

State of Florida



# Public Service Commission

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PROCEEDS AND  
REPORTING

**DATE:** FEBRUARY 17, 2000

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

**FROM:** DIVISION OF WATER AND WASTEWATER (LINGO, RIEGER) *HL*  
DIVISION OF LEGAL SERVICES (GERVASI, FUDGE) *JF* *19* *500* *gnw* *2/18/00*

**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.

COUNTY: ST. LUCIE

**AGENDA:** 02/29/2000 - REGULAR AGENDA - PROPOSED AGENCY ACTION -  
INTERESTED PERSONS MAY PARTICIPATE

**CRITICAL DATES:** NONE

**SPECIAL INSTRUCTIONS:** NONE

**FILE NAME AND LOCATION:** S:\PSC\WAW\WP\970409.RCM

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FPSC-RECORDS/REPORTING

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**CASE BACKGROUND**

On January 15, 1993, Florida Water Services Corporation, f/k/a Southern States Utilities, Inc. (FWSC or utility,) 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 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 (the 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, St. Lucie County 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 in Docket No. 9300075-SU, 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, by Order No. PSC-96-1320-FOF-WS (Final Order), issued October 30, 1996 in Docket No. 950495-WS, 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 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 scope of our analysis in this docket to investigate, in addition to the rate structure, the revenue requirement for this system.

Staff met with the customers on four occasions subsequent to the November 1997 customer meeting: 1) January 20-23, 1998; 2) March 4-5, 1998; 3) March 16-18, 1998; and 4) December 6, 1999. A timeline of the major events in this docket, including the details of each of staff's subsequent meetings with customers, is included on Attachment C.

In February 1998, staff was notified of FWSC's offer to sell the Tropical Isles system 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). 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.

Pursuant to Section 367.022(7), Florida Statutes, in order to operate as an exempt entity (which was the customers' desire), 100% of the customers must 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. Ultimately, no decision was reached with regard to the purchase the system.

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 in the meantime. However, in August 1998 staff learned that the park owner no longer wished to purchase the system from FWSC. Staff subsequently resumed its investigation, and the case has been rescheduled several times in order to afford staff more time to complete our analysis. Staff completed its preliminary analysis and prepared a report for the customers and FWSC. During a Tropical Isles Homeowners' Association meeting on December 6, 1999, staff explained to the customers our contemplated areas of recommended adjustments. We have subsequently completed our analysis, the results of which are presented in this recommendation.

Major areas of discussion in this recommendation include wastewater plant used and useful, the propriety of recognizing a negative acquisition adjustment, imputation of contributions in aid of construction (CIAC), the discovery of unbilled customers, and rate structure. Please be aware that staff's analysis of the revenue requirement was limited only to errors either brought to our attention by the customers or those which we discovered in the test year data used in Docket No. 950495-WS.

On February 9, 2000, the utility submitted via facsimile a response to staff's preliminary report, in which FWSC objects to staff expanding the scope of the instant docket. (The original copy of the response was filed on February 18, 2000.) As stated by the utility in its letter, staff was directed by the Commission's final order in Docket No. 950495-WS to examine the viability of restructuring Tropical Isles' rates and/or establish a vacation rate. Therefore, FWSC disagrees with our recommendations to make any adjustments to the revenue requirement and resulting rates that were approved in Docket No. 950495-WS. In its response, FWSC specifically addresses our adjustments to wastewater plant used and useful and the imputation of CIAC. We have included the relevant portions of FWSC's response in our discussion of corresponding adjustments.

The customers had expressed interest in acquiring alternative sources for wastewater treatment. It was pointed out that the City of Port St. Lucie was expanding its sewer system north towards Tropical Isle. Staff looked into this possibility and found that the City of Port St. Lucie 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.

**ISSUE 1:** What is the appropriate revenue requirement on a going-forward basis for this system based on a 1996 test year?

**RECOMMENDATION:** The appropriate revenue requirement on a going-forward basis for this system based on a 1996 test year is \$99,497. (LINGO, RIEGER, GERVASI, FUDGE)

**STAFF ANALYSIS:**

**BACKGROUND**

Tropical Isles' relevant 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>02/20/00</u>
\$13.33	\$35.50	\$36.80

As shown above, the Tropical Isles customers experienced a 166% increase in rates as a result of Docket No. 950495-WS. As mentioned in the case background, 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, on their own initiative, obtained bids from several independent wastewater plant operators. These bids led 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.

Staff's investigation and analysis of the Tropical Isles system focused on two major areas. First, we analyzed certain 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 wastewater systems which had been granted rate increases during the 1993 - 1997 period. The results of our analyses are discussed below.

**REVIEW OF RATE BASE AND  
STAFF'S SUBSEQUENT ANALYSIS**

**Original Cost of Plant in Service**

The customers questioned the original cost of plant in service of \$510,181 at December 31, 1996. In response to one of staff's data requests, FWSC provided copies of invoices to substantiate the original cost of the plant. Based upon our review of these invoices, the plant in service amount of \$510,181 is correctly stated and, therefore, an adjustment is not appropriate.

**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 approved in Docket No. 950495-WS, 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.

During staff's investigation in this case, we became aware that the flow meter at the wastewater treatment plant may have provided faulty readings during the test year. Flows recorded after the plant flow meter was recalibrated 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 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 (which will be discussed in greater detail in Issue 2) would increase the used and useful of the collection system from 89% to 91%.

