State of Florida

Public Service Commission

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

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

DATE: NOVEMBER 4, 1999

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

FROM: DIVISION OF WATER AND WASTEWATER (BUTTS, CASEY, DAVIS, GOLDEN)
DIVISION OF LEGAL SERVICES (CROSSMAN)

RE: DOCKET NO. 990356-WS - APPLICATION FOR STAFF-ASSISTED RATE CASE BY BREEZE HILL UTILITIES, INC.
COUNTY: POLK

AGENDA: 11/16/99 - REGULAR AGENDA - PROPOSED AGENCY ACTION, EXCEPT ISSUES NOS. 14 AND 17 - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: 15-MONTH EFFECTIVE DATE: 08/16/00 (SARC)

SPECIAL INSTRUCTIONS: NONE

FILE NAME AND LOCATION: S:\PSC\WAW\WP\990356.RCM

DOCKET NO 990356-WS
November 4, 1999

TABLE OF CONTENTS

DOCKET NO 990356-WS
November 4, 1999

CASE BACKGROUND

Breeze Hill Utilities, Inc. (Breeze Hill or utility) is a Class C utility which provided water and wastewater service to an average 115 residential customers during the test year. The Board of County Commissioners of Polk County adopted a resolution on May 14, 1996, which made the utilities in the County subject to the jurisdiction of the Florida Public Service Commission (PSC or Commission). The resolution was acknowledged by this Commission in Order No. PSC-96-0896-FOF-WS issued July 11, 1996, in Docket No. 960674-WS. By Order No. PSC-98-1550-FOF-WS issued November 23, 1998, in Docket No. 971192-WS, the Commission granted Certificates Nos. 598-W and 513-S to Bieber Enterprises, Inc. d/b/a Breeze Hill Utilities.

On March 18, 1999, the utility applied for this staff assisted rate case (SARC). The Commission has processed one pass-through rate adjustment for the utility which enabled it to pass-through regulatory assessment fees when the utility came under the jurisdiction of the Commission.

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

Based on the staff analysis, the utility's test year revenue was $14,784 for the water system and $10,752 for the wastewater system. Test year operating expenses, as determined by staff auditors, were $25,101 for water and $31,277 for wastewater. This resulted in operating losses of $10,317 and $20,525, respectively.

A customer meeting was conducted on October 6, 1999, at the Breeze Hill Clubhouse in Lake Wales, Florida. Sixty-eight customers, two utility employees, and a representative of the South Florida Water Management District, along with Commission Staff attended the meeting. Eight customers chose to give comments regarding the utility's quality of service, the proposed rate

increase, and other issues related to the case. Quality of Service and Customer Service issues are discussed in Issue No. 1.

ISSUE 1: Is the quality of service provided by Breeze Hill Utilities in Polk County considered satisfactory?

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

STAFF ANALYSIS: A series of customer meetings were held during the afternoon and evening of October 6, 1999, in the clubhouse at Breeze Hill Mobile Home Park. The first meeting, held at 2:00 pm, was with a group of homeowners known as the Nineteen Club, a group of residents that live in Phase I of Breeze Hill Mobile Home Park. The second meeting, held at 4:00 pm, was with a group of customers representing the park's homeowner association. At the 6:00 pm meeting, 68 residents and two utility personnel were in attendance. Eight customers commented upon the increase of service rates. All of those eight customers that spoke at the latter meeting were concerned with the rates being unfairly inflated. One customer mentioned that the water pressure was too low.

The one quality of service issue raised by the customer at that meeting was investigated and is addressed below. Staff's recommendation on the overall quality of service provided by the utility is derived from the 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, privately owned potable water systems are regulated by the Polk County Health Department (PCHD). The responsibility of a water utility to comply with all standards for safe drinking water rest with the county program. The county performs inspections and monitors all required testing to assure compliance. According to the PCHD, the utility is currently up-to-date with all chemical analyses and all test results are satisfactory. The utility provides water which meets or exceeds all standards for safe, potable water. Therefore, the quality of the utility's product should be considered satisfactory.

Wastewater facilities are regulated by the Southwest District of the Department of Environmental Protection (DEP), located in Tampa. The utility's operating permit was issued on January 11, 1995, and expires on January 2, 2000. There are no outstanding violations or citations, and the utility has complied with all testing/analyses. All test results were satisfactory. The quality of wastewater service meets or exceeds regulatory standards, and should also be considered satisfactory.

OPERATIONAL CONDITIONS AT THE PLANT

The quality of the utility's plant-in-service is generally reflective of the quality of the utility's product. The water plant is a simple system with one well, a disinfection system and a pressure tank. It is the tank that has been, and continues to be, a point of concern. This rate case began, not only from the need to obtain compensatory rates, but, from the need to replace the hydro pneumatic tank at the water treatment plant. When the current owner took over the water system in June, 1997, the water tank was badly rusted and pitted, sufficient to cause leaking. In January, 1998, the county inspector performed a Sanitary Survey Report. The tank was cited and the utility was instructed to replace the tank within 30 days. Needing more than 30 days to replace the tank, the utility requested a second opinion from a registered engineer. It was the opinion of Mr. Ernest P. West, Florida Registered Engineer, that "the tank and supports have been spot welded and painted, and the premises is clean and sanitary." The county accepted Mr. West's opinion and waived the 30 day deadline to replace the tank. The utility filed for rate relief on March 18, 1999. During the course of the rate case, the utility requested pro forma allowances to replace the tank. On October 8, 1999, at approximately 4:00 am, the tank exploded. In accordance with Rule 25-30.251(2), Florida Administrative Code, the utility notified the Commission of the service interruption at 7:30 am on October 8, 1999. An examination of the ruptured tank showed the tank could not be repaired. As a temporary measure to provide water service to its customers during this emergency, the utility installed two 300 gallon tanks. Water was restored by 7:00 pm on October 8, 1999, under a boil water notice, and with no irrigation conditions. This situation is temporary, and speeds the tank replacement. It is believed that the utility owner has exhibited a good faith effort sufficient to consider plant-in-service to be satisfactory.

The wastewater plant-in-service is reflected by the product's testing and analyses results. The overall capacity of the

wastewater plant is 40,000 gallons per day, which is sufficient to process the typical flows of the Breeze Hill customer base. The wastewater plant is located in an open area near the clubhouse and boat dock which is in plain view of the public. Appearances at the plant were satisfactory and no foul or obnoxious odors were detected during the engineering investigation. The quality of the wastewater plant in service should be considered satisfactory.

CUSTOMER SATISFACTION

Three customer meetings were held on October 6, 1999, in the service territory at the Breeze Hill Club House. The meetings were held at 2:00 pm, 4:00 pm, and 6:00 pm. At the first meeting, held at 2:00 pm, the group of homeowners, known as the Nineteen Club, discussed several reasons why they believe the total charges for water and wastewater services should remain at nineteen dollars per month. At the second meeting, held at 4:00 pm, the group of customers representing the Homeowner Association expressed their concerns with the amount of the increase proposed in staff's preliminary report. They reviewed the preliminary report with staff, point by point. They also presented a memorandum to staff which listed specific items the residents wanted staff to consider when preparing the recommendation:

1) Possible leaks in the system - The utility has contacted the Florida Rural Water Association to examine Breeze Hill's system to determine if there are any water leaks.

2) Possible duplication of cost recovery - The utility owner also owns the mobile home park which charges a monthly maintenance fee to residents for upkeep of the park, clubhouse and pool. The association was concerned that the clubhouse and pool area water and wastewater service continue to be provided by the park owner as stated in their maintenance agreement. The clubhouse and pool area will be metered with a 2" water meter, and the park owner will be the customer of record. Another concern was grass cutting provided in the residents monthly maintenance fee vs. an allowance made in this rate case for mowing and groundskeeping of the utility property. Staff has recommended an amount for mowing and groundskeeping for only the utility property which includes the water plant, wastewater plant, and percolation ponds. The association also questioned the cost included for a utility office. Staff's analysis considered that the office is used for other business and allocated the office expense between the utility and the mobile home park on a 50-50 basis.

3) Margin Reserve - The association believed that some of the vacant lots are unusable and should not be considered in the margin reserve calculation. The vacant lots, by the association's own admission, may be usable if sold at bargain prices. Staff calculated margin reserve based on historical growth, potential lots available in the park, and the new 5 year margin reserve statute. The present systems are capable of handling future customers to build-out of the park.

4) Definition of an ERC - Rule 25-30.515(8), Florida Administrative Code, defines an Equivalent Residential Connection (ERC) as: (a) 350 gallons per day; (b) The number of gallons a utility demonstrates is the average daily flow for a single residential unit; or (c) The number of gallons which has been approved by the Department of Environmental Protection for a single residential unit. In the case of Breeze Hill Mobile Home Park, staff has calculated that one mobile home equals .8 ERCs.

The remaining items brought up by the residents of Breeze Hill are discussed in the body of this recommendation.

Sixty-eight residents and two utility personnel were in attendance at the 6:00 pm meeting. Eight customers went on record with comments and opinions concerning the increase of service rates. All eight customers that spoke at that meeting were concerned with the rates being unfairly inflated. Several of the customers that staff met with during the day expressed concern over the use of the twelve month test period being in a drought year, which caused the numbers for water use to be inflated. Another situation that was mentioned by several customers was the excessive water use by some customers as a vengeful act against the utility owner. The utility presently has unmetered water rates and some residents reportedly removed in-ground sprinkler heads and allowed the water to flow 24 hours a day. One customer mentioned that the water pressure was too low.

It is suspected that the high use of water during the drought season caused a temporary reduction in pressure. According to the PCHD, the utility provides water system pressure that meets or exceeds the minimum standard of 20 pounds per square inch. Lower than normal water pressure cannot be avoided even in a larger system during periods of dry weather and heavy water use. When this occurs, water use must be restricted for conservation and pressure reasons. According to the utility owner, restrictions were discussed with the residents, but were never administered.

