending that the revenue increase associated with this pro forma plant be put in escrow until all improvements have been made as addressed in Issue 17. UPIS has been increased by \$126,665 to reflect pro forma plant improvements for the collection system.

UPIS has also been decreased by \$8,981 to reflect the averaging adjustment. The total adjustment for this account is an increase of \$301,698.

Land: Based on copies of warranty deeds, the utility owns the land on which its assets are located. Based on a copy of Polk County's Board of Commissioner's minutes dated July 12, 1983, land value for Crooked Lake was established as \$6,197 in a rate increase procedure. A review of the utility's 1996 income tax returns also shows land value for the utility of \$6,197. The utility did not record a land value on its books. This account has been increased by \$6,197 to reflect land value as determined by Polk County and as listed on the utility's tax return.

Non-Used and Useful Plant: As discussed in Issue No. 2 of this recommendation, the utility's wastewater treatment plant should be considered 100% used and useful. Also, the utility's wastewater collection system is contributed and should be considered 100% used and useful. Therefore, a non-used and useful adjustment is not necessary.

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Contributions in Aid of Construction: The utility did not record any CIAC on its books. Rule 25-30.570, F.A.C., states:

If the amount of CIAC has not been recorded on the utility's books and the utility does not submit competent substantial evidence as to the amount of CIAC, the amount of CIAC shall be imputed to be the amount of plant costs charged to the cost of land sales for tax purposes if available, or the proportion of the cost of the facilities and plant attributable to the water transmission and distribution system and the sewage collection system. (emphasis added)

As stated earlier, staff performed an original cost study to determine plant value from the date of organization through September, 1988, the date of purchase. Following the guidelines of Rule 25-30.570, F.A.C., staff has imputed CIAC based on the value of the utility's collection system. The imputed CIAC total on the collection system is \$101,536. In addition, Polk County approved a \$600 per connection service availability charge for the utility. When the Commission granted the utility's grandfather certificate, this charge was approved with modification that designates a plant capacity charge of \$450 and a main extension charge of \$150 for a total of \$600. Per the staff audit, the utility collected service availability charges totaling \$16,800. Total CIAC at July 31, 1998 is \$118,336. This account has been adjusted by \$118,336 to reflect year-end CIAC. An averaging adjustment of \$300 has been made to reflect average CIAC of \$118,036.

Accumulated Depreciation: The utility did not record accumulated depreciation on its books. Staff calculated depreciation using the prescribed rates in Rule 25-30.140, F.A.C. Staff's calculated accumulated depreciation is \$157,342 at July 31, 1998. Depreciation on unrecorded and pro forma plant is \$4,531. The averaging adjustment is \$4,134. This expense has been adjusted by \$157,739 to reflect average accumulated depreciation.

Accumulated Amortization of CIAC: The utility did not record any accumulated amortization of CIAC on its books. Amortization of CIAC has been calculated using the same prescribed rates used for depreciation for the utility's wastewater collection system. Staff's calculated amortization of CIAC is \$80,893 at July 31, 1998. This account has been decreased by \$1,586 to reflect an

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averaging adjustment. The average accumulated amortization of CIAC is \$79,307.

Working Capital Allowance: Consistent with Rule 25-30.433, F.A.C., staff recommends that the one-eighth of operation and maintenance expense formula approach be used for calculating working capital allowance. Applying that formula, staff recommends a working capital allowance of \$9,618 (based on O&M of \$76,946.)

Rate Base Summary: Based on the foregoing, the appropriate average test year rate base for the utility should be \$163,436. Rate base is shown on Schedule No. 1, and adjustments are shown on Schedule No. 1A.

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COST OF CAPITAL

ISSUE 6: What is the appropriate rate of return on equity and the appropriate overall rate of return for this utility?

RECOMMENDATION: The appropriate rate of return on equity is 10.12% with a range of 9.12% - 11.12%. The appropriate overall rate of return is 9.35% with a range of 9.24% - 9.45%. (DEWBERRY, CHU)

STAFF ANALYSIS: The utility is currently in the process of rehabilitating its collection system to satisfy some DEP requirements. On August 13, 1999 the utility borrowed \$200,000 from the utility owner's trust, at a cost of 11.00%, for funding the improvements. This loan from the owner's trust is not an arm's length transaction and the cost appears high compared to the current prime rate. In instances where utilities have borrowed money from an affiliate, the Commission has assigned a cost of debt that is more in line with the prime rate. The prime rate is currently 8.25%. Staff believes that the cost of debt for the \$200,000 loan should be prime +1%. Staff recommends a cost of debt of 9.25%. The loan of \$200,000 represents 89.08% of the utility's total capital structure with a recommended cost of 9.25%.

The utility's capital structure also includes \$24,525 of common equity. Since DEP's required pro forma plant is included in rate base, the utility's capital structure has been adjusted to include the \$200,000 loan with a cost of 9.25%.

After adjusting the utility capital structure to include the \$200,000 loan, the utility's common equity of \$24,525 represents 10.92% of the utility's total capital. Following the guidelines of the existing leverage graph approved in Order No. PSC-99-1224-PAA-WS, issued July 21, 1999, the return on equity is 10.12% since the equity ratio is less than 40%. Staff recommends a return on equity of 10.12% with a range of 9.12% - 11.12%.

The utility's capital structure has been reconciled with the recommended rate base. Applying the cost of each capital component times the pro rata share of each component results in an overall rate of return of 9.35% with a range of 9.24% - 9.45%. Staff recommends an overall rate of return of 9.35% with a range of 9.24% - 9.45%.

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

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NET OPERATING INCOME

ISSUE 7: What are the appropriate test year revenues?

RECOMMENDATION: The appropriate test year revenues are \$59,648.
(DEWBERRY, CHU)

STAFF ANALYSIS: During the test year, the utility's customer base included approximately 308 residential customers, a mobile home park with 97 units and a restaurant. Per the staff audit the utility borrowed money from the mobile home park, a related company, and repaid the loan with a credit for two months of wastewater service bills. However, the credit was never recorded as payment on the utility's books. The utility billed the mobile home park \$1,076.70 per month (\$11.10 x 97 units) for wastewater service, therefore, revenue has been increased by \$2,153 to reflect accrued test year revenue for December, 1997 and January, 1998.

In March 1999, the utility's President, Mr. Knowlton, informed staff that he discovered that a bank was located in the utility's certificated area and the utility has never billed this customer. Mr. Knowlton also provided metered water usage for the bank for determining the amount the utility should bill the bank. However, before the back billing amount could be determined, the staff engineer revisited the utility's service area. During the physical inspection of the bank's connection, the staff engineer spoke with the contractor who installed the bank's collection line, manhole, and service lateral that connects the bank to the utility's service and verified that the bank is a customer of Crooked Lake. Staff has calculated revenue for a 12-month period for the bank using tariffed rates for a general service customer. The calculated revenue is \$1,058. Revenue has been increased by \$1,058 to include revenue for the bank.

The total adjustment for revenues is an increase of \$3,211.

Test year revenues are shown on Schedule No. 3 and adjustments are shown on Schedule No. 3-A.

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ISSUE 8: What is the appropriate amount of operating expense?

RECOMMENDATION: The appropriate amount of operating expense should be \$94,333. (DEWBERRY, CHU, T. DAVIS)

STAFF ANALYSIS: The utility recorded operating expenses of \$49,131 for the test year. The utility's recorded expenses include operation and maintenance expense and taxes other than income only. Staff has adjusted operating expenses to include the appropriate annual amounts for operation and maintenance expenses, depreciation expense (net of related amortization of CIAC), and taxes other than income taxes. The utility's test year operating expenses have been reviewed, and invoices and other supporting documentation have been examined. Adjustments have been made to reflect unrecorded test year expenses and to reflect recommended allowances for plant operations on a going forward basis.

