



Public Service Commission

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

DATE: November 30, 1999
TO: All Parties of Record and Interested Persons
FROM: Jason Fudge, Staff Attorney, Division of Legal Services
RE: Docket No. 970409-SU - Initiation of limited proceeding to restructure wastewater rates for Florida Water Service Corporation's Tropical Isles service area in St. Lucie County.

Please note that an informal meeting between Commission Staff and the residents of Tropical Isles service area has been scheduled at the following time and place:

6:30 p.m., Monday, December 6, 1999
Tropical Isles Clubhouse, Main Hall
281 Tropical Isles Circle
Ft. Pierce, FL

The meeting will be between Staff and the residents of Tropical Isles service area to discuss both the restructuring of wastewater rates and an informal investigation into the rate level of the Tropical Isles Wastewater system in St. Lucie County. Attendance is not required. However, all interested persons are welcome to attend. If you have any questions about the meeting, please call Jason Fudge at (850) 413-6236.

JKF/lw

cc: Division of Water & Wastewater (Lingo)
Division of Records & Reporting

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FPSC-RECORDS/REPORTING

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

November 29, 1999

TO: RESIDENTS OF THE TROPICAL ISLES SERVICE AREA

FROM: DIVISION OF WATER AND WASTEWATER (LINGO, RIEGER)
DIVISION OF POLICY DEVELOPMENT AND INTERGOVERNMENTAL
LIAISON (CHASE)
DIVISION OF LEGAL SERVICES (GERVASI, FUDGE)

RE: DOCKET NO. 970409-SU, INITIATION OF LIMITED PROCEEDING TO
RESTRUCTURE WASTEWATER RATES FOR FLORIDA WATER SERVICE
CORPORATION'S TROPICAL ISLES SERVICE AREA IN ST. LUCIE
COUNTY AND
INFORMAL INVESTIGATION INTO THE RATES OF THE TROPICAL
ISLES WASTEWATER SYSTEM IN ST. LUCIE COUNTY

--- PRELIMINARY STAFF ANALYSIS ---

TABLE OF CONTENTS

	<u>Page No.</u>
Case Background	2
Wastewater Treatment Plant and Disposal System	3
Tropical Isles' Rates	4
Investigation and Analysis	4
Subsequent Events	7
Revenue Requirement Conclusions and Recommendations	9
Rate Structure	12

ATTACHMENTS

- Attachment A: System Locator Map
- Attachment B: Service Area Map
- Attachment C: Acquisition Adjustment at Purchase
- Attachment D: Comparison of Tropical Isles v.
Other Wastewater Rate Cases

CASE BACKGROUND

On January 15, 1993, Florida Water Services Corporation (FWSC or utility, f/k/a Southern States Utilities, Inc.) filed an application with the Florida Public Service Commission (FPSC or Commission) for a certificate to provide wastewater service under grandfather rights pursuant to Section 367.171, Florida Statutes. Docket No. 930075-SU was opened to process this application. The system involved in the application was the Tropical Isles wastewater system. Tropical Isles' service territory is located between Ft. Pierce and Port St. Lucie in St. Lucie County (see Attachment A).

FWSC had purchased the Tropical Isles system from Neil Spizizen and Maurice Shacket in 1988 for a total purchase price of \$5.00. Messrs. Spizizen and Shacket retained ownership of the Tropical Isles modular housing park; this 334-unit park and its associated clubhouse comprise the majority of the Tropical Isles service territory (see Attachment B). At the time of the purchase, regulation over privately-owned water and wastewater systems in St. Lucie County was under the jurisdiction of St. Lucie County. However, effective October 1, 1992, the St. Lucie County Commissioners transferred jurisdiction over privately-owned water and wastewater utilities in St. Lucie County to this Commission.

By Order No. PSC-93-0621-FOF-SU, issued April 21, 1993, the Commission granted Southern States Utilities, Inc. (SSUI) Certificate No. 482-S to serve the Tropical Isles territory under grandfather rights. In that Order, the Commission approved the flat, bi-monthly rate of \$25.18 that was being charged by SSUI at that time. (That rate was established and approved by the St. Lucie County Water and Sewer Authority in April 1990.) The Order also stated that, because the Tropical Isles system was built out, no service availability charges would be charged to the Tropical Isles system. At the time of the application, wastewater service was being provided to approximately 190 residential connections.

Currently, FWSC provides wastewater service to approximately 250 customers in the Tropical Isles service area. At a customer hearing in FWSC's most recent rate case (Docket No. 950495-WS), the Tropical Isles customers questioned the validity of a flat rate for their wastewater service, since they receive metered water service from the City of Ft. Pierce (the City). Therefore, the Commission ordered FWSC to investigate whether it could obtain meter information from the City and establish a metered rate structure for the Tropical Isles service area. FWSC was also ordered to investigate the possibility of establishing a vacation rate in the

TROPICAL ISLES INFORMAL INVESTIGATION
November 29, 1999

Tropical Isles service area, in the event a metered rate is not feasible. On April 1, 1997, Staff opened Docket No. 970409-SU to investigate the possibility of implementing a rate structure other than the flat monthly rate currently charged in the Tropical Isles service area, and, if feasible, to restructure the wastewater rates.