The replacement of the hydro pneumatic tank with a larger tank will increase the storage capacity and assist in the consistency of any pressure fluctuations. The engineer's recommendation for tank replacement is an allowance of 180 days from the effective date of the Order to completion. The utility should be required to report to the Commission, in writing, within 180 days of the effective date of the Order arising from this recommendation, that the tank has been replaced.

All things considered, the quality of service for the water system and the wastewater system should be considered satisfactory.

ISSUE 2: What amount of margin reserve should be included in the calculations of used and useful plant to comply with Section 367.081(2)(a)2., Florida Statutes?

RECOMMENDATION: A 33 gallon per minute (gpm) margin reserve should be used for the water treatment plant, a 3,180 gallon per day margin reserve should be used for the wastewater treatment plant, and 15 ERCs margin reserve should be used for both the water distribution and the wastewater collection systems. (DAVIS)

STAFF ANALYSIS: Margin reserve is the concept whereby the Commission recognizes certain costs the utility incurs in providing extra capacity sufficient to meet short term growth without impairing its ability to provide safe and adequate service to existing customers. Section 367.081(2)(a)2., Florida Statutes, sets out the time period that must be used as well as the maximum growth rate that can be included in the calculation. Section 367.081(2)(a), Florida Statutes, states:

> (2) For purposes of such proceedings, the commission shall consider utility property, including land acquired or facilities constructed or to be constructed within a reasonable time in the future, not to exceed 24 months after the end of the historic test year used to set final rates unless a longer period is approved by the commission, to be used and useful in the public service, if:
>
> (a) Such property is needed to serve current customers;
>
> (b) Such property is needed to serve customers **5 years** after the end of the test year used in the commission's final order on a rate request as provided in subsection (6) at a growth rate for equivalent residential connections not to exceed **5 percent** per year; or
>
> (c) Such property is needed to serve customers more than 5 full years after the end of the test year used in the commission's final order on a rate request as provided in subsection (6) only to the extent that the utility presents clear and convincing evidence to justify such consideration.
>
> (emphasis added)

In accordance with Section 367.081(2)(a)2.b., Florida Statutes, the period needed to serve current customers is five years after the test year. A five year period has been used in the margin reserve calculations as an approved construction period. The growth rate calculated in each margin reserve calculation is less than the maximum allowed of 5% per year.

Staff calculations for margin reserve are based upon the average growth in ERCs over the last five years. Breeze Hill has shown an average yearly customer growth over the past five years of three ERCs which was calculated using the average mean method. Based on this growth factor, staff recommends allowing a 33 gpm margin reserve for the water treatment plant, a 4,924 gallon per day margin reserve for the wastewater treatment plant, and 15 ERCs margin reserve for both the water distribution and the wastewater collection systems as shown in Attachments A and B.

ISSUE 3: What portions of water and wastewater plants-in-service are used and useful?

RECOMMENDATION: The water treatment plant and the water distribution system should be considered 100% used and useful. The wastewater plant should be considered 56.63% used and useful, and the wastewater collection system should be considered 100% used and useful. (DAVIS)

STAFF ANALYSIS: The water treatment plant is a closed system with one 6" well equipped with a 10 horsepower (hp) vertical turbine pump that resources the ground water table at a rate of 200 gallons per minute (gpm). The used and useful calculation was achieved by a comparison study of the minimum standard of 1.1 gpm in accordance with General Waterworks Design Criteria to the number of customer connections. This standard is backed by the American Water Works Association (AWWA), and is recommended to be met by the lowest capacity well. Since this system has only one well, the actual capacity of 200 gpm was used. Customer growth has been gradual over the last five years with an average growth rate of 4 customers per year (estimated at 3 ERCs per year). In accordance with the formula approach which is used as an indicator of useful plant, the water plant is considered 100% used and useful without any consideration for the four fire hydrants located in the subdivision. Staff does not believe that Breeze Hill's service area will ever contain 350 persons to meet the DEP requirement (Rule 62-555.315 (1), Florida Administrative Code) for a second well, however, should the utility plan to utilize the fire hydrants, a second well should be considered. It is recommended that the water treatment plant be considered 100% used and useful (See Attachment A).

The water distribution system has the potential of serving 131 customers (estimated to be 105 ERCs) without the construction of additional distribution mains. The average number of customers served during the test year was 115 customers (estimated to be 92 ERCs). Growth over the past five years has been 4 customers per year (estimated to be 3 ERCs), per simple average. In accordance with the formula approach which is used as an indicator of useful plant, (See Attachment B), staff has calculated the distribution system to be 100% used and useful for this rate proceeding.

The wastewater treatment plant is constructed to process 40,000 gallons per day (gpd) operating in the extended aeration mode of treatment. Flows are measured by a meter at the effluent

lift station which meters treated water flow transported to the percolation ponds from the plant. During January, February and March of the test year, the highest consecutive five day average found in each month exceeded the plant capacity. From July, 1998, through September, 1998, the utility surveyed and made repairs to manholes that were suspected sources of infiltration. During the last quarter of the test year, the quarterly average daily flow was 19,470 gpd. Also, used in the calculation is the average growth rate of 3 ERCs per year. Based on the formula method of calculating used and useful which is used as an indictor of useful plant, the wastewater treatment plant is determined to be 56.63% (See Attachment C).

The wastewater collection system has the potential of serving 131 customers (estimated to be 105 ERCs) without the construction of additional collection mains. The average number of customers served during the test year was 92 ERCs. Growth over the past five years has been 3 ERCs. Constructed in three phases, each phase of development appears to have been constructed with the appropriate size gravity lines along with prudent placement of manholes. The approved formula approach, used as an indicator, was used to calculate a 100% used and useful which should be applied to the utility's collection accounts (See Attachment D).

ISSUE 4: What is the utility's appropriate average amount of rate base?

RECOMMENDATION: The appropriate average amount of test year rate base should be $75,755 for the water system and $53,465 for the wastewater system. Pro forma plant, as outlined in the staff analysis, should be completed within 180 days of the effective date of the Commission Order. (BUTTS, CASEY, DAVIS)

STAFF ANALYSIS: The appropriate components of the utility's rate base include utility plant in service (UPIS), land, non-used and useful plant, contributions-in-aid-of-construction (CIAC), accumulated depreciation, amortization of CIAC and a working capital allowance. A discussion of each component follows.

Staff selected a test year ended December 31, 1998 for this rate case. The utility's rate base was last established by Polk County. However, sufficient records of the original construction were not available and considered lost by the auditors. An original cost study was completed using an available map and physical inspection of the facilities during the engineering investigation. Adjustments have been made to agree rate base component balances with the engineer's original cost study and to update rate base through December 31, 1998. A summary of each component and the adjustments follows:

Utility Plant In Service: The utility books reflected a water utility plant balance of $0 at the beginning of the test year. A new 5,000 gallon hydro pneumatic water tank has been included in pro forma plant. The estimate for the new tank was submitted to the utility by Dunham Well Drilling, Inc. Staff reviewed the estimate and determined the cost to be reasonable. Following the National Association of Regulatory Utility Commissioner's (NARUC) Uniform System of Accounts (USOA), the original cost of the existing hydro pneumatic tank ($10,980) has been removed from utility plant in service and charged to accumulated depreciation.

Staff made an adjustment of $82,450 to reflect the amount of water plant per the original cost study completed by the staff engineer. Adjustments were also made to reflect: $16,826 for a pro forma hydro pneumatic tank; $834 for pro forma additions to the utility building; ($10,980) for the retirement of the existing hydro pneumatic tank; $2,227 for a pro forma chlorine alarm with automatic switch-over; $456 for a pro forma back-up motor for the well pump; $23,035 for Commission ordered pro forma water meters

(By Order No. PSC-98-1550-FOF-WS, issued November 23, 1998, in Docket No. 971192-WS, the Commission approved continuation of the utility's current flat rate structure, but put the utility on notice that it would be required to install meters and implement a base facility and gallonage charge rate structure in its next filing with the Commission); $3,109 for pro forma temporary hydro pneumatic tanks; and ($1,056) for an averaging adjustment. Staff recommends a water utility plant in service balance of $116,901.

The utility books also reflected a wastewater utility plant balance of $0 at the beginning of the test year. Staff made an adjustment of $249,359 to reflect the amount of wastewater plant per the original cost study completed by the staff engineer. Adjustments were also made to reflect: $557 for a pro forma wastewater pump replacement; $952 for a pro forma blower; and ($2,141) to reflect an averaging adjustment. Staff recommends a wastewater utility plant in service balance of $248,727.

Pro forma water and wastewater plant should be completed within 180 days of the effective date of the Commission Order.

Land: The utility books reflected a land balance of $0 at the end of the test year. The utility provided staff with proof of the "Agreement for Deed" to purchase the water and wastewater facilities. By Order PSC-98-1550-FOF-WS, issued November 23, 1998, the Commission recognized the "Agreement for Deed" as adequate proof that the utility owns or maintains a long term lease for lands occupied by utility facilities. The original cost study provided a land value of $2,997 for water, and $18,519 for wastewater. Therefore, staff recommends a utility land value of $2,997 for water and $18,519 for wastewater.

Non-Used and Useful Plant: As discussed in Issue No. 3, the water treatment plant, the water distribution system, and the wastewater collection system should all be considered 100% used and useful. The wastewater treatment plant should be considered 56.63% used and useful. The non-used and useful percentages times the appropriate accounts reflect average non-used and useful wastewater plant of ($41,325) and average non-used and useful wastewater accumulated depreciation of $40,795. Staff made an adjustment of ($530) to reflect non-used and useful wastewater plant.

Contributions-in-Aid-of-Construction (CIAC): The utility recorded no CIAC on their books at the end of the test year. The audit staff

could not establish water and wastewater CIAC because of inadequate utility records. Rule 25-30.570(1) , Florida Administrative Code, 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.

Since the utility did not have adequate books to provide CIAC balances, staff imputed ($31,433) for water CIAC and ($117,903) for wastewater CIAC to reflect the water transmission and wastewater collection systems as calculated by the original cost study. Staff also made an averaging adjustment of $603 to wastewater CIAC. Staff recommends water CIAC of ($31,433), and wastewater CIAC of ($117,300).

