

State of Florida



Public Service Commission

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RECORDS AND REPORTING

DATE: NOVEMBER 20, 2000

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

FROM: DIVISION OF ECONOMIC REGULATION (DEWBERRY, FITCH, EDWARDS, LINGO) *RF*
DIVISION OF LEGAL SERVICES (VAN LEUVEN) *TV*

RE: DOCKET NO. 000327-WS - APPLICATION FOR STAFF-ASSISTED RATE CASE IN PUTNAM COUNTY BY BUFFALO BLUFF UTILITIES, INC.
COUNTY: PUTNAM

AGENDA: 12/05/00 - REGULAR AGENDA - PAA EXCEPT FOR ISSUES NOS. 16, 17, AND 18 - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: 15-MONTH EFFECTIVE DATE: SEPTEMBER 9, 2001 (SARC)

SPECIAL INSTRUCTIONS: NONE

FILE NAME AND LOCATION: S:\PSC\ECR\WP\000327.RCM

DOCUMENT NUMBER-DATE

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FPSC-RECORDS/REPORTING

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CASE BACKGROUND

Buffalo Bluff Utilities, Inc. (Buffalo Bluff or utility) is a Class C water and wastewater utility located in Putnam County. Putnam County became jurisdictional on June 28, 1966.

By Order No. PSC-92-0330-FOF-WS, issued May 11, 1992, in Docket No. 910646-WS, the Commission granted the utility operating Certificates No. 542-W and 470-S for water and wastewater respectively. The Commission also approved the utility's rates that were in effect at the time the operating certificates were granted.

On March 17, 2000, the utility filed an application for a staff assisted rate case (SARC) and paid the appropriate filing fee on June 9, 2000. The Commission has the authority to consider this rate case. Staff has audited the utility's records for compliance with Commission rules and Orders and determined the components necessary for rate setting. The staff engineer 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 cost. Staff has selected a historical test year ended May 31, 2000 for this rate case.

The utility provides service to approximately 58 residential and 2 general service customers in the Sunraye River Estates Subdivision formerly known as the Bayou Club. A schedule of the staff's adjusted revenues and expenses for the test period ended May 31, 2000 is as follows:

	<u>Revenues</u>	<u>Operating Expenses</u>
Water	\$8,550	\$14,418
Wastewater	\$8,834	\$14,526

The utility's service area is a mobile home community and a majority of the customers are full time residents. All the residents' homes are individually metered, with one exception.

The Commission has a memorandum of understanding with the Florida Water Management Districts. This memorandum recognizes that a joint cooperative effort is necessary to implement an effective, statewide water conservation policy. Water use in the utility's area is under the jurisdiction of the St. Johns River Water Management District (SJRWMD or District). Staff has

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determined that this utility does not have to acquire a consumptive use permit because of the size of the utility.

A customer meeting was conducted on October 18, 2000, at the Palatka City Hall in Palatka, Florida. Forty-four customers, and two utility employees attended the meeting. Eight customers chose to give comments regarding the utility's quality of service and the proposed rate increase. Quality of service issues are discussed in Issue No. 1. Staff also met with the Sunraye River Estates Homeowners Association on October 18, 2000. Staff learned in this meeting of an unmetered residential customer and that the clubhouse's irrigation system was not metered. Staff's recommendation for the unmetered customers will be addressed in Issues Nos. 1, 2, 4, and 12. The Commission has authority to consider this rate case under Section 367.0814, Florida Statutes.

QUALITY OF SERVICE

ISSUE 1: Is the quality of service provided by Buffalo Bluff satisfactory?

RECOMMENDATION: The quality of service provided by Buffalo Bluff to its customers appears to be satisfactory. However, the utility should be required to install meters at unmetered accounts, replace defective or damaged water meters, and repair the sewer line, as discussed in staff analysis. All pro forma plant should be completed within 180 days of the effective date of the Commission Order. (CROUCH, EDWARDS, FITCH)

STAFF ANALYSIS: Rule 25-30.433(1) Florida Administrative Code (FAC.) states:

The Commission in every rate case shall make a determination of the quality of service provided by utility. This shall be derived from an evaluation of three separate components of water and wastewater utility operations: quality of the utility's product (water or wastewater); operational conditions of the utility's plant and facilities; and the utility's attempt to address customer satisfaction. Sanitary surveys, outstanding citations, violations and consent orders on file with the Department of Environmental Protection (DEP) and the county health departments (HRS) or lack thereof over the preceding 3-year period shall also be considered. DEP and HRS officials' testimony concerning quality of service as well as the testimony of utility's customers shall be considered.

Staff analysis below addresses each of these three components.

Buffalo Bluff's service area is located approximately 5 miles north of Satsuma, Florida. The raw water source is ground water which is obtained from two wells in the service area and treated. The processing sequence for this water treatment system is to pump raw water from the aquifer, inject air, inject Aquadene, inject chlorine, pressurize/store in a tank, and distribute. Wastewater service is provided to existing customers by means of a 0.028 million gallons per day (mgd) extended aeration wastewater treatment plant. In addition, effluent is disposed of by means of two percolation ponds.

Quality of The Product

Staff acknowledges that the finished product meets standards, and both staff and the DEP concur that the finished product is satisfactory. However, all of the agencies, (DEP, SJRWMD, and FPSC) involved have concerns regarding the unaccounted for water. Unaccounted for water is addressed, in further detail, in Issue No.2.

Quality of Plant

On June 21, 2000, the staff engineer conducted a field inspection of the facilities. The investigation revealed that Buffalo Bluff is currently in compliance with the Department of Health and DEP's rules and regulations. This utility is under the jurisdiction of SJRWMD. SJRWMD has placed water usage restrictions on Putnam County.

Water Treatment Facilities: The plant has a source of supply capacity of 0.0205 mgd. The utility's water treatment facilities consist of: two wells (4 inches cased), two-1 horsepower pumps, a 2,500 gallon hydro pneumatic tank, two air injection units, Aquadene pump, and an add liquid chlorine pump. At the time of the engineering investigation, the water treatment facilities appeared to be operating properly.

Water Distribution System: The water distribution system mains are polyvinyl chloride (PVC) (6",4" and 2"). During the engineering investigation, the water distribution system appeared to be operating properly. Currently, the utility has no outstanding citations or violations on file with the DEP. The only deficiency detected by the DEP officials was the necessity of exterior refurbishment to the hydro pneumatic tank to halt further corrosion. This was noted by the DEP inspector during the most recent sanitary survey, conducted on November 3, 1999. This deficiency has not been corrected; however, the utility addressed this issue in its request to the FPSC as part of the justification of filing for a rate increase.

Wastewater Treatment Plant: The wastewater treatment plant has a permitted capacity of 0.028 mgd, annual average daily flows (AADF). This is a American Enviroport (package plant) all in one plant and the design consists of: effluent disposal, aeration tanks, extended aeration digester, air lift pump, clarified tanks, chlorine tanks and two percolation ponds. This facility has a second air lift pump that is in need of repair and the percolation ponds area needs to

be mowed. At the time of the engineering investigation, the wastewater treatment facility appeared to be operating properly.

Wastewater Collection System: The wastewater collection system is comprised of: Collection mains- PVC pipes (8"); Force main-PVC (4"); eleven manholes (48") and one lift station. During the engineering investigation, the collection system appeared to be operating properly.

Customer Satisfaction

On October 18, 2000, staff conducted a customer meeting. Approximately forty-four (44) customers (out of 60 connections) attended the meeting and eight (8) customers spoke. The water quality issue expressed by the majority of the customers was low water pressure, and/or the lack of any water pressure. Customers also expressed concerns regarding unmetered customers, malfunctioning meters, water odor, water color, and that the proposed rate increase is too high. In addition, Mr. & Mrs. Hanson (customers), due to the system's design, have a sewer line problem which causes their service to be interrupted once a year. After hearing the opinions and concerns expressed by the customers, staff concluded that the customers have legitimate concerns which need to be addressed in the most economically feasible manner.

Summary

Currently, a review of the water treatment plant's sanitary survey and the wastewater treatment plant's yearly evaluations for the past 3 years, which was provided by the DEP, indicates no water or wastewater quality compliance problems. In addition, staff's on-site engineering investigation of the water and wastewater plants, water distribution system, and the wastewater collection system found them to be functioning properly. The majority of the customers are not satisfied with the water quality, water volume and the proposed rate increase.

Staff acknowledges that to correct some of the concerns addressed by the customers would not be economically feasible with a current customer base of 60 connections. However, a representative of the utility has conversed with staff regarding resolving some of the problems that are economically feasible to address. The utility requested an allowance for ten meters/meter boxes to replace damaged, unreadable, and slow meters. Staff believes that the utility should be required to replace the ten defective water meters. The utility also has one unmetered residential customer and a general service customer (clubhouse)

with an unmetered irrigation system. Staff recommends that the utility be ordered to meter the two unmetered customers listed above.

The utility has one customer who has a recurring wastewater problem. Every year, after returning from vacation, this customer's wastewater system backs up. The customer calls a plumber to repair the problem and the utility pays the plumber to clear the lines. The utility has acknowledged that the problem is with the utility's collection system and requested \$450 to repair the collection system. Staff believes this amount is reasonable.

Currently, addressing the problem of odor would require adding an aerator to the water treatment system. In addition, to completely address the situation concerning low water pressure would require a modification to the water treatment system. Spreading the cost over a customer base of 60 connections would greatly increase the customers' rates. Staff's position regarding the issues of water odor and low water pressure is that presently, this is not economically feasible. However, refurbishing the hydro pneumatic tank is required by the DEP and although it will not correct the problem, it will assist in addressing the low water pressure problem.

The quality of service provided by Buffalo Bluff to its customers appears to be satisfactory. However, the utility should be required to install meters at unmetered accounts, replace defective or damaged water meters, and repair the sewer line. All pro forma plant should be completed within 180 days of the effective date of the Commission Order.

