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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:** MAY 25, 2000

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

**FROM:** DIVISION OF WATER AND WASTEWATER (CHU, MUNROE, <sup>mc</sup>OLDEN)  
C. WILLIAMS) <sup>CW</sup> <sup>AWA</sup>  
DIVISION OF LEGAL SERVICES (FUDGE) <sup>RF</sup> <sup>RB</sup>

**RE:** DOCKET NO. 990937-SU - APPLICATION FOR STAFF-ASSISTED RATE  
CASE IN POLK COUNTY BY ABCA, INC.  
COUNTY: POLK

**AGENDA:** 06/06/00 - REGULAR AGENDA - PROPOSED AGENCY ACTION EXCEPT  
ISSUES NOS. 14 AND 15 - INTERESTED PERSONS MAY PARTICIPATE

**CRITICAL DATES:** 15-MONTH STATUTORY DEADLINE HAS BEEN EXTENDED TO  
MARCH 19, 2001

**SPECIAL INSTRUCTIONS:** NONE

**FILE NAME AND LOCATION:** S:\PSC\WAW\WP\990937.RCM

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TABLE OF CONTENTS

<u>ISSUE</u>	<u>DESCRIPTION</u>	<u>PAGE</u>
	Case Background	2
	<u>QUALITY OF SERVICE</u>	
1	Quality of Service (MUNROE)	4
	<u>RATE BASE</u>	
2	Used and Useful Percentages (MUNROE)	6
3	Test Year Rate Base (CHU, MUNROE)	7
	<u>COST OF CAPITAL</u>	
4	Rate of Return (CHU)	10
	<u>NET OPERATING INCOME</u>	
5	Test Year Operating Revenue (CHU)	11
6	Operating Expenses (CHU)	12
7	Revenue Requirement (CHU)	18
	<u>RATES AND CHARGES</u>	
8	Conservation Rate Structure (C. WILLIAMS, GOLDEN)	19
9	Gallonage Cap (GOLDEN, C. WILLIAMS, CHU)	21
10	Repression (GOLDEN)	22
11	Rates (CHU)	24
12	Customer Deposits (CHU)	27
13	Service Availability Charges (CHU)	29
	<u>OTHER</u>	
14	NARUC Conformity (FUDGE, CHU)	31
15	Rates in Event of Protest (CHU, FUDGE)	33
16	Billing Rule Compliance (FUDGE, CHU)	36
17	Billing Procedure (CHU)	38
18	Collection of Past Due Amounts (CHU)	40
19	Close Docket (FUDGE, CHU)	42
	<u>SCHEDULES</u>	
	<u>DESCRIPTION</u>	<u>PAGE</u>
1	Wastewater Rate Base	43
1-A	Adjustments to Rate Base	44
2	Capital Structure	45
3	Wastewater Operating Income	46

DOCKET NO. 990937-SU  
DATE: MAY 25, 2000

<u>SCHEDULES</u>	<u>DESCRIPTION</u>	<u>PAGE</u>
3-A	Adjustments to Operating Income	47
3-B	Wastewater O&M Expenses	49

<u>ATTACHMENTS</u>	<u>DESCRIPTION</u>	<u>PAGE</u>
A	Used and Useful Wastewater Treatment Plant	50
B	Used and Useful Wastewater Collection System	51

DOCKET NO. 990937-SU  
DATE: MAY 25, 2000

CASE BACKGROUND

ABCA, Inc. (ABCA or utility) is a Class C wastewater utility located in Polk County. The utility provides wastewater service to approximately 262 residential customers and two general service customers. The utility, previously known as Village Lakeland, has been in existence providing service to customers in Polk County since 1972. On January 9, 1990, the Polk County Commission granted a franchise to Ameribanc Investors Group (Ameribanc) for a system known as Village Lakeland. Later, Ameribanc's wastewater system was acquired by First Union Corporation (First Union) through merger and foreclosure procedures. ABCA, which is the current name of the utility, is a wholly-owned subsidiary of First Union. Polk County came under the Commission's jurisdiction on July 11, 1996. By Order No. PSC-98-0752-FOF-SU, issued June 1, 1998, in Docket No. 971531-SU, the Commission granted the utility its grandfather Certificate No. 515-S for wastewater.

ABCA is located in a water use caution area (WUCA). The Southwest Florida Water Management District (SWFWMD) declared portions of Polk and Highlands Counties a WUCA in 1989. All of ABCA's wastewater customers receive their water service from the City of Lakeland.

On July 19, 1999, the utility filed an application for the staff-assisted rate case (SARC) and paid the appropriate filing fee. Staff has selected a historical test year ended June 30, 1999. Staff auditors have audited the utility's records for compliance with Commission rules and orders and determined the components necessary for rate setting. The staff engineer has also conducted a field investigation of the utility's plant and service area. A review of the utility's operation expenses, maps, files and rate application was also performed to obtain information about the physical plant operating costs. On October 19, 1999, the utility requested a 90-day extension of the statutory 15-month limitation on the SARC to allow additional time to compile financial information necessary for the rate case and deliver it from out of state.

On April 19, 2000, a customer meeting was held near the utility's service area to allow customers the opportunity to address the utility's application for a rate increase. Thirty-four customers attended the meeting. Two representatives from the utility were also present. The major concerns from the customers

DOCKET NO. 990937-SU  
DATE: MAY 25, 2000

were the utility's billing practice and the collection of past due amounts, which are addressed in Issues 17 and 18, respectively. Some customers also expressed that the recommended percentage increase is too high.

DOCKET NO. 990937-SU  
DATE: MAY 25, 2000

**QUALITY OF SERVICE**

**ISSUE 1:** Is the quality of service provided by ABCA, Inc. considered satisfactory?

**RECOMMENDATION:** The quality of service provided by the utility should be considered satisfactory. (MUNROE)

**STAFF ANALYSIS:** The quality of service issues are derived from an evaluation of three separate components of wastewater utility operations:

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

**Quality of Utility's Product:** In Polk County, the wastewater program is regulated by the Southwest Florida District of the Florida Department of Environmental Protection (DEP or the Department). The product of a wastewater treatment plant is determined by the results of required testing and analysis of the wastewater. According to the DEP, the utility currently is up to date with all of its testing requirements, and the results of those tests are satisfactory. By all indications the utility is properly treating its effluent and the quality of the product is satisfactory.

**Operational Conditions at the Plant:** The quality of the utility's plant-in-service is generally reflected in lab tests of the effluent. In this case, the DEP finds the quality of the utility's effluent being discharged as satisfactory, and there are no outstanding citations against the utility for plant-in-service violations. DEP has indicated the utility maintains the plant in compliance with its standards and responds quickly when deficiencies are found.

**Customer Satisfaction:** A customer meeting was held April 19, 2000 at 6:00 P.M. in the Lakeland City Commission Chamber. The meeting was attended by thirty-four customers and lasted about an hour. There were no service related complaints. There were concerns and complaints as to the company's billing practices and the collection of past due amounts. These will be addressed in Issues 17 and 18, respectively.

DOCKET NO. 990937-SU  
DATE: MAY 25, 2000

One customer also expressed that the club house has a swimming pool. Since the water from the swimming pool does not go into the wastewater system, the club house should not be charged for the water used for the swimming pool. Staff has contacted the City of Lakeland which provides the water service. The City of Lakeland said that the club house can request to install a separate meter for the swimming pool to separate the water usage for the swimming pool from the water usage for the club house.

DOCKET NO. 990937-SU  
DATE: MAY 25, 2000

**ISSUE 2:** What are the appropriate used and useful percentages for the treatment plant and collection system?

**RECOMMENDATION:** The wastewater plant should be considered 100% used and useful, and the collection system should be considered 87% used and useful. (MUNROE)

**STAFF ANALYSIS:**

**Wastewater Treatment Plant:** The capacity of the wastewater treatment plant is permitted at 70,000 gallons per day using the three month average daily flow method (TMADF). The average daily flow for the months of January 1999, February 1999, and March 1999 exceeded the plant's capacity. It is believed that the primary causes of these excess flows are infiltration and inflow.