The purpose of the customer meeting for this case, held on November 19, 1997, was to hear and respond to customer comments on both metered versus flat rate wastewater service and the feasibility of a vacation rate for seasonal residents. The majority of customer comments at that meeting, however, focused on what the customers believe is an excessive rate being charged by FWSC for service. Based on the customers' comments and information obtained subsequent to the customer meeting, Staff expanded the docket to investigate, in addition to the rate structure, the revenue requirement for this system. Topics of discussion in the report include a discussion of the Tropical Isles system, its revenue requirement and rates, areas of Staff analysis, events subsequent to the November 1997 customer meeting, and conclusions, recommendations, and resulting rate impacts, respectively. The calculations, conclusions and recommendations contained in this report are preliminary in nature and have been prepared for purposes of discussion with the customers and the utility at an informal meeting scheduled for December 6, 1999, to be held in the service area. Staff's final recommendations will be presented to the Commission at a later date.

WASTEWATER TREATMENT PLANT AND DISPOSAL SYSTEM

Tropical Isles' wastewater system is comprised of a 50,000 gallons per day (gpd) activated sludge treatment system with the effluent disposed of in a series of drain fields adjacent to the treatment plant. Based on information in FWSC's most recent rate case, the average daily flows at the plant during the 1996 projected test year were approximately 33,000 gpd, and there were 274 lots connected. The resulting used and useful percentages, including a margin reserve allowance, are 91% for the treatment and disposal plant, and 89% for the pumping and collection system. There was no excessive infiltration or inflow.

Flows recorded after a plant flow meter recalibration was made indicate that the flows reported during the test year may have been overstated. After recalibration, the daily flows during 1997 averaged 19,000 gpd, or approximately 58% of the flows considered in the previous rate case. If accurate flow data had been used during the course of the rate case, Staff believes that the used

TROPICAL ISLES INFORMAL INVESTIGATION
November 29, 1999

and useful percentages for the treatment and disposal system would have been approximately 53%, as opposed to the 91% that was allowed in the rate case. Finally, the discovery of additional, unbilled customers increases the used and useful of the collection system from 89% to 91%. Had the revised used and useful figures been used in the rate case, the resulting monthly rate would have been approximately \$2.70 less than the \$35.50 approved in that case.

TROPICAL ISLES' RATES

Tropical Isles' rate history is shown below:

Rates Prior to Dkt. No. <u>950495-WS</u>	Commission Approved Rates in Dkt. No. <u>950495-WS</u>	Current Rates as of <u>10/01/99</u>
\$13.33	\$35.50	\$36.64

As shown above, the Tropical Isles customers experienced a 166% increase in rates as a result of Docket No. 950495-WS. The magnitude of this increase was the overriding concern expressed by the customers at the November 1997 customer meeting. The customers are aware that FWSC paid only \$5.00 for the system, and they questioned how, based on a mere \$5.00 of investment, the rates could have increased in such a fashion.

The customers also expressed concern regarding the level of operating expenses included in the rates. To substantiate their concerns, the customers have, on their own initiative, obtained bids from several independent wastewater plant operators. These bids lead the customers to believe that FWSC is charging an excessive amount to operate the system. Additionally, some customers expressed their belief that the Tropical Isles system is paying for certain overhead expenses that would not otherwise be incurred were Tropical Isles not owned by FWSC. As a result of the aforementioned concerns, customers who attended the November 1997 customer meeting overwhelmingly expressed their desire (and expectation) that Staff investigate the rate level of the Tropical Isles system.

INVESTIGATION AND ANALYSIS

As discussed in the case background, FWSC purchased the Tropical Isles system in 1988 for \$5.00. At the time of purchase, the system was subject to regulation by the St. Lucie County Water

TROPICAL ISLES INFORMAL INVESTIGATION
November 29, 1999

and Sewer Authority. In October 1992, however, St. Lucie County turned the regulation of its water and wastewater systems over to the FPSC.

In Docket No. 930075-SU, by Order No. PSC-93-0621-FOF-SU, SSUI was granted a grandfather certificate to serve the Tropical Isles territory. Rate base was not set in that case, as is standard practice in cases filed under Section 367.171, Florida Statutes. Normally, rate base is established in the utility's next rate case. Based on FWSC's own calculations, its purchase of the Tropical Isles system resulted in an unrecognized negative acquisition adjustment of \$341,788 (see Attachment C; Docket No. 950495-WS, FWSC response to OPC DR 38-A).

In Docket No. 950495-WS, which was the next rate case subsequent to the Commission granting FWSC a certificate for the Tropical Isles system, there was neither an audit performed of the Tropical Isles system nor was there any discussion in Order No. PSC-96-1320-FOF-WS with respect to whether a negative acquisition adjustment would be appropriate for this system. In the above-referenced Order, rate base for the Tropical Isles system was established at \$272,687.

Staff's investigation and analysis of the Tropical Isles system focused on two major areas. First, we analyzed information which was used to establish Tropical Isles' revenue requirement and rates in Docket No. 950495-WS. Second, we compared certain financial and operating data of the Tropical Isles system to other like-sized Class C wastewater systems which had been granted rate increases during the 1993 - 1997 period. The results of our analyses are discussed below.

Tropical Isles' Revenue Requirement and Rates

In addition to the issue of whether a negative acquisition adjustment would have been appropriate in Docket No. 950495-WS, Staff identified three other factors which served to increase Tropical Isles' rates. With respect to rate base, based on the figures contained in Order No. PSC-96-1320-FOF-WS, the contribution level for the Tropical Isles system was a relatively low 21%. However, Staff discovered that Order No. PSC-93-0621-FOF-SU (Florida Water's grandfather certificate order) stated that the Tropical Isles service area was built out at 190 lots. Based upon that information, Staff did not impose Florida Water's service availability charges on the Tropical Isles system. However, an examination of the sales contract between Messrs. Shacket, Spizizen and SSUI indicated that the service area would be built out at 330 lots, not 190 lots. Had FWSC's service availability charges been

TROPICAL ISLES INFORMAL INVESTIGATION
November 29, 1999

applied to 64 additional connections since the certificate case, the contributions in aid of construction (net of accumulated amortization) would have been greater, thereby lowering rate base by approximately \$22,000.