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ISSUE 2: Does Buffalo Bluff have excessive unaccounted for water and if so, what adjustments should be made?

RECOMMENDATION: Yes. Buffalo Bluff has approximately 11% excessive unaccounted for water. Allowable expenses for purchased electricity and chemicals would normally be reduced. However, in Issue No. 1, staff is recommending that the utility be ordered to install irrigation meters and replace defective meters so that actual customer usage will be billed. Therefore, staff recommends that no adjustments be made for excessive unaccounted for water at this time. (CROUCH, EDWARDS)

STAFF ANALYSIS: It is Commission practice to allow 10% of the total water treated as acceptable unaccounted for water in order to allow for a reasonable amount of non-revenue producing water caused by stuck meters, line flushing, etc. See Orders Nos. PSC-00-0248-PAA-WU, issued February 7, 2000, in Docket No. 990535-WU, and PSC-00-2005-PAA-WU, issued June 7, 2000, in Docket No. 000331-WU.

Buffalo Bluff reported 4,001,000 gallons of water treated during the test year and 834,120 gallons were unaccounted for. Since Buffalo Bluff experienced a total of 21% of unaccounted for water, allowable expenses for purchased electricity and chemicals would normally be reduced. However, in Issue No. 1, staff is recommending that the utility be ordered to install irrigation meters and replace defective meters so that actual customer usage will be billed. This is expected to significantly reduce unaccounted for water. Also, a meter installation and a meter change out program would aid in addressing the problem of unaccounted for water.

All of the agencies involved have concerns regarding the unaccounted for water. However, staff is recommending that the utility be ordered to install irrigation meters and replace defective meters so that actual customer usage will be billed. Therefore, staff recommends that no adjustments be made for excessive unaccounted for water at this time.

ISSUE 3: What percentage of the utility's water and wastewater treatment plants, distribution system, and collection system is used and useful?

RECOMMENDATION: The water treatment plant should be considered 100% used and useful. The wastewater treatment plant should be considered 14% used and useful. The distribution system and the collection system should both be considered 88% used and useful.
(CROUCH, EDWARDS)

STAFF ANALYSIS: The utility records for the test year were utilized to calculate the used and useful percentage. Currently, the utility's records indicate that the system is operating properly.

Water Treatment System

The water treatment plant has a source of supply design capacity of 0.048 mgd with firm reliable capacity of 0.0205 mgd. The Commission's practice is to use a five maximum day average in order to compensate for line break, fires, or other anomalies which could cause a single day to reflect usage out of the normal range. See Order No. PSC-96-1320-FOF-WS, issued October 30, 1996, in Docket No. 950495. The five maximum day average flows, per the utility's records is 21,620 gallons per day (gpd). The fire flow requirement equates to zero. Customer growth for the previous five years was calculated, pursuant to Rule 25-30.431, Florida Administrative Code, to be approximately 1 equivalent residential connection (ERC) per year times 5 years statutory growth period which equates to 929 gallons per day (gpd). As discussed in Issue No. 2, staff calculated the excessive unaccounted for water which exceeds 10% to be 11% or 1,206 gpd. In accordance with the formula method for calculating used and useful, the water plant is considered 100% used and useful. This is calculated by taking the five maximum days average flow to which are added to the growth allowance and the fire flow requirement and subtracting the excess unaccounted for water which produces the flows that are then divided by the plant capacity. The calculation is summarized in Attachment A Page 1 of 4.

Water Distribution System

Buffalo Bluff's customer base is residential, and in this case lots are equivalent to ERCs. The water distribution system has the potential to serve an estimated 73 connections without the construction of additional distribution mains. The average number of connections served during the test year was 59 lots. Growth over the previous five years was calculated to be 1 ERC per year. In

accordance with the formula method of calculating used and useful, staff calculates that the distribution system should be considered 88% used and useful. This is calculated by taking the average test year number of lots plus the growth allowance then dividing that total by the estimated capacity in lots. The calculation is summarized in Attachment A Page 2 of 4.

Wastewater Treatment System

The wastewater treatment plant has an actual treatment design capacity of 0.028 mgd. The Commission's practice is to use the DEP designated units of permitted capacity to calculate used and useful plant. The DEP permitted this utility at 9,900 gpd based on annual average daily flow (AADF). However, the utility requested, from the DEP, a permit reduction because the wastewater treatment plant flow rates were low. By lowering the permit capacity, the plant's man hours would be reduced; the number of operator plant visits required by the DEP, would be reduced; and also the utility plant operational cost would be reduced.

To reiterate, in this case, the permitted capacity was reduced per the utility's request, therefore the actual capacity of 0.028 mgd was used by the staff in determining used and useful. See Order No. PSC-96-1320-FOF-WS, issued October 30, 1996, in Docket No. 950495. The annual average daily flow, per the utility's records, is 3,497 gpd. Customer growth for the previous five years was calculated to be approximately 1 equivalent residential connection (ERC) per year which equates to 295 gpd. This utility appears to have no excessive infiltration or inflow. In accordance with the formula method for calculating used and useful, the wastewater plant is considered 14% used and useful. This is calculated by taking the annual average daily flow to which are added the growth allowance and subtracting the excess infiltration then divided by the plant capacity. The calculation is summarized in Attachment A Page 3 of 4.

Wastewater Collection System

The utility's customer base is residential, and in this case lots are equivalent to ERCs. The wastewater collection system, identical to the water distribution system, has the potential to serve an estimate 73 connections without the construction of additional collection mains or force mains. The average number of connections served during the test year was 59 lots. Customer growth during the previous five years was calculated to be 1 per year. In accordance with the formula method of calculating used and useful, staff calculates that the collection system should be

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considered 88% used and useful. This is calculated by taking the average test year number of lots plus the growth allowance then dividing that total by the estimated capacity in lots. The calculation is summarized in Attachment A Page 4 of 4.

Summary

Currently, based on the above and most recent data, staff recommends that the water treatment plant, wastewater treatment plant, water distribution system, and wastewater collection system, should be 100%, 14%, 88%, and 88%, used and useful, respectively.

WATER TREATMENT PLANT - USED AND USEFUL DATA

Docket No. 00327-WS - Buffalo Bluff Utilities, Inc.

- | | | |
|--|---------|-----------------|
| 1) Firm Reliable Capacity of Plant | 20,500 | gallons per day |
| 2) Average of 5 Highest Days From Maximum Month | 21,620 | gallons per day |
| 3) Average Daily Flow | 10,962 | gallons per day |
| 4) Fire Flow Capacity | 0 | gallons per day |
| a) Required Fire Flow: Not providing fire flow | | |
| 5) Growth | 929 | gallons per day |
| a) Test year Customers in ERCs: | | |
| | Begin | 57 |
| | End | 60 |
| | Average | 59 |
| (Use average number of customers) | | |
| b) Customer Growth in ERCs using Regression Analysis for most recent 5 years including Test Year | | 1 ERCs |
| c) Statutory Growth Period | | 5 Years |
| (b)x(c)x [3\ (a)] = 929 gallons per day for growth | | |
| 6) Excessive Unaccounted for Water | 1,189 | gallons per day |
| a) Total Unaccounted for Water | | |
| Percent of Average Daily Flow | 2,285 | gallons per day |
| | 21% | |
| b) Reasonable Amount | | |
| (10% of average Daily Flow) | 1,096 | gallons per day |
| c) Excessive Amount | | |
| | 1,189 | gallons per day |

USED AND USEFUL FORMULA

$$[(2)+(4)+(5)-(6)]/(1) = 100\% \text{ Used and Useful}$$

WATER DISTRIBUTION SYSTEM - USED AND USEFUL DATA

Docket No. 000327-WS - Buffalo Bluff Utilities, Inc.

- | | |
|---|---------|
| 1) Capacity of System (Number of Potential Customers, ERCs or Lots Without Expansion) (Lots are equal to ERCs) | 73 lots |
| 2) Test year connections | |
| a) Beginning of Test Year | 57 lots |
| b) End of Test Year | 60 lots |
| c) Average Test Year | 59 lots |
| 3) Growth | 5 lots |
| (Use End of Test Year and End of Previous Years for growth connections) | |
| a) customer growth in connections for last 5 years including Test Year using Regression Analysis | 1 lots |
| b) Statutory Growth Period | 5 Years |
| (a)x(b) = 5 lots allowed for growth | |

USED AND USEFUL FORMULA

$$[(2)+(3)]/(1) = 88\% \text{ Used and Useful}$$

WASTEWATER TREATMENT PLANT - USED AND USEFUL DATA

Docket No. 000327-WS - Buffalo Bluff Utilities, Inc.

- | | | |
|--|-----------|-----------------|
| 1) Permitted Capacity of Plant (AADF) | 28,000 | gallons per day |
| 2) Maximum Daily Flow | 5,000 | gallons per day |
| 3) Average Daily Flow (AADF) | 3,497 | gallons per day |
| 4) Growth | 296 | gallons per day |
| a) Test year Customers in ERCs: | Beginning | 57 |
| | Ending | 60 |
| | Average | 59 |
|
(Use average number of customers | | |
| b) Customer Growth in ERCs using Regression Analysis for most recent 5 years including Test Year | | 1 ERCs |
| c) Statutory Growth Period | | 5 Years |
| (b)x ² x [3\ (a)] = 295 gallons per day for growth | | |
| 5) Excessive Infiltration or Inflow (I&I) | n/a | gallons per day |
| a) Total I&I: | | gallons per day |
| Percent of Average Daily Flow | 0.00% | |
| b) Reasonable Amount (10% of average Daily Flow) | | gallons per day |
| c) Excessive Amount | | gallons per day |

USED AND USEFUL FORMULA

$$[(3)+(4)-(5)]/(1) = 14\% \text{ Used and Useful}$$

WASTEWATER COLLECTION SYSTEM - USED AND USEFUL DATA

Docket No. 000327-WS - Buffalo Bluff Utilities, Inc.