By the approved formula method, used as an indicator of used and useful plant, the utility is considered 100% used and useful (see attachment "A"). Therefore, it is recommended that the wastewater treatment plant be considered 100% used and useful.

**Wastewater Collection System:** Collection mains in the ABCA service area are available to 333 platted lots, by count. The average number of connections for the test year was 256 connections. The formula approach indicates the collection system is 87% used and useful (see attachment "B"). Therefore, it is recommended that the collection system be considered 87% used and useful.

**Excessive Inflow And Infiltration (I&I):** ABCA has an infiltration and inflow that is within acceptable amounts on an annual average basis. The short periods of excessive infiltration and inflow are caused by the water level in Pelican Lake, and its close proximity to two lift stations. The infiltration and inflow, although large at times, is short in duration. Therefore, no adjustments in purchased power or chemicals are recommended.

DOCKET NO. 990937-SU  
DATE: MAY 25, 2000

**ISSUE 3:** What is the appropriate average test year rate base for the utility?

**RECOMMENDATION:** The appropriate average test year rate base for ABCA should be \$31,392. (CHU, MUNROE)

**STAFF ANALYSIS:** ABCA came under the Commission's jurisdiction on July 11, 1996. By Order No. PSC-98-0752-FOF-SU, issued June 1, 1998, in Docket No. 971531-SU, the Commission granted the utility a grandfather certificate. On July 19, 1999, the utility filed the application for this SARC. Rate base has never been established for this utility by the Commission. The appropriate components of ABCA's rate base include depreciable utility plant-in-service, land, non-used and useful plant, contributions in aid of construction (CIAC), accumulated depreciation, accumulated amortization of CIAC, accumulated amortization of non-used and useful plant, and a working capital allowance.

**Utility Plant in Service (UPIS):** Following Commission practice, an original cost study was conducted to determine the plant value for this rate case. The plant value determined by the original cost study was \$212,779 as of December 31, 1972. From 1973 to June 30, 1999, the utility had additions in plant value of \$21,678. Therefore, the plant value as of June 30, 1999, is \$234,457.

The utility requested an allowance for pro forma plant improvement costs. The average pro forma plant improvement costs are: \$1,600 for elevating manholes, \$3,600 for rebuilding the main lift station, \$250 for replacing tank cover, and \$772 for relining spray field, for a total of \$6,222. Therefore, staff recommends that UPIS be increased by \$6,222.

Staff also recommends that UPIS be decreased by \$1,268 to reflect the averaging adjustment. The test year balance for this account is \$239,411.

**Land:** Based on Polk County's record, the utility owns the land on which its assets are located. Based on the warranty deed dated February 21, 1972, when the land was first devoted to public service, the land value was \$58,137. An original cost study was performed using available maps, records on file, and visible facility noted in the field investigation. The original cost study determined that the utility has additional land of \$356 and polishing ponds of \$1,234. The utility did not record any land

DOCKET NO. 990937-SU  
DATE: MAY 25, 2000

value on its books. This account has been increased by \$59,727 to reflect land value as determined by the original cost study.

**Non-Used and Useful Plant (Net of Accumulated Depreciation):** As discussed in Issue No. 2, the utility's wastewater treatment plant should be considered 100% used and useful; the utility's collection system should be considered 87% used and useful. The utility did not record any non-used and useful plant on its books. Therefore, an adjustment of \$15,460 is made to utility plant to reflect the average non-used and useful plant.

The utility did not record any accumulated depreciation for the non-used and useful plant on its books. Staff's calculated average accumulated depreciation for non-used and useful plant is \$10,697 as of June 30, 1999. This account has been adjusted by a total of \$10,697 to reflect average accumulated depreciation for non-used and useful plant as of the end of the test year.

The staff recommended non-used and useful plant (net of accumulated depreciation) for the test year is \$4,763.

**Contributions in Aid of Construction (CIAC):** The utility did not record any CIAC on its books. On June 26, 1990, Polk County approved a residential and commercial sewer connection fee of \$880 for each equivalent residential connection (ERC) as of May 29, 1990. Records indicated that prior to that date, the utility was collecting \$600 per ERC. Per Audit Exception No. 4 of the staff audit, the utility collected service availability charges totaling \$163,400 as of June 30, 1999. An averaging adjustment of \$6,160 has been made to reflect average CIAC of \$157,240 as of the end of the test year.

**Accumulated Depreciation:** The utility did not record any accumulated depreciation on its books. Staff calculated depreciation using the prescribed rates in Rule 25-30.140, Florida Administrative Code. Staff's calculated accumulated depreciation is \$187,967 as of June 30, 1999. Accumulated depreciation on pro forma plant is \$342. The averaging adjustment is \$2,583. Staff's calculated accumulated depreciation is \$185,726 as of the end of the test year.

**Accumulated Amortization of CIAC:** The utility did not record any accumulated amortization of CIAC on its books. Amortization of CIAC has been calculated using the composite depreciation rate.

DOCKET NO. 990937-SU  
DATE: MAY 25, 2000

Staff's calculated amortization of CIAC is \$75,265 as of June 30, 1999. The averaging adjustment is \$1,523. The average accumulated amortization of CIAC is \$73,742 as of the end of the test year.

**Working Capital Allowance:** Consistent with Rule 25-30.433(2), 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 \$6,241 (based on O&M of \$49,925.)

**Rate Base Summary:** Based on the foregoing, the appropriate average test year rate base for the utility should be \$31,392. Rate base is shown on Schedule No. 1, and adjustments are shown on Schedule No. 1-A.

DOCKET NO. 990937-SU  
DATE: MAY 25, 2000

**COST OF CAPITAL**

**ISSUE 4:** 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 8.93% with a range of 7.93% - 9.93%. The appropriate overall rate of return should be 8.93% with a range of 7.93% - 9.93%. (CHU)

**STAFF ANALYSIS:** Based on the staff audit, the utility has no debt nor customer deposits associated with the operation. Therefore, the utility's capital structure should be considered 100% equity. The amount of the utility's capital can not be determined. Therefore, the utility's capital balance is reconciled directly with the staff recommended rate base. Using the current leverage formula approved by Order No. PSC-99-1224-PAA-WS, issued June 21, 1999, in Docket No. 990006-WS, the rate of return on common equity should be 8.93% with a range of 7.93% - 9.93%. At the customer meeting held on April 19, 2000, a customer expressed that the 8.93% return on common equity is too high. However, the return on common equity is calculated using the formula established by Commission Order.

Since the utility's capital structure is 100% equity, applying the weighted average method to the total capital structure yields an overall rate of return of 8.93% with a range of 7.93% - 9.93%, which is the same as the return on equity. The company's test year capital structure balance has been adjusted to match the total of the staff recommended rate base.

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

DOCKET NO. 990937-SU  
DATE: MAY 25, 2000

**NET OPERATING INCOME**

**ISSUE 5:** What are the appropriate test year revenues?

**RECOMMENDATION:** The appropriate test year revenues should be \$31,744. (CHU)

**STAFF ANALYSIS:** During the test year, the utility recorded revenues of \$48,974 for its wastewater operations. This amount included money received for new customer connections and streetlight service. The new customer connection fees were improperly placed in the revenue account. The new customer connection fees should be classified as CIAC. The revenues from streetlights are non-utility related revenues, and should be excluded from the utility's wastewater operation revenues.

The utility's tariff currently authorizes flat rates of \$10.25 per month for its wastewater services. At the end of the test year, the utility's customer base included approximately 262 residential customers. Per Audit Exception No. 5, staff auditors examined the billing registers and calculated the actual test year revenues from residential customers to be \$31,498. Therefore, the test revenue is decreased by \$17,475.