Second, as is customary for FWSC, it allocated its general plant to all of its systems (including Tropical Isles), thereby increasing rate base for each of its systems. This allocation increased rate base for the Tropical Isles system (net of accumulated depreciation) by approximately \$18,000. The total effect of both this and the non-imposition of service availability since the granting of its grandfather certificate ultimately served to increase rates for the Tropical Isles system by approximately \$1.34 per month per customer.

In addition, Staff discovered six unbilled residential customers (RS) and two unbilled general service (GS) customers who receive wastewater service. The unbilled RS customers all have 5/8" x 3/4" meters, while the unbilled GS customers (a car dealership and the Tropical Isles clubhouse) have 1 1/2" and 1" meters, respectively. Had these customers been included in the rates calculation for the Tropical Isles system in Docket No. 950495-WS, by virtue of spreading the system's revenue requirement over a greater number of customers, the resulting rates would have been slightly less than the \$35.50 approved in that case.

Comparison of Tropical Isles to Other Class C Wastewater Systems

In order to compare Tropical Isles to other wastewater systems, Staff reviewed all Class C water and wastewater rate cases from 1993 through 1997. Ultimately, rate case data from 11 cases was obtained from the respective orders (five wastewater-only systems and six wastewater systems which had concomitant water rate cases). Analysis of this information was the basis of the comparison between those systems and Tropical Isles. The results are shown on pgs. 1-2 of Attachment D; pertinent comparisons are as follows.

Revenue Requirement

- 1) Tropical Isles' rate base of \$272,687 is significantly greater than the average rate base of \$110,547 for the 11 other systems examined (see Attachment D, p. 1).
- 2) Tropical Isles' O&M expenses of \$51,043 is comparable to the 11-system average of \$53,852 (see Attachment D, p. 1). (A review of the utility's MFRs indicates that approximately 2/3 of the O&M expenses were direct expenses, while 1/3 of the O&M expenses resulted from allocations from FWSC.)

TROPICAL ISLES INFORMAL INVESTIGATION
November 29, 1999

- 3) Tropical Isles' revenue requirement of \$116,232 is approximately 50% greater than the 11-system average of \$77,939 (see Attachment D, p. 1).

Comparative Ratios

- 4) Calculations of various ratios are shown on p. 2 of Attachment D. Examples of comparisons of these ratios include:
- a) Tropical Isles' contribution level (21%) is low compared to the average of the other 11 systems (34%).
 - b) The percentage of Tropical Isles' revenue requirement that represents O&M expenses is 44%, while the corresponding average of the other 11 systems is 69%. The 11-system average is more than 50% greater than the average for Tropical Isles.
 - c) The percentage of Tropical Isles' revenue requirement that represents net operating income (23%) is significantly greater than the average of 14%. This is related to Tropical Isles' relatively high rate base as compared to the other 11 systems.

SUBSEQUENT EVENTS

Staff met with the customers on three occasions subsequent to the November 1997 customer meeting: 1) January 20-23, 1998; 2) March 4-5, 1998; and 3) March 16-18, 1998. The purpose of our January 1998 meeting was two-fold -- to review and obtain documentation regarding the customers' claims in this case, and to meet with both the customers and representatives of FWSC regarding the purpose of our investigation.

The customers had expressed interest in acquiring alternative sources for wastewater treatment. It was pointed out that the City of Port St. Lucie (City) was expanding its sewer system north towards Tropical Isle. Staff looked into this possibility and found that the City had recently extended a sewer trunk main to within one mile of the Tropical Isle service area. This is the closest alternative service provider. Since it is at the extent of its service territorial boundary, the City has no plans to extend the line any closer.

In February 1998, Staff was notified of FWSC's offer to sell the Tropical Isles system back to a "Tropical Isles entity" for a purchase price of approximately \$40,000 (representing the original \$5 purchase price plus additions made to the system since the purchase). An official meeting of the Tropical Isles residents was held on March 4, 1998 to vote on whether to act on FWSC's offer to

TROPICAL ISLES INFORMAL INVESTIGATION
November 29, 1999

purchase the system. At that time, it was contemplated by the Tropical Isles Public Affairs Committee (TIPAC, which had been acting on behalf of all Tropical Isles customers during the course of these proceedings) that the customers would purchase the system and operate it as an entity exempt from FPSC regulation.

However, because many customers had questions about the purchase offer, it was decided to hold the voting until March 16, 1998. In order to operate as an exempt entity (which was the customers' desire), 100% of the customers had to belong to the Homeowners' Association. However, that is not the case in this situation; therefore, if the customers had purchased the system it would have been a regulated entity.

The remaining purchase options (meaning either the park owner or a customer group would buy the system) were discussed, with the thrust of those discussions being how to reduce the rates once the system has been purchased. There were also questions regarding what would happen if no one purchased the system and FWSC continued ownership; that is, customers asked when a possible rate reduction might take place as a result of the FPSC's involvement. No decision was reached with regard to who would purchase the system, so Staff offered to meet with any interested parties on March 17th to answer questions, etc.