Operation and Maintenance Expenses (O & M): The utility charged \$42,975 to O & M expenses during the test year. A summary of adjustments that were made to the utility's recorded expenses follows:

(701) Salaries and Wages - Employees - The utility recorded employee salaries and wages of \$4,987 in the test year for a maintenance person who also serves as the weekend operator. This person is directly involved with plant operations and maintenance projects whereby he performs a portion of normal daily repairs. He oversees general matters related to utility operations, such as, picking up parts, general repairs, reading flow data and recording chlorine levels. He performs routine maintenance that is not covered under the agreement with the contract operator. He also serves as a liaison between the customers and the utility, checking on complaints, and signing invoices related to maintenance repairs. It is estimated that this person averages 20 hours per week on utility duties. Staff recommends an annual salary of \$6,000 for maintenance. This expense has been increased by \$1,013 to reflect an annual salary of \$6,000 for this position.

(703) Salaries and Wages - Officers - The utility recorded an officer's salary and wage of \$2,934 for the test year. This recorded salary is for the utility's president. The president of the utility, supervises utility operations, acts as point of contact for regulatory agencies, is the point of contact between maintenance and accounting, oversees financial matters, oversees

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projects performed by both in-house personnel and/or contracted services companies, and does some of the maintenance himself. It is estimated that the president averages 10 to 12 hours per week conducting utility business. The utility's president requested an annual salary of \$18,000. This amount appears reasonable for the number of hours spent conducting utility business and the duties performed. The expense has been increased by \$15,066 to reflect an annual salary of \$18,000 for the president.

(711) Sludge Removal - The utility recorded sludge removal expense of \$1,181 for the test year. This expense has been increased by \$3,515 to reflect a reclassification from Account No. 735 - Contractual Services.

(715) Purchased Power - The utility recorded purchased power expense of \$6,762 during the test year. This expense has been increased by \$155 to reflect annual purchased power expense of \$6,917 per the audit.

(718) Chemicals - The utility recorded chemical expenses of \$601 for the test year. Staff increased the expense by \$1,291 to reflect annual chemical expense of \$1,892.

(730) Contractual Services (Billing) - Park Water Company provides water and billing services to the utility. The billing charge is \$1.50 per customer per month. The utility's customers of record includes 308 residential customers, a master metered mobile home park, a restaurant and a bank for a total of 311 customers. The utility recorded \$5,420 in this expense for the test year. This expense has been increased by \$178 to reflect the annual billing expense of \$5,598 (311 x 12 x \$1.50).

(731) Contractual Services (Professional) - The utility recorded \$5,600 in this expense. It includes \$600 for accounting services, \$4,000 for consultant fees and \$1,000 for legal services associated with an application for a file and suspend rate case that was later withdrawn.

The utility's recorded accounting expense of \$600 provides minimal accounting services at \$150 per quarter. Per the staff audit, the utility's books are not in conformity with the National Association of Regulatory Commission's (NARUC) Uniform System of Accounts (USOA). The recorded accounting expense will not provide

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the services needed to set up and maintain the utility's books to conform with the NARUC USOA.

The utility has provided a signed contract for outside accounting services. This contract provides a one time start up cost of \$1,200 for converting the utility's books and records to conform with the NARUC USOA and converting the utility's accounting from cash to accrual. This contract also provides a one time cost of \$1,600 for reconciling the utility's books and records with the Commission's final Order due for this case. The total one time start up cost is \$2,800. This amount has been amortized over 5 years allowing the recovery of \$560 annually.

The outside accountant will also prepare annual reports, prepare regulatory assessment fee forms, prepare annual federal and state corporate income returns, prepare quarterly payroll tax returns, prepare annual payroll returns and perform monthly accounting duties at a cost of \$2,850 annually.

Staff recommends an annual contractual accounting allowance of \$3,410 (\$560 + \$2,850). This expense has been increased by \$2,810 to reflect an annual accounting allowance of \$3,410.

The recorded \$4,000 consultant fee includes payments for contractual services for various services. The payments were not distributed to the appropriate accounts. However, the consultant has provided a list and invoices for all services provided and all expenses for the contractual services provided have been accounted for in this case and included in the appropriate accounts. Since the \$4,000 payments have been accounted for in appropriate accounts, this expense has been decreased by \$4,000.

The recorded legal fee of \$1,000 is non-recurring and has been amortized over 5 years allowing the utility to recover \$200 annually. This expense has been decreased by \$800. The total adjustment for Professional contractual services is a decrease of \$1,990.

(735) Contractual Services (Testing) - The utility recorded wastewater testing expenses of \$892 for the test year. Each utility must adhere to specific testing conditions prescribed within its operating permit. These testing requirements are tailored to each utility as required by Florida Administrative Code

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and enforced by DEP. The tests and the frequency at which those tests must be repeated for this utility are:

<u>Rules</u>	<u>Description</u>	<u>Frequency</u>	<u>Cost</u>
62-19 F.A.c.	Biochemical Oxygen Demand (include Nitrate, fecal)	monthly	\$450/yr
62-19 F.A.C.	Total Suspended Solids	monthly	\$180/yr
62-19 F.A.C.	Groundwater Monitoring	quarterly	\$980/yr
62-19 F.A.C.	Primary & Secondary on Effluent	yearly	\$410/yr
62-19 F.A.C.	Sludge Analysis	yearly	<u>\$345/yr</u> <u>\$2,365/yr</u>

Staff annualized the testing costs based on the required testing frequency, and increases this expense by \$1,473 to reflect the annualized cost for DEP required testing.

Staff recommends an annual testing expense of \$2,365 for the test year.

(735) Contractual Services (Other) - The utility recorded \$5,005 in this expense. This total includes \$1,490 for grounds keeping and \$3,515 for sludge removal. This expense has been decreased by \$3,515 to reflect a reclassification to Account No.711.

The utility's operator services are provided by Sun Glow Laboratory. The services provided includes operation, some maintenance, testing and laboratory analysis. The utility is charged \$500 per month for basic operator services. This amount includes \$77.50 for testing. Testing expenses have already been accounted for. Therefore, operator services is \$422.50 per month, or \$5,070 annually. The utility did not record an expense for the operator. This expense has been increased by \$5,070 to reflect the annual operator allowance. The total adjustment for this expense is an increase of \$1,555.

(736) Contractual Services (Repairs and Maintenance) - The utility recorded repair and maintenance expenses of \$5,347 during the test year. The staff engineer has reviewed repair and maintenance expenses for the test year and has determined that the appropriate amount for repairs and maintenance should be \$3,602 annually on a going forward basis. This expense has been decreased by \$1,745 to reflect the appropriate amount.

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(740) Rents - The utility recorded no rent expense for the test year. The utility's office is located in the personal residence of the utility's president. He has one room of his home set aside as office space and shares the space with another related company. This office has the necessary office equipment and supplies. The utility requested an allowance for the office rent. Staff recommends \$100 per month allowance and \$1,200 annual allowance for the office rent. This expense has been increased by \$1,200 to reflect annual rent.

(750) Transportation Expense - The utility's books reflected \$135 of transportation expense for the test year. The utility's president has two vehicles. The first one is used to attend meetings with regulatory personnel, attend regulatory meetings at the local district office in Tampa, run errands, coordinate service contracts, handle utility banking, transport records to the accountants, and make tours of the service area on a regular basis. Due to the rural location of the utility, it is estimated that 1,000 miles per month is a reasonable travel allowance. The reimbursement standard of 29 cents per mile used by the State of Florida is considered prudent. The second vehicle is used by the maintenance person to transport parts, tools, and equipment used in routine daily tasks and repairs. It is estimated that 400 miles per month is a reasonable travel allowance. The reimbursement standard of 29 cents per mile used by the State of Florida is also considered prudent. This expense has been increased by \$4,737 (1,400 hours x \$0.29 x 12) to reflect the recommended allowance. Staff recommends an annual transportation expense of \$4,872 for the test year.

(765) Regulatory Commission Expense - The utility recorded no regulatory commission expense for the test year. This expense has been increased by \$2,175 to reflect the SARC filing fee of \$1,000 and the consulting fee for the rate case application of \$7,701 amortized over four years as required by Section 367.0816, Florida Statutes.

(775) Miscellaneous Expense - The utility recorded \$146 in this expense. The utility's president uses a cell phone that allows him to receive customer calls 24 hours a day. The monthly cost is approximately \$40.00 per month and \$480 annually. Since the utility does not have a salaried employee to handle customer calls staff believes that the cellular phone benefits the customers and replaces the need to hire a person to receive phone calls. This

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expense has been increased by \$334 to reflect an annual allowance of \$480 for a cellular phone.