The utility also has two general service customers, which are two club houses that are located in the service area. The utility did not bill these two general service customers for the wastewater services for the test year. Staff calculated the annualized revenues from the two general service customers based on a flat rate of \$10.25 per month, which results in \$246 annually. Therefore, test year revenue is increased by \$246 to reflect the proper annualized revenues from all customers for the test year.

Staff's calculated total test year revenues are \$31,744.

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

DOCKET NO. 990937-SU  
DATE: MAY 25, 2000

**ISSUE 6:** What is the appropriate amount of operating expense?

**RECOMMENDATION:** The appropriate amount of operating expense should be \$57,640. (CHU, MUNROE)

**STAFF ANALYSIS:** The utility recorded operating expenses of \$37,048 for the test year. The utility's recorded expenses include operation and maintenance (O&M) expense only. Staff has adjusted operating expenses to include the appropriate annual amounts for O&M expenses, depreciation expense (net of related amortization of CIAC and non-used and useful plant), and taxes other than income. The utility's test year operating expenses have been reviewed, and invoices and other supporting documentation have been examined. Adjustments have been made to reflect unrecorded test year expenses and to reflect recommended allowances for plant operations on a going forward basis.

**Operation and Maintenance Expenses (O & M):** The utility recorded \$37,048 to O & M expenses during the test year. A summary of adjustments that were made to the utility's recorded expenses follows:

(701) Salaries and Wages - Employees - The utility recorded employee salaries and wages of \$7,200 in the test year for the utility's manager. This position is contracted by the utility at \$600 per month to manage the facilitates. The duties include: cooperate with all state agencies regarding regulation; hire personnel for regular, special and emergency maintenance of the system; perform connections and disconnections; and be on call 24 hours a day, 7 days a week for emergencies. Since the utility does not pay any employer's portion of the FICA taxes, staff believes that this person should be treated as an independent contractor, instead of an utility employee. Therefore, this account is reduced to zero, and the \$7,200 is reclassified into Account No. 736 - Contractual Services-Other.

(711) Sludge Removal - The utility recorded sludge removal expense of \$1,500 for the test year. The staff engineer estimated that this plant requires sludge removal from the digester on a monthly cycle and each lift station on a yearly cycle. The utility has three lift stations. At a cost of \$300 for each digester clean out and \$200 for each lift station clean out, it is recommended that \$4,200 per year (\$300 x 12 mos. + \$200 x 3 Lift Station) be considered reasonable. Staff made an adjustment of \$2,700 to

DOCKET NO. 990937-SU  
DATE: MAY 25, 2000

reflect the proper annual allowance for sludge removal for a utility of this size. Staff recommends a sludge removal expense of \$4,200 for the test year.

(715) Purchased Power - The utility recorded purchased power expense of \$13,088 during the test year. Staff made an adjustment of (\$2,028) to remove the non-utility related purchased power expense, a positive adjustment of \$3,215 to reflect the proper annual allowance for purchased power expense for a utility of this size. Staff recommends a purchased power expense of \$14,275 for the test year.

(718) Chemicals - The utility recorded chemical expenses of \$750 for the test year. Staff increased the expense by \$90 to reflect the proper annual allowance for chemical expense for a utility of this size. Staff recommends a chemical expense of \$840 for the test year based on the records of the utility.

(720) Materials and Supplies - The utility recorded materials and supplies expenses of \$82 for the test year. Staff made an adjustment of \$113 to reclassify the expense of purchasing belts for blowers, a negative adjustment of (\$12) to reclassify P.O. Box rental fee to Account No. 775 - Miscellaneous Expense, a negative adjustment of (\$70) to reclassify computer entry expense to Account No. 731 - Contractual Services-Professional. Staff recommends a materials and supplies expense of \$113 for the test year.

(730) Contractual Services-Billing - As addressed in Issue 17, in the process of this rate case application, staff became aware that the utility was not billing the customers according to the Commission's rules. Currently the utility is authorized to charge a flat rate of \$10.25 per month for the wastewater services provided. This charge is stated in the community handbook and in the new customer welcome letter. The utility did not send out monthly bills. Pursuant to Rule 25-30.335(1), Florida Administrative Code

a utility shall render bills to customers at regular intervals, and each bill shall indicate: the billing period covered; the applicable rate schedule; beginning and ending meter reading; the amount of the bill; the delinquent date or the date after which the bill becomes past due; and the authorized late payment charge.

DOCKET NO. 990937-SU  
DATE: MAY 25, 2000

The utility has begun to bill its customers on a monthly basis since January, 2000.

In Issue 8, staff is recommending the base facility and gallonage charge rate structure. The utility only provides wastewater service. The water service is provided to the customers by the City of Lakeland. In the customer meeting held April 19, 2000, the customers expressed that they would prefer the City of Lakeland do the monthly billing, so that they receive only one bill for both water and wastewater services. Staff also received written comments from the customers after the customer meeting in support of the option that the City of Lakeland provide billing service.

Based on the written proposal between the utility and the City of Lakeland, the City of Lakeland will charge the utility a \$500 initial set-up fee and a \$0.85 per customer per month handling fee for the billing service. The \$500 non-recurring initial set-up fee is amortized over five years according to Rule 25-30.433(8), Florida Administrative Code. The handling fee is \$2,693 annually. Therefore, staff recommends a billing expense of \$2,793 for the test year.

(731) Contractual Services-Professional - The utility did not record any expense in this account for the test year. Staff made an adjustment of \$70 to reclassify computer entry expense from Account No. 720 - Material and Supplies, an adjustment of \$5,400 to reclassify engineering cost from Account No. 736 - Contractual Service-Other, an adjustment of \$1,775 to reflect annual accounting expense for the services provided by an outside CPA firm. Staff recommends a Contractual Services-Professional expense of \$7,245 for the test year.

(735) Contractual Services-Other - The utility recorded \$6,642 in this account. This account has been decreased by: \$5,400 to reclassify the engineering cost to Account No. 731 - Contractual Services-Professional, \$491 to Account No. 186 to reclassify non-recurring repair expense that is amortized over five years, \$750 to remove non-utility expense.

The utility recorded \$2,329 of repairs performed by a contracted person in Account No. 775 - Miscellaneous Expense. This amount is reclassified into this account. This account is also increased by: \$212 to reflect amortization of the non-recurring

DOCKET NO. 990937-SU  
DATE: MAY 25, 2000

repair cost over five years in accordance with Rule 25-30.433(8), Florida Administrative Code; \$140 to reflect other contractual service expense for repairing blower motor that was not recorded by the utility.

The utility recorded \$7,200 in the Employee Salaries and Wages account for the contracted utility manager position. As addressed earlier, staff believes that the amount is reasonable for the duties. However, this position should be considered an independent contractor. Therefore, Contractual Service Other account has been increased by \$7,200 to reclassify the amount from Account No. 701 - Employee Salaries and Wages.

The utility originally requested an allowance of \$9,360 (\$12 x 65 hours/month x 12 months) for the office manager position. The duties included: mailing bills, posting bills to customer accounts, making deposit of monthly service fee and CIAC money to bank account, entering data into register and bank reconciliation, making any correspondence with customers, vendors, or agencies, paying vendors, filing, and general office duties. The allowance that the utility requested is \$12 per hour at 65 hours per month. However, staff is recommending that the City of Lakeland provide the billing services. Since some of the billing duties of the office manager will be eliminated, the utility requested to reduce the allowance for the office manager to \$5,400. Staff believes that the amount is reasonable for the duties, and the position should be considered an independent contractor since the utility is not responsible for social security and Medicare taxes. Therefore, Contractual Services Other account is increased by \$5,400 to reflect the allowance for this position.

The utility requested \$6,300 for implementing a TV and grouting program to reduce inflow and infiltration, and \$4,500 for locating unmapped lines. These are non-recurring O&M activities that are going to be performed by contracted personnel. Therefore, in accordance with Rule 25-30.433(8), Florida Administrative Code, this account is increased by \$2,160 for the non-recurring pro forma costs amortized over five years.