- | | |
|--|---------|
| 1) Capacity of System (Number of potential customers, ERCs or Lots without expansion) (Lots are equal to ERCs) | 73 lots |
| 2) Test year connections | |
| a) Beginning of Test Year | 57 lots |
| b) End of Test Year | 60 lots |
| c) Average Test Year | 59 lots |
| 3) Growth | 5 lots |
| (Use End of Test Year and End of Previous Years for growth connections) | |
| a) customer growth in connections for last 5 years including Test Year using Regression Analysis | 1 lots |
| b) Statutory Growth Period | 5 Years |
| (a)x(b) = 5 lots allowed for growth | |

USED AND USEFUL FORMULA

$$[(2)+(3)] / (1) = 88\% \text{ Used and Useful}$$

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ISSUE 4: What is the appropriate average test year rate base for the utility?

RECOMMENDATION: The appropriate average test year rate base for Buffalo Bluff is \$24,309 for water and \$32,674 for wastewater. (DEWBERRY, FITCH, EDWARDS)

STAFF ANALYSIS: Buffalo Bluff began operations in 1984 and was operating without Commission approval. By Order No. PSC-92-0330-FOF-WS, issued May 11, 1992, in Docket No. 910646-WS, the Commission granted Certificate Nos. 542-W and 470-S to Buffalo Bluff to operate its existing water and wastewater treatment systems. Further, the Commission also approved the utility's existing rates and charges including a service availability charge of \$400 for water and \$400 for wastewater. However, rate base was not established.

In this case, during the staff audit, it was discovered that the utility did not have original cost documentation for plant. Therefore, an original cost study was completed by the staff engineer to determine plant values.

Staff has selected a historical test year ended May 31, 2000, and the rate base components have been calculated using the original cost study for a plant balance through May 31, 2000. A discussion of each component of rate base follows:

Utility Plant in Service (UPIS): Based on the original cost study on May 31, 2000, Buffalo Bluff has UPIS of \$81,908 for water and \$122,751 for wastewater. The utility has recorded no additions or retirements since inception in 1984. Therefore, there is no change in plant prior to and during the test year and an averaging adjustment is not necessary.

Staff has increased UPIS by \$1,010 for water to reflect the \$794 cost of the ten meters requested by the utility and to reflect the \$216 cost associated with installing meters for the two unmetered customers, as recommended in Issue No. 1. Staff has decreased UPIS by \$728 for water to reflect the retirement of meters associated with the ten proforma replacement meters.

Staff has increased UPIS by \$450 to reflect the cost associated with repairing the collection system as recommended in Issue No. 1. UPIS has been increased by \$82,190 for water and \$123,201 for wastewater.

Land: Based on a warranty deed provided in the staff audit, the utility owns the land on which its water and wastewater systems are located.

The utility did not record a land value on its books. The staff auditor determined land value based on the sale of property to Bayou Club North, Inc. Audit Exception No. 2 specifies that on January 17, 1984, Bayou Club North, Inc., a development company, acquired 34 acres of land for \$150,000. This established a per acre price of \$4,412. Buffalo Bluff was formed on August 9, 1984, to serve the water and wastewater needs of the residents of the Bayou Club Subdivision. On December 16, 1991, Bayou Club North, Inc. deeded .25 acres for the water plant site and 2.23 acres for the wastewater plant site to Buffalo Bluff in a related party transaction. Based on the per acre price established in 1984 (Buffalo Bluff's first year of operation) staff's calculated land values are as follows:

Plant Site	Acres	Price Per Acre	Land Value
Water	0.25	\$4,412	\$1,103
Wastewater	2.23	\$4,412	\$9,838
Total	2.48	\$4,412	\$10,941

Staff has increased land value by \$1,103 and \$9,838 for water and wastewater respectively to reflect land value per the audit.

Non-used and Useful Plant: The staff engineer has determined the used and useful percentages for each plant account. Applying the non-used and useful percentages to average plant results in average non-used and useful plant of \$5,786 for water and \$43,799 for wastewater. The average non-used and useful accumulated depreciation is \$2,549 for water and \$25,853 for wastewater. This results in net non-used and useful plant of \$3,237 for water and \$17,946 for wastewater.

Contribution in Aid of Construction (CIAC): Audit Exception No. 3 specifies that the utility has a zero balance for CIAC. By Order No. PSC-92-0330-FOF-WS, issued May 11, 1992, in Docket No. 910646-WS, the Commission approved all the existing rates and charges of the utility. Included in these rates and charges is a \$400 per system service availability charge. Staff has imputed CIAC of \$400 per system per connection. Currently there are 60 connections, and there were 55 connections at the time Order No. PSC-92-0330-FOF-WS, was issued. Staff's engineering report specifies an average annual

growth in ERCs over the past five years of one ERC per year. Using regression analysis staff has estimated that in 1984 the utility's first year of operations, the utility serviced 49 connections. According to the regression analysis, the utility's ERCs serviced increased at approximately one ERC per year. Staff has calculated CIAC of \$24,000 (60ERCs @ \$400) for both water and wastewater. Therefore, CIAC has been increased by \$24,000 for water and wastewater each. Staff has decreased this amount by \$200 per system to reflect an averaging adjustment. Average CIAC is \$23,800 for both water and wastewater.

Accumulated Depreciation: The utility did not record any accumulated depreciation on its books during the test year. Consistent with Commission practice, staff has calculated accumulated depreciation using the prescribed rates in Rule 25-30.140, Florida Administrative Code. Staff's calculated accumulated depreciation on May 31, 2000, is \$47,602 for water and \$74,894 for wastewater. Staff has decreased this account by \$728 for water to reflect the retirement associated with the proforma meters. This account has been decreased by \$1,400 for water and \$2,141 for wastewater to reflect an averaging adjustment. Average accumulated depreciation is \$45,474 for water and \$72,753 for wastewater.

Amortization of CIAC: The utility did not record any amortization of CIAC. Amortization of CIAC has been calculated using composite depreciation rates. Staff's calculated year-end amortization of CIAC is \$12,469 for water and \$13,071 for wastewater. This account has been decreased by \$405 for water and \$413 for wastewater to reflect an averaging adjustment. Average amortization of CIAC is \$12,064 and \$12,658 for water and wastewater respectively.

Working Capital Allowance: Consistent with Rule 25-30.443, Florida Administrative Code, staff recommends that the one-eighth of operation and maintenance (O&M) expense formula approach be used for calculating working capital allowance. Applying that formula, staff recommends a working capital allowance of \$1,463 (based on O&M of \$11,703) for water and \$1,476 (based on O&M of \$11,808) for wastewater. The utility did not record a working capital allowance. Working capital has been increased by \$1,463 and \$1,476 for water and wastewater respectively to reflect one-eighth of staff's recommended O&M expenses.

Rate Base Summary: Based on the foregoing, staff recommends that the appropriate average test year rate base is \$24,309 for water and \$32,674 for wastewater.

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Rate base is shown on Schedule No. 1-A and 1-B. Related adjustments are shown on Schedule No. 1-C.

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COST OF CAPITAL

ISSUE 5: What is the appropriate rate of return on equity and the appropriate overall rate of return for this utility?

RECOMMENDATION: The appropriate return on equity and the appropriate overall rate of return for the utility is 9.37% with a range of 8.37% - 10.37%. (DEWBERRY, FITCH)

STAFF ANALYSIS: Audit Exception No. 6 states that the utility's capital structure consist of common stock of \$500, paid-in-capital of \$130,734, and negative retained earnings of \$152,097. In its 1999 annual report the utility reported a notes payable balance of \$105,124. This balance consisted of loans from shareholders. However, the loans were not supported by a debt instrument or an interest cost. By Order No. PSC-00-1165-PAA-WS, issued June 27, 2000, in Docket No. 990243-WS, the Commission classified utility debt that was not supported by a debt instrument or an interest cost as other common equity. In addition, by letter dated June 12, 2000, the shareholders agreed to reclassify the debt as other common equity on the books thus making the capital structure 100% equity.

Using the current leverage formula approved by Order No. PSC-00-1162-PAA-WS, issued June 26, 2000, in Docket No. 000006-WS, the appropriate rate of return on equity is 9.37%. Since the utility's capital structure is 100% equity, the overall rate of return is 9.37%. The range is 8.37% - 10.37%.

The utility's capital structure has been reconciled with staff's recommended rate base. Staff recommends a return on equity and an overall rate of return of 9.37% with a range of 8.37% - 10.37%.

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

NET OPERATING INCOME

ISSUE 6: What are the appropriate test year revenues?

RECOMMENDATION: The appropriate test year revenues for the utility are \$8,550 for water and \$8,834 for wastewater services. (DEWBERRY, FITCH)

STAFF ANALYSIS: Audit Exception No. 4 states that the test year revenues for the 12-month period ended May 31, 2000 are \$8,300 and \$8,725 for water and wastewater respectively.

The utility's current tariff authorizes a base facility charge of \$7.41 which includes 3,000 gallons usage and \$1.85 per 1,000 gallons over 3,000 per month for water and a flat rate of \$12.27 per month for wastewater services. The utility's existing rates became effective March 1, 2000. The utility's test year is June 1, 1999 through May 31, 2000. Staff has calculated annualized revenue using the existing rates times the number of bills and consumption provided in the billing analysis. Test year revenues have been increased by \$250 for water and \$109 for wastewater to reflect annualized revenue based on the existing rates.

Test year revenues are shown on Schedule Nos. 3-A and 3-B. The related adjustments are shown on Schedule No. 3-C.

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ISSUE 7: What is the appropriate amount of operating expense?