Accumulated Depreciation: The utility books reflected no accumulated depreciation balances for water or wastewater at the end of the test year. Staff calculated accumulated depreciation using the engineer's original cost study and a 2.5% depreciation rate from 1976 through March of 1984, then calculated depreciation using rates set forth in Rule 25-30.140, Florida Administrative Code, through the test year.

Staff made an adjustment of ($45,471) to reflect the amount of water accumulated depreciation using the original cost study completed by the staff engineer. Staff also made adjustments to reflect accumulated depreciation of: ($255) for a pro forma hydro-pneumatic tank; ($15) for pro forma additions to the utility building; $10,980 for the retirement of the existing hydro-pneumatic tank; ($159) for a pro forma chlorine alarm with automatic switch-over; ($15) for a pro forma back-up motor for the well pump; ($677) for Commission ordered pro forma water meters; ($47) for the temporary pro forma hydro-pneumatic tanks; and $1,432 for an averaging adjustment. Staff recommends water accumulated depreciation of ($34,227).

Staff made an adjustment of ($194,452) to reflect the amount of wastewater accumulated depreciation using the original cost

study completed by the staff engineer. Staff also made adjustments to reflect accumulated depreciation of: ($32) for the pro forma blower; ($19) for the pro forma replacement pump; and $2,852 to reflect an averaging adjustment. Staff recommends wastewater accumulated depreciation of ($191,651).

Accumulated Amortization of CIAC: The utility recorded no accumulated amortization of CIAC at the end of the test year. Staff calculated accumulated amortization by using a 2.5% amortization rate through March of 1984, then calculated amortization using a composite rate through the test year. Staff made adjustments of $19,604 to water accumulated amortization, and $93,730 to wastewater accumulated amortization. Staff also made averaging adjustments of ($546) to water accumulated amortization, and ($1,348) to wastewater accumulated amortization. Staff recommends accumulated CIAC amortization of $19,058 for water and $92,382 for wastewater.

Working Capital Allowance: Working Capital is defined as the investor-supplied funds necessary to meet operating expenses or going-concern requirements of the utility. Pursuant to Rule 25-30.433, Florida Administrative Code, staff recommends that the one-eighth of operation and maintenance expense formula approach be used for calculating working capital allowance. Applying that formula, staff recommends a working capital allowance of $2,459 for water and $3,318 for wastewater (based on water operation and maintenance expenses of $19,674, and wastewater operation and maintenance expenses of $26,547.)

Rate Base Summary: Based on the foregoing, the appropriate rate base balance for rate setting purposes is $75,755 for the water system and $53,465 for the wastewater system.

Rate base is shown on Schedules Nos. 1 and 1A; the related adjustments are shown on Schedule No. 1-B.

ISSUE 5: Should a negative acquisition adjustment be approved?

RECOMMENDATION: No, a negative acquisition adjustment should not be included in the calculation of rate base for this utility. (BUTTS, CASEY)

STAFF ANALYSIS: In Order No. PSC-98-1550-FOF-WS, the Commission did not determine the appropriateness of an acquisition adjustment for Breeze Hill since no rate base was established, noting that "Rate Base for utilities receiving grandfather certificates is typically established in the utility's first rate proceeding filed under our jurisdiction."

An acquisition adjustment results when the purchase price differs from the original cost calculation. The acquisition adjustment resulting from the 1997 purchase of Breeze Hill from Lake Walk In The Water Village Associates, Ltd. would be calculated as follows:

Purchase Price (06/13/97):	($ 33,078)
Staff Calculated Water Rate Base: (as of 06/13/97)	$ 20,619*
Staff Calculated Wastewater Rate Base: (as of 06/13/97)	$ 47,171*
Negative Acquisition Adjustment:	($ 34,712)

* Rate Base calculated for transfer purposes and does not include normal ratemaking adjustments for non-used and useful plant or working capital.

Staff calculated rate base based on the original cost of the property when first dedicated to public service.

In the absence of extraordinary circumstances, it has been Commission practice that a 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 a negative acquisition adjustment should not be included in the calculation of rate base.

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 should be 10.12% with a range of 9.12% to 11.12% and the appropriate overall rate of return should be 8.47% with a range of 8.17% to 8.76%. (BUTTS, CASEY)

STAFF ANALYSIS: The utility's capital structure is consolidated with the parent organization, Bieber Enterprises, Inc. In cases where a utility capital structure is not available, staff uses the capital structure of the parent corporation. Based on the staff audit and original cost study, the capital structure consists of $200 of common stock, $32,778 of retained earnings, $14,175 of paid in capital, and $64,365 of long term debt at a cost of 6.30%. The utility's pro forma plant is estimated at $47,996. Breeze Hill has stated that it needs to take out a loan for the pro forma plant with the cost of the loan at 1 1/2% over the prime rate with the prime rate being 8.25% at the time of this filing.

The rate of return on equity, when based on the leverage graph formula established in Order No. PSC-99-1224-PAA-WS issued June 21, 1999, in Docket No. 990006-WS, is 10.12% with a range of 9.12% to 11.12% and the overall rate of return is 8.47% with a range of 8.17% to 8.76%. Staff made pro rata adjustments to reconcile the capital structure downward to match the recommended rate base.

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

NET OPERATING INCOME

ISSUE 7: What is the appropriate test year revenue for this utility?

RECOMMENDATION: The appropriate test year revenue should be $14,784 for the water system and $10,752 for the wastewater system. (BUTTS, CASEY)

STAFF ANALYSIS: During the test year the utility provided water and wastewater services to an average 115 customers. The utility reported revenues for the test year ended December 31, 1998 in the amount of $14,538 and $11,088 for the water and wastewater systems, respectively. A revenue check completed by staff auditors showed test year revenues should be $14,784 for water and $10,752 for wastewater. Staff made adjustments of $246 and ($336) for water and wastewater, respectively, to bring test year revenue to the proper amount. Staff recommends test year revenue of $14,784 for water, and $10,752 for wastewater.

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

ISSUE 8: What is the appropriate amount of operating expenses for rate setting purposes?

RECOMMENDATION: The appropriate amount of operating expenses for rate making purposes should be $25,889 for the water system and $32,457 for the wastewater system. (BUTTS, CASEY, DAVIS)

STAFF ANALYSIS: The components of the utility's operating expenses include operation and maintenance expenses, depreciation expense (net of CIAC amortization), and taxes other than income taxes.

Test Period Operating Expenses

The utility recorded test year water system operating expenses of $19,390, and wastewater system operating expenses of $27,103. Staff made several adjustments to the utility's operating expenses. A summary of adjustments to operating expenses are as follows:

OPERATION AND MAINTENANCE EXPENSE

Salaries and Wages-Employees - The utility's owner acts as secretary, bookkeeper, regulatory liaison, general maintenance person, and chief maintenance supervisor. The utility recorded employee salaries and wages of $9,360 for water and $9,360 wastewater for the test year.

Staff completed an analysis of necessary labor hours and duties based on the size of this utility. Based on that analysis, along with information received at the customer meetings, staff recommends the following salary allowances:

a) An office person to answer phone calls, do general filing, bookkeeping, handle complaints, and maintain the complaint log (10 hours per week @ $7.50 per hour).

b) A general maintenance person to perform general system repairs, investigate complaints, do regular maintenance checks, pick up parts, and assist/supervise contract services (10 hours per week @ $10.00 per hour).

c) A meter reader to read water meters on a monthly basis ($60 per month).

d) A plant operator to fulfill the required hours of on-site time and perform the maintenance checks required by a certified operator ($2,700 per year for water, $3,600 per year for wastewater).

e) A maintenance person for mowing and grounds keeping of the water plant which must be performed on a regular basis (approximately 18 times per year). The normal charge for this is $30 per mowing for an estimated $540 per year. The wastewater plant needs mowing 10 times per year at a cost of $50 per mowing or $500 annually, and the percolation ponds need to be cut by a bush hog at least 4 times per year at a cost of $130 per mowing or $520 annually. Total mowing and groundskeeping would amount to $1,560 per year.

f) An owner/manager/supervisor of utility to supervise all aspects of the utility (6 hours per week @ $15 per hour).

The owner has requested total utility salaries of $31,200. Based on staff's analysis and a breakdown of duties performed, staff recommends test year salary expense of $10,850 for the water system and $11,510 for the wastewater system for a total of $22,360 in salary expense which staff believes is reasonable for this size utility.

Sludge Removal Expense - The utility recorded $309 of sludge removal expense during the test year. The utility must regularly pump out and dispose of excess sludge. According to the engineer, it is estimated that the utility should remove two loads of sludge each year. The most current flat rate quote for this service is $310 per load. It is recommended that $620 per year (2 X $310) be considered reasonable for sludge hauling expenses.

Purchased Power - The utility recorded test year purchased power expense of $2,592 for water and $4,220 for wastewater. Issue No. 11 includes a repression adjustment to recognize that consumption levels will decrease once new rates are effective. With a decrease in consumption, there will be a decrease in purchased power expense due to having to pump less water, and treat less wastewater. Staff recommends a repression adjustment of ($985) to water, and ($127) to wastewater, to reflect the estimated decrease in purchased power expense. Staff recommends purchased power expense of $1,607 for water, and $4,093 for wastewater.

Chemicals - The utility recorded test year chemical expense of $408 for water and $1,204 for wastewater. The utility purchases gas chlorine in 150 pound cylinders for the disinfection of raw water.

Staff made an adjustment of $136 to water chemical expense to allow the engineer recommended amount of $544 for chemicals for the test year.

For the wastewater system, disinfection in the chlorine contact chamber is accomplished with the use of a hypo-mechanical chlorine pump along with a liquid chlorine concentrate. Additionally, the utility purchases enzall, a degreasing agent to clean and treat the lift station, root begone, which eliminates encroaching roots, and lime which is necessary for disinfection and "cleanup" at the wastewater plant site. Staff made an adjustment of $1,222 to reclassify a wastewater chemical expense from the materials and supplies account. Staff also made an adjustment of $60 to wastewater chemical expense to allow the engineer recommended amount of $2,486 for chemicals for the test year.