The total adjustment in this account is \$10,801. The recommended Contractual Services-Other for the test year is \$17,443.

DOCKET NO. 990937-SU

DATE: MAY 25, 2000

(750) Transportation Expense - The utility did not record any transportation expense for the test year. The utility's manager uses his personal vehicle for utility business. It is estimated that 1,000 miles annually is a reasonable travel allowance. The standard reimbursement of 29 cents per mile used by the State of Florida is considered prudent. This expense has been increased by \$290 (1,000 miles x \$0.29) to reflect the recommended allowance. Staff recommends an annual transportation expense of \$290 for the test year.

(765) Regulatory Commission Expense - The utility recorded no regulatory commission expense for the test year. This expense has been increased by \$250 to reflect the SARC filing fee of \$1,000 amortized over four years as required by Section 367.0816, Florida Statutes.

(775) Miscellaneous Expense - The utility recorded \$6,598 in this account. This account has been decreased by: (\$113) to reclassify the expense of purchasing belts for the blowers to Account No. 720 - Materials and Supplies; (\$2,329) to reclassify other contractual services expense to Account No. 736 - Contractual Services-Other; (\$800) to amortize the DEP operating permit fee over five years; (\$2,536) to capitalize plant improvement cost to Account No. 361 - Collection Sewers; (\$360) to remove non-utility related expense.

The utility's manager uses a cellular phone that allows him to be on call 24 hours a day. The basic service charge is \$60 per month. The monthly bill for the phone calls averaged \$8. The total monthly cost is approximately \$68 for the cellular phone. This account has been increased by \$816 to reflect an annual allowance for the cellular phone.

This account is also increased by \$12 to reclassify P.O. Box rental fee from Account No. 720 - Materials and Supplies.

The total adjustment in this account is a decrease of (\$5,311). The recommended miscellaneous expense in the test year is \$1,287.

**Operation and Maintenance Expenses(O & M) Summary:** Total O&M adjustments are an increase of \$12,876. Staff recommends O&M expenses of \$49,925. O&M expenses are shown on Schedule No. 3-B.

DOCKET NO. 990937-SU  
DATE: MAY 25, 2000

**Depreciation Expense (Net of Amortization of CIAC and Non-used and Useful):** The utility recorded no depreciation expense on its books for the test year. Staff calculated test year depreciation expense using the rates prescribed in Rule 25-30.140, Florida Administrative Code. Staff's calculated test year depreciation expense is \$5,225. Test year amortization of CIAC is \$3,046. Test year non-used and useful depreciation is \$436. Therefore, net depreciation expense is \$1,743.

**Taxes Other Than Income Taxes:** The utility recorded no taxes other than income for the test year. Staff made adjustments of: \$3,252 to reflect unrecorded property taxes; and \$1,428 to reflect unrecorded regulatory assessment fees. The total adjustment is an increase of \$4,681.

**Operating Revenues:** Revenues have been increased by \$28,699 to \$60,443 to reflect the increase in revenue required to cover expenses and allow the utility the opportunity to earn the recommended rate of return on investment.

**Taxes Other Than Income Taxes:** This expense has been increased by \$1,291 to reflect the Commission's regulatory assessment fee of 4.5% on staff's recommended increase in revenue.

**Income Taxes:** ABCA is wholly owned by First Union, which files a consolidated tax return. Based on staff's calculation, the utility had an operating loss of \$24,604 for the test year. Based on the utility's loss carryforward position, the utility will not incur any income tax liabilities. Therefore, staff recommends no income tax expense for the utility.

**Operating Expenses Summary:** The application of staff's recommended adjustments to the utility's test year operating expenses results in staff's recommended operating expenses of \$57,640.

Operating expenses are shown on Schedule No. 3. Adjustments are shown on Schedule No. 3-A.

DOCKET NO. 990937-SU  
DATE: MAY 25, 2000

**ISSUE 7:** What is the appropriate revenue requirement?

**RECOMMENDATION:** The appropriate revenue requirement should be \$60,443. (CHU)

**STAFF ANALYSIS:** The utility should be allowed an annual increase in revenue of \$28,699 (90.41%). This will allow the utility the opportunity to recover its expenses and earn the recommended 8.93% return on its investment. The calculations are as follows:

	<u>Wastewater</u>
Adjusted Rate Base	\$ 31,392
Rate of Return	x <u>.0893</u>
Return on Investment	\$ 2,803
Adjusted Operation Expenses	49,925
Depreciation Expense (Net)	1,743
Taxes Other Than Income Taxes	<u>5,972</u>
Revenue Requirement	<u>\$ 60,443</u>
Annual Revenue Increase	\$ 28,699
Percentage Increase/(Decrease)	<u>90.41%</u>

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

DOCKET NO. 990937-SU  
DATE: MAY 25, 2000

**RATES AND CHARGES**

**ISSUE 8:** What is the appropriate rate structure for this utility?

**RECOMMENDATION:** The appropriate rate structure for this utility is the base facility/uniform gallonage charge rate structure. (C. WILLIAMS, GOLDEN)

**STAFF ANALYSIS:** During the test year ending June 30, 1999, ABCA provided wastewater service to approximately 262 residential and two general service customers. The utility's facilities consist of one wastewater treatment plant and one wastewater collection system. ABCA is located in a water use caution area (WUCA). SWFWMD declared portions of Polk and Highlands Counties a WUCA in 1989. All of ABCA's wastewater customers receive their water service from the City of Lakeland.

Under the current rate structure, residential and general service customers are charged a flat rate of \$10.25 for wastewater service. The utility's current rate structure for wastewater service was originally established by Polk County and subsequently approved by the Commission under grandfather provisions in Docket No. 971531-SU.

Commission practice has been that whenever possible, water and wastewater utilities with a flat rate structure be converted to a base facility/gallonage charge rate structure in order to promote state conservation goals and to eliminate subsidization of customers who use excessive amounts of water by those who do not. Staff's analysis of the utility's test year billing determinants revealed that approximately 90% of the residential customers consume less than 8,000 gallons per month, accounting for approximately 67% of total water usage. In order to encourage continued low-to-average consumption and to eliminate subsidization, staff believes the utility's rate structure should be changed.

In addition, as discussed in Issue 6, the City of Lakeland currently provides water service to ABCA's wastewater service customers. ABCA and the City of Lakeland have also entered into a contractual agreement whereby the City of Lakeland will provide wastewater billing service to ABCA. In support of the utility's decision, during the April 19, 2000, customer meeting and through

DOCKET NO. 990937-SU  
DATE: MAY 25, 2000

subsequent written comments, customers expressed that they would prefer the City of Lakeland perform the monthly billing so they can receive one bill for both water and wastewater services. Consistent with staff's recommendation, the City of Lakeland uses the base facility/uniform gallonage charge rate structure for wastewater service billing purposes. As a result, the implementation of this rate structure by ABCA should help facilitate customer billing.

Therefore, staff recommends that the utility's rate structure be changed from the current flat rate structure to the base facility/uniform gallonage charge rate structure.

DOCKET NO. 990937-SU  
DATE: MAY 25, 2000

**ISSUE 9:** What is the appropriate level for the residential wastewater gallonage cap?

**RECOMMENDATION:** The appropriate level for the residential wastewater gallonage cap is 8,000 gallons per month. (GOLDEN, C. WILLIAMS, CHU)

**STAFF ANALYSIS:** Generally, the Commission sets residential wastewater gallonage caps of 6,000 gallons, 8,000 gallons, or 10,000 gallons per month. There is no cap on usage for general service wastewater bills. ABCA serves a majority of retired residents. The utility's billing analysis indicates that approximately 90% of the total residential bills were for usage not exceeding 8,000 gallons per month and accounted for 67% of total water usage.