On February 9, 2000, the utility submitted via facsimile a response to staff's preliminary report, in which FWSC specifically addresses our recommended used and useful adjustments:

. . . the action staff contemplates here is made even more offensive since, on the used and useful issue in particular, staff would make adjustments based on information outside the test year utilized in the rate case.

Staff believes an adjustment to the flow data on a going-forward basis is necessary in this case due to the faulty operation of the flow meter during the test year. The Commission "has the authority to determine whether there are mistakes . . . in its prior orders and has a duty to correct such orders." Sunshine Utilities v. Florida Public Serv. Comm'n, 577 So. 2d 663, 665 (Fla. 1st DCA 1991). In Sunshine, the court held that the Commission had the authority to correct a prior order because the factual premise on which the order was based was in error. See id. at 666. Therefore, staff recommends that the appropriate used and useful percentage for the treatment and disposal system is 53%, and the corresponding used and useful percentage of the collection system is 91%.

#### **Negative Acquisition Adjustment**

An acquisition adjustment represents the difference between the purchase price and the net book value at the time of purchase. Absent any extraordinary circumstances, a subsequent purchase of a utility facility at a premium or discount does not affect the rate base calculation. 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 and Sewer Authority. In October 1992, however, St. Lucie County gave the Commission jurisdiction over its water and wastewater systems.

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 D; 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 the Final Order 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.

Based on our investigation and analysis, staff believes that, consistent with Commission practice, the acquisition adjustment issue for the Tropical Isles system should have been addressed in Docket No. 950495-WS. Therefore, we believe it is appropriate to address the propriety of recognizing a negative acquisition adjustment for the Tropical Isles system in this proceeding.

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 FWSC purchased the system.
- 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 (which will be discussed in greater detail later in this issue) indicates that the operating costs for the Tropical Isles system is comparable to other like-sized 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.

RELEVANT FACTORS TO CONSIDER	IMPACT ON TROPICAL ISLES CUSTOMERS	IMPACT ON SSUI/FWSC CUSTOMERS
<p>1) The acquiring utility may be better able to obtain debt and equity at lower cost to customers.</p>	<p>Little if any impact. Tropical Isles' cost of capital is 9.94%, compared to the 9.85% average cost of capital of the other 11 systems analyzed.</p>	<p>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.</p>
<p>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.</p>	<p>Possible benefit, but is not yet realized, mainly because the Tropical Isles system has historically been a relatively trouble-free system to operate.</p>	<p>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 would probably be minimal.</p>

While it may be argued that the Tropical Isles customers received no benefit from the acquisition of the system, it may also be argued that the Tropical Isles customers were not harmed by the acquisition. 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.

**Contributions-in-Aid-of-Construction (CIAC)**

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 in the grandfather case, the Commission did not impose Florida Water's service availability charges (specifically, a line charge of \$350) 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 the 190 lots mentioned in the certificate order for this system. Had FWSC's service availability charges been applied to the 64 connections added between the certificate case and the end of the test year in the rate case, the CIAC (net of accumulated amortization) would have been greater, thereby lowering rate base.

In our December 1999 report, we imputed an amount of CIAC equal to 64 connections times the line charge of \$350. The imputation, net of accumulated amortization, results in a reduction to rate base of \$21,989.

In its response, the utility questioned our authority to impute CIAC:

As to staff's proposed imputation of CIAC specifically, Florida Water maintains that . . . such an adjustment would be improper under the law. . . . Staff does not correctly apply the law pertaining to mistakes and administrative finality. Staff does not establish that a legitimate mistake of fact was made or by whom it was made when the grandfather certificate was granted. . . . Staff second guesses the Commission's grandfather order and relies upon hypotheticals . . . to amend a perceived inconsistency in the number of lots in the development that could be served. . . . A legitimate mistake of fact may not be corrected if the time passed and circumstances are such that the order at issue can fairly be said to have passed beyond the agency's control. . . .

Staff agrees that because of the doctrine of administrative finality, courts have long recognized that the Commission's inherent authority to modify its orders is not without limitation. See Sunshine, 577 So. 2d at 666. However, "courts have [also] recognized exceptions to this rule under extraordinary circumstances, as where a substantial change in circumstances, or fraud, surprise, mistake or inadvertence is shown." See Richter v. Florida Progress Corp., 366 So. 2d 798, 800 (Fla. 1st DCA 1979).

Although we believe a mistake of fact was made in the grandfather docket with regard to the number of possible connections at build out, there is no evidence that the error was made intentionally by the utility to avoid service availability charges. The utility was not authorized to collect service availability charges until the Final Order in Docket No. 950495-WS was issued on October 30, 1996, and, therefore, no charges were collected prior to that time. In this case, the amount that would be removed from rate base and imputed to CIAC is the utility's capital, on which it has the opportunity to earn a reasonable rate of return. Based on the foregoing, staff recommends that CIAC not be imputed.

### **General Plant**

As is customary for FWSC, it allocated its general plant to all of its systems (including Tropical Isles). This allocation to rate base for the Tropical Isles system (net of accumulated depreciation) was approximately \$18,000 as of December 31, 1996. The main types of items recorded as general plant are office furniture and equipment; these items would typically appear on the books for the majority of utilities. We have examined the balance in general plant, and do not believe the amounts are unreasonable. Therefore, staff does not believe an adjustment to reduce general plant is appropriate in this case.

### **COMPARISON OF TROPICAL ISLES TO OTHER LIKE-SIZED WASTEWATER SYSTEMS**

In order to compare Tropical Isles to other wastewater systems, staff reviewed all like-sized 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 E; pertinent comparisons are as follows.