At our March 17th meeting, we met with 10-15 customers as well as the park owner. The major topics of discussion included: a) how to reduce rates once ownership has changed; b) the condition of the system; c) why the Commission typically recognizes no acquisition adjustment; and d) different timeline scenarios of rate reductions when comparing the system's potential purchase versus letting FWSC retain ownership. On March 24th, 1998, Staff was notified by the TIPAC that the park owner was in the process of negotiating the purchase of the system from FWSC. In addition, the TIPAC requested Staff "...to discontinue its rate investigation while the sales agreement is negotiated and to drop all activities in this matter if and when a purchase agreement is reached." We complied with that request, and the park owner retained an attorney with experience before the FPSC as counsel during the purchase process. However, in August 1998 Staff learned that the park owner no longer wished to purchase the system from FWSC. A member of TIPAC subsequently contacted Staff with an inquiry regarding our plan for this case now that the park owner no longer wished to purchase the system.

Staff subsequently resumed its investigation, and the case was rescheduled several times between November 1998 and May 1999 in order to afford Staff more time to complete our analysis. On May

TROPICAL ISLES INFORMAL INVESTIGATION
November 29, 1999

27, 1999, Staff received a letter from the President of the Tropical Isles Board of Directors in which he expressed residents' displeasure, among other things, that the case had been scheduled to be heard at the Commission's July 6, 1999 Agenda Conference, a time when most of the residents are living in their northern homes. Therefore, in order to accommodate the residents' requests to the extent possible, Staff rescheduled the case to be heard at the February 29, 2000 Agenda Conference. In this way, both a second customer meeting and the Agenda Conference are scheduled during a time which will permit a greater level of customer participation.

REVENUE REQUIREMENT CONCLUSIONS AND RECOMMENDATIONS

Conclusions

Based on our investigation and analysis, Staff has drawn several conclusions. First, consistent with Commission practice, the acquisition adjustment issue for the Tropical Isles system should have been addressed in Docket No. 950495-WS.

Second, we believe that FWSC knew or should have known about all the unbilled customers discovered during our investigation. An addendum to the purchase agreement between Messrs. Spizizen and Shacket and SSUI modified said agreement in that SSUI agreed to provide wastewater service to no more than six rental units at the mobile home park. This arrangement was predicated upon the fact that those six customers (RS) agreed with the prior developer/owner of the mobile home park that they would not be charged for any utility service. Furthermore, one of the unbilled GS customers (a car dealership) is located at the only entrance to the Tropical Isles subdivision and is within the Tropical Isles certificated area, while the other unbilled GS customer is the Tropical Isles clubhouse. Also, we believe FWSC should have known that the service area could accommodate 330 lots, not the 190 lots as stated in its certificate case.

Third, based upon our review of the original invoices, the plant in service amount of \$510,181 is correctly stated.

Finally, based upon our analysis of the Tropical Isles system versus 11 other like-sized Class C wastewater utilities, we do not believe that the O&M expenses for Tropical Isles are anomalous compared to the average of the other 11 systems. The actual O&M expenses for Tropical Isles are virtually identical to the 11-system average, and the relative level of those O&M expenses recovered in the revenue requirement of the 11 systems is approximately 50% greater than that of Tropical Isles. However,

TROPICAL ISLES INFORMAL INVESTIGATION
November 29, 1999

Tropical Isles' rate base is more than double the average for the other 11 systems examined.

Recommendations and Rate Impact

Based on the foregoing, Staff believes the following recommendations are appropriate:

- 1) The negative acquisition adjustment question remains unresolved. However, in the event this issue is further explored, there are three factors the Commission typically considers with regard to negative acquisition adjustments:
 - a) The physical condition of the facilities. Based upon our review of the purchase records, subsequent expenditures made by FWSC and the current condition of the facility, we believe the system was in good working condition at the time Messrs. Spizizen and Shacket sold the system to FWSC.
 - b) Whether the purchase was prudent. In this case, when SSUI purchased the Tropical Isles system, there were approximately 50 customers connected to the system, with a growth potential of up to 300 additional connections. With regard to operating costs, our analysis indicates that the operating costs for the Tropical Isles system is comparable to other like-sized Class C wastewater systems. Therefore, our analysis has revealed nothing to indicate that the purchase of this system was imprudent.
 - c) Impact on customers of both the acquired and acquiring systems. An important consideration with any acquisition is the impact on customers of both the acquired and the acquiring systems. The relevant factors to consider in this case are summarized in the table on the following page.

TROPICAL ISLES INFORMAL INVESTIGATION
 November 29, 1999

RELEVANT FACTORS TO <u>CONSIDER</u>	IMPACT ON TROPICAL <u>ISLES CUSTOMERS</u>	IMPACT ON SSUI/FWSC <u>CUSTOMERS</u>
1) The acquiring utility may be better able to obtain debt and equity at lower cost to customers.	Perhaps a slight benefit. Tropical Isles' 9.94% cost of capital was lower than the average of the other 11 systems analyzed.	No impact. Assuming for the sake of argument that adding Tropical Isles to FWSC caused an increase in the cost of FWSC's money, the increase would be small, and the effect of spreading the increase over FWSC's customer base would be negligible.
2) Promotion of both federal and state environmental policy for the integration of small plants into larger plants operated by utility companies with greater financial resources and operational experience.	Possible benefit, but is not yet realized, mainly because the Tropical Isles system has historically been a relatively trouble-free system to operate.	Relatively little if any impact. Even if the Tropical Isles system required major capital improvements or was operationally a high-cost system, the effect of spreading the extra costs over the customer base in the appropriate wastewater rate band would probably be minimal.