Considering the above factors, staff believes that the residential wastewater gallonage cap should be set at 8,000 gallons per month. Setting a lower cap would raise the gallonage charge and may result in low users subsidizing high users. Therefore, staff recommends that the appropriate level for the residential wastewater gallonage cap is 8,000 gallons per month. If usage patterns change, this gallonage cap will be re-examined in the next rate case.

DOCKET NO. 990937-SU  
DATE: MAY 25, 2000

**ISSUE 10:** Is a regression adjustment to consumption appropriate for this utility, and, if so, what is the appropriate adjustment?

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

**STAFF ANALYSIS:** As discussed previously, staff's recommended revenue requirement increase is \$28,699 (90.41%) for the wastewater system, which represents a monthly increase of \$9.01 per ERC. In an attempt to quantify the relationship between revenue increases and consumption impacts, staff has created a database of all water utilities that were granted rate increases or decreases (excluding indexes and pass-throughs) between January 1, 1990 and December 31, 1995. This database contains utility-specific information from the applicable orders, tariff pages and the utilities' annual reports for the years 1989 - 1995. Because the database specifically targeted water utilities, there is little information in the database regarding the impact of a wastewater rate increase on water consumption for a wastewater only utility. There is some evidence that a wastewater increase of the level seen in this case will cause a decrease in water consumption. However, there are no utilities in the database which match this utility's rate increase and change in rate structure closely enough to provide a reasonable estimate of whether or not regression will occur in this case. Therefore, staff believes a regression adjustment is not appropriate in this case.

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

DOCKET NO. 990937-SU

DATE: MAY 25, 2000

recommends that the utility should be ordered to file, on a quarterly basis, reports detailing the number of bills rendered, the number of gallons billed and the total revenues billed for each month 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.

DOCKET NO. 990937-SU  
DATE: MAY 25, 2000

**ISSUE 11:** What are the recommended rates for this utility?

**RECOMMENDATION:** The recommended rates should be designed to produce revenue of \$60,443. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), Florida Administrative Code, provided the customers have received notice. The rates may not be implemented until proper notice has been received by the customers. The utility should provide proof of the date notice was given within 10 days after the date of the notice. (CHU)

**STAFF ANALYSIS:** The utility's customers of record at the end of the test year included approximately 262 residential customers with 5/8" meters, and two general service customers with 1" meters.

Rates have been calculated by using the projected total number of bills from both residential and general customers, and the number of gallons of water used adjusted for 8,000 gallon cap for wastewater billing.

A schedule of the utility's current rates and staff's recommended rates follows:

Monthly Wastewater Rates

Residential

	<u>Current Rate</u>	<u>Staff's Recommended Rates</u>
Flat Rate	\$ 10.25	N/A
<u>Base Facility Charge</u>		
All meter sizes	N/A	\$ 9.15
<u>Gallonge Charge</u>		
Per 1,000 gallons (8,000 gals. max)	N/A	\$ 3.03

DOCKET NO. 990937-SU  
 DATE: MAY 25, 2000

General Service

	<u>Current Rate</u>	<u>Staff's Recommended Rates</u>
<u>Base Facility Charge</u>		
Meter Size	N/A	
5/8" x 3/4"		\$ 9.15
3/4"		13.72
1"		22.87
1 1/2"		45.74
2"		73.18
3"		146.36
4"		228.68
6"		457.36
<u>Gallonge Charge</u>		
Per 1,000 gallons	N/A	\$ 3.63

The average gallons of wastewater treated for a residential customer with a 5/8" x 3/4" meter is 3,614 gallons per month. A schedule of average bills using current rates and recommended rates follows:

Average bill using recommended rates	\$	9.15
		<u>+(3.614 x 3.03)</u>
	\$	20.10
Average bill using current flat rates	\$	<u>10.25</u>
Increase in bill	\$	9.85
Percentage increase in bill	96.10%	(\$9.85/10.25)

The percentage increase in the bill is not in line with the percentage increase in revenue due to the change from a flat rate structure to a base facility gallonage charge rate structure. Low usage customers may experience an increase in the bill lower than the increase in revenue. High usage customers may experience an increase in the bill higher than the increase in revenue. The higher the usage is, the higher the increase in the bill is.

The recommended rates should be designed to produce revenue of \$60,443. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheets

DOCKET NO. 990937-SU  
DATE: MAY 25, 2000

pursuant to Rule 25-30.475(1), Florida Administrative Code, provided customers have received notice. The rates may not be implemented until proper notice has been received by the customers. The utility should provide proof of the date notice was given within 10 days after the date of the notice.

DOCKET NO. 990937-SU  
DATE: MAY 25, 2000

**ISSUE 12:** What are the appropriate customer deposits for this utility?

**RECOMMENDATION:** The appropriate customer deposits should be the recommended charges as specified in the staff analysis. The utility should file revised tariff sheets which are consistent with the Commission's vote. Staff should be given administrative authority to approve the revised tariff sheets upon staff's verification that the tariffs are consistent with the Commission's decision. If revised tariff sheets are filed and approved, the customer deposits should become effective for connections made on or after the stamped approval date of the revised tariff sheets.  
(CHU)

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

Wastewater

Residential

<u>Meter Size</u>	Staff's Recommended <u>Deposits</u>
5/8" x 3/4"	\$40.00

General Service

<u>Meter Size</u>	Staff's Recommended <u>Deposits</u>
5/8" x 3/4"	\$40.00
All over 5/8" x 3/4"	(2 x average bill)

After a customer has established a satisfactory payment record and has had continuous service for a period of 23 months, the utility should refund the customer's deposit pursuant to Rule 25-30.311(5), Florida Administrative Code. The utility should pay

DOCKET NO. 990937-SU  
DATE: MAY 25, 2000

interest on customer deposits pursuant to Rule 25-30.311(4), Florida Administrative Code.

The utility should file revised tariff sheets which are consistent with the Commission's vote. Staff should be given administrative authority to approve the revised tariff sheets upon staff's verification that the tariffs are consistent with the Commission's decision. If revised tariff sheets are filed and approved, the customer deposits should become effective for connections made on or after the stamped approval date of the revised tariff sheets.

DOCKET NO. 990937-SU  
DATE: MAY 25, 2000

**ISSUE 13:** Should the utility's existing service availability charges be revised?

**RECOMMENDATION:** Yes, the utility's service availability charges should be separated into a plant capacity charge of \$430, and a main extension charge of \$450. If the Commission approves these new charges, 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. (CHU)

**STAFF ANALYSIS:** On June 26, 1990, Polk County approved a residential and commercial sewer connection fee of \$880 for each ERC as of May 29, 1990. This charge was grandfathered in when the Commission obtained jurisdiction. Therefore, the utility's existing service availability charge is a lump sum charge of \$880, which includes both a plant capacity charge and a main extension charge.

The utility is presently 69.69% contributed. Since this amount is less than the maximum 75% of CIAC prescribed by Rule 25-30.580(1)(a), Florida Administrative Code, staff is recommending the utility be allowed to continue collecting service availability charges.

A system capacity charge includes a portion of the cost of the plant, as well as a portion of the cost of the lines. Current Commission practice is to separate system capacity charges into a plant capacity charge and a main extension charge when calculating service availability charges. As of the end of the test year, 48.74% of the utility's plant is treatment plant, and 51.26% is collection plant. Staff is recommending 48.74% be allocated to the plant capacity charge, resulting in \$430; and 52.26% be allocated to the main extension charge, resulting in \$450.

If the Commission approves these new charges, 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

DOCKET NO. 990937-SU  
DATE: MAY 25, 2000

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.

DOCKET NO. 990937-SU  
DATE: MAY 25, 2000

**OTHER**

**ISSUE 14:** Should the utility be required to show cause, in writing within 21 days, why it should not be fined up to \$5,000 per day 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 (USOA)?