RECOMMENDATION: The appropriate amount for operating expenses for this utility is \$14,802 for water and \$14,938 for wastewater. (DEWBERRY, FITCH)

STAFF ANALYSIS: Audit Exception No. 5 specifies that the utility's records do not completely separate or specifically identify its operations and maintenance (O&M) expenses. There was also no distinction between water and wastewater. The utility provided the auditor with access to all invoices, canceled checks and other utility records to assemble its O&M and taxes other than income expense for the 12-month period ended May 31, 2000. Using the documents provided by the utility, the staff auditor determined the appropriate operating expenses for the test year and a breakdown of expenses by account class. The auditor determined O&M expenses of \$9,882 and \$7,749 and taxes other than income of \$1,067 and \$996 for water and wastewater respectively. Adjustments have been made to reflect the appropriate annual operating expenses that are required for utility operations on a going forward basis.

Operations and Maintenance Expenses (O&M)

Purchased Power-(615/715) - The audited purchased power expense is \$632 for water and \$1,161 for wastewater. Staff has decreased these amounts by \$82 for water and \$151 for wastewater to reflect a 13% recommended repression adjustment as discussed in Issue No. 10.

Chemicals-(618/718) - The audited chemical expense is \$315 for both water and wastewater. This expense has been increased by \$90 for water and decreased by \$90 for wastewater to reflect the appropriate allocation based on usage as determined by the staff engineer. Staff has decreased these amounts by \$53 for water and \$29 for wastewater to reflect a 13% recommended repression adjustment as discussed in Issue No. 10. This allocation resulted in an annual expense of \$352 for water and \$196 for wastewater.

Contracted Services-Billing-(630/730) - Billing and collection services are performed by Barbara Rardon, who is also a customer. The audited expense for these services is \$694 for water and wastewater each, for a total of \$1,388 annually. Based on invoices provided in the audit work papers, Ms. Rardon charges \$150 per month or \$1,800 annually for billing and collection. The audited amount has been increased by \$412; or \$206 per system to reflect the appropriate annual allowance.

In addition staff has estimated additional billing cost totaling \$186 for water and wastewater each. This amount includes \$100 for envelopes, \$198 for postage, \$54 for blank statement pages, and \$20 for ledger book pages. Therefore, this expense has been increased by \$186 for water and wastewater each.

Staff's recommended billing allowance is \$1,086 for water and wastewater each.

Contracted Services-Professional-(631/731) -The audited accounting service expense is \$2,600 or \$1,300 for each system and the audited engineering services expense is \$125 for water. The utility's accountant has provided staff with the cost for providing services to the utility on a going forward basis. These cost include \$2,700 for processing regulatory assessment fee returns, corporate tax returns, preparation of annual reports, annual accounting services, and an initial fee of \$1,000 to bring the utility into compliance with the National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts (USOA). Staff believes these amounts are reasonable.

This expense has been increased by \$100 or \$50 each for water and wastewater to reflect the appropriate annual accounting allowance. Also, the initial set up cost of \$1,000 has been amortized over five years pursuant to Rule 25-30.433(8), Florida Administrative Code, allowing the utility to recover \$200 annually (\$100 for water and \$100 for wastewater).

Contractual Services-Testing-(635/735) - The audited testing expense is \$3,596 for water and \$3,024 for wastewater for a total of \$6,620. This total includes \$4,800 for operator services. This expense has been decreased by \$2,400 each for water and wastewater to reclassify operators fees to Account Nos. 636 & 736, contractual services other.

The audited total also includes \$1,820 for testing expenses, \$1,196 for water and \$624 for wastewater. Each utility must adhere to specific testing conditions prescribed within its operating permit. These testing requirements are tailored to each utility as required by Rule 62-550 and 551, Florida Administrative Code, and enforced by the DEP. The tests and the frequency at which those tests must be repeated for this utility are:

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<u>Test</u>	<u>Frequency</u>	<u>Amount</u>
Total Coliform	Monthly	\$720
Nitrates	Yearly	\$27
Lead & Copper	3 Years	\$33
VOC's	3 Years	\$100
Gross Alpha	3 Years	\$28
P&S Inorganic	3 Years	\$188
<u>Pest \$ PCB's</u>	<u>3 Years</u>	<u>\$210</u>
Total		<u>\$1,306</u>

<u>Test</u>	<u>Frequency</u>	<u>Amount</u>
Sludge Analysis	Yearly	\$225
CBOD	Monthly	\$23
TSS	Monthly	\$23
Nitrates	Monthly	\$324
Fecal Coli	Monthly	\$300
<u>RPZ Test</u>	<u>Yearly</u>	<u>\$85</u>
Total		<u>\$980</u>

Staff has increased contractual services testing by \$110 for water and \$356 for wastewater to reflect annual DEP required testing. Therefore, the testing expense is \$1,306 for water and \$980 for wastewater.

Contractual Services Other-(636/736) - The audited total for this expense is \$3,113, \$2,826 for water and \$288 for wastewater.

The utility has no salaried employees. The majority of the utility services are performed by Mr. McGowan, which includes: reading meters, handling repairs and maintenance, attending meetings with regulatory agencies, handling the collection of delinquent accounts, and receiving and responding to customer complaints. Based on the duties performed by Mr. McGowan, it appears that he manages the utility. Mr. McGowan bills the utility \$120 per month to read meters and perform additional plant checks, and \$65 dollars an hour for all other services rendered. Staff believes that a \$25 an hour management fee should be allowed. The hourly rate is in line with a management fee approved in Order PSC-95-0142-FOF-WU, issued January 31, 1995, in Docket No. 940558-WU, for Floralino Properties, Inc. Staff has estimated that Mr.

McGowan spends approximately 4 hours per week conducting utility business. Staff recommends an annual management fee of \$5,200, \$2,600 each for water and wastewater. The audited balance of Mr. McGowan's services includes \$1,953 for water and \$138 for wastewater. This expense has been increased by \$647 for water and \$2,462 for wastewater to reflect staff's recommended management allowance of \$2,600 each for water and wastewater.

In addition, Mr. McGowan handles utility business out of his office. Staff recommends that \$100 per month or \$1,200 annually be allowed for overhead costs. This amount should be allocated \$600 for water and wastewater each. This expense has been increased by \$600 for both water and wastewater to reflect the recommended overhead cost.

According to a contract provided by the utility, Mr. McGowan provides operator services for the utility at a cost of \$360 per month. This expense has been increased by \$2,400 for water and wastewater each, \$4,800 total, to reflect reclassification from Account Nos. 635/735. This account has been decreased by \$240 for water and wastewater to reflect operators fees of \$4,320 per contract.

The utility also provided staff with a contract for mowing services of \$720 annually, to mow the areas around the wastewater plant and retention pond. The utility recorded \$150 for this expense during the test year. Staff has increased this expense by \$570 (\$720-\$150) to reflect contracted mowing expense.

During the test year the utility recorded \$384 for expenses associated with a customer's wastewater lines backing up, as discussed in Issue No.4. The utility has asked for an allowance to repair the collection system in order to avoid this annual cost and to improve service to its customer. Staff has recommended, in Issue No.4, to capitalize the cost associated with the collection system repair. Therefore, this expense has been decreased by \$384 to reflect the elimination of plumber's expense due to an improved collection system.

The total adjustment for this expenses is an increase of \$3,407 for water and \$5,792 for wastewater resulting in an annual expense of \$6,233 for water and \$6,080 for wastewater.

Insurance Expense-(635/735) - The audited amount for insurance expense is \$122 for water and \$544 for wastewater. Insurance expense premiums were allocated based on the insurance coverage amounts specific to the water and wastewater plants.

The staff engineer determined used and useful percentages for plant. The water plant is 100% used and useful and no adjustment is necessary. The wastewater treatment plant is 14% used and useful. In Order No. 12691, issued March 4, 1998, in Docket No. 980062-WS, Lindrick Service Corporation's insurance expense was decreased by the non-used and useful percentage. Insurance expense for wastewater consists of property coverage for lift stations and plant. This expense has been decreased by \$468 (86%) to remove insurance expense associated with non-used and useful plant.

Regulatory Commission Expense-(655/755) - The utility paid a \$1,000 rate case filing fee pursuant to Rule 25-30.020, Florida Administrative Code. In addition, the utility's accountant submitted invoices totaling \$1,650 for accounting services rendered for the rate case. The audited amount for this expense is \$125 ($\$1,000/4$ years) for water and wastewater each. This expense has been increased by \$207 ($\$1,650/4$ years) for water and wastewater each. The total annual expense is \$332 per system.

Miscellaneous Expense-(675/775) - The audited expense is \$147 for water and \$141 for wastewater. The utility's audited expenses do not include permit costs. Staff has determined that the utility does not have to apply for a consumptive use permit because of the size of the utility. The utility is required to obtain a new wastewater operating permit every 5 years at a cost of \$1,500. This expense has been increased by \$300 ($\$1,500/5$ years) for wastewater to reflect the annual operating permit cost.

Operation and Maintenance Expense (O&M Summary) - Total O&M adjustments are an increase of \$1,956 for water and \$4,239 for wastewater. Staff's recommended O&M expenses are \$11,838 for water and \$11,988 for wastewater. O&M expenses are shown on schedule 3-E and 3-F.

Depreciation Expense - Depreciation expense has been calculated using the prescribed rates in Rule 25-30.140, Florida Administrative Code. Staff's calculated depreciation is \$2,799 for water and \$4,282 for wastewater. Net proforma depreciation expense is \$16 for water and \$11 for wastewater. Non-used and useful depreciation is \$165 for water and \$1,302 for wastewater. Amortization of CIAC is \$826 for water and \$836 for wastewater. Non-used and useful depreciation and amortization of CIAC has a negative impact on depreciation expense. Net depreciation expense is \$1,824 for water and \$2,155 for wastewater. This expense has been increased by \$1,824 for water and by \$2,155 for wastewater to reflect staff's calculated test year depreciation expense.