Park Water Company provides billing services for the utility. The utility currently charges its customers a flat rate. In issue 10, staff is recommending a base facility gallonage charge rate structure for the utility in this case. The utility requested a cost for billing services from Park Water Company to accommodate the change in the rate structure. Park Water Company provided a proposal to the utility stating that its computer would have to be upgraded in order to handle the utility's bills using the base facility gallonage charge. The proposed cost is \$4,500. Staff believes this amount is reasonable and believes that the cost should be amortized over 5 years allowing the utility to recover \$900 annually. This expense has been increased by \$900.

During the test year and in the certification case under Docket No. 961478-SU, the utility incurred some consultant fees for services rendered by Hartman and Associates, Inc. (H&A) that were associated with DEP compliance. The costs were not recorded. However, copies of invoices have been provided for services rendered and the total cost for this service is \$7,801. This cost is non-recurring. It has been amortized over 5 years allowing the recovery of \$1,560 annually. This expense has been increased by \$1,560 to reflect a non-recurring expense amortized over 5 years.

H&A also prepared annual reports for the years 1996 and 1997 for the utility at a cost of \$11,320. Copies of invoices have been provided. This expense is non-recurring and has been amortized over 5 years allowing \$2,264 annually. The expense has been increased by \$2,264.

This expense has also been increased by \$90 to reflect an unrecorded miscellaneous expense and it has been increased by \$200 to reflect an operating permit cost of \$1,000 amortized over 5 years.

The total adjustment for this expense is an increase of \$5,348.

Operation and Maintenance Expenses (O & M) Summary: Total operation and maintenance adjustments are an increase of \$33,971. Staff recommends operation and maintenance expenses of \$76,946. Operation and maintenance expenses are shown on Schedule No. 3B.

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Depreciation Expense (Net of Amortization of CIAC): The utility recorded no depreciation expense on its books for the test year. Staff calculated test year depreciation expense using the rates prescribed in Rule 25-30.140, F.A.C. Staff's calculated test year depreciation expense is \$13,143. Test year amortization of CIAC is \$4,595. Therefore, net depreciation expense is \$8,548.

Taxes Other Than Income Taxes: The utility recorded taxes other than income of \$6,156 for the test year. This amount includes \$3,245 for regulatory assessment fees, \$2,595 payroll taxes, and \$316 miscellaneous tax. This expense has been decreased by \$628 to remove penalty and interest from regulatory assessment fees, increased by \$67 to reflect regulatory assessment on annualized revenue for the test year, increased by \$686 to reflect unrecorded property taxes, and increased by \$309 to reflect payroll taxes on staff's recommended salaries. The total adjustment is an increase of \$434 allowing \$6,590 annually.

Operating Revenues: Revenues have been adjusted by \$49,967 to reflect the increase in revenue required to cover expenses and allow the utility the opportunity to earn the recommended rate of return on investment.

Taxes Other Than Income Taxes: This expense has been increased by \$2,249 to reflect the regulatory assessment fee of 4.5% on staff's recommended increase in revenue.

Income Taxes: The utility is an 1120 corporation. A review of its federal income tax return shows previous years' net operating losses carryforward of \$39,259. Based on this loss carryforward position, the utility will not incur any income tax expense. Therefore, staff recommends no income tax expense for the utility.

Operating Expenses Summary: The application of staff's recommended adjustments to the utility's test year operating expenses results in staff's recommended operating expenses of \$94,333.

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

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ISSUE 9: What is the appropriate revenue requirement?

RECOMMENDATION: The appropriate revenue requirement should be \$109,615. (DEWBERRY, CHU)

STAFF ANALYSIS: The utility should be allowed an annual increase in revenue of \$49,967 (83.77%). This will allow the utility the opportunity to recover its expenses and earn the recommended 9.35% return on its investment. The calculations are as follows:

	<u>Wastewater</u>
Adjusted Rate Base	\$163,436
Rate of Return	<u>x .0935</u>
Return on Investment	\$ 15,282
Adjusted Operation Expenses	76,946
Depreciation Expense (Net)	8,548
Taxes Other Than Income Taxes	<u>8,839</u>
Revenue Requirement	<u>\$109,615</u>
Annual Revenue Increase	\$ 49,967
Percentage Increase/(Decrease)	<u>83.77%</u>

The revenue requirement and resulting annual increase are shown on Schedule No. 3.

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RATES AND CHARGES

ISSUE 10: What is the appropriate conservation rate structure for this utility?

RECOMMENDATION: The appropriate conservation rate structure for this utility is the base facility and uniform gallonage charge rate structure. (GOLDEN, DEWBERRY)

STAFF ANALYSIS: Crooked Lake is located in a water use caution area (WUCA). The Southwest Florida Water Management District (SWFWMD) declared portions of Polk and Highlands Counties a WUCA in 1989. The utility's facilities consist of one wastewater treatment plant and one wastewater collection system. Water service is provided by Park Water Company, which is also regulated by the Public Service Commission.

Crooked Lake provides wastewater service to approximately 308 residential wastewater customers and 3 general service customers. Currently, all residential customers are being charged a flat rate of \$11.10. The utility's current rate structure for wastewater was originally established by Polk County and approved by the Commission under grandfather provisions when the utility was granted a certificate to operate in 1998.

Staff believes that whenever possible, wastewater-only utilities with flat rate structures should be converted to a base facility/gallonage charge structure in order to promote state conservation goals and to eliminate subsidization of those who use excessive amounts of water by those who do not. Therefore, staff is recommending that the utility's rate structure be changed to a base facility/uniform gallonage charge rate structure. As mentioned previously, Park Water Company provides metered water service to Crooked Lake's customers. Park Water Company does the billing for Crooked Lake and customers are assessed a monthly billing fee of \$1.50. Since meters have already been installed, the conversion to a base facility and uniform gallonage charge rate structure should be relatively easy. To see if the conversion to a base facility and uniform gallonage charge rate structure would be cost effective for the utility, staff requested, and the utility provided, the additional costs required for changing Crooked Lake's rate structure to a base facility/uniform gallonage charge rate structure. According to the data submitted by the utility, it will cost approximately \$16,000 for Park Water Company to upgrade its

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computer system to allow for billing based on the base facility/uniform gallonage charge rate structure methodology. Of this amount, Crooked Lake would be responsible for paying \$4,500 or 28% of the total cost to Park Water Company. The \$4,500 has been amortized over 5 years allowing \$900 annually in the calculation of the utility's rates. This will increase the \$1.50 monthly billing services to \$1.74 or by 16%. Staff believes the additional costs associated with changing the utility's current rate structure to a base facility/uniform gallonage charge rate structure are reasonable.

Further, staff believes this case presents an excellent opportunity for promoting conservation because under the base facility/gallonage charge rate structure, wastewater customers with low monthly water usage would benefit, while customers with high monthly water use would have higher wastewater bills. Thus, the high water users have a greater incentive to conserve, because customers are able to reduce their total bill by reducing their consumption. Since this utility is located in a WUCA, staff believes the possible benefits derived from implementing a conservation oriented rate structure will justify the \$.24 per month per customer added billing service costs associated with implementing metered rates.

Based on the reasons stated above, staff is recommending that the utility's current rate structure be changed from a flat rate to a base facility and uniform gallonage charge rate structure.

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ISSUE 11: What is the appropriate residential gallonage cap for wastewater service?

RECOMMENDATION: The appropriate residential gallonage cap for wastewater service should be 8,000 gallons for residential customers only. (DEWBERRY, CHU)

STAFF ANALYSIS: The recommended rates for wastewater service should include a base charge for all residential customers regardless of meter size with a cap of 8,000 gallons of usage per month on which the gallonage charge may be billed. There is no cap on usage for general service wastewater bills. The differential in the gallonage charge for residential and general service wastewater customers is designed to recognize that a portion of a residential customer's water usage will not be returned to the wastewater system.

The current Commission standard in setting residential wastewater rates is that only 80% of residential water usage is returned to the system as wastewater. The remaining 20% is attributed to outside uses such as lawn irrigation.