**RECOMMENDATION:** No. A show cause proceeding should not be initiated. However, the utility should be required to maintain its books and records in conformance with NARUC USOA and should be required to submit a statement from its accountant by March 31, 2001, along with its 2000 annual report, stating that its books are in conformance with NARUC USOA and have been reconciled with the Commission's Order. In addition, staff recommends that the utility be put on notice that if the books are not in conformance by March 31, 2001, a show cause proceeding may be initiated. (FUDGE, CHU)

**STAFF ANALYSIS:** During the staff audit, the auditors discovered that although the utility's books are well kept and thorough, the utility did not maintain its accounts and records in conformance with the NARUC USOA. Despite the state of the utility's books and records, staff was able to perform the audit. The errors determined by the auditors constitute an apparent violation of Rule 25-30.115, Florida Administrative Code, "Uniform System of Accounts for Water and Wastewater Utilities," which provides:

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 NARUC 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

DOCKET NO. 990937-SU  
DATE: MAY 25, 2000

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).

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. The utility has been operating at a loss and the existing rates do not provide an allowance for accounting services. Therefore, staff believes that the utility should be given time and an accounting allowance for setting up the utility's books to conform with the NARUC USOA and to reconcile the utility's books with the Commission's Order.

Staff has recommended an annual allowance of \$1,775 for accounting and \$9,360 for bookkeeping and other general office duties. This will provide funds to set up the utility's books to conform with NARUC USOA, will allow services for reconciliation with the Commission's Order, and will provide for all other accounting services.

Base on the foregoing, staff does not believe that the apparent violation of Rule 25-30.115, Florida Administrative Code, under these circumstances rises to the level that 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. However, the utility should be ordered to maintain its books and records in conformance with the 1996 NARUC USOA and submit a statement from its accountant that its books are in conformance with the NARUC USOA and have been reconciled with the Commission Order. In addition, staff recommends that the utility be put on notice that if the books are not in conformance by March 31, 2001, a show cause proceeding may be initiated.

DOCKET NO. 990937-SU  
DATE: MAY 25, 2000

**ISSUE 15:** Should the recommended rates be approved for the utility on a temporary basis, subject to refund, in the event of a protest filed by a party other than the utility?

**RECOMMENDATION:** Yes, pursuant to Section 367.0814(7), Florida Statutes, the recommended rates should be approved for the utility on a temporary basis, subject to refund, in the event of a protest filed by a party other than the utility. Prior to implementation of the temporary rates, the utility should provide an appropriate security. If the recommended rates are approved on a temporary basis, the rates collected by the utility should be subject to the refund provisions discussed below in the staff analysis. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), Florida Administrative Code, the utility should file reports with the Commission no later than 20 days after each monthly billing. These reports should indicate the amount of revenue collected under the increased rates. (CHU, FUDGE)

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

Pursuant to Section 367.0814(7), Florida Statutes, the utility should be authorized to collect the temporary rates upon the approval of an appropriate security for both the potential refund and a copy of the proposed customer notice. The security should be in the form of a bond or letter of credit in the amount of \$19,914. 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.

DOCKET NO. 990937-SU  
DATE: MAY 25, 2000

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

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

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

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

DOCKET NO. 990937-SU  
DATE: MAY 25, 2000

- 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 a 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 no later than 20 days after each monthly billing. These reports should indicate the amount of revenue collected under the increased rates.

DOCKET NO. 990937-SU

DATE: MAY 25, 2000

**ISSUE 16:** Should the utility be required to show cause, in writing within 21 days, why it should not be fined up to \$5,000 per day for its apparent violation of Rule 25-30.335(1), Florida Administrative Code, for its failure to render bills to customers at regular intervals?

**RECOMMENDATION:** No. A show cause proceeding should not be initiated, because the utility has been in compliance since becoming aware of the violation. (FUDGE, CHU)

**STAFF ANALYSIS:** In the process of this rate case, staff received several customers' complaints regarding the utility's billing practice. Some customers have past due accounts, because they stated that they had no knowledge of the utility's charges.

Staff contacted the utility and discussed the utility's billing procedure. The utility is authorized to charge a flat rate of \$10.25 per month for the wastewater services provided. As addressed in Issue 18, this charge is stated in the welcome letter that is delivered to the customer when the customer first moves into the service area, and also listed in the resident handbook. Some customers stated that most of them did not want the utility to send out monthly bills because of the expense to the utility and to the customer.

However, Rule 25-30.335, Florida Administrative Code, provides in part:

(1) Except as provided in this rule, a utility shall render bills to customers at regular intervals, and each bill shall indicate: the billing period covered; the applicable rate schedule; beginning and ending meter reading; the amount of the bill; the delinquent date or the date after which the bill becomes past due; and the authorized late payment charge.

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 render bills to customers at regular intervals, 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

DOCKET NO. 990937-SU  
DATE: MAY 25, 2000

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).

Although the utility's failure to render bills at regular intervals was an apparent violation of Rule 25-30.335(1), Florida Administrative Code, staff believes that a show cause proceeding is not warranted and should not be initiated at this time. Staff believes that the customers were made aware of the wastewater charge through the welcome letter and resident handbook given to new customers when they moved into the park. In addition, the utility, in January 2000, began billing monthly.

Based on the foregoing, staff does not believe that the apparent violation of Rule 25-30.335(1), Florida Administrative Code, under these circumstances rises to the level that warrants the initiation of a show cause proceeding. Therefore, staff recommends that the Commission not order the utility to show cause for failing to render bills at regular intervals.

DOCKET NO. 990937-SU  
DATE: MAY 25, 2000

**ISSUE 17:** What are the appropriate billing procedures and billing format for this utility?

**RECOMMENDATION:** The utility should be required to follow the guidelines of Rule 25-30.335, Florida Administrative Code, for billing procedures. The utility should bill its customers of record on a monthly basis. The bill should have the utility's name, and list the charges for utility services separately from the streetlight charges. (CHU)

**STAFF ANALYSIS:** In the process of this rate case, staff received several customer complaints regarding the utility's billing practice. The utility has some past due accounts. Some customers stated that they had no knowledge of the utility's charges. Staff contacted the utility and discussed the utility's billing procedure. The utility is authorized to charge a flat rate of \$10.25 per month for the wastewater services provided. As addressed in Issue 18, this charge is stated in the welcome letter that is delivered to the customer when the customer first moves into the service area, and is also listed in the resident handbook. The utility did not send out monthly bills. The utility has begun to bill its customers on a monthly basis since January, 2000. Currently, some past due accounts are making monthly payments, and some past due accounts have settled on partial payments.

After receiving the monthly bills, some customer expressed that sending out the bills is not necessary, and only cause the utility extra expenses. Staff believes that after converting to a base facility uniform gallonage rate structure, the amount of monthly bill will vary depend on the usage. Therefore, it is necessary to bill regularly. Further, Rule 25-30.335(1), Florida Administrative Code, states that:

Except as provided in this rule, a utility shall render bills to customers at regular intervals, and each bill shall indicate: the billing period covered; the applicable rate schedule; beginning and ending meter reading; the amount of the bill; the delinquent date or the date after which the bill becomes past due; and the authorized late payment charge.

Staff recommends that the utility be required to follow the guidelines of Rule 25-30.335(1), Florida Administrative Code, for billing procedure. The utility should bill its customers of record

DOCKET NO. 990937-SU  
DATE: MAY 25, 2000

on a regular basis. The bill should have the utility's name, and list the charges for utility services separately from the streetlight charges.

DOCKET NO. 990937-SU

DATE: MAY 25, 2000

**ISSUE 18:** Is the utility's collection of the past due amounts appropriate?

**RECOMMENDATION:** Yes. The utility should be allowed to collect the past due amounts from July 11, 1996, when the Commission obtained jurisdiction. (CHU)

**STAFF ANALYSIS:** On September 17, 1999, the utility filed an application for a staff assisted rate case. In the process of the application, staff received several customers' complaints about the utility's billing practice, stating that the customers were not billed, that they were aware of the service charges, and that they therefore should not be responsible for the past due amounts.