While it may be argued that the Tropical Isles customers received no benefit from the acquisition of their system, it may also be argued that the Tropical Isles customers were not harmed by the acquisition, either. The same statement holds true for the SSUI/FWSC customers as well. Therefore, based upon our assessment of the three factors the Commission typically considers, Staff does not believe extraordinary circumstances exist that would warrant the recognition of a negative acquisition adjustment.

TROPICAL ISLES INFORMAL INVESTIGATION
November 29, 1999

- 2) The unbilled customers should be included in a recalculation of rates, regardless of whether the rates are restructured.
- 3) Revenue requirement should be recalculated to correct the following errors and/or omissions made in the rate case:
 - a) The wastewater treatment plant used and useful should be revised to reflect the corrected flows from the recalibrated meter.
 - b) The wastewater collection plant used and useful should be revised to reflect six additional (unbilled) residential customers and two unbilled general service customers.
 - c) Impute CIAC associated with the additional connections made between the time FWSC purchased the Tropical Isles system and the present.
- 4) Rates should be recalculated to correct the following errors and/or omissions made in the rate case:
 - a) The revised revenue requirement calculated in (3) above should be used in the revised rates calculation.
 - b) Billing determinants should be increased to reflect the six unbilled residential customers and two unbilled general service customers.

Based upon the recalculations discussed in (3) and (4) above, the resulting revenue requirement is \$96,395, and the resulting flat rate, before increases for price index adjustments, is \$30.62, or approximately 14% less than the \$35.50 approved in the rate case. This rate, after adjustments for price index increases, a rate case expense reduction, an ROE adjustment, and the effects of the DCA appeal and the final settlement, is \$31.60.

RATE STRUCTURE

As mentioned in the background of this report, FWSC provides wastewater-only service in the Tropical Isles service area. The water service is provided by the City of Ft. Pierce. Since FWSC does not have water consumption data for these customers, the utility has charged a flat wastewater rate since it purchased the system. As mentioned at a customer hearing in the utility's last rate case (Docket No. 950495-WS), some of the customers questioned the validity of a flat rate for wastewater service since their water consumption was metered. In addition, they questioned why the utility could not charge a vacation rate during the time they

TROPICAL ISLES INFORMAL INVESTIGATION
November 29, 1999

were not in residence since they were not using the wastewater system during this time. According to the customers, the customer base of this utility system is highly seasonal and they believe they should not have to pay the same rate year round whether or not they are in residence.

It has long been the policy of this Commission to charge wastewater service based on water usage utilizing the base facility charge rate structure. Under this rate structure, the base facility charge is designed to recover the pro rata share of the fixed costs necessary to provide service and the gallonage charge recovers the variable costs. While the wastewater bill is based on water, it is usually capped at some level of consumption to recognize that a portion of residential water usage does not return to the wastewater system. For the FWSC systems, the residential wastewater gallonage cap is 6,000 gallons per month. In addition, under this rate structure, customers are responsible only for the base facility charge during the time they are not in residence.

In the past, the Commission has allowed the use of a flat rate for wastewater service in situations where metered water consumption is not available. This is usually in cases where the wastewater customers are served by unmetered private wells. However, since the Tropical Isles customers receive metered water service from another utility, the Commission directed FWSC to investigate whether it could obtain water consumption data from the City in order to establish a metered rate structure. In addition, the utility was ordered to investigate the feasibility of a vacation rate.

On February 28, 1997, FWSC filed a response to the Commission's order and Docket No. 970409-SU was opened to investigate the matter of a rate structure for the Tropical Isles system. In its response to the order, FWSC stated that it had been unable to obtain information from Ft. Pierce but was continuing to attempt to do so. The utility also stated that it could not do more on the subject of a vacation rate until it receives data from the City regarding historical records of the number of customers on vacation and the amount of time they are gone. FWSC filed a supplement to the initial report on April 9, 1997, in which it indicates that the cost of obtaining a monthly report of meter readings and customer activity would be \$25.00 per month. In the supplemental report, the utility states that it is prepared to consider whatever reasonable action the Commission deems necessary

TROPICAL ISLES INFORMAL INVESTIGATION
November 29, 1999

to address the rate structure question.

The utility obtained a billing analysis of the water consumption for the Tropical Isles customers from the City of Ft. Pierce for calendar year 1996. Using this billing information and the revenue requirement recommended previously in this report, staff calculated metered wastewater rates as follows:

Base Facility Charge: \$12.64
Gallage Charge: \$ 5.55
(Up to a maximum of 6,000 gallons)

These wastewater rates produce customer bills ranging from \$12.64 for zero water usage up to a maximum bill of \$45.94 for 6,000 gallons or more consumption per month. The break-even point, where the metered rates produce a bill equal to the flat rate, is 3,416 gallons per month. This means that customers who use less than 3,416 gallons per month are better off under a metered rate, and those that use greater than this consumption pay less under a flat rate. Since 52% of the water bills issued in 1996 were for 3,000 gallons or less, in general, about half of the customers would be better off under a metered rate, and, conversely, about half of the customers would be better off under the flat rate.

If metered rates were initiated, the customers who are seasonal and not in residence for a number of months during the year would pay only the base facility charge during the months they are away, assuming that no water usage was recorded. Of course, if water is consumed, the wastewater gallonage rate would apply.

Staff believes that a metered wastewater rate structure should be initiated for the Tropical Isles' system. Such a rate structure is consistent with longstanding Commission policy, and it appears that the customer usage data is readily available to FWSC on an ongoing basis at a reasonable cost.