Revenue Requirement from Docket No. 950495-WS

- 1) Tropical Isles' rate base of \$272,687 is significantly greater than the average rate base of \$116,287 for the 11 other systems examined (see Attachment E, p. 1).
- 2) Tropical Isles' O&M expenses of \$51,043 is comparable to the 11-system average of \$54,017 (see Attachment E, 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.)
- 3) Tropical Isles' revenue requirement of \$116,232 is approximately 47% greater than the 11-system average of \$79,167 (see Attachment E, p. 1).

Comparative Ratios

- 4) Calculations of various ratios are also shown on p. 1 of Attachment E. 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 68%.
  - c) The percentage of Tropical Isles' revenue requirement that represents net operating income (23%) is significantly greater than the average of 15%. This is related to Tropical Isles' relatively high rate base as compared to the other 11 systems.
  - d) Tropical Isles' O&M expenses expressed in terms of per 1,000 gallons of treatment plant capacity is \$1,021, while the corresponding value for the other 11 systems is \$1,017.
  - e) Tropical Isles' O&M expenses expressed on a per customer basis is \$186, while the corresponding value for the other 11 systems is \$184.

Based upon our analysis of the Tropical Isles system versus 11 other like-sized 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 level of O&M expenses for Tropical Isles are slightly less than the 11-system average, and the relative level of those O&M expenses when compared on a per plant capacity basis and a per customer basis, are virtually identical to the corresponding values of the other 11 systems. However, Tropical Isles' rate base is 134% greater than the average for the other 11 systems examined, which increases the revenue requirement of the Tropical Isles system relative to the other 11 systems.

### CONCLUSIONS

Staff recommends that revenue requirement be recalculated on a going-forward basis 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.

Based upon the recalculations discussed above, the resulting revenue requirement is \$99,497, and the resulting flat rate is \$27.92, or approximately 21% less than the \$35.50 approved in the rate case. This rate, after adjustments for price index increases, a rate case expense reduction, a return on equity adjustment, and the effects of the DCA appeal and the final settlement of Docket No. 950495-WS, is \$28.94.

Staff's comparative analysis of the other 11 systems on p. 1 of Attachment E was revised to reflect our recommended adjustments to the Tropical Isles system; the revised comparative analysis is shown on p. 2 of Attachment E. Staff's recommended rate base is shown on Schedule No. 1, and our recommended revenue requirement is shown on Schedule No. 2.

On January 18th, 2000, staff received a letter from Mr. William Concannon, President of the Tropical Isles Homeowners' Association, which staff filed in the docket on February 18th, 2000. In that letter, Mr. Concannon states that the rates proposed in staff's preliminary report should be decreased by an additional

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\$8.75 per month for the negative acquisition adjustment. (Staff was asked during the December 1999 meeting with the customers to calculate the additional rate reduction that would enure to the customers if the negative acquisition adjustment was approved; our rough approximation was \$8.75.) In addition, Mr. Concannon requested that the rate reduction be applied retroactively to the date of the initial rate increase.

Staff believes a refund would constitute retroactive ratemaking because the revenue collected by the utility in this case was not held subject to refund. In Sunshine, the Commission corrected errors in its prior order, which resulted in refunds. See 577 So. 2d at 664 n.2. However, the Commission only issued refunds for the period that funds were held subject to refund. See id. In the instant case, the revenue collected by the utility was not held subject to refund, and thus no refunds can be issued. Further, the "Commission ha[s] no authority to make retroactive ratemaking orders." City of Miami v. Florida Public Serv. Comm'n, 208 So. 2d 249, 259 (Fla. 1968).

**ISSUE 2:** What is the appropriate rate structure and what are the resulting rates for the Tropical Isles system on a prospective basis?

**RECOMMENDATION:** Wastewater service should be billed based on water usage utilizing the base facility charge (BFC) rate structure with a gallonage cap of 6,000 gallons per month for residential customers. The utility should be required to obtain the water usage data each month for billing purposes from the City of Ft. Pierce. Further, in months when a customer is away from the premises and the water service has been discontinued, the customer should be charged only the base facility charge. Staff's recommended rates are shown on Schedule No. 3. The utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(1), Florida Administrative Code. The rates should not be implemented until staff has approved the proposed customer notice, and the notice has been received by all customers receiving service. The utility should provide proof of the date notice was given no less than 10 days after the date of the notice. (LINGO)

**STAFF ANALYSIS:** As mentioned in the case background, FWSC provides wastewater-only service in the Tropical Isles service area. 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. At a customer hearing in the utility's last rate case, 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 were not in residence since they were not using the wastewater system during this time. According to the customer testimony at this customer meeting, 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 Commission policy 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. In addition, customers are responsible only for the base facility charge during the time they are not in residence.



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 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. Since the Tropical Isles customers receive metered water service from another utility, staff attempted to explore the feasibility of a metered wastewater rate in the utility's last rate case. To that end, staff prepared discovery to obtain the necessary information to evaluate the rate structure. However, during the pendency of the rate case, the company was not able to provide the billing information or confirm whether it could readily obtain the information on a consistent basis in order to bill based on water consumption. Therefore, in its order issued after the hearing in the case, 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. (See Order No. PSC-96-1320-FOF-WS, issued on October 30, 1996, in Docket No. 950495-WS.)

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 the City of 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 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. Staff had to adjust this analysis to include customers not billed by the utility. These unbilled customers include six unbilled residential customers (RS) and two

unbilled general service (GS) customers. 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.