Taxes Other Than Income - The audit balance for taxes other than income is \$1,067 for water and \$966 for wastewater. This expense has been increased by \$24 for water and \$27 for wastewater to reflect regulatory assessment fees on annualized income.

This expense has been decreased by \$200 for water and increased by \$200 for wastewater to reflect a reallocation of tangible property taxes based on the value of plant determined by the original cost study.

In addition, this expense has been decreased by \$630 for wastewater to remove the non-used and useful amount associated with a tangible property tax. The total adjustment for this expense is an increase of \$176 for water and a decrease of \$403 for wastewater.

Income Tax - Buffalo Bluff is a Subchapter S corporation, therefore the utility pays no income taxes.

Operating Revenues - Revenues have been increased by \$8,529 for water and \$9,166 for wastewater to reflect the increase in revenue required to cover expenses and allow the recommended return on investment.

Taxes Other Than Income - This expense has been increased by \$384 for water and \$412 for wastewater to reflect regulatory assessment fees of 4.5% on the increase in revenues.

Operating Expenses Summary - The application of staff's recommended adjustments to the audited test year operating expenses results in staff's calculated operating expenses of \$14,802 for water and \$14,938 for wastewater.

Operating expenses are shown on Schedule Nos. 3-A and 3-B. The related adjustments are shown on Schedule Nos. 3-C and 3-D.

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REVENUE REQUIREMENT

ISSUE 8: What is the appropriate revenue requirement?

RECOMMENDATION: The appropriate revenue requirement is \$17,079 for water and \$18,000 for wastewater. (DEWBERRY, FITCH)

STAFF ANALYSIS: The utility should be allowed an annual increase of \$8,529 (99.76%) for water and \$9,166 (103.75%) for wastewater. This will allow the utility the opportunity to recover its expenses and earn a 9.37% return on its investment. The calculations are as follows:

	<u>Water</u>	<u>Wastewater</u>
Adjusted rate base	\$24,309	\$32,674
Rate of Return	x .0937	x .0937
Return on investment	\$2,278	\$3,062
Adjusted O & M expense	\$11,703	\$11,808
Depreciation expense (Net)	\$1,824	\$2,155
Taxes Other Than Income	\$1,274	\$975
Revenue Requirement	<u>\$17,079</u>	<u>\$18,000</u>

Revenue requirements are shown on Schedules Nos. 3-A and 3-B.

RATE STRUCTURE AND RATES

ISSUE 9: Is a continuation of the utility's current rate structures for its water and wastewater systems appropriate in this case, and, if not, what are the appropriate rate structures for the respective systems?

RECOMMENDATION: No, a continuation of the utility's current rate structures for its water and wastewater systems is not appropriate in this case. The water system's rate structure should be changed to a traditional base facility charge (BFC)/gallonage charge rate structure by removing the 3,000 gallon allotment; a 30% conservation adjustment should also be implemented. The wastewater system rate structure should be changed to the traditional BFC/gallonage charge rate structure. (LINGO)

STAFF ANALYSIS: The utility's current water system rate structure consists of a monthly BFC/gallonage charge rate structure, in which the BFC of \$7.41 includes an allotment of 3,000 gallons (3 kgal) of water, and all gallons in excess of 3 kgal used are charged \$1.85 per 1 kgal. The utility's current wastewater system rate structure consists of a monthly flat rate of \$12.27.

Water System

The Commission's preferred rate structure is the traditional BFC/gallonage charge rate structure. This usage sensitive rate structure allows customers to reduce their total bill by reducing their water consumption. However, the utility's current rate structure is considered nonusage sensitive because of the 3 kgal allotment in the BFC. This allotment discourages conservation at and below the allotment level. Staff recommends that this allotment be eliminated from the BFC to be consistent not only with Commission practice, but with the overall statewide goal of eliminating conservation-discouraging water rate structures.

In this case, the elimination of the 3 kgal allotment in the BFC will result in those customers with monthly usage at 3 kgal receiving the greatest percentage price increase. Therefore, staff believes an important rate design goal is to minimize the price increase at monthly consumption of 3 kgal. To accomplish this goal, different conservation adjustments were used to shift varying portions of cost recovery from the BFC to the gallonage charge. The results of this analysis are shown in the following table:

PRICE INCREASES AT VARIOUS CONSERVATION ADJUSTMENTS					
Monthly Consumption	Conservation Adjustment Percentages				
	0%	15.0%	20.0%	25.0%	30.0%
0 kgal	52.6%	29.7%	22.1%	14.4%	6.9%
1 kgal	86.9%	68.6%	62.6%	56.4%	50.5%
2 kgal	121.2%	107.4%	103.1%	98.4%	94.1%
3 kgal	155.5%	146.3%	143.6%	140.4%	137.7%
4 kgal	131.9%	128.2%	127.3%	125.9%	125.1%
5 kgal	116.1%	116.1%	116.5%	116.3%	116.7%
10 kgal	80.3%	88.7%	91.8%	94.4%	97.5%
20 kgal	59.8%	73.0%	77.7%	81.9%	86.6%
30 kgal	52.6%	67.4%	72.7%	77.4%	82.7%
50 kgal	46.6%	62.8%	68.6%	73.8%	79.5%

As shown above, the 30% conservation adjustment (relative to the other adjustments) accomplishes two things: a) it minimizes the price increases for monthly consumption at 4 kgal or less; while b) maximizing the price increases for monthly usage at levels greater than twice the residential average monthly consumption of 4.844 kgal. Therefore, staff recommends that a 30% conservation adjustment be approved in conjunction with the elimination of the 3 kgal allotment in the utility's BFC.

Wastewater System

As mentioned above, the utility currently utilizes a flat rate structure for its wastewater customers. This rate structure is typically used when it is difficult (or impossible) to obtain accurate consumption data. However, all of the utility's water customers are metered, making consumption data readily available. Therefore, staff recommends that the wastewater system's flat rate structure be eliminated in favor of the traditional BFC/gallongage charge rate structure. It is the Commission's preferred rate structure, because it is designed to provide for the equitable

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sharing by the rate payers of both the fixed and variable costs of providing service. In addition, implementation of the traditional BFC/gallonage charge rate structure sends more appropriate price signals to the customers because it charges the customer for wastewater usage.

ISSUE 10: Are adjustments to reflect repression of consumption due to the changes in rate structure and price increases appropriate in this case, and, if so, what are the appropriate repression adjustments for the water and wastewater systems?

RECOMMENDATION: Yes, a repression adjustment of 438 kgal is appropriate for the water system, and a corresponding adjustment of 358 kgal is appropriate for the wastewater system. In order to monitor the effects of both the changes in rate structure and the recommended revenue increases, the utility should be ordered to prepare monthly reports detailing the number of bills rendered, the consumption billed and the revenue billed. These reports should be provided, by customer class and meter size, on a quarterly basis for a period of two years, beginning with the first billing period after the increased rates go into effect. (LINGO)

STAFF ANALYSIS: Based on information contained in our database of utilities receiving rate increases and decreases, there were five water utilities that had 3 kgal allotments removed from a BFC/gallage rate structure. On average, these utilities experienced an approximate 60% price increase while experiencing an approximate 13% reduction (repression) in average monthly consumption. Specifically, the consumption reductions were 35%, 15%, 14%, 9% and 6%, respectively. Three utilities were removed from consideration because the average monthly consumption levels were far greater than Buffalo Bluff's, leaving two utilities in the sample: one of the remaining utilities experienced a 15% consumption reduction, while the other utility's corresponding consumption reduction was 9%.

Although a 9% consumption reduction would be consistent with our past practice of erring on the conservative side, staff does not believe a 9% reduction is appropriate in this case, as it is less than the overall five-utility average consumption reduction of 13%. Instead, staff believes a 13% repression adjustment is both conservative and appropriate, especially when considering the average price increase of the five utilities in the database was approximately 60%, compared to Buffalo Bluff's average preliminary residential price increase of approximately 117%. Therefore, the resulting residential repression adjustment, based on a consumption reduction of 13%, is approximately 438 kgal, and the resulting total residential consumption for rate setting is 2,933 kgal.

Staff is recommending that the wastewater residential consumption charge be capped at 8 kgal. Based on the utility's billing analysis, the consolidated factor at 8 kgal is 81.65%. Therefore, staff's recommended residential wastewater consumption

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is 2,395 kgal (2,933 kgal x 81.65%), and the associated repression adjustment is 358 kgal.

In order to monitor the effects of both the changes in rate structure and the recommended revenue increases, the utility should be ordered to prepare monthly reports detailing the number of bills rendered, the consumption billed and the revenue billed. These reports should be provided, by customer class and meter size, on a quarterly basis for a period of two years, beginning with the first billing period after the increased rates go into effect.

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

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

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

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

Generally, the Commission sets monthly caps of 6,000 gallons, 8,000 gallons, or 10,000 gallons per month. The utility's billing analysis indicates that almost 86% of the total residential bills were for usage not exceeding 8,000 gallons per month and accounted for 54% of total water usage. Conversely, only 14% of total residential bills were for usage over 8,000 gallons, but accounted for 46% of total water usage, thereby, indicating high irrigation usage.

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

ISSUE 12: What are the appropriate rates for each system?

RECOMMENDATION: The recommended rates should be designed to produce revenue of \$17,079 for the water system and \$18,000 and for the wastewater system, excluding miscellaneous service charges. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), Florida Administrative Code. The rates should not be implemented until notice has been received by the customers. The utility should provide proof of the date notice was given within 10 days after the date of the notice. (LINGO, DEWBERRY, FITCH)

STAFF ANALYSIS: During the test year the utility provided service to approximately 60 water and wastewater customers. The customer base includes 58 residential customers with 5/8" x 3/4" meters and 2 general service customers with 5/8" x 3/4" meters.