Issue No. 11 includes a repression adjustment to recognize that consumption levels will decrease once new rates are effective. With a decrease in consumption, there will be a decrease in chemical expense due to having to chemically treat less water, and chemically treat less wastewater. Staff recommends a repression adjustment of ($207) to water, and ($75) to wastewater, to reflect the estimated decrease in chemical expense. Staff recommends chemical expense of $337 for water, and $2,411 for wastewater.

Materials and Supplies - The utility recorded test year materials and supplies expense of $901 for water and $2,706 for wastewater. Staff made an adjustment of ($1,222) to the wastewater materials and supplies account to reclassify a chemical expense to account No. 718. Staff recommends test year materials and supplies of $901 for water and $1,484 for wastewater.

Contractual Services - Billing - The utility did not record any contractual services-billing expense for the test year. Once water meters are installed, the utility will be using an independent contractor to provide billing and collection services. The contractor with the low bid for these services will charge an initial $700 set up fee. Staff is recommending this charge be amortized over 5 years and be split equally between the water and wastewater systems ($70 per year, per system). The annual charge for billing and collections would be $3,666 and be split equally between the water and wastewater systems ($1,833 per year, per system). Staff recommends a contractual services-billing expense of $1,903 for water and $1,903 for wastewater.

Contractual Services - Professional - The utility recorded test year contractual services-professional expense of $718 for water and $543 for wastewater. Since the utility is now regulated by the PSC, it is required to follow the NARUC uniform system of accounts as outlined in Rule 25-30.115, Florida Administrative Code. The utility contracted with a C.P.A. firm to set up the utility books in accordance with the uniform system of accounts. The initial set-up fee for this work is $3,155. Staff is recommending amortizing this fee over five years equally between the water and wastewater systems ($316 per year, per system). The utility also incurred expenses associated with engineering services in the amount $3,000 for DEP required licenses and permits for the wastewater plant. Staff has amortized these costs over five years which is the life of the permit ($3,000/5). The South Florida Water Management District is now requiring the utility to obtain a consumptive use permit at a cost of $350. Since the life of the permit is 10 years, staff amortized the $350 over 10 years and included a $35 annual cost for the permit. Staff recommends contractual services-professional expense of $1,069 for water and $1,459 for wastewater.

Contractual Services - Testing - The utility recorded test year contractual services-testing expense of $467 for water and $1,186 for wastewater. State and local authorities require that several analysis be submitted in accordance with Rule 62-550, Florida Administrative Code. A schedule of the required water and wastewater tests, frequency, and costs are as follows:

---WATER---

Description	Frequency	Annual Cost
Microbiological	Monthly	$ 360
Primary Inorganics	36 Months	49
Secondary Inorganics	36 Months	29
Asbestos	1/ 9 Years	35
Nitrate & Nitrite	12 Months	40
Volatile Organics	qtr'ly/1st yr/ 36 Months Subsequent/Annual	110
Pesticides & PCB	36 Months	146
Radionuclides		
Group I	36 Months	42
Group II	36 Months	250
Unregulated Organics		
Group I	qtr'ly/1st yr/9 yr	112
Group II	36 Months	18

---WATER (cont'd)---

Group III	36 Months	83
Lead & Copper	Biannually	300
	Total Amount	$ 1,574

---WASTEWATER---

Description	Frequency	Annual Cost
Biochemical O_2 Demand (includes Nitrate, Nitrite)	Monthly	$ 660
Total Suspended Solids	Monthly	146
Fecal Coliform	Monthly	180
Sludge Analysis	Yearly	200
	TOTAL	$ 1,186

Staff made adjustments of $1,107 to water contractual services-testing to allow for the engineer recommended testing expense. Staff recommends contractual services-testing expense of $1,574 for water and $1,186 for wastewater.

Contractual Services - Other - The utility recorded $4,155 for the water system and $6,642 for the wastewater system in this account for the test year. Staff made adjustments of ($452) to water and ($459) to wastewater to amortize non-recurring expenses over 5 years. Staff also made adjustments of ($890) to water and ($2,192) to wastewater to remove miscellaneous repairs and maintenance expenses which will now be completed by the full time employee. Since the contract operator will now be an employee of the utility instead of an independent contractor, staff made an adjustment of ($2,700) to the water system and ($3,600) to the wastewater system to remove the operators annual contract. Staff recommends contractual services-other expense of $113 for water and $391 for wastewater.

Insurance Expense - The utility recorded liability insurance expense of $324 for water and $535 for wastewater for the test year. Staff made an adjustment of $531 to water and $557 to wastewater to include worker's compensation insurance. Staff recommends test year insurance expense of $855 for water and $1,092 for wastewater.

Operation and Maintenance Expenses (O & M) Summary: Total operation and maintenance adjustments are $284 for water and ($556) for wastewater. Staff recommends operation and maintenance expenses of $19,674 for water and $26,547 for wastewater. Operation and maintenance expenses for water are shown in Schedule No. 3C and operation and maintenance expenses for wastewater are shown in Schedule No. 3D.

Depreciation Expense (Net of Amortization of CIAC): The utility recorded no depreciation expense for the test year. Consistent with Commission practice, staff calculated test year depreciation expense using the rates prescribed in Rule 25-30.140, Florida Administrative Code. Staff made a $2,865 adjustment to water depreciation expense, and $5,704 adjustment to wastewater depreciation expense, to include staff's calculated depreciation expense. Staff also made adjustments of $2,004 to water and $100 to wastewater to include depreciation on pro forma plant. CIAC amortization adjustments amounted to ($1,092) for water and ($2,697) for wastewater. An adjustment of ($38) was made to wastewater to reflect non-used and useful test year depreciation. Staff recommends depreciation expenses net of CIAC of $3,777 for water and $3,069 for wastewater for the test year.

Taxes Other Than Income Taxes: The utility did not record an amount in this account for the test year. Staff made adjustments of $665 for water and $484 for wastewater to include regulatory assessment fees on test year revenue, made adjustments of $31 for water and $168 for wastewater to reflect test year real estate taxes, made adjustments of $916 for water and $971 for wastewater to allow for payroll taxes on staff's recommended salaries, and made adjustments of $38 for water and $38 for wastewater to reflect corporate filing fees. Staff recommends test year taxes other than income of $1,650 for the water system and $1,661 for the wastewater system.

Staff is recommending a revenue requirement increase of $17,520 for the water system and $26,233 for the wastewater system. If staff's recommended increase is approved, taxes other than income taxes would increase by $788 and $1,180 for water and wastewater, respectively, to reflect the regulatory assessment fee of 4.5%.

Operating Revenues: Revenues have been adjusted by $17,520 for the water system and $26,233 for the wastewater system 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.

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 $25,889 and $32,457 for water and wastewater, respectively.

Operating expenses for water are shown on Schedule No. 3 and operating expenses for wastewater are shown on Schedule No. 3A. Adjustments are shown on Schedule No. 3B.

REVENUE REQUIREMENT

ISSUE 9: What is the appropriate revenue requirement for each system?

RECOMMENDATION: The appropriate revenue requirement should be $32,304 for water and $36,985 for wastewater. (BUTTS, CASEY)

STAFF ANALYSIS: The utility should be allowed an annual increase in revenue of $17,520 (118.51%) for water and an annual increase of $26,233 (243.98%) for wastewater. This will allow the utility the opportunity to recover its expenses and earn the recommended 8.47% return on its investment. The calculations are as follows:

	Water	Wastewater
Adjusted Rate Base	$ 75,755	$ 53,465
Rate of Return	x .0847	x .0847
Return on Investment	$ 6,414	$ 4,527
O & M Expenses	19,674	26,547
Depreciation Expense (Net)	3,777	3,069
Taxes Other Than Income Taxes	2,438	2,841
Revenue Requirement	$ 32,304	$ 36,985
Annual Revenue Increase	$ 17,520	$ 26,233
Percentage Increase/(Decrease)	118.51%	243.98%

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

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)

STAFF ANALYSIS: Breeze Hill is located in the South Florida Water Management District (SFWMD). At the start of this proceeding, the utility did not hold a consumptive use permit (CUP). However, upon being informed by the SFWMD that a CUP is required, the utility began the necessary application process. It is anticipated that the utility will be granted a CUP in the near future. Additionally, staff has been informed by a representative of the SFWMD that the utility is not located in a water use caution area.

Breeze Hill provides water and wastewater service to approximately 116 residential customers and one general service customer in a mobile home community. Currently, all customers are charged flat monthly rates of $11.00 for water and $8.00 for wastewater. The utility's current rate structure was originally approved by the Polk County Board of County Commissioners in 1983, and approved by this Commission under grandfather provisions when the utility was granted water and wastewater certificates in 1998.

It has been Commission practice that whenever possible a flat rate structure is converted to a base facility and gallonage charge rate 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. In Docket No. 971192-WS, in which Breeze Hill was granted grandfather certificates, staff considered recommending implementation of usage specific rates at that time. However, it was determined that it was not economically feasible for the utility to install meters in the mobile home park without approval of fees to recover the cost of the meter installation. The owner informed staff that he intended to file for a staff assisted rate case in the near future. Consequently, by Order No. PSC-98-1550-FOF-WS, issued November 23, 1998, in Docket No. 971192-WS, the Commission approved continuation of the utility's current flat rate structure, but put the utility on notice that it would be required to install meters and implement a base facility and gallonage charge rate structure in its next filing with the Commission. Accordingly, staff is recommending that the appropriate conservation rate structure for this utility is the base facility and uniform gallonage charge rate structure. A representative of the SFWMD has indicated to staff that the SFWMD is supportive of

the Commission's requirement that the utility install water meters.

ISSUE 11: Is a repression adjustment to consumption appropriate for this utility, and, if so, what is the appropriate adjustment?