Generally, the Commission sets monthly caps of 6,000 gallons, 8,000 gallons, or 10,000 gallons per month. The utility's billing analysis indicates that almost 81% of the total residential bills were for usage not exceeding 8,000 gallons per month and accounted for 52% of total water usage. Conversely, only 16% of total residential bills were for usage over 8,000 gallons, but accounted for 48% of total water usage, thereby, indicating high irrigation usage.

Considering the above factors and that the utility serves a mix of retirement and family residents, staff believes that the wastewater gallonage cap for residential customers should be set at 8,000 gallons per month. Setting a lower cap would raise the gallonage charge and may result in low users subsidizing high users. Therefore, staff recommends a gallonage cap of 8,000 gallons per month for wastewater residential customers at this time. The utility's bulk service customer, College Park Mobile Home Park, has a 2" meter with 97 individually metered units behind the meter. The 8,000 gallon cap should also apply to the 97 units. If usage patterns change, this gallonage cap will be re-examined in the next rate case.

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ISSUE 12: Is a regression adjustment to consumption appropriate for this utility, and, if so, what is the appropriate adjustment?

RECOMMENDATION: No, a regression adjustment is not appropriate in this case. However, in order to monitor the effects of the rate increase on consumption, the utility should be ordered to file, on a quarterly basis, reports detailing the number of bills rendered, the number of gallons billed and the total revenues billed during the quarter, with the totals shown separately for the residential and general service classes of service. These reports should be required for a period of two years, beginning the first quarter after the revised rates go into effect. (GOLDEN)

STAFF ANALYSIS: As discussed previously, staff's recommended revenue requirement increase is \$49,967 (83.77%) for the wastewater system, which represents a monthly increase of \$10.20 per ERC. In an attempt to quantify the relationship between revenue increases and consumption impacts, staff has created a database of all water utilities that were granted rate increases or decreases (excluding indexes and pass-throughs) between January 1, 1990 and December 31, 1995. This database contains utility-specific information from the applicable orders, tariff pages and the utilities' annual reports for the years 1989 - 1995. Because the database specifically targeted water utilities, there is little information in the database regarding the impact of a wastewater rate increase on water consumption for a wastewater only utility. There is some evidence that a wastewater increase of the level seen in this case will cause a decrease in water consumption. However, there are no utilities in the database which match this utility's rate increase and change in rate structure closely enough to provide a reasonable estimate of whether or not regression will occur in this case. Therefore, staff believes a regression adjustment is not appropriate in this case.

Staff has recommended regression adjustments in a limited number of cases to date, and, as such, the Commission has no established, previously-approved methodology to calculate an appropriate adjustment. Until the Commission does have approved methodologies in place, staff believes it is appropriate to err on the side of caution when considering the magnitude of our recommended adjustments. Consequently, staff recommends that a regression adjustment is not appropriate in this case. However, staff believes it will be beneficial in future cases to monitor the effects of this rate increase on consumption. Therefore, staff

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recommends that the utility should be ordered to file, on a quarterly basis, reports detailing the number of bills rendered, the number of gallons billed and the total revenues billed during the quarter, with the totals shown separately for the residential and general service classes of service. These reports should be required for a period of two years, beginning the first quarter after the revised rates go into effect.

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ISSUE 13: What are the recommended rates for this utility?

RECOMMENDATION: The recommended rates should be designed to produce revenue of \$109,615. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C., provided the customers have received notice. The rates may not be implemented until proper notice has been received by the customers. The utility should provide proof of the date notice was given within 10 days after the date of the notice. (DEWBERRY, CHU)

STAFF ANALYSIS: The utility's customers of record for the test year included approximately 308 residential customers, a mobile home park which has a 2" master meter with 97 units behind the meter and a restaurant. The mobile home park is owned by the owner of the utility and is a customer of the utility. The 97 units behind the 2" master meter are individually metered. The mobile home park owner has agreed to be billed the Commission approved base facility charge and gallonage charge for residential customers for each unit behind the 2" master meter.

Pursuant to the American Water Works Association (AWWA), the meter equivalent factor for the 2" master meter is 8. However, there are 97 residential units contained in the mobile home park, past the master meter. A base facility charge based solely on the size of the meter would not accurately measure the demand placed upon the utility's system. Therefore, the 97 meter equivalent factor has been used for calculating rates in this case. The Commission has approved a similar methodology for setting rates in Order No. PSC-95-0730-FOF-WS, Docket No. 9501865-WS.

During this rate case proceeding the utility informed staff that it discovered that a bank, located in the utility's certificated area had never been billed by the utility. The utility provided consumption for the bank's most recent 12 months usage. The staff engineer has verified that the bank is a utility customer. Rates have been calculated to include the 308 residential customers, 97 units, a restaurant and no adjustment has been made for repression. A schedule of the utility's existing rates and staff's recommended rates follows:

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Monthly Wastewater Rates
Residential

	<u>Current Rate</u>	<u>Staff's Recommended Rates</u>
Flat Rate	\$ 11.10	N/A
<u>Base Facility Charge</u>		
All meter sizes	N/A	\$ 11.10
<u>Gallonge Charge</u>		
Per 1,000 gallons (8,000 gals. max)	N/A	\$ 2.56

Bulk Service Customer
College Park Mobile Home Park

	<u>Current Rate</u>	<u>Staff's Recommended Rates</u>
<u>Flat Rate</u>		
Per Unit	\$ 11.10	N/A
<u>Base Facility Charge</u>		
Per unit	N/A	\$ 11.10
<u>Gallonge Charge</u>		
Per 1,000 gallons (8,000 gals. max)	N/A	\$ 2.56

General Service

	<u>Current Rates</u>
<u>Base Facility Charge</u>	N/A
<u>Gallonge Charge</u>	
Per 1,000 gallons	
0-30,000 gals.	\$ 2.39
30,001-60,000 gals.	\$ 3.58
60,001-110,000 gals.	\$ 4.77
over 110,000 gals.	\$ 7.16

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<u>Base Facility Charge</u>	<u>Staff's Recommended Rates</u>
Meter Size	
5/8" x 3/4"	\$ 11.10
3/4"	16.65
1"	27.75
1 1/2"	55.49
2"	88.79
3"	177.57
4"	277.46
6"	554.91
 <u>Gallonge Charge</u>	
Per 1,000 gallons	\$ 3.07

The average gallons of wastewater treated for a residential customer with a 5/8" x 3/4" inch meter is 4,053 gallons per month. A schedule of average bills using existing rates and recommended rates follows:

Average bill using recommended rates	\$21.48
Average bill using current flat rates	<u>\$11.06</u>
Increase in bill	\$10.42
Percentage increase in bill	94.22% (\$10.42/11.06)

The percentage increase in the bill is not in line with the percentage increase in revenue due to the change from a flat rate structure to a base facility gallonage charge rate structure.

The recommended rates should be designed to produce revenue of \$109,615. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), Florida Administrative Code, provided customers have received notice. The rates may not be implemented until proper notice has been received by the customers. The utility should provide proof of the date notice was given within 10 days after the date of the notice.

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ISSUE 14: What is the appropriate amount by which rates should be reduced four years after the established effective date to reflect the removal of the amortized rate case expense as required by Section 367.0816, Florida Statutes?

RECOMMENDATION: The wastewater rates should be reduced as shown on Schedule 4, to remove rate case expense grossed-up for regulatory assessment fees and amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the four year rate case expense recovery period, pursuant to Section 367.0816, Florida Statutes (1997). The utility should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. (DEWBERRY, CHU)

STAFF ANALYSIS: 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 \$2,277 annually. 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.

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 case on June 23, 1998. Therefore, the utility is required to decrease its rates after the four-year recovery period as stated above.

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

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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.

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ISSUE 15: What are the appropriate customer deposits for this utility?

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

STAFF ANALYSIS: The utility's existing tariff does not provide Commission approved customer deposits. Rule 25-30.311, Florida Administrative Code, provides guidelines for collecting, administering and refunding customer deposits. It also authorizes customer deposits to be calculated using an average monthly bill for a 2-month period. Staff has calculated customer deposits based on recommended rates and an average monthly bill for a 2-month period. A schedule of staff's recommended preliminary deposits follows:

<u>Wastewater Residential</u>		Staff's Recommended
<u>Meter Size</u>		<u>Deposits</u>
5/8" x 3/4"		\$45.00
<u>General Service</u>		Staff's Recommended
<u>Meter Size</u>		<u>Deposits</u>
5/8" x 3/4"		\$45.00
All over 5/8" x 3/4"		(2 x average bill)

The utility should file revised tariff sheets, which are consistent with the Commission's vote. Staff should be given administrative authority to approve the revised tariff sheets upon staff's verification that the tariffs are consistent with the Commission's decision. If revised tariff sheets are filed and approved, the customer deposits should become effective for connections made on or after the stamped approval date of the revised tariff sheets, if no protest is filed.