The two general service customers include a developer's office and a clubhouse with a swimming pool and irrigation system. Staff has calculated rates using test year number of bills and consumption for water. During the customer meeting held on October 18, 2000, staff learned of an unmetered customer and an unmetered irrigation system. Staff has included estimated gallons for one unmetered residential customer, five residential customers with slow meters, and the unmetered irrigation system at the clubhouse. Staff's calculated rates for wastewater have been calculated based on 80% of the water used by residential customers and actual usage for the general service customers minus an estimated usage for the irrigation system.

As discussed in Issue 8, the appropriate revenue requirement, excluding miscellaneous service charges, is \$17,079 for the water system and \$18,000 for the wastewater system. As discussed in Issue 9, staff recommends that the water system rate structure be changed to a traditional BFC/gallonage charge rate structure by removing the 3 kgal allotment; staff also recommends implementing a 30% conservation adjustment. As also discussed in Issue 9, staff recommends that the wastewater system rate structure also be changed to the traditional BFC/gallonage charge rate structure. As discussed in Issue 10, staff recommends that the appropriate repression adjustments are 438 kgal for the water system and 358 kgal for the wastewater system.

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Schedules of the utility's existing rates and rate structure and staff's recommended rates and rate structure are as follows:

Monthly Rates - Water
Residential and General Service

Base Facility Charge

<u>Meter Sizes</u>	<u>Existing Rates</u>	<u>Staff's Recommended Rates</u>
All Sizes	\$7.41 (0-3,000 gals)	N/A
5/8" x 3/4"	N/A	\$7.91
3/4"	N/A	\$11.87
1"	N/A	\$19.78
1 1/2"	N/A	\$39.55
2"	N/A	\$63.28
3"	N/A	\$126.56
4"	N/A	\$197.75
6"	N/A	\$395.50
<u>Gallage Charge per 1,000 gallons</u>		
Over 3,000 gallons	\$1.85	N/A
per 1,000 gallons	N/A	\$3.63

Monthly Rates - Wastewater
Residential

	<u>Existing Rates</u>	<u>Staff's Recommended Rates</u>
Flat Rate	\$12.27	N/A
<u>Base Facility Charge</u>		
All Meter Sizes	N/A	\$11.09
<u>Gallage Charge</u>		
per 1,000 gallons (8,000 gallon cap)		\$3.84

Monthly Rates - Wastewater
General Service

	<u>Existing</u>	<u>Staff's</u> <u>Recommended Rates</u>
Flat Rate	\$12.27	N/A
<u>Base Facility Charge</u>		
<u>Meter Sizes</u>		
5/8" x 3/4"	N/A	\$11.09
3/4"	N/A	\$16.64
1"	N/A	\$27.73
1 1/2"	N/A	\$55.45
2"	N/A	\$88.72
3"	N/A	\$177.44
4"	N/A	\$277.25
6"	N/A	\$554.50
<u>Gallonge Charge</u>		
Per 1,000 Gallons		\$4.60

Approximately 33% (\$5,698) of the water system revenue requirement is recovered through the recommended base facility charge. The fixed costs are recovered through the BFC based on the number of factored ERCs. The remaining 67% of the revenue requirement (\$11,381) represents revenues collected through the consumption charge based on the number of gallons. Approximately 44% (\$7,985) of the wastewater system revenue requirement is recovered through the recommended base facility charge. The fixed costs are recovered through the BFC based on the number of factored ERCs. The remaining 56% of the revenue requirement (\$10,014) represents revenues collected through the consumption charge based on the number of factored gallons.

The following is a comparison of residential rates at various usage levels:

Monthly Rates - Water

<u>Gallons</u>	<u>Residential</u>	
	<u>Existing</u>	<u>Staff Recommended Rates</u>
3,000	\$7.41	\$18.80
5,000	\$11.11	\$26.06
10,000	\$20.36	\$44.21

Monthly Rates - Wastewater

<u>Gallons</u>	<u>Residential</u>	
	<u>Existing</u>	<u>Staff Recommended Rates</u>
3,000	\$12.27	\$22.61
5,000	\$12.27	\$30.29
10,000	\$12.27	\$41.81

If the Commission approves staff's recommendation, these rates shall be effective for service rendered as of the stamped approval date on the tariff sheets provided customers have received notice. The tariff sheets will be approved upon staff's verification that the tariffs are consistent with the Commission's decision, that the customer notice is adequate, and that any required security has been provided.

If the effective date of the new rates falls within a regular billing cycle, the initial bills at the new rate may be prorated. The old charge shall be prorated based on the number of days in the billing cycle before the effective date of the new rates. The new charge shall be prorated based on the number of days in the billing cycle on and after the effective date of the new rates. In no event shall the rates be effective for service rendered prior to the stamped approval date.

ISSUE 13: What are the appropriate customer deposits for this utility?

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

STAFF ANALYSIS: Rule 25-30.311, Florida Administrative Code, provides guidelines for collecting, administering and refunding customer deposits. It also authorizes customer deposits to be calculated using an average monthly bill for a 2-month period. The utility's existing tariff authorizes the utility to collect a \$25 customer deposit for water and wastewater. This amount will not provide an average bill for a 2-month period based on staff's recommended rates in Issue No. 12. Therefore, staff has calculated customer deposits using recommended rates and an average monthly bill for a 2-month period. A schedule of the utility's existing and staff's recommended deposits follows:

Water

Residential and General Service

<u>Meter Size</u>	<u>Existing deposit</u>	<u>Recommended deposit</u>
5/8" x 3/4"	\$25.00	\$50.00
All over 5/8" x 3/4"	N/A	2 x average bill

Wastewater

Residential and General Service

<u>Meter Size</u>	<u>Existing deposit</u>	<u>Recommended deposit</u>
5/8" x 3/4"	\$25.00	\$50.00
All over 5/8" x 3/4"	N/A	2 x average bill

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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 filled and approved, the customer deposits should become effective for connections made on or after the stamped approval date of the revised tariff sheets, if no protest is filed.

ISSUE 14: Should the utility be authorized to collect miscellaneous charges, and if so, what are the appropriate charges?

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

STAFF ANALYSIS: The utility's existing tariff authorizes the utility to collect miscellaneous service charges. The utility has requested an increase in the authorized charges. The requested charges have been reviewed and appear reasonable. Staff recommends that the utility be authorized to collect charges consistent with Rule 25-30.460, Florida Administrative Code, and past Commission practice. The recommended charges are designed to defray the costs associated with each service and place the responsibility of the cost on the person creating it rather than on the rate paying body as a whole. No expenses incurred for miscellaneous service charges were included in the calculation of test year operating expenses. A schedule of staff's recommended charges follows:

<u>Description</u>	<u>Water</u>	
	<u>Existing</u>	<u>Recommended Charges</u>
Initial Connection	\$15.00	\$25.00
Normal Reconnection	\$15.00	\$25.00
Violation Reconnection	\$15.00	\$25.00
Premises Visit (in lieu of disconnection)	\$10.00	\$25.00

<u>Wastewater</u>		
<u>Description</u>	<u>Existing</u>	<u>Recommended Charges</u>
Initial Connection	\$15.00	\$25.00
Normal Reconnection	\$15.00	\$25.00
Violation Reconnection	Actual Cost	Actual Cost
Premises Visit (in lieu of disconnection)	\$10.00	\$25.00

Definition of each charge is provided for clarification:

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

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

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

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

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

ISSUE 15: Should the utility's service availability charges be revised to include a main extension charge and a meter installation charge, and if so, what are the appropriate charges?

RECOMMENDATION: Yes, the utility's current service availability charges should be revised to include a main extension charge of \$545 for water and \$935 for wastewater and a meter installation charge of \$110. 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 service availability charges should become effective for connections made on or after the stamped approval date of the revised tariff sheets, if no protest is filed. (DEWBERRY, FITCH)

STAFF ANALYSIS: The utility's existing tariff authorizes a water and wastewater plant capacity charge of \$400 each. Staff is recommending inclusion of a main extension charge of \$545 for water and \$935 for wastewater and a meter installation charge of \$110.

The utility's current contribution level is 32.59% for water and 18.85% for wastewater. The utility's water and wastewater facilities can accommodate additional connections. Therefore, staff has calculated service availability charges for water and wastewater based on existing capacity.

In order to evaluate the utility's service availability charges, staff relied on Rule 25-30.580, Florida Administrative Code, which states in part that:

(a) The maximum amount of contributions-in-aid-of-construction, net of amortization, should not exceed 75% of the total original cost, net of accumulated depreciation, of the utility's facilities and plant when the facilities and plant are at their designed capacity; and

(b) The minimum amount of contributions-in-aid-of-construction should not be less than the percentage of such facilities and plant that is represented by the water transmission and distribution lines and sewage collection lines.

Staff's calculated charges will not cause the utility to exceed the 75% maximum level pursuant to Rule 25-30.580, Florida Administrative Code. Currently both the contributed amounts for

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water and wastewater are less than the minimum amounts pursuant to Rule 25-30.580, Florida Administrative Code. Staff has allocated the existing service availability charge to recover the cost associated with the water transmission and distribution lines and sewage collection lines. Staff has also calculated a meter installation charge of \$110 based on cost justification provided by the utility.