TROPICAL ISLES INFORMAL INVESTIGATION
November 29, 1999

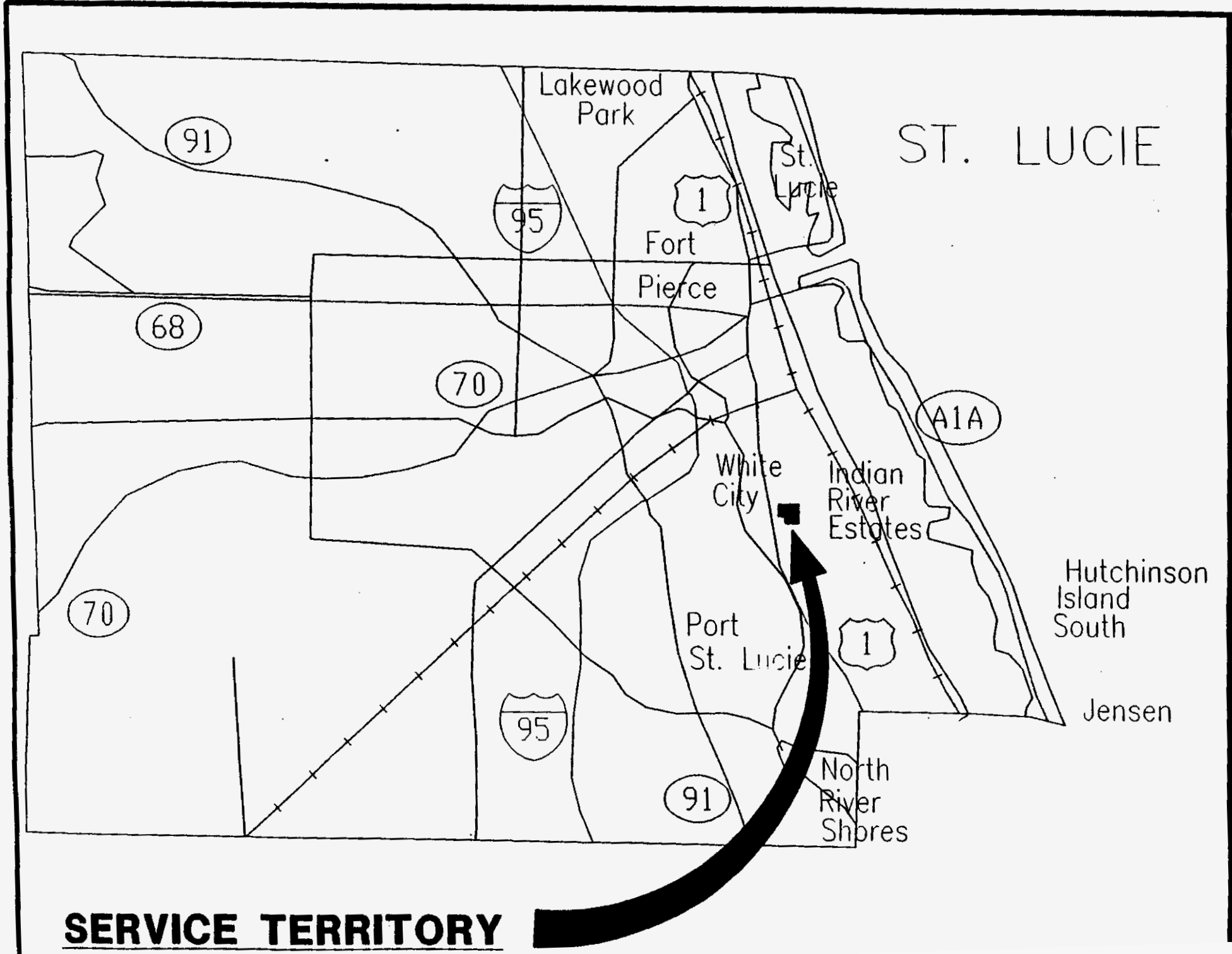
cc: Deputy Executive Director, Technical (Bane)
Office of Public Counsel (McLean)

The Honorable Ken Pruitt
2400 S.E. Midport Road, Suite 110
Port St. Lucie, FL 34952

Mr. Tony Cimino
President, Tropical Isles Board of Directors
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Ft. Pierce, FL 34982

Mr. Matthew Feil, Esq.
Florida Water Services Corporation
P. O. Box 609520
Orlando, FL 32860-9520