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ISSUE 16: Should the utility be authorized to collect miscellaneous charges, and if so, what are the appropriate charges?

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

STAFF ANALYSIS: The utility's existing tariff does not provide Commission approved miscellaneous service charges. Staff recommends that the utility be authorized to collect charges consistent with Rule 25-30.460, Florida Administrative Code, and past Commission practice. The recommended charges are designed to defray the costs associated with each service and place the responsibility of the cost on the person creating it rather than on the rate paying body as a whole. A schedule of staff's recommended charges follows:

Wastewater

<u>Description</u>	<u>Staff's Recommended Charges</u>
Initial Connection	\$15.00
Normal Reconnection	\$15.00
Violation Reconnection	Actual Cost
Premises Visit (in lieu of disconnection)	\$15.00

Definition of each charge is provided for clarification:

Initial Connection - this charge would be levied for service initiation at a location where service did not exist previously.

Normal Reconnection - this charge would be levied for transfer of service to a new customer account, a previously served location or reconnection of service subsequent to a customer requested disconnection.

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Violation Reconnection - this charge would be levied prior to reconnection of an existing customer after disconnection of service for cause according to Rule 25-30.320(2), Florida Administrative Code, including a delinquency in bill payment.

Premises Visit Charge (in lieu of disconnection) - this charge would be levied when a service representative visits a premises for the purpose of discontinuing service for non-payment of a due and collectible bill and does not discontinue service, because the customer pays the service representative or otherwise makes satisfactory arrangements to pay the bill.

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

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OTHER

ISSUE 17: Should the utility be required to escrow that portion of rates associated with the \$126,665 pro forma plant and if so what is the appropriate amount?

RECOMMENDATION: Yes, the utility should be required to escrow that portion of the rates associated with the \$126,665 pro forma plant until verification of the completion of plant improvements has been received by Commission staff. The appropriate amount should be \$1,365 per month. (DEWBERRY, CHU)

STAFF ANALYSIS: Pro forma plant costs of \$126,665 have been included in rate base. This cost is for improvements for the utility's collection system and the improvements are required by DEP. The utility has not provided signed contracts listing cost and tentative dates of completion of plant improvements. In order to allow the utility to satisfy DEP's requirements and protect the rate payers interest staff recommends that the utility be required to escrow that portion of the rates associated with the \$126,665 pro forma plant until verification of the completion of plant improvements have been received by Commission staff. The calculation is as follows:

Pro Forma Plant	\$126,665
Depreciation	<u>(\$4,202)</u>
Net Plant	\$122,463
Net Plant	\$122,463
Overall ROR	<u>x .0935</u>
Return on Rate Base	\$ 11,450
Net Annual Depre.Expense	<u>4,202</u>
	\$ 15,652
Reg. Fee Gross-up	<u>.955</u> (divided by)
Revenue on Proforma Plant	\$ 16,390
Number of Months	<u>12 months</u> (divided by)
Escrow Amount	\$ 1,365 per month

When security is provided through an escrow agreement, the following conditions should be part of the agreement:

- 1) No refunds in the escrow account may be withdrawn by the utility without the express approval of the Commission.

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- 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.

Staff recommends that the utility escrow \$1,365 per month for revenue associated with pro forma plant of \$126,665.

DOCKET NO. 980778-SU
DATE: SEPTEMBER 23, 1999

ISSUE 18: Should the utility be ordered to show cause, in writing, within 21 days, why it should not be fined for its apparent violation of Rule 25-30.115, Florida Administrative Code?

RECOMMENDATION: No. A show cause proceeding should not be initiated. However, the utility should be required to maintain its books and records in conformity with NARUC USOA and should be required to submit a statement from its accountant by March 31, 2000, along with its 1999 annual report, stating that its books are in conformity with NARUC USOA and have been reconciled with the Commission's order. (JAEGER, CIBULA, DEWBERRY, CHU)

STAFF ANALYSIS: Based on the audit, it appears that the utility's books are not maintained in conformity with NARUC System of Accounts. Rule 25-30.115(1), Florida Administrative Code, requires that: "Water and wastewater utilities shall, effective January 1, 1986, maintain its accounts and records in conformity with the 1984 NARUC Uniform System of Accounts adopted by the National Association of Regulatory Utility Commissioners."

Section 367.161, Florida Statutes, authorizes the Commission to assess a penalty of not more than \$5,000 per day for each offense, if a utility is found to have knowingly refused to comply with, or to have willfully violated any Commission rule, order, or provision of Chapter 367, Florida Statutes. Crooked Lake has apparently violated Rule 25-30.115, Florida Administrative Code. While staff has no reason to believe that the utility intended to violate this rule, its act was "willful" in the sense intended by Section 367.161, Florida Statutes. See Order No. 24306, issued April 1, 1991, in Docket No. 890216-TL, wherein the Commission, having found that the company had not intended to violate the rule, nevertheless found it appropriate to order it to show cause why it should not be fined, stating that "[i]n our view, 'willful' implies an intent to do an act, and this is distinct from an intent to violate a statute or rule." Id. at 6. Additionally, "[i]t is a common maxim, familiar to all minds that 'ignorance of the law' will not excuse any person, either civilly or criminally." Barlow v. United States, 32 U.S. 404, 411 (1833). Thus, any intentional act, such as the utility's failing to maintain its books and records in conformity with NARUC USOA, would meet the standard for a "willful violation."

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DATE: SEPTEMBER 23, 1999

However, staff does not recommend that the Commission initiate a show cause proceeding at this time. The utility was granted a grandfather certificate by Order No. PSC-98-1247-FOF-WS, issued September 21, 1998, in Docket No. 961478-SU. This is the utility's first rate case before the Commission. Therefore, staff believes that the utility should be given time and an accounting allowance for setting up the utility's books to conform with NARUC USOA and to reconcile the utility's books with the Commission's order.

Staff has recommended an annual accounting allowance of \$3,410. This will provide funds to set up the utility's books to conform with NARUC USOA, will allow services for reconciliation with the Commission's order, and will provide for all other accounting services.

In consideration of the foregoing, staff recommends that the Commission not initiate a show cause proceeding. However, the utility should be required to maintain its books and records in conformity with NARUC USOA and should be required to submit a statement from its accountant by March 31, 2000, along with its 1999 annual report, stating that its books are in conformity with NARUC USOA and have been reconciled with the Commission's order.

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DATE: SEPTEMBER 23, 1999

ISSUE 19: Should the recommended rates be approved for the utility on a temporary basis, subject to refund, in the event of a protest filed by a party other than the utility?

RECOMMENDATION: Yes, the recommended rates should be approved for the utility on a temporary basis, subject to refund, in the event of a protest filed by a party other than the utility. Prior to implementation of any temporary rates, the utility should provide an appropriate security. If the recommended rates are approved on a temporary basis, the rates collected by the utility shall be subject to the refund provisions discussed below in the staff analysis. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), Florida Administrative Code, the utility should file reports with the Division of Water and Wastewater no later than 20 days after each monthly billing. These reports should indicate the amount of revenue collected under the increased rates. (DEWBERRY, CHU, JAEGER, CIBULA)

STAFF ANALYSIS: This recommendation proposes 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, in the event of a protest filed by a party other than the utility, staff recommends that the recommended rates be approved as temporary rates. The recommended rates collected by the utility shall be subject to the refund provisions discussed below.

The utility should be authorized to collect the temporary rates upon the staff's approval of an appropriate security for both the potential refund and a copy of the proposed customer notice. The security should be in the form of a bond or letter of credit in the amount of \$34,438. Alternatively, the utility could establish an escrow agreement with an independent financial institution.