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. Therefore, staff increased billing determinants to reflect the six unbilled residential customers and two unbilled general service customers.

Using this billing information (adjusted for the unbilled customers) and the same methodology that was utilized in calculating the wastewater rates for all the other FWSC systems, staff calculated the following monthly metered wastewater rates:

Base Facility Charge:	
5/8" x 3/4"	\$ 11.58
3/4"	17.37
1"	28.95
1 1/2"	57.90
2"	92.64
Gallonage Charge:	
Residential (up to a maximum of 6,000 gallons)	\$ 5.09
General Service	\$ 6.11

These rates reflect adjustments for changes since the rate case, which include price index increases, a rate case expense reduction, an ROE adjustment, and the effects of the DCA appeal and the final settlement. These rates produce an annual revenue requirement of \$103,141.

The above wastewater rates produce residential customer bills ranging from \$11.58 for zero water usage up to a maximum bill of \$42.12 for 6,000 gallons or more consumption per month. The break-even point for residential customers, wherein the metered rates

produce a bill equal to the flat rate, is 3,409 gallons per month. This means that customers who use less than 3,409 gallons per month are better off under a metered rate, and those who 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 are 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 has been found to be a fair method of billing for wastewater service and is consistent with longstanding Commission practice. Further, based on information received from the utility, it appears that the customer usage data is readily available to FWSC on an ongoing basis at a reasonable cost. However, if the Commission decides that a flat rate structure is appropriate, the flat rate which produces the appropriate level of revenues is \$28.94.

A comparison of the utility's current rates, staff's recommended metered rates, and the flat rates which produce the same revenue requirement is shown on Schedule No. 3.

The utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(1), Florida Administrative Code. The rates should not be implemented until staff has approved the proposed customer notice, and the notice has been received by all customers receiving service. The utility should provide proof of the date notice was given no less than 10 days after the date of the notice.

DOCKET NO. 970409-SU  
DATE: FEBRUARY 17, 2000

**ISSUE 3:** Should this docket be closed?

**RECOMMENDATION:** Yes, if no timely protest is received upon the expiration of the protest period, the Order should become final and effective upon the issuance of a consummating order and this docket should be closed. (GERVASI, LINGO)

**STAFF ANALYSIS:** If no timely protest is received upon the expiration of the protest period, the Order should become final and effective upon the issuance of a consummating order and this docket should be closed.

DOCKET NO. 970409-SU  
 DATE: FEBRUARY 17, 2000

**SCHEDULE OF REVISED RATE BASE**

	Commission-Approved Balance per Order No. PSC-96-1320-FOF-WS	Staff Recommended Adjustments	SCHEDULE NO. 1 Staff Recommended Balance
Utility Plant in Service	\$510,181	\$0	\$510,181
Land	1,482	0	1,482
Non-Used and Useful	(25,733)	(81,158)	(106,891)
Accumulated Depreciation	(129,256)	0	(129,256)
CIAC	(101,920)	0	(101,920)
Amortization of CIAC	23,360	0	23,360
Acquisition Adjustments-Net	0	0	0
Advances for Construction	0	0	0
Unfunded Post-Retirement Benefits	(1,641)	0	(1,641)
Deferred Income Taxes	(10,141)	0	(10,141)
Working Capital Allowance	6,355	0	6,355
Other	0	0	0
<b>TOTAL</b>	<b>\$272,687</b>	<b>\$(81,158)</b>	<b>\$191,529</b>