RECOMMENDATION: No. However, an average water consumption of 7,500 gallons per residential customer per month and a residential wastewater gallonage cap of 6,000 gallons per month is appropriate for the purpose of calculating rates. In order to monitor the effect of the rate increase on consumption, the utility should be ordered to file, on a quarterly basis, reports for both water and wastewater 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, CASEY, BUTTS)

STAFF ANALYSIS: In cases such as this where customers are not yet individually metered, staff must estimate the customers' consumption for purposes of the rate calculation. Historically, this has been accomplished in one of two ways. In some cases, staff has used metered consumption data from other regulated utilities with a similar customer base. Although actual usage is different for each utility, staff has been able to derive reasonable estimates of average consumption for certain types of communities using this methodology.

Alternatively, when reliable flow data is available from the utility's treatment facilities, that data can be used as the starting point for estimating consumption for the rate calculation. Because the flow data obtained from the plant meters represents all water and effluent flows, including any flows attributable to leaks or infiltration, the total flow data must be adjusted to remove non-customer usage. Also, if the utility provides different classes of service (i.e., residential, multi-residential, general service), estimates must be made regarding what portion of the usage should be allocated to each class.

Staff believes it is preferable to use utility specific data whenever available. Therefore, staff initially calculated rates for Breeze Hill using actual flow data from the utility's facilities. Our first step was to remove ten percent of the total gallons from water and wastewater to reflect possible non-customer usage, such as line flushing, leaks, and infiltration. Staff's calculations indicate that even after reducing consumption by ten percent for unaccounted for water, the customers' average water

usage is 12,399 gallons per month. However, it has been staff's experience that consumption generally declines when customers are charged usage specific rates.

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. At present, the database only contains four examples of utilities which underwent a rate structure change from a flat rate to a base facility and gallonage charge rate structure. Those utilities experienced reductions in consumption of (24%), (32%), (55%), and (59%). Although the data is limited, there is some evidence to indicate that a change from a flat rate to metered service will result in a significant reduction in consumption. Accordingly, staff made a second adjustment to reflect the anticipated consumption reduction. This resulted in an average water consumption of 8,248 gallons per month per customer. This figure was used to calculate the water rates presented to the customers at the October 6, 1999 Customer Meeting.

At the Customer Meeting several customers expressed concern that staff's estimated water consumption figures were overstated. Some customers believe a portion of the total consumption is attributable to leaks within the mobile home park. Also, some customers believe a portion of the high consumption is due to unusual drought conditions which occurred during the 1998 test year. Representatives of the Breeze Hill Homeowners' Association informed staff that they believe the drought conditions resulted in higher than normal irrigation during the months of April, May, and June. Therefore, they do not believe the 1998 consumption data is representative of their normal usage patterns. They suggested that staff recalculate the annual consumption figures without data from April, May, and June.

During 1998 it became necessary for the utility to remove the water plant flow meter for repairs. Consequently, the utility was only able to provide nine full months of water flow data for 1998. In our initial calculations, staff used the average monthly flow from those nine months to arrive at an annualized consumption figure. As stated above, representatives of the Breeze Hill Homeowners' Association suggested that staff eliminate the months

of April, May, and June, and recalculate an annualized consumption figure based upon the remaining six months of data. They believe this will be more representative of their normal consumption.

Following this suggested methodology, the average monthly water consumption, after a ten percent reduction for unaccounted for water, is 11,279 gallons per month per customer. Even eliminating the three highest months of usage, the data indicates the average usage per customer is still quite high for a retirement community. In order to further assess whether the drought months in 1998 significantly distorted the consumption figures, staff reviewed the water flow data for the first six months of 1999. The total flows for the first four months of 1999 all exceeded the total flows for the same four months of 1998. Further, the average monthly water consumption for the first six months of 1999 is higher than the average monthly water consumption for the first six months of 1998. Therefore, it appears that drought conditions may have contributed to increased consumption in May and June of 1998. However, due to the continued increase in customer usage in the early months of 1999, staff does not believe the drought conditions in 1998 caused the overall consumption level to differ significantly enough to warrant not using 1998 consumption data.

Additionally, staff has been informed by the utility that approximately 95 customers have in-ground irrigation systems, which in some cases are left running on timers while the customers are out of residence for several months. Also, at the October 6, 1999 Customer Meeting, one customer reported that some customers in the community had taken the sprinkler heads off of their irrigation systems and left them running 24 hours a day to get back at the utility owner.

In consideration of these various factors, staff does not believe the apparent high consumption levels seen in 1998 are due solely to drought conditions. Consequently, elimination of the highest three months of usage to achieve a lower consumption figure would be inappropriate in this case. Further, staff has traditionally used as much data as is available when calculating consumption figures. Staff is uncomfortable with the concept of using only six months of data to determine the annual consumption for purposes of the rate calculation, and we believe this would be a deviation from staff's past practice. For these reasons, staff does not believe we should adopt the Breeze Hill Homeowners' Associations' suggested methodology.

However, staff recognizes that the customers have valid concerns about the limited information that can be obtain from the plant flow data. In addition to the malfunction of the water plant flow meter discussed above, the utility's water tank developed leaks on several occasions during 1998. It is not known how much water may have been lost as a result of those leaks. Additionally, the utility experienced infiltration problems in 1998 which required repairs to manholes in July through September of 1998. Consequently, staff believes that at least a portion of the wastewater flow data from 1998 is inflated due to infiltration. Although staff made a ten percent reduction to the total consumption figures, we recognize that there is a possibility that the infiltration problem could have been responsible for more than ten percent of the wastewater flows during that time. However, without metered consumption data from each customer, staff is unable to determine the exact amount of usage which is attributable to different sources, and must rely upon estimates.

Although staff believes our initial calculations are reasonable given the data available to us, we believe the alternate methodology of adopting consumption data from another regulated utility would be more appropriate in this case, and would help resolve some of the customers' concerns regarding the consumption data. Therefore, staff has reviewed the average usage per customer for a number of utilities with a similar customer base. Although the average consumption varied between all of the utilities, we found a number of utilities in Polk County and the surrounding counties which had usage in the 7,000 to 8,000 gallon range. Due to the high percentage of customers with in-ground irrigation systems, staff believes that water consumption for this community may be a little higher than is typically seen in retirement communities without in-ground irrigation systems.

Therefore, staff has estimated that an average water consumption of 7,500 gallons per residential customer per month and a residential wastewater gallonage cap of 6,000 gallons per month is appropriate for the purpose of calculating rates. The residential wastewater gallonage cap will be discussed in more detail in Issue 12. While this methodology does not specifically incorporate a repression adjustment, it does reflect the fact that staff anticipates there will be a reduction in consumption following implementation of usage specific rates.

In summary, staff recommends that a repression adjustment is not appropriate in this case. However, staff recommends that an

average water consumption of 7,500 gallons per residential customer per month and a residential wastewater gallonage cap of 6,000 gallons per month is appropriate for the purpose of calculating rates. Further, staff believes it will be beneficial in future cases to monitor the effects of this rate increase on consumption. Therefore, staff recommends the utility should be ordered to file, on a quarterly basis, reports for both water and wastewater 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.

ISSUE 12: What is the appropriate residential gallonage cap for wastewater service?

RECOMMENDATION: The appropriate residential gallonage cap for wastewater service should be 6,000 gallons. (BUTTS, CASEY)

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 6,000 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 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, car washing, etc.

Generally, the Commission sets monthly caps of 6,000 gallons, 8,000 gallons, or 10,000 gallons per month. For this utility, staff's analysis indicates that residential customers will use approximately 7,500 gallons of water per month once the new base facility/gallonage rate structure is initiated.

Considering the above factor and that the utility serves a mobile home retirement community with seasonal customers, staff believes that the wastewater gallonage cap for residential customers should be set at 6,000 gallons per month. Therefore, staff recommends a gallonage cap of 6,000 gallons per month for wastewater residential customers at this time. If usage patterns change, this gallonage cap will be re-examined in the next rate case.

ISSUE 13: What are the appropriate water and wastewater rates?

RECOMMENDATION: The recommended rates should be as shown in the staff analysis. The approved Step I rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), Florida Administrative Code. The Step I rates should not be implemented until 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. Staff should be given administrative authority to approve the Step II tariff sheets upon staff's verification that the Commission ordered water meters have been installed, and that the tariffs are consistent with the Commission's decision.(BUTTS, CASEY)

STAFF ANALYSIS: During the test year, Breeze Hill provided water and wastewater service to an average 115 customers. Approximately 55% (or $17,644) of the water revenue requirement is associated with the fixed costs of providing service. Fixed costs are recovered through the base facility charge based on annualized number of factored ERCs. The remaining 45% (or $14,660) of the water revenue requirement represents the consumption charge based on the estimated number of gallons consumed during the test period.