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

- 1) The Commission approves the rate increase; or
- 2) If the Commission denies the increase, the utility shall refund the amount

DOCKET NO. 980778-SU
DATE: SEPTEMBER 23, 1999

collected that is attributable to the increase.

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

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

If security is provided through an escrow agreement, the following conditions should be part of the agreement:

- 1) No refunds in the escrow account may be withdrawn by the utility without the express approval of the Commission.
- 2) The escrow account shall be an interest bearing account.
- 3) If a refund to the customers is required, all interest earned by the escrow account shall be distributed to the customers.
- 4) If a refund to the customers is not required, the interest earned by the escrow account shall revert to the utility.
- 5) All information on the escrow account shall be available from the holder of the escrow account to a Commission representative at all times.
- 6) The amount of revenue subject to refund shall be deposited in the escrow account within seven days of receipt.

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- 7) This escrow account is established by the direction of the Florida Public Service Commission for the purpose(s) set forth in its order requiring such account. Pursuant to Cosentino v. Elson, 263 So.2d 253 (Fla. 3d DCA 1972), escrow accounts are not subject to garnishments.
- 8) The Director of Records and Reporting must be a signatory to the escrow agreement.

In no instance should the maintenance and administrative costs associated with the refund be borne by the customers. These costs are the responsibility of, and should be borne by, the utility. Irrespective of the form of security chosen by the utility, an account of all monies received as result of the rate increase should be maintained by the utility. This account must specify by whom and on whose behalf such monies were paid. If a refund is ultimately required, it should be paid with interest calculated pursuant to Rule 25-30.360(4), Florida Administrative Code. The utility should maintain a record of the amount of the bond, and the amount of revenues that are subject to refund. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), Florida Administrative Code, the utility should file reports with the Division of Water and Wastewater no later than 20 days after each monthly billing. These reports should indicate the amount of revenue collected under the increased rates.

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DATE: SEPTEMBER 23, 1999

ISSUE 20: Should this docket be closed?

RECOMMENDATION: If no timely protest is received upon expiration of the protest period, the Order becomes final and effective upon the issuance of a Consummating Order. However, this docket should remain open for at least 12 months to allow the utility to complete pro forma plant improvements of \$126,665 and provide staff with verification that all improvements have been made. After staff has verified that all improvements have been completed, this docket should be closed administratively. If a protest is filed within 21 days of the issuance of the Order, the Commission approved temporary rates should become effective pending resolution of the protest. (DEWBERRY, CHU, DAVIS, JAEGER, CIBULA)

STAFF ANALYSIS: If no timely protest is received upon the expiration of the protest period, the Order should become final and effective upon the issuance of a Consummating Order. However, this docket should remain open for at least 12 months to allow the utility to complete pro forma plant improvements of \$126,665 and provide staff with verification that all improvements have been made. After staff has verified that all improvements have been completed, this docket should be closed administratively. If a protest is filed within 21 days of the issuance of the Order, the Commission approved temporary rates should become effective pending resolution of the protest.

CROOKED LAKE PARK SEWERAGE COMPANY
 SCHEDULE OF WASTEWATER RATE BASE
 TEST YEAR ENDED JULY 31, 1998

SCHEDULE NO. 1
 DOCKET NO. 980778-SU

	BALANCE PER UTIL. BOOKS	STAFF. ADJUST. TO UTIL. BAL.	BALANCE PER STAFF.
UTILITY PLANT IN SERVICE	\$ 42,391	\$ 301,698 A	\$ 344,089
LAND/NON-DEPRECIABLE ASSETS	0	6,197 B	6,197
NON-USED AND USEFUL PLANT	0	0	0
ACQUISITION ADJUSTMENT	0	0	0
CWIP	0	0	0
CIAC	0	(118,036) C	(118,036)
ACCUMULATED DEPRECIATION	0	(157,739) D	(157,739)
AMORTIZATION OF ACQUISITION ADJUSTMENT	0	0	0
AMORTIZATION OF CIAC	0	79,307 E	79,307
WORKING CAPITAL ALLOWANCE	0	9,618 F	9,618
WASTEWATER RATE BASE	\$ 42,391	\$ 121,045	\$ 163,436

WASTEWATER

A. UTILITY PLANT IN SERVICE

1.	To reflect plant value from 1960 -9/88 based on the original cost study	\$ 161,295
2.	To reflect organization costs	9,549
3.	To reflect unrecorded plant cost for DEP required plant improvements	13,170
4.	To reflect proforma plant costs for DEP required plant improvements	126,665
5.	To reflect averaging adjustment	(8,981)
		<u>\$ 301,698</u>

B. LAND

1.	To reflect land value as determined by the original cost study	<u>\$ 6,197</u>
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C. CONTRIBUTIONS IN AID OF CONSTRUCTION(CIAC)

1.	To reflect year end CIAC	\$ (118,336)
2.	To reflect averaging adjustment	300
		<u>\$ (118,036)</u>

D. ACCUMULATED DEPRECIATION

1.	To reflect accumulated depreciation at 7/31/98	\$ (157,342)
2.	To reflect averaging adjustment	4,134
3.	To reflect depre. on unrecorded and proforma plant	(4,531)
		<u>\$ (157,739)</u>

E. AMORTIZATION OF CIAC

1.	To reflect year end amortization of CIAC	\$ 80,893
2.	To reflect averaging adjustment	(1,586)
		<u>\$ 79,307</u>

F. WORKING CAPITAL ALLOWANCE

1.	To reflect 1/8 of operation and maintenance expense	<u>\$ 9,618</u>
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CROOKED LAKE PARK SEWERAGE COMPANY
 SCHEDULE OF CAPITAL STRUCTURE
 TEST YEAR ENDED JULY 31, 1998

SCHEDULE NO. 2
 DOCKET NO. 980778-SU

	PER UTILITY	STAFF ADJ TO UTIL. BAL.	ADJUSTED BALANCE PER STAFF	PRO RATA ADJUST. PER STAFF	RECONCIL- IATION TO RATE BASE	PERCENT OF TOTAL	COST	WEIGHTED COST
COMMON EQUITY	\$ 24,525	\$ 0	\$ 24,525	\$ (6,673)	17,852	10.92%	10.12%	1.11%
LONG-TERM DEBT	0	200,000	200,000	(54,416)	145,584	89.08%	9.25%	8.24%
LONG-TERM DEBT	0	0	0	0	0	0.00%	0.00%	0.00%
LONG-TERM DEBT	0	0	0	0	0	0.00%	0.00%	0.00%
RETAINED EARNINGS	0	0		0		0.00%	0.00%	0.00%
CAPITAL STOCK	0	0		0		0.00%	0.00%	0.00%
PAID IN CAPITAL	0	0		0		0.00%	0.00%	0.00%
OTHER	0	0		0		0.00%	0.00%	0.00%
TOTAL	\$ 24,525	\$ 200,000	224,525	\$ (61,089)	163,436	100.00%		9.35%

<u>RANGE OF REASONABLENESS</u>	<u>LOW</u>	<u>HIGH</u>
RETURN ON EQUITY	9.12%	11.12%
OVERALL RATE OF RETURN	9.24%	9.45%

CROOKED LAKE PARK SEWERAGE COMPANY
 SCHEDULE OF WASTEWATER OPERATING INCOME
 TEST YEAR ENDED JULY 31, 1998

SCHEDULE NO. 3
 DOCKET NO. 980778-SU

	TEST YEAR PER UTILITY	STAFF ADJ. TO UTILITY	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	TOTAL PER STAFF
OPERATING REVENUES	\$ 56,437	\$ 3,211 A	\$ 59,648	\$ 49,967 E	\$ 109,615
				83.77%	
OPERATING EXPENSES:					
OPERATION AND MAINTENANCE	\$ 42,975	\$ 33,971 B	\$ 76,946	\$ 0	76,946
DEPRECIATION (NET)	0	8,548 C	8,548	0	8,548
AMORTIZATION	0	0	0	0	0
TAXES OTHER THAN INCOME	6,156	434 D	6,590	2,249 F	8,839
INCOME TAXES	0	0	0	0	0
TOTAL OPERATING EXPENSES	\$ 49,131	\$ 42,953	\$ 92,084	\$ 2,249	\$ 94,333
OPERATING INCOME/(LOSS)	\$ 7,306		\$ (32,436)		\$ 15,282
WASTEWATER RATE BASE	\$ 42,391		\$ 163,436		\$ 163,436
RATE OF RETURN	17.23%		-19.85%		9.35%