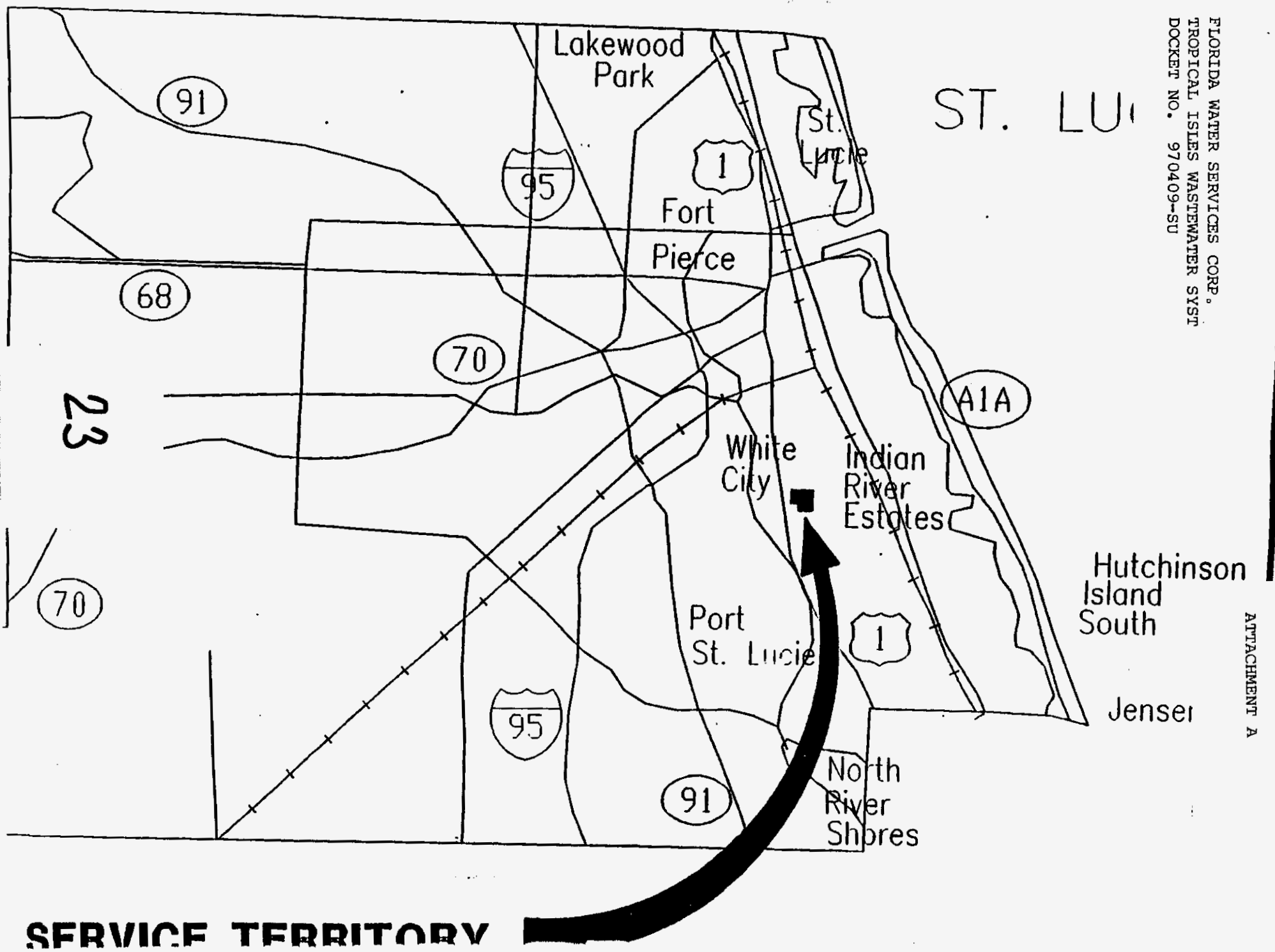
DOCKET NO. 970409-SU  
 DATE: FEBRUARY 17, 2000

**SCHEDULE OF REVISED WASTEWATER OPERATIONS**

	SCHEDULE NO. 2		
	Commission-Approved Balance per Order No. PSC-96-1320-FOF-WS	Staff Recommended Adjustments	Staff Recommended Balance
Operating Revenues	\$116,232	\$(16,735)	<b>\$99,497</b>
Operating Expenses:			
Operation and Maintenance	51,043	0	51,043
Depreciation	18,492	(4,797)	13,695
Amortization	0	0	0
Taxes Other Than Income	13,599	(2,204)	11,395
Income Taxes	6,005	(1,678)	4,327
Total Operating Expenses	89,140	(8,681)	80,459
Operating Income	27,092	(8,054)	19,038
Rate Base	272,687	(81,158)	191,529
Rate of Return	9.94%		9.94%

**WASTEWATER MONTHLY SERVICE RATES**

	Current Rates @ 2/20/00	Rates After Recommended Revenue Requirement Adjs	
		Metered Rates	Alternative Flat Rate
<b><u>Residential</u></b>			
Flat Rate	\$ 36.80		\$ 28.94
BFC (all sizes)		\$ 11.58	
Gal Chg (capped at 6,000 gals)		5.09	
<b><u>General Service</u></b>			
Flat Rate 5/8" x 3/4"	N/A		\$ 28.94
3/4"	N/A		43.41
1"	N/A		72.35
1 1/2"	N/A		144.70
2"	N/A		231.52
BFC 5/8" x 3/4"	N/A	\$ 11.58	
3/4"	N/A	17.37	
1"	N/A	28.95	
1 1/2"	N/A	57.90	
2"	N/A	92.64	
Gal Chg (all gals)		\$ 6.11	
<b><u>Typical Bills</u></b>			
Residential	0 gals	\$ 36.80	\$ 28.94
	3,000 gals	36.80	28.94
	6,000 gals	36.80	28.94
Clubhouse	0 gals	\$ N/A	\$ 72.35
	10,000 gals	N/A	72.35
	20,000 gals	N/A	72.35
Kia Dealer	0 gals	\$ N/A	\$144.70
	10,000 gals	N/A	144.70
	20,000 gals	N/A	144.70