Approximately 51% (or $18,817) of the wastewater revenue requirement is associated with the fixed costs of providing service. Fixed costs are recovered through the base facility charge based on annualized number of factored ERCs. The remaining 49% (or $18,168) of the wastewater revenue requirement represents the consumption charge based on the estimated number of gallons consumed during the test period. Rates have been calculated using the number of bills and the number of gallons of water billed during the test year, adjusted for repression. Step I flat rates are rates to be effective prior to installation of water meters. Step II rates will be effective once water meters are installed. Schedules of the utility's existing rates and staff's recommended rates, adjusted for repression, are as follows:

Step I Residential Flat Water Rates

	Existing Monthly Rate	Staff's Step I Recommended Rate
Flat Rate	$11.00	$21.46

Step I General Service Flat Water Rates (Clubhouse)

	Existing Monthly Rate	Staff's Step I Recommended Rate
Flat Rate	$11.00	$202.38

Step I Residential Service Flat Wastewater Rates

	Existing Monthly Rate	Staff's Step I Recommended Rate
Flat Rate	$8.00	$24.53

Step I General Service Flat Wastewater Rates (Clubhouse)

	Existing Monthly Rate	Staff's Step I Recommended Rate
Flat Rate for Clubhouse	$8.00	$234.23

Step II Residential & General Service Metered Water Rates

Base Facility Charge Meter Size	Existing Monthly Rates	Staff's Recommended Monthly Rates
5/8 x 3/4"	$ 11.00	$ 11.86
3/4"	11.00	17.79
1"	11.00	29.64
1 ½"	11.00	59.29
2"	11.00	94.86
3"	11.00	189.72
4"	11.00	296.44
6"	11.00	592.88
Gallonage Charge	$ 0.00	$ 1.28

Step II Residential Service Metered Wastewater Rates

Base Facility Charge Meter Size	Existing Monthly Rates	Staff's Recommended Monthly Rates
All Meter Sizes	$ 8.00	$ 12.65
Gallonage Charge Per 1,000 gallons (6,000 gallon cap)	$ 0.00	$ 1.98

Step II General Service Metered Wastewater Rates

Base Facility Charge Meter Size	Existing Monthly Rates	Staff's Recommended Monthly Rates
5/8 x 3/4"	$ 8.00	$ 12.65
3/4"	8.00	18.97
1"	8.00	31.61
1 ½"	8.00	63.23
2"	8.00	101.17
3"	8.00	202.33
4"	8.00	316.14
6"	8.00	632.28
Gallonage Charge Per 1,000 gallons	$ 0.00	$ 1.98

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. Based on staff's recommended rates, once water meters are installed and Step II rates begin, the following would be estimated average residential water monthly billings for the consumption shown:

Monthly Consumption (In Gallons)	**Monthly Billing**	**Using Staff's Recommended Rates**
5,000	$11.00	$18.26
7,500	$11.00	$21.46
10,000	$11.00	$24.66
15,000	$11.00	$31.06

Based on staff's recommended rates, once water meters are installed and Step II rates begin, the following would be estimated average residential wastewater monthly billings for the consumption shown:

Monthly Consumption (In Gallons)	**Monthly Billing**	**Using Staff's Preliminary Rates**
5,000	$8.00	$22.55
7,500	$8.00	$24.53*
10,000	$8.00	$24.53*
15,000	$8.00	$24.53*

* Residential Gallonage Cap of 6,000 gallons

The recommended rates are designed to produce revenue of $32,304 for the water system and $36,985 for the wastewater system. The approved Step I 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 the customers have received notice. The Step I 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. Staff should be given administrative authority to approve the Step II tariff sheets upon staff's verification that the Commission ordered water meters have been installed, and that the tariffs are consistent with the Commission's decision.

ISSUE 14: Should the recommended rates be approved for the utility on a temporary basis in the event of a timely protest filed by a party other than the utility?

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

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

The utility should be authorized to collect the temporary rates upon the staff's approval of the security for potential refund and proposed customer notice. The security should be in the form of a bond or letter of credit in the amount of $30,201. Alternatively, the utility could establish an escrow agreement with an independent financial institution.

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

1) The Commission approves the rate increase; or

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

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

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

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

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

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

2) The escrow account should be an interest bearing account.

3) If a refund to the customers is required, all interest earned by the escrow account should be distributed to the customers.

4) If a refund to the customers is not required, the interest earned by the escrow account should revert to the utility.

5) All information on the escrow account should be available from the holder of the escrow account to a Commission representative at all times.

6) The amount of revenue subject to refund should be deposited in the escrow account within seven days of receipt.

7) This escrow account is established by the direction of the Florida Public Service Commission for the purpose(s) set forth in its order requiring such account. Pursuant to Cosentino v. Elson, 263 So. 2d 253 (Fla. 3d DCA 1972), escrow accounts are not subject to garnishments.

8) The Director of Records and Reporting must be a signatory to the escrow agreement.

In no instance should the maintenance and administrative costs associated with the refund be borne by the customers. These costs are the responsibility of, and should be borne by, the utility. Irrespective of the form of security chosen by the utility, an account of all monies received as result of the rate increase should be maintained by the utility. This account must specify by whom and on whose behalf such monies were paid. If a refund is ultimately required, it should be paid with interest calculated pursuant to Rule 25-30.360(4), Florida Administrative Code.

The utility should maintain a record of the amount of the bond, and the amount of revenues that are subject to refund. In addition, after the increased rates are in effect, 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.

ISSUE 15: Should the utility's existing service availability policy be revised?

RECOMMENDATION: Yes, the utility's service availability policy should be revised to change the existing customer connection (tap-in) fees of $400 for water and $600 for wastewater to plant capacity charges, and initiate a meter installation charge of $190 for new customers only. If the Commission approves this new policy, the utility should file revised tariff sheets which are consistent with the Commission's vote. Staff should be given administrative authority to approve the revised tariff sheets upon staff's verification that the tariffs are consistent with the Commission's decision. If revised tariff sheets are filed and approved, the revised service availability charges should become effective for connections made on or after the stamped approval date of the revised tariff sheets, if no protest is filed. (BUTTS, CASEY)

STAFF ANALYSIS: The utility's existing service availability policy includes customer connection (tap-in) fees of $400 for water and $600 for wastewater. Staff has imputed the utility's distribution and collection lines as CIAC. Therefore, the customer connection charges should be changed to plant capacity charges. The total potential customer base of the certified territory is estimated to be 131 residential connections (estimated to be 105 ERCs), and growth is minimal. The existing CIAC contribution levels are 31.99% for water and 44.03% for wastewater. Since these amounts are less than the maximum 75% recommended amount of CIAC recommended by Rule 25-30.580(1)(a), Florida Administrative Code, and collecting the approved charges for all future customers will not cause the utility to exceed the 75% maximum recommended contribution level, staff is recommending the utility be allowed to maintain the existing amount of service availability charges approved in Order No. PSC-98-1550-FOF-WS, issued November 23, 1998, in Docket No. 971192-WS, however, they should be changed from customer connection charges to plant capacity charges.

Staff is also recommending initiation of a meter installation charge of $190 for new customers only. The utility is presently unmetered, but staff has included monies in this recommendation to install water meters for all existing customers as required by Order No. PSC-98-1550-FOF-WS. There is an estimated potential growth of 15 future customers in this development. Staff has calculated an estimated cost of $190 per meter for the meter installation charge for new customers only.

ISSUE 16: Should the utility be required to escrow that portion of rates associated with the pro forma water plant and pro forma wastewater plant which has not been completed as of this filing, 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 $42,544 of pro forma water plant and $952 of pro forma wastewater plant which has not been completed as of this filing, until staff can verify the completion of plant improvements. The appropriate amount should be $491 per month for water and $12 per month for wastewater. (BUTTS, CASEY)

STAFF ANALYSIS: Pro forma plant costs of $46,487 for water and $1,509 for wastewater have been included in rate base. Of this amount, $42,544 of pro forma water plant and $952 of pro forma wastewater plant have not been completed as of this filing. The water plant pro forma to be completed consists of the installation of a new 5,000 gallon hydro-pneumatic water tank, installation of a chlorine alarm with automatic switch-over, installation of water meters for all existing customers, and purchase of a back-up motor for the well pump. The wastewater pro forma plant to be completed consists of a new blower for the wastewater plant. The utility has not provided signed contracts listing cost and tentative dates of completion of plant improvements. In order to allow the utility to complete the recommended pro forma plant, and protect the rate payers interest, staff recommends that the utility be required to escrow that portion of the rates associated with the $42,544 pro forma water plant and the $952 pro forma wastewater plant which have not been completed as of this filing until staff can verify completion of plant improvements. The calculations are as follows:

	WATER	WASTEWATER
Pro Forma Plant	$ 42,544	$ 952
Depreciation	(2,212)	(63)
Net Plant	$ 40,332	$ 889
Overall ROR	x .0847	x .0847
Return on Rate Base	$ 3,416	$ 75
Net Annual Depr.Expense	2,212	63
	$ 5,628	$ 138
Divided by Reg. Fee Gross-up	.955	.955
Revenue on Proforma Plant	$ 5,893	$ 145
Divided by Number of Months	12 months	12 months
Monthly Escrow Amount	$ 491	$ 12

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

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

2) The escrow account shall be an interest bearing account.

3) If a refund to the customers is required, all interest earned by the escrow account shall be distributed to the customers.

4) If a refund to the customers is not required, the interest earned by the escrow account shall revert to the utility.

5) All information on the escrow account shall be available from the holder of the escrow account to a Commission representative at all times.

6) The amount of revenue subject to refund shall be deposited in the escrow account within seven days of receipt.

7) This escrow account is established by the direction of the Florida Public Service Commission for the purpose(s) set forth in its order requiring such account. Pursuant to Cosentino v. Elson, 263 So.2d 253 (Fla. 3d DCA 1972), escrow accounts are not subject to garnishments.

8) The Director of Records and Reporting must be a signatory to the escrow agreement.

Staff recommends that the utility escrow $491 per month for water and $12 per month for wastewater for revenue associated with $42,544 of pro forma water plant and $952 of pro forma wastewater plant. In Issue No. 4, staff is recommending the utility install the proforma plant within 180 days of the effective date of the Commission order. Since staff is recommending escrowing only that portion of the rates related to pro forma plant, the amount of escrowed funds should be approximately $3,000 in the 180 day

period. Escrowed funds should be released when pro forma plant completion is verified by staff.

ISSUE 17: 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, for failure to maintain its books and records in conformance with the National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts?

RECOMMENDATION: No. A show cause proceeding should not be initiated. However, the utility should be ordered to maintain its books and records in conformance with the 1996 NARUC Uniform System of Accounts (USOA). (CROSSMAN, BUTTS, CASEY)

STAFF ANALYSIS: During the staff audit, the auditors discovered the utility's accounting system was not maintained in conformance with the NARUC USOA. This was apparently due to multiple differences in accounting methods and treatment between income tax basis and the USOA basis of accounting for utility operations.