After investigation, staff found that the utility's current residential service charge for wastewater service is a flat fee of \$10.25 per month, which was grandfathered in by Order No. PSC-98-0752-FOF-SU, in Docket No. 971531-SU, issued June 1, 1998. In that Order, the Commission granted Certificate No. 515-S to the utility, and approved the rates and charge in effect for the utility when the Commission obtained jurisdiction. Staff also found that the utility was not billing the customers on a regular basis according to Commission rules. However, after being advised on the Commission's rules, the utility has begun to bill its customers on a regular basis since January, 2000.

The utility stated that the service charge is stated in the "Welcome Letter", and the utility delivers the letter to the customer's house when the customer first moves in the service area. However, in the customer meeting held April 19, 2000, many customers stated that they did not receive the letter. The utility stated that the reason that some customers did not receive the letter is probably that the letter is only delivered to new connections. If the customer purchases the house from a re-seller, the customer may not receive the letter.

The utility also stated that the service charge is stated in the Resident Handbook published yearly. Staff has requested copies of the Handbooks from 1994 to 1998 to verify. The amount of the service charge, the payment address, the contact person, and telephone number are listed in the front page of the handbook. At the back of the Handbook for year 1994, 1995, and 1996, there were rules for homeowners. Rule number 8 stated that:

DOCKET NO. 990937-SU  
DATE: MAY 25, 2000

No well or septic tank shall be constructed in the Property without the prior written approval of the Declarant. Lot Owners will be assessed a reasonable charge for sewage service and garbage collection. Billing will be on a monthly basis.

Based on the information provided by the utility, as of February 14, 2000, out of 262 customers, there are 21 past due accounts. The majority of the customers are aware of the charge and pay the bills on time.

Staff received several letters from customers after the customer meeting demanding that the utility collect the past due amounts. These letters indicated that not to collect the past due amounts is unfair to customers who have faithfully paid the charges. The letters also expressed concerns that those who are paying the bills are subsidizing those who do not pay the bills.

Based on the above, staff believes that the customers knew or should have known about the service charge, and therefore the utility should be allowed to collect past due amounts from July 11, 1996, when the Commission obtained jurisdiction. The utility has made payment arrangements with most of the delinquent customers. A few customers, however, have still refused to pay even after becoming aware of the wastewater service fee and their past due amount. The utility is still trying to make arrangements with these customers. However, the utility may discontinue service for non-payment of bills if there has been a diligent attempt to have the customers comply, including at least five working days written notice to the customers pursuant to Rule 25-30.320(2)(g), Florida Administrative Code.

**ISSUE 19:** Should this docket be closed?

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

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

ABCA, INC.  
 SCHEDULE OF WASTEWATER RATE BASE  
 TEST YEAR ENDED JUNE 30, 1999

SCHEDULE NO. 1  
 DOCKET NO. 990937-SU

	BALANCE PER UTIL. BOOKS	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
UTILITY PLANT IN SERVICE	\$ 0	\$ 239,411 A	\$ 239,411
LAND/NON-DEPRECIABLE ASSETS	0	59,727 B	59,727
NON-USED AND USEFUL PLANT (NET)	0	(4,763) C	(4,763)
CIAC	0	(157,240) D	(157,240)
ACCUMULATED DEPRECIATION	0	(185,726) E	(185,726)
ACCUM. AMORTIZATION OF CIAC	0	73,742 F	73,742
WORKING CAPITAL ALLOWANCE	0	6,241 G	6,241
WASTEWATER RATE BASE	\$ 0	\$ 31,392	\$ 31,392

		<u>WASTEWATER</u>
<u>A. UTILITY PLANT IN SERVICE</u>		
1.	To reflect plant value from 1972 to 6/30/1999 based on the original cost study.	\$ 234,457
2.	To reflect average pro forma plant cost of elevating manholes.	1,600
3.	To reflect average pro forma plant cost of rebuilding main lift station.	3,600
4.	To reflect average pro forma plant cost of replacing tank cover.	250
5.	To reflect average pro forma plant cost of relining spray field.	772
6.	To reflect averaging adjustment	(1,268)
		<u>\$ 239,411</u>
<u>B. LAND</u>		
1.	To reflect land value as determined by the original cost study	<u>\$ 59,727</u>
<u>C. NON-USED AND USEFUL PLANT</u>		
1.	To reflect average non-used and useful plant value.	\$ (15,460)
2.	To reflect accum. depreciation of non-used&useful as of 6/30/99.	10,697
		<u>\$ (4,763)</u>
<u>D. CONTRIBUTIONS IN AID OF CONSTRUCTION(CIAC)</u>		
1.	To reflect year end CIAC	\$ (163,400)
2.	To reflect averaging adjustment	6,160
		<u>\$ (157,240)</u>
<u>E. ACCUMULATED DEPRECIATION</u>		
1.	To reflect accumulated depreciation as of 6/30/99.	\$ (187,967)
2.	To reflect averaging adjustment	2,583
3.	To reflect accumulated depreciation on pro forma plant.	(342)
		<u>\$ (185,726)</u>
<u>F. ACCUM. AMORTIZATION OF CIAC</u>		
1.	To reflect year end accum. amortization of CIAC.	\$ 75,265
2.	To reflect averaging adjustment	(1,523)
		<u>\$ 73,742</u>
<u>G. WORKING CAPITAL ALLOWANCE</u>		
1.	To reflect 1/8 of operation and maintenance expense.	<u>\$ 6,241</u>

ABCA, INC.  
 SCHEDULE OF CAPITAL STRUCTURE  
 TEST YEAR ENDED JUNE 30, 1999

SCHEDULE NO. 2  
 DOCKET NO. 990937-SU

	PER UTILITY	STAFF ADJ TO UTIL. BAL.	ADJUSTED BALANCE PER STAFF	PRO RATA ADJUST. PER STAFF	RECONCIL- IATION TO RATE BASE	PERCENT OF TOTAL	COST	WEIGHTED COST
COMMON EQUITY	\$ 0	\$ 31,392	\$ 31,392	\$ 0	31,392	100.00%	8.93%	8.93%
LONG-TERM DEBT	0	0	0	0	0	0.00%	0.00%	0.00%
CUSTOMER DEPOSIT	0	0	0	0	0	0.00%	0.00%	0.00%
TOTAL	\$ 0	\$ 31,392	31,392	\$ 0	31,392	100.00%		8.93%

RANGE OF REASONABLENESS

LOW

HIGH

RETURN ON EQUITY

7.93%

9.93%

OVERALL RATE OF RETURN

7.93%

9.93%

ABCA, INC.  
 SCHEDULE OF WASTEWATER OPERATING INCOME  
 TEST YEAR ENDED JUNE 30, 1999

SCHEDULE NO. 3  
 DOCKET NO. 990937-SU

	<u>TEST YEAR PER UTILITY</u>	<u>STAFF ADJ. TO UTILITY</u>	<u>STAFF ADJUSTED TEST YEAR</u>	<u>ADJUST. FOR INCREASE</u>	<u>TOTAL PER STAFF</u>
OPERATING REVENUES	\$ <u>48,974</u>	\$ <u>(17,229) A</u>	\$ <u>31,744</u>	\$ <u>28,699 E</u>	\$ <u>60,443</u>
				90.41%	
OPERATING EXPENSES:					
OPERATION AND MAINTENANCE	\$ <u>37,048</u>	\$ <u>12,876 B</u>	\$ <u>49,925</u>		<u>49,925</u>
DEPRECIATION (NET)	<u>0</u>	<u>1,743 C</u>	<u>1,743</u>		<u>1,743</u>
TAXES OTHER THAN INCOME	<u>0</u>	<u>4,681 D</u>	<u>4,681</u>	<u>1,291 F</u>	<u>5,972</u>
INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL OPERATING EXPENSES	\$ <u>37,048</u>	\$ <u>19,300</u>	\$ <u>56,349</u>	\$ <u>1,291</u>	\$ <u>57,640</u>
OPERATING INCOME/(LOSS)	\$ <u>11,925</u>		\$ <u>(24,604)</u>		\$ <u>2,803</u>
WASTEWATER RATE BASE	\$ <u>0</u>		\$ <u>31,392</u>		\$ <u>31,392</u>
RATE OF RETURN			<u>-78.38%</u>		<u>8.93%</u>