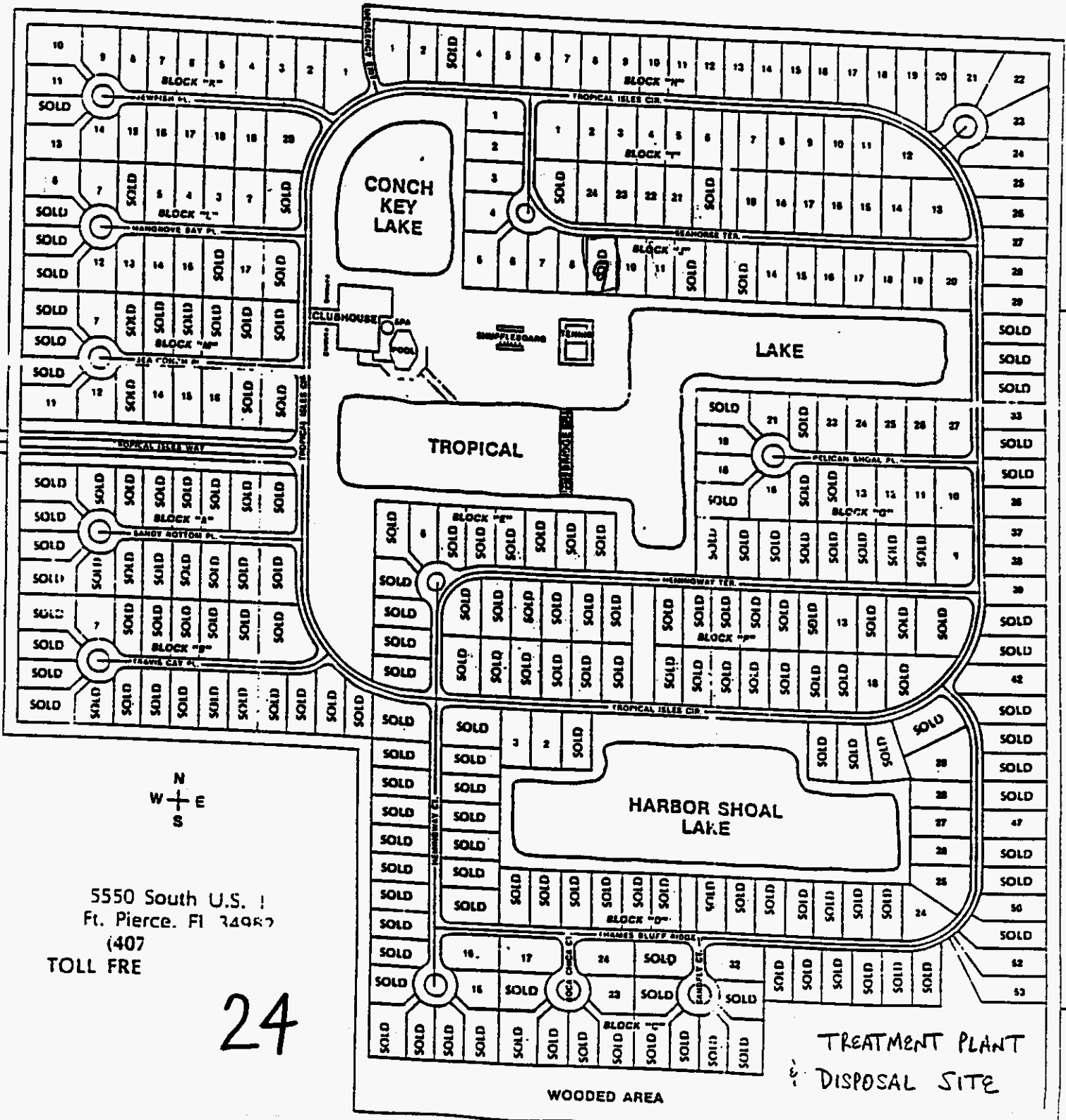


**SERVICE TERRITORY**





*See Plan*



5550 South U.S. !  
 Ft. Pierce, FL 34947  
 (407)  
 TOLL FREE

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TREATMENT PLANT  
 & DISPOSAL SITE

WOODED AREA

DOG WAI K

### SEQUENCE OF MAJOR EVENTS

<u>Dates</u>	<u>Event and Purpose</u>
Nov. 1997	Staff conducted a customer meeting in the Tropical Isles service area.
Jan 1998	Staff traveled to the Tropical Isles service area to meet with members of the Tropical Isles Public Affairs Committee (TIPAC) and staff of Florida Water Services Corporation (FWSC). Staff also reviewed relevant documents and initiated document requests of FWSC.
Feb. 1998	Staff telephone conference with Robert Simpson, who notifies Staff of FWSC's offer to sell the Tropical Isles system 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).
Mar. 1998	Staff traveled to the Tropical Isles service area to answer questions at a residents meeting regarding the customers' potential purchase of the system to be operated as an exempt entity. No decision was reached regarding the purchase of the system.
Mar. 1998	Staff traveled to the Tropical Isles service area to answer more questions at another residents meeting regarding their possible purchase of the system. Again, no decision was reached regarding the purchase of the system. Staff subsequently meets with a small customer group regarding their possible purchase of the system.
Mar. 1998	Facsimile letter from Robert Simpson to the Office of Public Counsel (OPC) with a copy to Staff requesting that: 1) OPC hold any further actions against FWSC until further notice; and 2) Staff discontinue its rate investigation while a purchase agreement is negotiated.
Summer 1998	Staff meets with an attorney retained by the park owners regarding the purchase of the system.
Summer 1998	Staff learns that the park owners no longer wish to purchase the system. Staff revives its investigation; begins review of materials obtained from FWSC.
Fall 1998 - Spring 1999	Staff continues its investigation and revises the case schedule several times.
Mar. 1999	Staff requests additional information from FWSC.
May 1999	Staff receives a letter from Tropical Isles Board of Directors, expressing displeasure about the case being scheduled to be heard by the Commissioners at the July 6th, 1999 Agenda Conference. (The letter explained that more than one-half of the customers are up north at that time.)
Summer 1999	Staff revises the case schedule to: 1) allow for all customers to return from up north; and 2) to ensure that the maximum number of customers are in the service area for both Staff's informal meeting and the case being heard by the Commissioners at the Feb. 29, 2000 Agenda Conference.
Dec. 1999	Staff completes its preliminary analysis and makes an informal presentation to the customers. FWSC also attends the meeting.