A schedule of the utility's existing charges and staff's recommended charges are as follows:

<u>Water</u>	
<u>Main Extension Charge</u>	<u>Recommended Charge</u>
Residential-Per ERC (186 GPD)	\$545.00
All Others-Per Gallon	\$2.93
<u>Meter Installation Charge</u>	
5/8" x 3/4"	\$110.00
All Over 5/8" x 3/4"	Actual Cost
<u>Wastewater</u>	
<u>Main Extension Charge</u>	<u>Recommended Charge</u>
Residential-Per ERC (59 GPD)	\$935.00
All Others-Per Gallon	\$15.84

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

ISSUE 16: 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 any temporary rates, the utility should provide appropriate security. If the recommended rates are approved on a temporary basis, the rates collected by the utility shall be subject to the refund provisions discussed below in the staff analysis. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), Florida Administrative Code, the utility should file reports with the Commission's Division of Economic Regulation no later than the 20th of each month indicating the monthly and total amount of money subject to refund at the end of the preceding month. The report filed should also indicate the status of the security being used to guarantee repayment of any potential refund. (VAN LEUVEN, DEWBERRY, FITCH)

STAFF ANALYSIS: This recommendation proposes an increase in water rates. A timely protest might delay what may be a justified rate increase resulting in an unrecoverable loss of revenue to the utility. Therefore, pursuant to Section 367.0814(7), Florida Statutes, in the event of a protest filed by a party other than the utility, staff recommends that the recommended rates be approved as temporary rates. The recommended rates collected by the utility shall be subject to the refund provisions discussed below.

The utility should be authorized to collect the temporary rates upon the staff's approval of appropriate security for the potential refund and the proposed customer notice. Security should be in the form of a bond or letter of credit in the amount of \$12,314. Alternatively, the utility could establish an escrow agreement with an independent financial institution.

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

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

collected that is attributable to the increase.

If the utility chooses a letter of credit as 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 a 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.
- 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.

This account must specify by whom and on whose behalf such monies were paid.

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

The utility should maintain a record of the amount of the bond, and the amount of revenues that are subject to refund. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), Florida Administrative Code, the utility should file reports with the Commission Division of Economic Regulation no later than the 20th of each month indicating the monthly and total amount of money subject to refund at the end of the preceding month. The report filed should also indicate the status of the security being used to guarantee repayment of any potential refund.

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ISSUE 17: 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 its failure to maintain its books and records in conformance with the NARUC USOA?

RECOMMENDATION: No. A show cause proceeding should not be initiated. However, the utility should be ordered to maintain its books and records in conformance with the 1996 NARUC USOA and submit a statement from its accountant by March 31, 2001 along with its 2000 annual report, stating that its books are in conformance with the NARUC USOA and have been reconciled with the Commission Order. (VAN LEUVEN, DEWBERRY, FITCH)

STAFF ANALYSIS: During the staff audit, the auditors discovered that the utility did not maintain its accounts and records in conformance with the NARUC USOA. Despite this fact, staff was able to perform the audit. Utility records consist of one check register and one customer billing register which are used for all transactions involving the utility. The records are maintained on a cash basis for income tax purposes. This is an apparent violation of Rule 25-30.115, Florida Administrative Code, "Uniform System of Accounts for Water and Wastewater Utilities," which provides that "Water and wastewater utilities shall, effective January 1, 1998, maintain their accounts and records in conformity with the 1996 NARUC Uniform System of Accounts adopted by the National Association of Regulatory Utility Commissioners".

Section 367.161, Florida Statutes, authorizes the Commission to assess a penalty of not more than \$5,000 for each offense, if a utility is found to have knowingly refused to comply with, or have willfully violated any Commission rule, order, or provision of Chapter 367, Florida Statutes. In failing to maintain its books and records in conformance with the USOA, the utility's act was "willful" in the sense intended by Section 367.161, Florida Statutes. In Order No. 24306, issued April 1, 1991, in Docket No. 890216-TL, titled In Re: Investigation Into The Proper Application of Rule 25-14.003, Florida Administrative Code, Relating To Tax Savings Refund For 1988 and 1989 For GTE Florida, Inc., the Commission having found that the company had not intended to violate the rule, nevertheless found it appropriate to order it to show cause why it should not be fined, stating that "[i]n our view, 'willful' implies an intent to do an act, and this is distinct from an intent to violate a statute or rule." Additionally, "[i]t is a common maxim, familiar to all minds that 'ignorance of the law' will not excuse any person, either civilly or criminally." Barlow v. United States, 32 U.S. 404, 411 (1833).

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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's existing rates do not provide 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.

As addressed in Issue No. 7, staff has recommended an one time accounting allowance of \$1,000. This will provide funds to set up the utility's books in compliance with the Commission's Order.

Staff does not believe that a show cause proceeding should be initiated at this time. In this case, the utility was unaware that using the cash basis for income tax purposes was an improper accounting method according to the Commission's rules. However, once notified, the utility indicated that it will convert its books and records to the NARUC USOA.

Based 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 by March 31, 2001, along with its 2000 annual report, stating that its books are in conformance with the NARUC USOA and have been reconciled with the Commission Order.

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ISSUE 18: Should this docket be closed?

RECOMMENDATION: No. If no timely protest is received upon expiration of the protest period, the PAA Order will become final upon the issuance of a Consummating Order. However, this docket should remain open for an additional 180 days from the effective date of the Order to allow staff to verify completion of meter installations and collection system repairs as described in Issue No. 1. Once staff has verified that this work has been completed, the docket should be closed administratively. (VAN LEUVEN, DEWBERRY, FITCH)

STAFF ANALYSIS: Staff has recommended that the utility install two meters for unmetered customers, and make repairs to the collection system. If no timely protest is received upon expiration of the protest period, the PAA Order will become final upon the issuance of a Consummating Order. However, this docket should remain open for an additional 180 days from the effective date of the Order to verify that this work has been completed. Once staff has verified that the work has been completed, the docket should be closed administratively.

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BUFFALO BLUFF UTILITIES, INC.		SCHEDULE NO. 1-A	
TEST YEAR ENDING 5/31/00		DOCKET NO. 000327-WS	
SCHEDULE OF WATER RATE BASE			
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	\$0	\$82,190	\$82,190
2. LAND & LAND RIGHTS	0	\$1,103	\$1,103
3. NON-USED AND USEFUL	0	(\$3,237)	(\$3,237)
4. CIAC	0	(\$23,800)	(\$23,800)
5. ACCUMULATED DEPRECIATION	0	(\$45,474)	(\$45,474)
6. AMORTIZATION OF CIAC	0	\$12,064	\$12,064
7. WORKING CAPITAL ALLOWANCE	0	\$1,463	\$1,463
8. WATER RATE BASE	\$0	\$24,309	\$24,309

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BUFFALO BLUFF UTILITIES, INC. TEST YEAR ENDING 5/31/00 SCHEDULE OF WASTEWATER RATE		SCHEDULE NO. 1-B DOCKET NO. 000327-WS	
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	\$0	\$123,201	\$123,201
2. LAND & LAND RIGHTS	0	\$9,838	\$9,838
3. NON-USED AND USEFUL	0	(\$17,946)	(\$17,946)
4. CIAC	0	(\$23,800)	(\$23,800)
5. ACCUMULATED DEPRECIATION	0	(\$72,753)	(\$72,753)
6. AMORTIZATION OF CIAC	0	\$12,658	\$12,658
7. WORKING CAPITAL ALLOWANCE	0	\$1,476	\$1,476
8. WASTEWATER RATE BASE	\$0	\$32,674	\$32,674

BUFFALO BLUFF UTILITIES, INC.
TEST YEAR ENDING 5/31/00
ADJUSTMENTS TO RATE BASE

SCHEDULE NO. 1-C
DOCKET NO. 000327-WS

	<u>WATER</u>	<u>WASTEWATER</u>
<u>UTILITY PLANT IN SERVICE</u>		
1. To reflect utility plant per original cost study.	\$81,908	\$122,751
2. Proforma additions (meters/ wastewater collection repair)	1,010	450
3. Proforma retirements meters	(728)	0
Total	<u>\$82,190</u>	<u>\$123,201</u>
<u>LAND</u>		
1. To reflect land value per original cost study.	<u>\$1,103</u>	<u>\$9,838</u>
<u>NON-USED AND USEFUL PLANT</u>		
1. To reflect average non-used and useful plant.	(\$5,786)	(\$43,799)
2. To reflect average non-used and useful accumulated	<u>2,549</u>	<u>25,853</u>
Total	<u>(\$3,237)</u>	<u>(\$17,946)</u>
<u>CIAC</u>		
1. To reflect CIAC based on number of connections	(\$24,000)	(\$24,000)
2. To reflect CIAC averaging adjustment.	<u>200</u>	<u>200</u>
Total	<u>(\$23,800)</u>	<u>(\$23,800)</u>
<u>ACCUMULATED DEPRECIATION</u>		
1. To reflect accumulated depreciation per original cost study.	(\$47,602)	(\$74,894)
2. To reflect proforma meter retirement	\$728	\$0
3. To reflect averaging adjustment.	<u>1,400</u>	<u>2,141</u>
Total	<u>(\$45,474)</u>	<u>(\$72,753)</u>
<u>AMORTIZATION OF CIAC</u>		
1. To reflect accumulated amortization of CIAC.	\$12,469	13,071
2. To reflect averaging adjustment.	(405)	(413)
Total	<u>\$12,064</u>	<u>\$12,658</u>
<u>WORKING CAPITAL ALLOWANCE</u>		
1. To reflect 1/8 of test year O & M expenses.	<u>\$1,463</u>	<u>\$1,476</u>

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BUFFALO BLUFF UTILITIES, INC. TEST YEAR ENDING 5/31/00 SCHEDULE OF CAPITAL				SCHEDULE NO. 2 DOCKET NO. 000327-WS				
CAPITAL COMPONENT	PER AUDIT	SPECIFIC ADJUST- MENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUST- MENTS	BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST
1. COMMON STOCK	\$500	\$0	\$500					
2. RETAINED EARNINGS	(152,097)	0	(152,097)					
3. PAID IN CAPITAL	130,734	0	130,734					
4. OTHER COMMON EQUITY	<u>105,124</u>	<u>0</u>	<u>105,124</u>					
5. TOTAL COMMON EQUITY	\$84,261	\$0	84,261	(27,278)	56,983	100.00%	9.00%	9.00%
6. LONG TERM DEBT	0	0	0	0	0	0.00%	0.00%	0.00%
7. LONG TERM DEBT (Pro	0	0	0	0	0	0.00%	0.00%	0.00%
8. CUSTOMER DEPOSITS	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	6.00%	<u>0.00%</u>
9. TOTAL	<u>\$84,261</u>	<u>\$0</u>	<u>\$84,261</u>	<u>(\$27,278)</u>	<u>\$56,983</u>	<u>100.00%</u>		<u>9.00%</u>
RANGE OF REASONABLENESS						<u>LOW</u>	<u>HIGH</u>	
RETURN ON EQUITY						<u>8.37%</u>	<u>10.37%</u>	
OVERALL RATE OF RETURN						<u>8.37%</u>	<u>10.37%</u>	