A. OPERATING REVENUES	WASTEWATER
1. To remove the amount collected for tap fees and streetlights.	\$ (17,475)
2. To reflect annualized revenue from the general service customers	<u>246</u>
	<u>\$ (17,229)</u>
B. OPERATION AND MAINTENANCE EXPENSES	
1. Salaries and Wages - Employees	
a. To reclassify other contractual service expense to Account No. 736.	\$ (7,200)
2. Sludge Hauling	
a. To reflect annual sludge hauling expense.	<u>\$ 2,700</u>
3. Purchased Power	
a. To remove non-utility related purchased power expense.	\$ (2,028)
b. To allow purchased power expense recommended by staff engineer.	<u>3,215</u>
	<u>\$ 1,187</u>
4. Chemicals	
a. To reflect annual chemicals expense.	<u>\$ 90</u>
5. Materials and Supplies	
a. To reclassify the expense of purchasing belts from Account No. 775	\$ 113
b. To reclassify P.O. box rental fee to Account No. 775.	(12)
c. To reclassify computer entry expense to Account No. 731.	<u>(70)</u>
	<u>\$ 31</u>
6. Contractual Service - Billing	
a. To amortize over five years the non-recurring initial set-up fee charged by the City of Lakeland for providing billing service.	\$ 100
b. To reflect the fees charged by the City for billing services.	<u>2,693</u>
	<u>\$ 2,793</u>
6. Contractual Services - Professional	
a. To reclassify computer entry expense from Account No. 720.	\$ 70
b. To reclassify engineering cost from Account No. 736.	5,400
c. To reflect annual accounting allowance.	<u>1,775</u>
	<u>\$ 7,245</u>
7. Contractual Services - Other	
a. To reclassify other contractual services expense from Account No. 775.	\$ 2,329
b. To reclassify other contractual service expense from Account No. 701.	7,200
c. To reclassify the engineering cost to Account No. 731.	(5,400)
d. To reclassify non-recurring repair expense to Account No. 186.	(491)
e. To reflect amortization of the repairing cost over 5 years.	212
f. To remove non-utility expense.	(750)
g. To reflect other contractual service expense for repairing blower motor.	140
h. To reflect the annual cost associated with general office duties performed.	5,400
i. To reflect the pro forma repairing cost amortized over 5 years.	<u>2,160</u>
	<u>\$ 10,801</u>
8. Transportation Expense	
a. To reflect annual transportation expense.	<u>\$ 290</u>
9. Regulatory Commission Expense	
a. To reflect rate case expense amortized over 4 years	<u>\$ 250</u>
10. Miscellaneous Expense	
a. To reclassify the expense of purchasing belts to Account No. 720 - materials and Supplies.	\$ (113)
b. To reclassify other contractual services expense to Account No. 736 - Contractual Services Other.	(2,329)
c. To amortize DEP operation permit fee over five years.	(800)
d. To reclassify plant improvement cost to Account No. 361.	(2,536)
e. To remove non-utility related expense.	(360)
f. To reflect annual allowance for cellular phone service.	816
g. To reclassify P.O. box rental fee from Account No. 720.	<u>12</u>
	<u>\$ (5,311)</u>
TOTAL O & M ADJUSTMENTS	<u>\$ 12,876</u>

C. DEPRECIATION EXPENSE

1. Test year depreciation expense	\$ 5,225
2. Test year amortization of CIAC	(3,046)
3. Test year non-used&useful depreciation expense	(436)
	<u>\$ 1,743</u>

D. TAXES OTHER THAN INCOME

1. To reflect unrecorded property taxes	\$ 3,252
2. To reflect unrecorded regulatory assessment fees	1,428
	<u>\$ 4,681</u>

E. OPERATING REVENUES

1. To reflect increase in revenue required to cover expenses and allow recommended rate of return	<u>\$ 28,699</u>
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F. TAXES OTHER THAN INCOME

1. To reflect regulatory assessment fee at 4.5% on increase in revenue	<u>\$ 1,291</u>
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ABCA, INC.  
 ANALYSIS OF WASTEWATER OPERATION AND  
 MAINTENANCE EXPENSE  
 TEST YEAR ENDED JUNE 30, 1999

SCHEDULE NO. 3B  
 DOCKET NO. 990937-SU

	TOTAL PER UTIL.	STAFF ADJUST.	TOTAL PER STAFF
#701 SALARIES AND WAGES - EMPLOYEES	\$ 7,200	\$ (7,200)	\$ 0
#703 SALARIES AND WAGES - OFFICERS	0	0	0
#711 SLUDGE REMOVAL	1,500	2,700	4,200
#715 PURCHASED POWER	13,088	1,187	14,275
#716 FUEL FOR POWER PRODUCTION	0	0	0
#718 CHEMICALS	750	90	840
#720 MATERIALS AND SUPPLIES	82	31	113
#730 CONTRACTUAL SERVICES (BILLING)	0	2,793	2,793
#731 CONTRACTUAL SERVICES (PROFESSIONAL)	0	7,245	7,245
#735 CONTRACTUAL SERVICES (TESTING)	1,188	0	1,188
#736 CONTRACTUAL SERVICES (OTHER)	6,642	10,801	17,443
#740 RENTS	0	0	0
#750 TRANSPORTATION EXPENSE	0	290	290
#755 INSURANCE EXPENSE	0	0	0
#765 REGULATORY COMMISSION EXPENSE	0	250	250
#770 BAD DEBT EXPENSE	0	0	0
#775 MISCELLANEOUS EXPENSES	6,598	(5,311)	\$ 1,287
	\$ 37,048	\$ 12,876	\$ 49,925

ATTACHMENT A

WASTEWATER TREATMENT PLANT

- \*1) Capacity of Plant = 70,000 GPD (Three Month Average per DEP Permit)
- \*2) Three Month Average (January, February & March 1998) = 76,000 GPD
- \*3) Average Daily Flow = 42,000 GPD
- 4) Growth:
- a) Average Yearly Customer Growth for most Recent 5 Years = 7
  - b) Construction Time for Additional Capacity = 5.0 Years
  - c) Growth 280 GPD X 5 = 1,400 GPD

- 5) Excessive Infiltration - see note \*\*

Reasonable Infiltration = 250 to 500 GPD/in. diameter/mi. X 15.4 in./mi.  
= 7,500 GPD

PERCENT USED AND USEFUL FORMULA

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

\* This system serves a modular home complex with very seasonal residents. Annual average flows are very misleading, therefore the plant is permitted using a three month average. The maximum three month average wastewater flow was 76000 gallons per day which also included high infiltration and inflow (I&I) from a lake adjacent to two lift stations.

\*\* Reasonable I&I based upon EPA standards would be approximately 7500 GPD however the lake flowing into the two lift stations caused short periods of excessive I&I. On an annual basis, however, I&I was not considered excessive therefore no adjustments in purchased power or chemicals are recommended.

Attachment B

**WASTEWATER COLLECTION SYSTEM**

Docket No. 990937-SU Utility ABCA

- 1) Capacity 333 Connections
- 2) Number of TEST YEAR Connections 256
  - a) Begin Test Year 248 Connections
  - b) End Test Year 264 Connections
  - c) Average Test Year 256 Connections
- 3) Growth
  - a) Customer Growth (Average) for 5 Years Including Test Year 7 Connections
  - b) Statutory Growth period 5 Years
    - (a) x (b) = 35 Connections

PERCENT USED AND USEFUL FORMULA

$$\frac{(2 + 3)}{1} = \underline{87} \% \text{ Used and Useful}$$