Rule 25-30.115, Florida Administrative Code, entitled "Uniform System of Accounts for Water and Wastewater Utilities," states:

> Water and wastewater utilities shall, effective January 1, 1998, maintain their accounts and records in conformity with the 1996 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 for each offense, if a utility is found to have knowingly refused to comply with, or have willfully violated any Commission rule, order, or provision of Chapter 367, Florida Statutes. In failing to maintain its books and records in conformance with the USOA, the utility's act was "willful" in the sense intended by Section 367.161, Florida Statutes. In Order No. 24306, issued April 1, 1991, in Docket No. 890216-TL, titled In Re: Investigation Into The Proper Application of Rule 25-14.003, Florida Administrative Code, Relating To Tax Savings Refund For 1988 and 1989 For GTE Florida, Inc., the Commission having found that the company had not intended to violate the rule, nevertheless found it appropriate to order it to show cause why it should not be fined, stating that "[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." 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).

Despite the state of the utility's books and records, staff was able to perform the audit. Additionally, since the time of the audit, the utility's accountant has converted the utility's books to conform with the USOA and has submitted an invoice for this work to the utility. Staff has included this cost in operation and maintenance expenses, amortizing it over five years.

Although the utility's failure to keep its books and records in conformance with the NARUC USOA is an apparent violation of Rule 25-30.115, Florida Administrative Code, staff believes that a show cause proceeding is not warranted and should not be initiated at this time. Staff does not believe that the apparent violation of Rule 25-30.115, Florida Administrative Code, in these circumstances rises to the level which warrants the initiation of a show cause proceeding. Therefore, staff recommends that the Commission not order the utility to show cause for failing to keep its books and records in conformance with the NARUC USOA.

ISSUE 18: Should this docket be closed?

RECOMMENDATION: No. If no timely protest is received upon expiration of the protest period, the PAA Order will become final upon the issuance of the Consummating Order. However, this docket should remain open for an additional 180 days from the effective date of the Order to allow staff to verify that the utility installed a new 5,000 gallon hydro-pneumatic water tank, installed a chlorine alarm with automatic switch-over, installed water meters for all customers, installed a blower at the wastewater plant, and purchased a back-up motor for the well pump. Once staff has verified that this work has been completed, the docket should be closed administratively. (CROSSMAN, BUTTS, CASEY, DAVIS, GOLDEN)

STAFF ANALYSIS: Staff has recommended that the utility install a new 5,000 gallon hydro-pneumatic water tank, a chlorine alarm with automatic switch-over, water meters for all customers, a blower at the wastewater plant, and purchase a back-up motor for the well pump. If no timely protest is received upon expiration of the protest period, the PAA Order will become final upon the issuance of the Consummating Order. However, this docket should remain open for an additional 180 days from the effective date of the Order to verify that this work has been completed. Once staff has verified that the work has been completed, the docket should be closed administratively.

BREEZE HILL UTILITIES, INC.
TEST YEAR ENDING DECEMBER 31, 1998
SCHEDULE OF WATER RATE BASE

SCHEDULE NO. 1-A
DOCKET NO. 990356-WS

DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	$0	$116,901	$116,901
2. LAND & LAND RIGHTS	0	2,997	2,997
3. NON-USED AND USEFUL	0	0	0
4. CIAC	0	(31,433)	(31,433)
5. ACCUMULATED DEPRECIATION	0	(34,227)	(34,227)
6. AMORTIZATION OF CIAC	0	19,058	19,058
7. WORKING CAPITAL ALLOWANCE	0	2,459	2,459
8. WATER RATE BASE	$0	$75,755	$75,755

BREEZE HILL UTILITIES, INC. TEST YEAR ENDING DECEMBER 31, 1998 SCHEDULE OF WASTEWATER RATE BASE	SCHEDULE NO. 1-B DOCKET NO. 990356-WS		
DESCRIPTION	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER UTILITY	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	$248,727	$0	$248,727
2. LAND & LAND RIGHTS	18,519	0	18,519
3. NON-USED AND USEFUL COMPONENTS	(530)	0	(530)
4. CIAC	(117,300)	0	(117,300)
5. ACCUMULATED DEPRECIATION	(191,651)	0	(191,651)
6. AMORTIZATION OF CIAC	92,382	0	92,382
7. WORKING CAPITAL ALLOWANCE	$3,318	$0	$3,318
8. WASTEWATER RATE BASE	$53,465	$0	$53,465

BREEZE HILL UTILITIES, INC.
TEST YEAR ENDING DECEMBER 31, 1998
SCHEDULE OF WASTEWATER RATE BASE

SCHEDULE NO. 1-B
DOCKET NO. 990356-WS

DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL.	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	$0	$248,727	$248,727
2. LAND & LAND RIGHTS	0	18,519	18,519
3. NON-USED AND USEFUL COMPONENTS	0	(530)	(530)
4. CIAC	0	(117,300)	(117,300)
5. ACCUMULATED DEPRECIATION	0	(191,651)	(191,651)
6. AMORTIZATION OF CIAC	0	92,382	92,382
7. WORKING CAPITAL ALLOWANCE	0	$3,318	$3,318
8. WASTEWATER RATE BASE	$0	$53,465	$53,465

BREEZE HILL UTILITIES, INC.
TEST YEAR ENDING DECEMBER 31, 1998
ADJUSTMENTS TO RATE BASE

SCHEDULE NO. 1-C
DOCKET NO. 990356-WS
PAGE 2 OF 2

	WATER	WASTEWATER
ACCUMULATED DEPRECIATION		
1. To reflect accumulated depreciation per original cost study.	($45,471)	($194,452)
2. To reflect pro forma acc. depr. on hydro-pneumatic tank.	(255)	0
3. To reflect pro forma acc. depr. on additions to the utility	(15)	0
4. To reflect pro forma retirement of old hydro-pneumatic tank.	10,980	0
5. To reflect pro forma acc. depr. on chlorine alarm.	(159)	0
6. To reflect pro forma acc. depr. on back-up motor for well	(15)	0
7. To reflect pro forma acc. depr. on meters.	(677)	0
8. To reflect pro forma acc. depr. on temporary hydro tanks.	(47)	0
9. To reflect pro forma acc. depr. on blower.	0	(32)
10. To reflect pro forma acc. depr. on replacement pump.	0	(19)
11. To reflect averaging adjustment.	1,432	2,852
Total	($34,227)	($191,651)
AMORTIZATION OF CIAC		
1. To reflect accumulated amortization per original cost study.	$19,604	93,730
2. To reflect averaging adjustment.	(546)	(1,348)
Total	$19,058	$92,382
WORKING CAPITAL ALLOWANCE		
1. To reflect 1/8 of test year O & M expenses.	$2,459	$3,318

BREEZE HILL UTILITIES, INC.
TEST YEAR ENDING DECEMBER 31, 1998
SCHEDULE OF CAPITAL STRUCTURE

SCHEDULE NO. 2
DOCKET NO. 990356-WS

CAPITAL COMPONENT	PER AUDIT	SPECIFIC ADJUST-MENTS	BALANCE BEFORE PRO RATA ADJUSTMEN	PRO RATA ADJUST-MENTS	BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST
1. COMMON STOCK	$200	$0	$200					
2. RETAINED EARNINGS	32,778	0	32,778					
3. PAID IN CAPITAL	14,175	0	14,175					
4. OTHER COMMON EQUITY	0	0	0					
5. TOTAL COMMON EQUITY	$47,153	$0	47,153	(8,955)	38,198	29.56%	10.12%	2.99%
6. LONG TERM DEBT	64,365	0	64,365	(12,224)	52,141	40.35%	6.30%	2.54%
7. LONG TERM DEBT (Pro Forma)	47,996	0	47,996	(9,115)	38,881	30.09%	9.75%	2.93%
8. CUSTOMER DEPOSITS	0	0	0	0	0	0.00%	6.00%	0.00%
9. TOTAL	$159,514	$0	$159,514	($30,293)	$129,221	100.00%		8.47%

	LOW	HIGH
RANGE OF REASONABLENESS		
RETURN ON EQUITY	9.12%	11.12%
OVERALL RATE OF RETURN	8.17%	8.76%

BREEZE HILL UTILITIES, INC.
TEST YEAR ENDING DECEMBER 31, 1998
SCHEDULE OF WATER OPERATING INCOME

SCHEDULE NO. 3-A
DOCKET NO. 990356-WS

	TEST YEAR PER AUDIT	STAFF ADJ. TO AUDIT	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	$14,538	$246	$14,784	$17,520 118.51%	$32,304
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	19,390	284	19,674	0	19,674
3. DEPRECIATION (NET)	0	3,777	3,777	0	3,777
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	0	1,650	1,650	788	2,438
6. INCOME TAXES	0	0	0	0	0
7. TOTAL OPERATING EXPENSES	$19,390	$5,711	$25,101	$788	$25,889
8. OPERATING INCOME/(LOSS)	($4,852)		($10,317)		$6,414
9. WATER RATE BASE	$0		$75,755		$75,755
1 RATE OF RETURN	0.00%		-13.62%		8.47%

BREEZE HILL UTILITIES, INC.
TEST YEAR ENDING DECEMBER 31, 1998
SCHEDULE OF WASTEWATER OPERATING INCOME

SCHEDULE NO. 3-B
DOCKET NO. 990356-WS

	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS TO AUDIT	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	$11,088	($336)	$10,752	$26,233 243.98%	$36,985
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	27,103	(556)	26,547	0	26,547
3. DEPRECIATION (NET)	0	3,069	3,069	0	3,069
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	0	1,661	1,661	1,180	2,841
6. INCOME TAXES	0	0	0	0	0
7. TOTAL OPERATING	$27,103	$4,174	$31,277	$1,180	$32,457
8. OPERATING INCOME/(LOSS)	($16,015)		($20,525)		$4,527
9. WASTEWATER RATE BASE	$0		$53,465		$53,465
1 RATE OF RETURN	0.00%		-38.39%		8.47%