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BUFFALO BLUFF UTILITIES, INC. TEST YEAR ENDING 5/31/00 SCHEDULE OF WATER OPERATING INCOME			SCHEDULE NO. 3-A DOCKET NO. 000327-WS		
	TEST YEAR PER AUDIT	STAFF ADJ. TO AUDIT	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$8,300</u>	<u>\$250</u>	<u>\$8,550</u>	<u>\$8,529</u> 99.76%	<u>\$17,079</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	9,882	1,821	11,703	0	11,703
3. DEPRECIATION (NET)	0	1,824	1,824	0	1,824
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	1,067	(176)	891	384	1,275
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$10,949</u>	<u>\$3,469</u>	<u>\$14,418</u>	<u>\$384</u>	<u>\$14,802</u>
8. OPERATING INCOME/(LOSS)	<u>(\$2,649)</u>		<u>(\$5,868)</u>		<u>\$2,278</u>
9. WATER RATE BASE	<u>\$0</u>		<u>\$24,309</u>		<u>\$24,309</u>
10. RATE OF RETURN	<u>0.00%</u>		<u>-24.14%</u>		<u>9.37%</u>

BUFFALO BLUFF UTILITIES, INC. TEST YEAR ENDING 5/31/00 SCHEDULE OF WASTEWATER OPERATING INCOME			SCHEDULE NO. 3-B DOCKET NO. 000327-WS		
	TEST YEAR PER AUDIT	STAFF ADJUSTMENT TO AUDIT	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$8,725</u>	<u>\$109</u>	<u>\$8,834</u>	<u>\$9,166</u> 103.75%	<u>\$18,000</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	7,749	4,059	11,808	0	11,808
3. DEPRECIATION (NET)	0	2,155	2,155	0	2,155
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	966	(403)	563	412	975
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$8,715</u>	<u>\$5,811</u>	<u>\$14,526</u>	<u>\$412</u>	<u>\$14,938</u>
8. OPERATING INCOME/(LOSS)	<u>\$10</u>		<u>(\$5,692)</u>		<u>\$3,062</u>
9. WASTEWATER RATE BASE	<u>\$0</u>		<u>\$32,674</u>		<u>\$32,674</u>
10. RATE OF RETURN	<u>0.00%</u>		<u>-17.42%</u>		<u>9.37%</u>

BUFFALO BLUFF UTILITIES, INC. TEST YEAR ENDING 5/31/00 ADJUSTMENTS TO OPERATING INCOME	SCHEDULE NO. 3-C DOCKET NO. 000327-WS	
	<u>WATER</u>	<u>WASTEWATER</u>
OPERATING REVENUES		
To reflect annualized revenues based on existing rates	<u>\$250</u>	<u>\$109</u>
OPERATION AND MAINTENANCE EXPENSES		
1. Purchased Power		
To reflect chemicals per 13% repression adjustment	<u>(\$82)</u>	<u>(\$151)</u>
2. Chemicals		
a. Reallocate chemical expenses	\$90	(\$90)
b. To reflect chemicals per 13% repression adjustment	(\$53)	(\$29)
	<u>\$37</u>	<u>(\$119)</u>
3. Contractual Services - Billing		
a. To annualize billing cost	\$206	\$206
b. To include cost postage, envelopes, misc.	186	186
To include billing and collections cost.	<u>\$392</u>	<u>\$392</u>
4. Contractual Services - Professional		
a. Initial setup NARUC	\$100	\$100
b. increase to reflect current charges	50	50
Subtotal	<u>\$150</u>	<u>\$150</u>
5. Contractual Services - Testing		
a. To reflect reclassification of operator allowance to acct.	(\$2,400)	(\$2,400)
b. To include engineer recommended testing amount	110	356
Subtotal	<u>(\$2,290)</u>	<u>(\$2,044)</u>
6. Contractual Services - Other		
a. To reflect recommended annual management allowance	\$647	\$2,462
b. to reflect annual overhead	600	600
c. to reflect reclassification from account numbers 635/735	2,400	2,400
d. to reflect operator fee per contract	(240)	(240)
e. to reflect mowing per contract	0	570
f. to remove repair expense eliminated by proforma	0	(384)
Subtotal	<u>\$3,407</u>	<u>\$5,792</u>
7. Insurance Expense		
To remove nonused and useful Insurance	<u>\$0</u>	<u>(\$468)</u>
8. Regulatory Commission Expense		
To reflect additional rate case expense	<u>\$207</u>	<u>\$207</u>
9. Miscellaneous Expenses		
To reflect operator permit cost (amort 5 yrs)	<u>\$0</u>	<u>\$300</u>
TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	\$1,821	\$4,059

BUFFALO BLUFF UTILITIES, INC.		SCHEDULE NO. 3-D	
TEST YEAR ENDING 5/31/00		DOCKET NO. 000327-WS	
ADJUSTMENTS TO OPERATING INCOME		<u>WATER</u>	<u>WASTEWATER</u>
DEPRECIATION EXPENSE			
1. To reflect test year depreciation calculated per 25-30.140,		\$2,799	\$4,282
2. To reflect test year amortization expense.		(826)	(836)
3. To reflect non-used and useful test year depreciation.		(165)	(1,302)
4. To reflect depreciation on net proforma plant		16	11
Total		<u>\$1,824</u>	<u>\$2,155</u>
TAXES OTHER THAN INCOME			
1. To reflect RAF on test year annualized revenue.		\$24	\$27
2. Tangible property tax reclassification		(200)	200
3. To reflect non used and useful property tax		0	(630)
Total		<u>(\$176)</u>	<u>(\$403)</u>

BUFFALO BLUFF UTILITIES, INC. TEST YEAR ENDING 5/31/00 ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE		SCHEDULE NO. 3-E DOCKET NO. 000327-WS		
	TOTAL PER PER AUDIT	STAFF PER ADJUST.		TOTAL PER PER STAFF
(601) SALARIES AND WAGES - EMPLOYEES	0	0		0
(603) SALARIES AND WAGES - OFFICERS	0	0		0
(604) EMPLOYEE PENSIONS AND BENEFITS	0	0		0
(610) PURCHASED WATER	0	0		0
(615) PURCHASED POWER	632	(82)	[1]	550
(616) FUEL FOR POWER PRODUCTION	0	0		0
(618) CHEMICALS	315	37	[2]	352
(620) MATERIALS AND SUPPLIES	0	0		0
(630) CONTRACTUAL SERVICES - BILLING	694	392	[3]	1,086
(631) CONTRACTUAL SERVICES - PROFESSIONAL	1,425	150	[4]	1,575
(635) CONTRACTUAL SERVICES - TESTING	3,596	(2,290)	[5]	1,306
(636) CONTRACTUAL SERVICES - OTHER	2,826	3,407	[6]	6,233
(640) RENTS	0	0		0
(650) TRANSPORTATION EXPENSE	0	0		0
(655) INSURANCE EXPENSE	122	0		122
(655) REGULATORY COMMISSION EXPENSE	125	207	[8]	332
(670) BAD DEBT EXPENSE	0	0		0
(675) MISCELLANEOUS EXPENSES	<u>147</u>	<u>0</u>		<u>147</u>
	9,882	1,821		11,703

DOCKET NO. 000327 S
 DATE: November 20, 2000

BUFFALO BLUFF UTILITIES, INC. TEST YEAR ENDING 5/31/00 ANALYSIS OF WASTEWATER OPERATION AND MAINTENANCE EXPENSE		SCHEDULE NO. 3-F DOCKET NO. 000327-WS		
	TOTAL PER AUDIT	STAFF ADJUST- MENT		TOTAL PER STAFF
(701) SALARIES AND WAGES - EMPLOYEES	\$0	\$0		\$0
(703) SALARIES AND WAGES - OFFICERS	0	0		0
(704) EMPLOYEE PENSIONS AND BENEFITS	0	0		0
(710) PURCHASED SEWAGE TREATMENT	0	0		0
(711) SLUDGE REMOVAL EXPENSE	158	0		158
(715) PURCHASED POWER	1,161	(151) [1]		1,010
(716) FUEL FOR POWER PRODUCTION	0	0		0
(718) CHEMICALS	315	(119) [2]		196
(720) MATERIALS AND SUPPLIES	0	0		0
(730) CONTRACTUAL SERVICES - BILLING	694	392 [3]		1,086
(731) CONTRACTUAL SERVICES - PROFESSIONAL	1,300	150 [4]		1,450
(735) CONTRACTUAL SERVICES - TESTING	3,024	(2,044) [5]		980
(736) CONTRACTUAL SERVICES - OTHER	288	5,792 [6]		6,080
(740) RENTS	0	0		0
(750) TRANSPORTATION EXPENSE	0	0		0
(755) INSURANCE EXPENSE	544	(468) [7]		76
(765) REGULATORY COMMISSION EXPENSES	125	207 [8]		332
(770) BAD DEBT EXPENSE	0	0		0
(775) MISCELLANEOUS EXPENSES	<u>141</u>	<u>300</u> [9]		<u>441</u>
	<u>7,749</u>	<u>4,059</u>		<u>11,808</u>