**TROPICAL ISL**  
*Water System*  
*St. Lucie County*  
**#2101**

ATTACHMENT D

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

	Tropical Isles	Greola	Fairmount 2nd	Colony Park	Indian Springs	Kirby D. Morgan	J. Swiderski Kings Cove	Fisherman's Cove of Stuart	Terra Mar Village	J & J	Lake Suzy	Useppa Island	TOTALS/ AVGS	% Trop Isles ≥ Avg
<b>RATE BASE</b>														
Net U&U Plant+Land in Svc	356,674	269,502	106,246	125,353	81,908	160,808	160,326	308,566	93,517	56,943	916,783	116,988	217,904	
Net CIAC+Advances+Oth	(90,342)	(166,966)	(1,613)	(9,422)	(59,283)	(117,043)	(72,416)	(62,344)	(80,437)	(35,810)	(486,782)	(99,941)	(108,369)	
Working Capital	6,355	11,589	9,484	4,846	7,286	3,482	4,158	13,025	5,009	2,077	5,762	7,536	6,752	
<b>TOTAL</b>	<b>272,687</b>	<b>114,125</b>	<b>114,117</b>	<b>120,777</b>	<b>29,911</b>	<b>47,247</b>	<b>92,068</b>	<b>259,247</b>	<b>18,089</b>	<b>23,210</b>	<b>435,783</b>	<b>24,583</b>	<b>116,287</b>	<b>134%</b>
<b>OPERATING STATEMENT</b>														
Revenues	116,232	121,737	109,214	59,130	74,205	36,743	51,615	161,727	48,191	24,107	114,410	69,760	79,167	47%
Total O & M Exp	51,043	92,711	75,874	38,764	58,288	27,852	33,267	104,199	40,072	16,619	46,254	60,288	54,017	-6%
Total Oper Exp	89,140	112,304	97,917	46,835	68,376	31,933	43,476	134,117	46,338	21,635	71,965	67,364	67,478	32%
Net Oper Income	27,092	9,433	11,298	12,295	5,829	4,810	8,139	27,610	1,853	2,473	42,445	2,397	11,689	132%
Cost of Capital	9.94%	8.27%	9.90%	10.18%	10.00%	10.18%	8.84%	10.65%	10.24%	10.65%	9.74%	9.75%	9.85%	
<b>MISC INFO</b>														
Plant Capacity (kgal/day)	50	87	40	70	50	25	55	100	45	10	87	15	53	
Customers - RS	274	684	426	301	129	140	521	521	247	51	41	134	290	
Customers - GS		8	3	0	2	0	0	0	0	1	13	3	3	
BFC @ 5/8"		\$7.34	\$14.92	\$6.18	\$18.45		\$12.63	\$12.63	\$9.94	\$17.95	\$28.98	\$23.29		
Gal Chg - RS			\$3.11	\$1.81	\$2.99		\$2.81	\$2.81	\$4.14	\$4.13	\$8.58	\$6.42		
Gal Chg - MS & GS		\$3.68	\$3.73	\$2.17	\$3.59				\$4.97	\$4.95	\$10.30	\$7.70		
Flat Rate	\$35.50	\$13.38				\$22.42			\$15.96					
<b>RS @ 3,500 gpm</b>	<b>\$35.50</b>	<b>\$13.38</b>	<b>\$25.81</b>	<b>\$12.52</b>	<b>\$28.92</b>	<b>\$22.42</b>	<b>\$22.47</b>	<b>\$22.47</b>	<b>\$24.43</b>	<b>\$32.41</b>	<b>\$59.01</b>	<b>\$45.76</b>	<b>\$28.14</b>	<b>26%</b>
<b>CIAC CONTRIB %</b>	<b>20.6%</b>	<b>62.0%</b>	<b>1.5%</b>	<b>7.5%</b>	<b>57.0%</b>	<b>60.5%</b>	<b>87.2%</b>	<b>20.2%</b>	<b>77.0%</b>	<b>62.9%</b>	<b>44.1%</b>	<b>82.2%</b>	<b>33.9%</b>	<b>-39%</b>
<b>\$ PER KGAL CAPACITY</b>														
Rate base	5,454	1,312	2,853	1,725	598	1,890	1,674	2,592	402	2,321	5,009	1,639	2,190	149%
Revenues	2,325	1,399	2,730	845	1,484	1,470	938	1,617	1,071	2,411	1,315	4,651	1,491	56%
O & M	1,021	1,066	1,897	554	1,166	1,114	605	1,042	890	1,662	532	4,019	1,017	0%
Total operating exps	1,783	1,291	2,448	669	1,368	1,277	790	1,341	1,030	2,164	827	4,491	1,271	40%
NOI	542	108	282	176	117	192	148	276	41	247	488	160	220	146%
<b>AS A % OF REVENUES</b>														
O & M	44%	76%	69%	66%	79%	76%	64%	64%	83%	69%	40%	86%	68%	-36%
Total operating exps	77%	92%	90%	79%	92%	87%	84%	83%	96%	90%	63%	97%	85%	-10%
NOI	23%	8%	10%	21%	8%	13%	16%	17%	4%	10%	37%	3%	15%	58%
<b>\$ PER CUSTOMER</b>														
Rate base	995	165	266	401	228	337	177	498	73	446	8,070	179	397	151%
Revenues	424	176	255	196	566	262	99	310	195	464	2,119	509	270	57%
O & M	186	134	177	129	445	199	64	200	162	320	857	440	184	1%
Total operating exps	325	162	228	156	522	228	83	257	188	416	1,333	492	230	41%
NOI	99	14	26	41	44	34	16	53	8	48	786	17	40	148%