BREEZE HILL UTILITIES, INC.
TEST YEAR ENDING DECEMBER 31, 1998
ADJUSTMENTS TO OPERATING INCOME

SCHEDULE NO. 3-C
DOCKET NO. 990356-WS
PAGE 1 OF 2

	WATER	WASTEWATER
OPERATING REVENUES		
To adjust utility revenues to audited test year amount.	$246	($336)
OPERATION AND MAINTENANCE EXPENSES		
1. Salaries and Wages - Employees		
To bring employee salaries to staff's recommended amount.	$1,490	$2,150
2. Sludge Removal Expense		
To reflect engineer recommended test year sludge expense.	$0	$311
3. Purchased Power		
To reflect repression adjustment.	($985)	($127)
4. Chemicals		
a. To reclassify chemical expense from Account No. 720.	$0	$1,222
b. To allow engineer recommended chemical expense.	136	60
c. To reflect repression adjustment.	(207)	(75)
Subtotal	($71)	$1,207
5. Materials and Supplies		
To reclassify chemical expense to Account No. 718.	$0	($1,222)
6. Contractual Sevices - Billing		
a. To amortize set-up cost over 5 years.	$70	$70
b To include billing and collections cost.	1,833	1,833
Subtotal	$1,903	$1,903
7. Contractual Sevices - Professional		
a. To include DEP permit amortized over 5 years.	$0	$600
b. To include consumptive use permit amortized over 10 years.	$35	$0
b. To include 5 year amortized CPA initial set-up cost for USOA.	316	316
Subtotal	$351	$916
8. Contractual Services - Testing		
To include engineer recommended testing amount.	$1,107	$0

(O & M EXPENSES CONTINUED ON NEXT PAGE)

BREEZE HILL UTILITIES
TEST YEAR ENDING DECEMBER 31, 1998
BREEZE HILL UTILITIES, INC.

SCHEDULE NO. 3-C
DOCKET NO. 990356-WS
PAGE 2 OF 2

(O & M EXPENSES CONTINUED)	WATER	WASTEWATER
9. Contractual Services - Other		
a. To amortize non-recurring expenses over 5 years.	($452)	($459)
b. To remove contracted expenses which will now be completed by full time employee.	(890)	(2,192)
c. To change contracted operator to utility employee.	(2,700)	(3,600)
Subtotal	($4,042)	($6,251)
10. Insurance Expenses		
To reflect worker's compensation insurances.	$531	$557
TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	$284	$556
DEPRECIATION EXPENSE		
1. To reflect test year depreciation calculated per 25-30.140, F.A.C.	$2,865	$5,704
2. To reflect test year amortization expense.	(1,092)	(2,697)
3. To reflect non-used and useful test year depreciation.	0	(38)
4. To include depreciation expense on pro forma plant.	2,004	100
Total	$3,777	$3,069
TAXES OTHER THAN INCOME		
1. To include regulatory assessment fees on test year revenue.	$665	$484
2. To reflect test year real estate taxes.	31	168
3. To adjust payroll tax for recommended salaries.	916	971
4. To reflect corporate filing fees.	38	38
Total	$1,650	$1,661

BREEZE HILL UTILITIES, INC.
TEST YEAR ENDING DECEMBER 31, 1998
ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE

SCHEDULE NO. 3-D
DOCKET NO. 990356-WS

	TOTAL PER PER AUDIT	STAFF ADJUST.		TOTAL PER STAFF
(601) SALARIES AND WAGES - EMPLOYEES	$9,360	$1,490	[1]	$10,850
(603) SALARIES AND WAGES - OFFICERS	0	0		0
(604) EMPLOYEE PENSIONS AND BENEFITS	0	0		0
(610) PURCHASED WATER	0	0		0
(615) PURCHASED POWER	2,592	(985)	[3]	1,607
(616) FUEL FOR POWER PRODUCTION	0	0		0
(618) CHEMICALS	408	(71)	[4]	337
(620) MATERIALS AND SUPPLIES	901	0		901
(630) CONTRACTUAL SERVICES - BILLING	0	1,903	[6]	1,903
(631) CONTRACTUAL SERVICES -	718	351	[7]	1,069
(635) CONTRACTUAL SERVICES - TESTING	467	1,107	[8]	1,574
(636) CONTRACTUAL SERVICES - OTHER	4,155	(4,042)	[9]	113
(640) RENTS	94	0		94
(650) TRANSPORTATION EXPENSE	183	0		183
(655) INSURANCE EXPENSE	324	531	[10]	855
(655) REGULATORY COMMISSION EXPENSE	188	0		188
(670) BAD DEBT EXPENSE	0	0		0
(675) MISCELLANEOUS EXPENSES	0	0		0
	$19,390	$284		$19,674

BREEZE HILL UTILITIES, INC. TEST YEAR ENDING DECEMBER 31, 1998 ANALYSIS OF WASTEWATER OPERATION AND MAINTENANCE EXPENSE		SCHEDULE NO. 3-E DOCKET NO. 990356-WS	
	TOTAL PER AUDIT	STAFF ADJUST-MENT	TOTAL PER STAFF
(701) SALARIES AND WAGES - EMPLOYEES	$9,360	$2,150 [1]	$11,510
(703) SALARIES AND WAGES - OFFICERS	0	0	0
(704) EMPLOYEE PENSIONS AND BENEFITS	0	0	0
(710) PURCHASED SEWAGE TREATMENT	0	0	0
(711) SLUDGE REMOVAL EXPENSE	309	311 [2]	620
(715) PURCHASED POWER	4,220	(127) [3]	4,093
(716) FUEL FOR POWER PRODUCTION	0	0	0
(718) CHEMICALS	1,204	1,207 [4]	2,411
(720) MATERIALS AND SUPPLIES	2,706	(1,222) [5]	1,484
(730) CONTRACTUAL SERVICES - BILLING	0	1,903 [6]	1,903
(731) CONTRACTUAL SERVICES -	543	916 [7]	1,459
(735) CONTRACTUAL SERVICES - TESTING	1,186	0	1,186
(736) CONTRACTUAL SERVICES - OTHER	6,642	(6,251) [9]	391
(740) RENTS	27	0	27
(750) TRANSPORTATION EXPENSE	183	0	183
(755) INSURANCE EXPENSE	535	557 [10]	1,092
(765) REGULATORY COMMISSION EXPENSES	188	0	188
(770) BAD DEBT EXPENSE	0	0	0
(775) MISCELLANEOUS EXPENSES	0	0	0
	$27,103	$(556)	$26,547

DOCKET NO 990356-WS
November 4, 1999

Attachment A

WATER TREATMENT PLANT — USED AND USEFUL DATA

Docket No. 990356-WS — Date 11/04/99

Utility: Bieber Enterprises, Inc. D/b/a Breeze Hill Utilities

1) Capacity of Plant = 200 GPM •

2) Maximum Daily Flow
(1.1 X 2 X 115 customers) = 253 GPM •

3) Average Daily Flow
(1.1 X 115 customers) = 127 GPM •

4) Fire Flow Capacity
(4 fire hydrants avail. with NSF) = -0- GPM *

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

a) Average Number Customers in ERCs = 92

b) Average Customer Growth in ERCs
for most Recent 5 Years = 3

c) Construction Time for
Additional Capacity = 5 Years

$$\text{Margin Reserve} = 5b \times 5c \times \left(\frac{2}{5a}\right) = 41 \text{ GPM } \bullet$$

6) Excessive Unaccounted for Water = none GPM *

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

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

PERCENT USED AND USEFUL FORMULA

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

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

Robert T. Davis - Engineer

DOCKET NO 990356-WS
November 4, 1999

Attachment B

WATER DISTRIBUTION SYSTEM — USED AND USEFUL DATA

Docket No. 990356-WS — Date 11/04/99

Utility: Bieber Enterprises, Inc. D/b/a/ Breeze Hill Utilities

1) Capacity 105 ERCs (Number of potential customers without expansion)

2) Average number of TEST YEAR Connections = 92 ERCs

3) Margin Reserve (Not to exceed 20% of present ERCs)

a) Average yearly customer growth in ERCs for most recent 5 Years = 3 ERCs

b) Construction Time for Additional Capacity = 5 Years

(3a) x (3b) = 15 ERCs Margin Reserve

PERCENT USED AND USEFUL FORMULA

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

Robert T. Davis - Engineer

DOCKET NO 990356-WS
November 4, 1999

Attachment C

WASTEWATER TREATMENT PLANT — USED AND USEFUL DATA

Docket No. 990356-WS — Date 11/04/99

Utility: Bieber enterprises, Inc. d/b/a Breeze Hill Utilities

1) Capacity of Plant = 40,000 gallons per day

2) Average Daily Flow = 19,470 gallons per day

3) Margin Reserve (Not to exceed 20% of present customers)

a) Average number of customers in ERCs 92 ERCs

b) Customer yearly customer growth in ERCs for Most Recent 5 Years Including Test Year 3 ERCs

c) Construction Time for Additional Capacity 5 Years

$$(3b) \times (3c) \times \left[\frac{2}{(3a)}\right] = 3{,}180 \text{ gallons per day}$$

4) Excessive Infiltration N/a gallons per day

a) Total Amount N/a gallons per day N/a % of Av. Daily Flow

b) Reasonable Amount N/a gallons per day N/a % of Av. Daily Flow

c) Excessive Amount N/a gallons per day N/a % of Av. Daily Flow

PERCENT USED AND USEFUL FORMULA

$$\frac{[(2) + (3)] - 4}{1} = 56.63\% \text{ Used and Useful}$$

Robert T. Davis Engineer

DOCKET NO 990356-WS
November 4, 1999

Attachment D

WASTEWATER COLLECTION SYSTEM — USED AND USEFUL DATA

Docket No. 990356-WS — Date 11/04/99

Utility: Bieber Enterprises, Inc. d/b/a Breeze Hill Utilities

1) Capacity of present collection system 105 ERCs

2) Average number of ERCs for the Test Year 92 ERCs

3) Margin Reserve (not to exceed 20% of present ERCs):

a) Average Yearly Customer Growth in ERCs for Most Recent 5 — 3

c) Construction Time for Additional Capacity — 5 Years

(3a) x (3b) = 15 ERCs Margin Reserve

PERCENT USED AND USEFUL FORMULA

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

Robert T. Davis Engineer