A. OPERATING REVENUES	WASTEWATER
1. To reflect accrued test year revenue	\$ 2,153
2. To reflect unbilled revenue for the bank	<u>1,058</u>
	<u>\$ 3,211</u>
B. OPERATION AND MAINTENANCE EXPENSES	
1. <u>Salaries and Wages -Employees</u>	
a. To reflect annual salary for maintenance person	\$ <u>1,013</u>
2. <u>Salaries and Wages - Officers</u>	
a. To reflect an annual salary for the utility's president	\$ <u>15,066</u>
3. <u>Sludge Removal Expense</u>	
a. Reclassification from acct. no. 736	\$ <u>3,515</u>
4. <u>Purchased Power</u>	
a. To reflect annual expense per audit	\$ <u>155</u>
5. <u>Chemical Expense</u>	
a. To reflect annual chemical expense	\$ <u>1,291</u>
6. <u>Contractual Services - Billing</u>	
a. To reflect annual billing cost	\$ <u>178</u>
7. <u>Contractual Services - Professional</u>	
a. To reflect annual accounting allowance	\$ 2,810
b. To remove co-mingled capital costs and O&M expenses	(4,000)
c. To reflect a non-recurring expense amortized over 5 years	(800)
	<u>\$ (1,990)</u>
8. <u>Contractual Services -Testing</u>	
a. To reflect annual DEP required testing expense	\$ <u>1,473</u>
9. <u>Contractual Services - Other</u>	
a. To reflect reclassification to account no. 711	\$ (3,515)
b. To reflect annual operator allowance	5,070
	<u>\$ 1,555</u>
10. <u>Contractual Services - Repairs and Maintenance</u>	
a. To reflect annual repair and maintenance expense	\$ <u>(1,745)</u>
10. <u>Rent</u>	
a. To reflect annual office rent	\$ <u>1,200</u>
11. <u>Transportation Expense</u>	
a. To reflect annual transportation expense	\$ <u>4,737</u>
12. <u>Regulatory Commission Expense</u>	
a. To reflect rate case expense amortized over 4 years	\$ <u>2,175</u>
13. <u>Miscellaneous Expense</u>	
a. To reflect annual allowance for cellular telephone service	\$ 334
b. To reflect a portion of a computer upgrade for billing purposes amortized over 5 years	900
c. To reflect non-recurring DEP expenses amortized over 5 years	1,560
d. To reflect non-recurring expense for initial setup and preparation of annual reports for a two year period over 5 years	2,264
e. To reflect unrecorded misc. expense	90
f. To reflect operating permit cost amortized over 5 years	200
	<u>\$ 5,348</u>
TOTAL O & M ADJUSTMENTS	<u>\$ 33,971</u>

CROOKED LAKE PARK SEWERAGE COMPANY
ADJUSTMENTS TO OPERATING INCOME
TEST YEAR ENDED JULY 31, 1998

SCHEDULE NO. 3A
PAGE 2 OF 2
DOCKET NO. 980778-SU

C. DEPRECIATION EXPENSE

1. Test year depreciation expense	\$ 13,143
2. Test year amortization of CIAC	(4,595)
	<u>\$ 8,548</u>

D. TAXES OTHER THAN INCOME

1. To remove penalty and interest from reg. fees	\$ (628)
2. To reflect appropriate reg. fees on test year revenue	67
3. To reflect unrecorded property taxes	686
4. To reflect payroll taxes on recommended salaries	309
	<u>\$ 434</u>

E. OPERATING REVENUES

1. To reflect increase in revenue required to cover expenses and allow recommended rate of return	<u>\$ 49,967</u>
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F. TAXES OTHER THAN INCOME

1. To reflect regulatory assessment fee at 4.5% on increase in revenue	<u>\$ 2,249</u>
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CROOKED LAKE PARK SEWERAGE COMPANY
 ANALYSIS OF WASTEWATER OPERATION AND
 MAINTENANCE EXPENSE
 TEST YEAR ENDED JULY 31, 1998

SCHEDULE NO. 3B
 DOCKET NO. 980778-SU

	TOTAL PER UTIL.	STAFF ADJUST.	TOTAL PER STAFF
#701 SALARIES AND WAGES - EMPLOYEES	\$ 4,987	\$ 1,013	\$ 6,000
#703 SALARIES AND WAGES - OFFICERS	2,934	15,066	18,000
#704 PENSIONS AND BENEFITS	0	0	0
#710 PURCHASED SEWAGE TREATMENT	0	0	0
#711 SLUDGE REMOVAL	1,181	3,515	4,696
#715 PURCHASED POWER	6,762	155	6,917
#716 FUEL FOR POWER PRODUCTION	0	0	0
#718 CHEMICALS	601	1,291	1,892
#720 MATERIALS AND SUPPLIES	363	0	363
#730 CONTRACTUAL SERVICES (BILLING)	5,420	178	5,598
#731 CONTRACTUAL SERVICES (PROFESSIONAL)	5,600	(1,990)	3,610
#735 CONTRACTUAL SERVICES (TESTING)	892	1,473	2,365
#735 CONTRACTUAL SERVICES (SLUDGE ANAL.)	0	0	0
#735 CONTRACTUAL SERVICES (OTHER)	5,005	1,555	6,560
#736 CONTRACTUAL SERVICES (REPAIRS & MAINT.)	5,347	(1,745)	3,602
#740 RENTS	0	1,200	1,200
#750 TRANSPORTATION EXPENSE	135	4,737	4,872
#755 INSURANCE EXPENSE	3,602	0	3,602
#765 REGULATORY COMMISSION EXPENSE	0	2,175	2,175
#770 BAD DEBT EXPENSE	0	0	0
#775 MISCELLANEOUS EXPENSES	146	5,348	\$ 5,494
	\$ 42,975	\$ 33,971	\$ 76,946

CROOKED LAKE PARK SEWERAGE COMPANY
 SCHEDULE OF RATE CASE EXPENSE RATE
 REDUCTION AFTER FOUR YEARS
 TEST YEAR ENDED JULY 31, 1998

SCHEDULE NO. 4
 DOCKET NO. 980778-SU

MONTHLY RATES

<u>RESIDENTIAL</u>	<u>STAFF RECOMM.</u>	<u>RATE</u>
<u>BASE FACILITY CHARGE</u>	<u>RATES</u>	<u>DECREASE</u>
Meter Size:		
ALL SIZES	\$ 11.10	\$ 0.23
<u>RESIDENTIAL GALLONAGE CHARGE</u>		
PER 1,000 GALLONS	\$ 2.56	\$ 0.05
<u>GENERAL SERVICE</u>		
<u>BASE FACILITY CHARGE</u>		
Meter Size:		
5/8"	\$ 11.10	\$ 0.23
3/4"	16.65	0.35
1"	27.75	0.58
1 1/2"	55.49	1.15
2"	88.79	1.84
3"	177.57	3.69
4"	277.46	5.76
6"	554.91	11.53
<u>GENERAL SERVICE GALLONAGE CHARGE</u>		
PER 1,000 GALLONS	\$ 3.07	\$ 0.06

USED AND USEFUL DATA
WASTEWATER TREATMENT PLANT

Docket No. 980778-SU

Date 09/23/98

Utility: CROOKED LAKE PARK SEWER CO.

- 1) Capacity of Plant = 60,000 GPD
- 2) Maximum Daily Flow
(Peak Month March 1998) = >143,000 GPD
- 3) Average Daily Flow = 143,000 GPD
- 4) Margin Reserve (not to exceed 20% of Average GPD):
- a) Average No. customers in ERCs = 353
- b) Average Cust. Growth in ERCs
for most Recent 4 Years = 5
- c) Construction Time for
Additional Capacity = 1.5 Years
- Margin Reserve = $4b \times 4c \times \frac{2}{4a}$ = 3,037 GPD
- 5) Excessive Infiltration = 31,036 GPD
- a) Total Amount 44,160 GPD = 31 % of Av. GPD Flow
- b) Reasonable Amount 13,124 GPD = 9.2 % of Av. GPD Flow

PERCENT USED AND USEFUL FORMULA

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

- Used and useful is 100% with or without a Margin Reserve
- Used and useful with a five year Margin Reserve is 93.1%.