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FLORIDA WATER SERVICES CORPORATION – TROPICAL ISLES WASTEWATER SYSTEM  
DOCKET NO. 970409-WS

**AFTER STAFF'S RECOMMENDED ADJUSTMENTS**

	Tropical Isles	Creola	Fairmount 2nd	Colony Park	Indian Springs	Kirby D. Morgan	J. Swiderski Kings Cove	Fisherman's Cove of Stuart	Terra Mar Village	J & J	Lake Suzy	Useppa Island	TOTALS/ AVGS	% Trop Isles > Avg
<b>RATE BASE</b>														
Net U&U Plant+Land in Svc	275,516	269,502	106,246	125,353	81,908	160,808	160,326	308,566	93,517	56,943	916,783	116,988	217,904	
Net CIAC+Advances+Oth	(90,342)	(166,966)	(1,613)	(9,422)	(59,283)	(117,043)	(72,416)	(62,344)	(80,437)	(35,810)	(486,782)	(99,941)	(108,369)	
Working Capital	6,355	11,589	9,484	4,846	7,286	3,482	4,158	13,025	5,009	2,077	5,782	7,536	6,752	
<b>TOTAL</b>	<b>191,529</b>	<b>114,125</b>	<b>114,117</b>	<b>120,777</b>	<b>29,911</b>	<b>47,247</b>	<b>92,068</b>	<b>259,247</b>	<b>18,089</b>	<b>23,210</b>	<b>435,783</b>	<b>24,583</b>	<b>116,287</b>	65%
<b>OPERATING STATEMENT</b>														
Revenues	99,497	121,737	109,214	59,130	74,205	36,743	51,615	161,727	48,191	24,107	114,410	69,760	79,167	26%
Total O & M Exp	51,043	92,711	75,874	38,764	58,288	27,852	33,267	104,199	40,072	16,619	46,254	60,288	54,017	-6%
Total Oper Exp	80,459	112,304	97,917	46,835	68,376	31,933	43,476	134,117	46,338	21,635	71,965	67,364	67,478	19%
Net Oper Income	19,038	9,433	11,298	12,295	5,829	4,810	8,139	27,610	1,853	2,473	42,445	2,397	11,689	63%
Cost of Capital	9.94%	8.27%	9.90%	10.18%	10.00%	10.18%	8.84%	10.65%	10.24%	10.65%	9.74%	9.75%	9.85%	
<b>MISC INFO</b>														
Plant Capacity (kgal/day)	50	87	40	70	50	25	55	100	45	10	87	15	53	
Customers - RS	291	684	426	301	129	140	521	521	247	51	41	134	290	
Customers - GS	2	8	3	0	2	0	0	0	0	1	13	3	3	
BFC @ 5/8"	\$11.68	\$7.34	\$14.92	\$6.18	\$18.45		\$12.63	\$12.63	\$9.94	\$17.95	\$28.98	\$23.29		
Gal Chg - RS	\$5.14		\$3.11	\$1.81	\$2.99		\$2.81	\$2.81	\$4.14	\$4.13	\$8.58	\$6.42		
Gal Chg - MS & GS		\$3.68	\$3.73	\$2.17	\$3.59				\$4.97	\$4.95	\$10.30	\$7.70		
Flat Rate		\$13.38				\$22.42			\$15.96					
RS @ 3,500 gpm	<b>\$29.67</b>	<b>\$13.38</b>	<b>\$25.81</b>	<b>\$12.52</b>	<b>\$28.92</b>	<b>\$22.42</b>	<b>\$22.47</b>	<b>\$22.47</b>	<b>\$24.43</b>	<b>\$32.41</b>	<b>\$59.01</b>	<b>\$45.76</b>	<b>\$28.14</b>	5%
CIAC CONTRIB %	20.6%	62.0%	1.5%	7.5%	57.0%	60.5%	87.2%	20.2%	77.0%	62.9%	44.1%	82.2%	33.9%	-39%
<b>\$ PER KGAL CAPACITY</b>														
Rate base	3,831	1,312	2,853	1,725	598	1,890	1,674	2,592	402	2,321	5,009	1,639	2,190	75%
Revenues	1,990	1,399	2,730	845	1,484	1,470	938	1,617	1,071	2,411	1,315	4,651	1,491	33%
O & M	1,021	1,066	1,897	554	1,166	1,114	605	1,042	890	1,662	532	4,019	1,017	0%
Total operating exps	1,609	1,291	2,448	669	1,368	1,277	790	1,341	1,030	2,164	827	4,491	1,271	27%
NOI	381	108	282	176	117	192	148	276	41	247	488	160	220	73%
<b>AS A % OF REVENUES</b>														
O & M	51%	76%	69%	56%	79%	76%	64%	64%	83%	69%	40%	86%	68%	-25%
Total operating exps	81%	92%	90%	79%	92%	87%	84%	83%	96%	90%	63%	97%	85%	-5%
NOI	19%	8%	10%	21%	8%	13%	16%	17%	4%	10%	37%	3%	15%	30%
<b>\$ PER CUSTOMER</b>														
Rate base	653	165	266	401	228	337	177	498	73	446	8,070	179	397	65%
Revenues	339	176	255	196	566	262	99	310	195	464	2,119	509	270	26%
O & M	174	134	177	129	445	199	64	200	162	320	857	440	184	-6%
Total operating exps	274	162	228	156	522	228	83	257	188	416	1,333	492	230	19%
NOI	65	14	26	41	44	34	16	53	8	48	786	17	40	63%

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