PLUS all customers on RGervasi memo dated 12/10/97



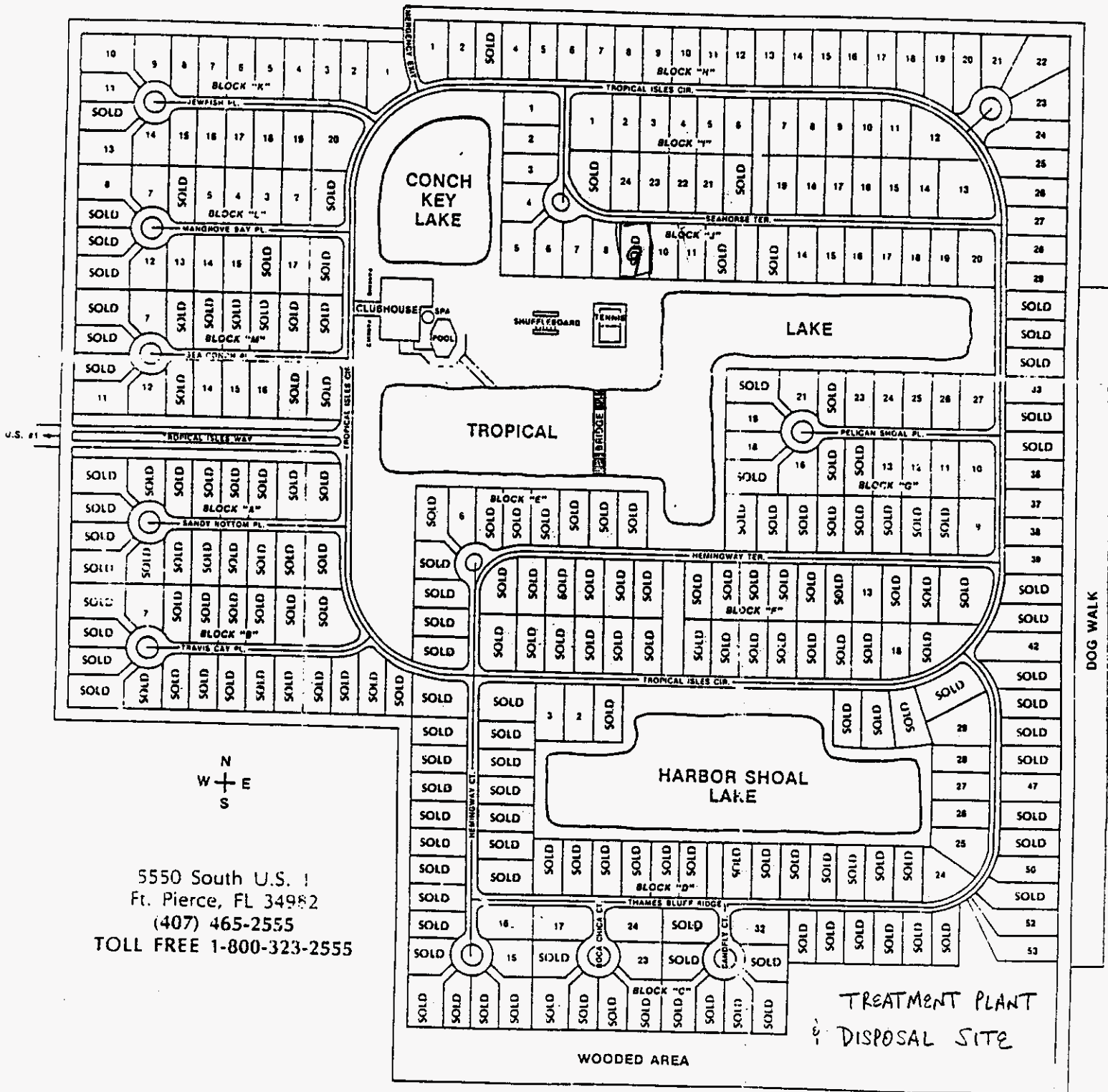
SERVICE TERRITORY

SECTION 10, TWP. 40S, R10E, 257

ATTACHMENT A



Site Plan



TROPICAL ISLE

Water System
St. Lucie County
#2101

ATTACHMENT **C**

Purchase date: 1988
Purchased from: Shackett & Spizzen
Purchase price: \$ 10
FPSC Grandfather Order: PSC-93-0621-FOF-SU 4/21/93
Last Rate Order: NA

Plant assets recorded at acquisition :

	SEWER
Plant in Service	457,467.29
Accumulated Depreciation	<17,703.98>
CIAC	<101,920.00>
CIAC Amortization	<u>3,944.30</u>
NET PLANT ASSETS	341,787.61
Gross Acquisition Adjustment Bal @ purchase	SEWER
Unauthorized	<341,787.61>
Gross Acquisition Adjustment Bal @ 12/31/94	SEWER
FPSC Authorized	.00
Unauthorized	<u><337,710.83></u>
	<337,710.83>

Circumstances leading to acquisition: SSU/Topeka initiated contact or solicited.