Robert T. Davis - Engineer

ATTACHMENT "A"

USED AND USEFUL DATA
WASTEWATER COLLECTION SYSTEM

Docket No. 980778-SU

Date 09/24/98

Utility: CROOKED LAKE PARK SEWAGE COMPANY

- 1) Capacity 406 ERC's (Number of potential customers without expansion)
- 2) Average number of TEST YEAR Connections 353 ERC's
- 3) Margin Reserve (Not to exceed 20% of present ERC's)
 - a) Average yearly customer growth in ERC's for most recent 4 Years N/A ERC's
 - c) Construction Time for Additional Capacity N/A Years

(a) x (b) = N/A ERC's Margin Reserve

PERCENT USED AND USEFUL FORMULA

$$\frac{(2 + 3)}{1} = \underline{100} \% \text{ Used and Useful}$$

- Used and useful is 100% due to the collection system being Contributed property.

Robert T. Davis - Engineer

ATTACHMENT "B"

DOCKET NO. 980778-SU
DATE: SEPTEMBER 23, 1999

ISSUE AND RECOMMENDATION SUMMARY

ISSUE 1: Is the quality of service provided by Crooked Lake Park Sewerage Company, Inc. to its customers satisfactory?

RECOMMENDATION: The quality of service provided by the utility is considered unsatisfactory. The utility should be allowed a sufficient pro-forma plant allowance in this rate case to correct any and all infiltration problems, and be given 180 days from the date of the Order to have all scheduled work completed to correct the current infiltration problems. (DAVIS)

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

RECOMMENDATION: The wastewater plant should be considered 100% used and useful. The collection system should be 100% used and useful due to assets being contributed property. (DAVIS)

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

PRIMARY RECOMMENDATION: No. The wastewater treatment plant is 100% used and useful without a margin reserve which should not be included in the used and useful calculation. A margin reserve for the wastewater collection system is not applicable due to the system being contributed property. (DAVIS)

ISSUE 4: Should an acquisition adjustment be approved in the determination of the utility's rate base at the date of purchase?

RECOMMENDATION: No, an acquisition adjustment should not be approved in the determination of the utility's rate base at the date of purchase. (DEWBERRY, CHU)

ISSUE 5: What is the appropriate average test year rate base for the utility?

RECOMMENDATION: The appropriate average test year rate base for Crooked Lake should be \$163,436. (DEWBERRY, CHU, DAVIS)

ISSUE AND RECOMMENDATION SUMMARY

ISSUE 6: What is the appropriate rate of return on equity and the appropriate overall rate of return for this utility?

RECOMMENDATION: The appropriate rate of return on equity is 10.12% with a range of 9.12% - 11.12%. The appropriate overall rate of return is 9.35% with a range of 9.24% - 9.45%. (DEWBERRY, CHU)

ISSUE 7: What are the appropriate test year revenues?

RECOMMENDATION: The appropriate test year revenues are \$59,648. (DEWBERRY, CHU)

ISSUE 8: What is the appropriate amount of operating expense?

RECOMMENDATION: The appropriate amount of operating expense should be \$94,333. (DEWBERRY, CHU, T. DAVIS)

ISSUE 9: What is the appropriate revenue requirement?

RECOMMENDATION: The appropriate revenue requirement should be \$109,615. (DEWBERRY, CHU)

ISSUE 10: What is the appropriate conservation rate structure for this utility?

RECOMMENDATION: The appropriate conservation rate structure for this utility is the base facility and uniform gallonage charge rate structure. (GOLDEN, DEWBERRY)

ISSUE 11: What is the appropriate residential gallonage cap for wastewater service?

RECOMMENDATION: The appropriate residential gallonage cap for wastewater service should be 8,000 gallons for residential customers only. (DEWBERRY, CHU)

ISSUE 12: Is a repression adjustment to consumption appropriate for this utility, and, if so, what is the appropriate adjustment?

RECOMMENDATION: No, a repression adjustment is not appropriate in this case. However, in order to monitor the effects of the rate increase on consumption, the utility should be ordered to file, on a quarterly basis, reports detailing the number of bills rendered, the number of gallons billed and the total revenues billed during the quarter, with the totals shown separately for the residential and general service classes of service. These reports should be required for a period of two years, beginning the first quarter after the revised rates go into effect. (GOLDEN)

ISSUE AND RECOMMENDATION SUMMARY

ISSUE 13: What are the recommended rates for this utility?

RECOMMENDATION: The recommended rates should be designed to produce revenue of \$109,615. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C., provided the customers have received notice. The rates may not be implemented until proper notice has been received by the customers. The utility should provide proof of the date notice was given within 10 days after the date of the notice. (DEWBERRY, CHU)

ISSUE 14: What is the appropriate amount by which rates should be reduced four years after the established effective date to reflect the removal of the amortized rate case expense as required by Section 367.0816, Florida Statutes?

RECOMMENDATION: The wastewater rates should be reduced as shown on Schedule 4, to remove rate case expense grossed-up for regulatory assessment fees and amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the four year rate case expense recovery period, pursuant to Section 367.0816, Florida Statutes (1997). The utility should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. (DEWBERRY, CHU)

ISSUE 15: What are the appropriate customer deposits for this utility?

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

ISSUE 16: Should the utility be authorized to collect miscellaneous charges, and if so, what are the appropriate charges?

RECOMMENDATION: Yes, the utility should be authorized to collect miscellaneous service charges as recommended in the staff analysis. The utility should file revised tariff sheets which are consistent with the Commission's vote. Staff should be given administrative authority to approve the revised tariff sheets upon staff's verification that the tariffs are consistent with the Commission's

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decision. If revised tariff sheets are filed and approved, the miscellaneous service charges should become effective for connections made on or after the stamped approval date of the revised tariff sheets, if no protest is filed. (DEWBERRY, CHU)

ISSUE 17: Should the utility be required to escrow that portion of rates associated with the \$126,665 pro forma plant and if so what is the appropriate amount?

RECOMMENDATION: Yes, the utility should be required to escrow that portion of the rates associated with the \$126,665 pro forma plant until verification of the completion of plant improvements has been received by Commission staff. The appropriate amount should be \$1,365 per month. (DEWBERRY, CHU)

ISSUE 18: Should the utility be ordered to show cause, in writing, within 21 days, why it should not be fined for its apparent violation of Rule 25-30.115, Florida Administrative Code?

RECOMMENDATION: No. A show cause proceeding should not be initiated. However, the utility should be required to maintain its books and records in conformity with NARUC USOA and should be required to submit a statement from its accountant by March 31, 2000, along with its 1999 annual report, stating that its books are in conformity with NARUC USOA and have been reconciled with the Commission's order. (JAEGER, CIBULA, DEWBERRY, CHU)

ISSUE 19: Should the recommended rates be approved for the utility on a temporary basis, subject to refund, in the event of a protest filed by a party other than the utility?

RECOMMENDATION: Yes, the recommended rates should be approved for the utility on a temporary basis, subject to refund, in the event of a protest filed by a party other than the utility. Prior to implementation of any temporary rates, the utility should provide an appropriate security. If the recommended rates are approved on a temporary basis, the rates collected by the utility shall be subject to the refund provisions discussed below in the staff analysis. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), Florida Administrative Code, the utility should file reports with the Division of Water and Wastewater no later than 20 days after each monthly billing. These reports should indicate the amount of revenue collected under the increased rates. (DEWBERRY, CHU, JAEGER, CIBULA)

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ISSUE 20: Should this docket be closed?

RECOMMENDATION: If no timely protest is received upon expiration of the protest period, the Order becomes final and effective upon the issuance of a Consummating Order. However, this docket should remain open for at least 12 months to allow the utility to complete pro forma plant improvements of \$126,665 and provide staff with verification that all improvements have been made. After staff has verified that all improvements have been completed, this docket should be closed administratively. If a protest is filed within 21 days of the issuance of the Order, the Commission approved temporary rates should become effective pending resolution of the protest. (DEWBERRY, CHU, DAVIS, JAEGER, CIBULA)