Acquisition encouraged by the FPSC or any other representative thereof: NO

FLORIDA WATER SERVICES CORPORATION – TROPICAL ISLES WASTEWATER SYSTEM
 COMPARISON OF OTHER WASTEWATER RATE CASES DOCKETED 1/01/93 - 12/31/97
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	Tropical Isles	Greola	Fairmount 2nd	Colony Park	Indian Springs	Kirby D. Morgan	Fisherman's Cove of Stuart	Terra Mar Village	Aquarius	J & J	Lake Suzy	Useppa Island	TOTALS/ AVGS
RATE BASE													
Net Plant+Land in Svc	356,674	269,502	108,246	125,353	81,908	160,808	308,566	93,517	275,525	56,843	916,783	116,988	228,376
Net CIAC+Advances	(78,560)	(166,966)	(1,613)	(9,422)	(59,263)	(117,043)	(62,344)	(80,437)	(250,528)	(35,810)	(466,762)	(99,941)	(124,561)
Working Capital	6,355	11,589	9,484	4,846	7,286	3,482	13,025	5,009	3,931	2,077	5,782	7,536	6,732
TOTAL RATE BASE	272,687	114,125	114,117	120,777	29,911	47,247	259,247	18,089	28,928	23,210	435,783	24,583	110,547
OPERATING STATEMENT													
Revenues	118,232	121,737	109,214	59,130	74,205	36,743	161,727	48,191	38,108	24,107	114,410	69,760	77,939
Total Oper Exp	89,140	112,304	97,917	46,835	68,376	31,933	134,117	46,338	35,161	21,635	71,965	67,364	66,722
Net Oper Income	27,092	9,433	11,298	12,295	5,829	4,810	27,610	1,853	2,945	2,473	42,445	2,397	11,217
Cost of Capital	9.94%	8.27%	9.90%	10.18%	10.00%	10.18%	10.65%	10.24%	10.18%	10.65%	9.74%	9.75%	
O & M EXPENSES													
Sals, Wages, P & B		44,395	36,766	0	16,488	0	22,560	13,961	0	2,305	5,164	27,523	15,380
Sludge Removal		8,280	2,160	1,950	2,653	1,245	17,228	1,800	1,368	4,344	1,800	4,329	4,287
Purch Power		11,992	5,311	6,296	8,715	3,572	9,886	5,844	3,096	1,633	6,382	9,971	6,609
Fuel for Power Pdn		0	0	0	0	0	0	0	258	0	0	0	23
Chemicals		2,638	1,140	1,427	1,845	557	2,074	2,160	989	530	1,441	1,518	1,484
Mats and Supplies		4,685	2,470	660	1,069	120	3,571	1,237	373	0	5,385	275	1,804
Contract Services		12,569	17,515	24,741	18,504	20,038	35,071	10,554	24,284	5,130	15,295	12,378	17,826
Rents, Transp, Ins		3,929	5,348	2,795	6,956	1,800	10,007	2,420	384	1,800	5,235	4,098	4,070
Regulatory Comm		225	500	400	250	250	250	470	250	203	125	125	277
Bad Debt & Misc		3,998	4,664	495	1,808	270	3,554	1,608	437	674	5,427	71	2,091
TOTAL O & M	51,043	92,711	75,874	38,764	58,288	27,852	104,199	40,072	31,447	16,619	46,254	60,288	53,852
MISC INEQ													
Customers - RS	219	684	426	301	129	140	521	247	109	51	41	136	253
Customers - GS	0	8	3	0	2	0	0	0	7	1	13	1	3
BFC		\$7.34	\$14.92	\$6.18	\$18.45		\$12.63	\$9.94	\$12.95	\$17.95	\$28.98	\$23.29	
Gal Chg - RS			\$3.11	\$1.81	\$2.99		\$2.81	\$4.14	\$4.02	\$4.13	\$6.58	\$6.42	
Gal Chg - GS		\$3.68	\$3.73	\$2.17	\$3.59			\$4.97	\$4.02	\$4.95	\$10.30	\$7.70	
Flat Rate	\$35.50	\$13.38				\$22.42		\$15.98					
RS @ 5,000 gpm	\$35.50	\$13.38	\$30.47	\$15.23	\$33.40	\$22.42	\$26.68	\$30.64	\$33.98	\$38.60	\$71.88	\$66.39	

ATTACHMENT
 PAGE 1

FLORIDA WATER SERVICES CORPORATION -- TROPICAL ISLES WASTEWATER SYSTEM
 COMPARISON OF OTHER WASTEWATER RATE CASES DOCKETED 1/01/93 - 12/31/97
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	Tropical Isles	Greola	Fairmount 2nd	Colony Park	Indian Springs	Kirby D. Morgan	Fisherman's Cove of Stuart	Terra Mar Village	Aquarina	J&J	Lake Suzy	Useppa Island	TOTALS/ AVGS
RATIOS													
% CIAC Contrib	20.6%	62.2%	1.5%	9.9%	38.4%	61.2%	21.5%	80.4%	28.8%	67.1%	19.6%	84.8%	33.9%
% O & M /revs	44%	76%	69%	66%	79%	76%	64%	83%	83%	69%	40%	86%	69%
% Tot op exp/revs	77%	92%	90%	79%	92%	87%	83%	96%	92%	90%	63%	97%	86%
% NOI/revs	23%	8%	10%	21%	8%	13%	17%	4%	8%	10%	37%	3%	14%
% Salaries/revs		38.5%	33.7%	0.0%	22.2%	0.0%	13.9%	29.0%	0.0%	9.6%	4.5%	39.5%	19.7%
% Treatment/revs		18.8%	7.9%	16.4%	17.8%	14.6%	18.0%	20.3%	15.0%	27.0%	8.4%	22.7%	15.9%
% Materials/revs		3.8%	2.3%	1.1%	1.4%	0.3%	2.2%	2.6%	1.0%	0.0%	4.7%	0.4%	2.3%
% Contract svcs/revs		10.3%	16.0%	41.8%	24.9%	54.5%	21.7%	21.9%	63.8%	21.3%	13.4%	17.7%	22.9%
% Rent+trans+ins/revs		3.2%	4.9%	4.7%	9.4%	4.9%	6.2%	5.0%	1.0%	7.5%	4.6%	5.9%	5.2%
Revs/cust	531	178	255	196	568	262	310	195	329	464	2,119	509	304
Total oper exp/cust	407	162	228	156	522	228	257	188	303	416	1,333	492	260
NOI/cust	124	14	28	41	44	34	53	8	25	48	786	17	44
O & M /cust	233	134	177	129	445	199	200	162	271	320	857	440	210
Salaries/cust		64	86	0	126	0	43	57	0	44	96	201	60
Treatment/cust (1)		33	20	32	101	38	56	40	49	125	178	115	48
Materials/cust		7	8	2	8	1	7	5	3	0	100	2	7
Contract svcs/cust		18	41	82	141	143	67	43	209	99	283	90	70
Rents+trans+ins/cust		6	12	9	53	13	19	10	3	35	97	30	16

(1) Treatment costs = sludge removal, purchased power, fuel for power production and chemicals.

ATTACHMENT D
 PAGE 2