



Public Service Commission

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

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

DATE: JUNE 28, 2001

TO: DIRECTOR, DIVISION OF COMMISSION CLERK AND ADMINISTRATIVE SERVICES (BAYÓ)

FROM: DIVISION OF ECONOMIC REGULATION (FIT^{RF}CH, LINGO, WETHERINGTON)
DIVISION OF LEGAL SERVICES (BRUBAKER) *g-B ps*

Handwritten initials and signatures, including 'Lingo' and 'Brubaker'.

RE: DOCKET NO. 000584-WS - APPLICATION FOR APPROVAL OF STAFF-ASSISTED RATE CASE IN MARTIN COUNTY BY LANIGER ENTERPRISES OF AMERICA, INC.
COUNTY: MARTIN

AGENDA: 07/10/01 - REGULAR AGENDA - PROPOSED AGENCY ACTION EXCEPT FOR ISSUE NOS. 15 and 16 - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: 15-MONTH EFFECTIVE DATE: APRIL 11, 2002 (SARC)

SPECIAL INSTRUCTIONS: NONE

FILE NAME AND LOCATION: S:\PSC\ECR\WP\000584.RCM

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07978 JUN 28 01
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CASE BACKGROUND

Laniger Enterprises of America, Inc. (Laniger or utility) is a water and wastewater utility, first organized in 1972. By Order No. 11423, issued on December 15, 1982, in Docket No. 810008-WS this Commission issued Certificates Nos. 362-W and 317-S to Environmental Concern, Ltd. After several transfers, Reginald Burge and Lois Burge bought the utility, along with over \$1,000,000 in residential property from Chicago Title. Reginald and Lois Burge then applied for transfer of the utility to Laniger Enterprises of America, Inc., the transfer was approved in Order No. 22203, issued November 21, 1989, in Docket No. 881500-WS.

The utility's service area is located in Jensen Beach, Martin County (County) Florida, and provides service to 277 residential water customers and 524 residential wastewater customers. The service area includes condominium style developments known as Beacon 21 (277 water and wastewater customers), River Club (192 wastewater customers), and a mobile home park known as Palm Circle (56 wastewater customers). The utility also serves 6 general service water customers and 2 general service wastewater customers.

On May 15, 2000, the utility filed an application for a staff assisted rate case (SARC) and paid the appropriate filing fee on July 7, 2000. The Commission has the authority to consider this rate case under Section 367.0814, Florida Statutes. Rate base was last established for this utility in Order No. PSC-96-0629-FOF-WS, issued May 10, 1996, in Docket No. 950515-WS. The utility's current method of billing was also established in that previous docket. 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 June 30, 2000 for this rate case.

The Commission has a memorandum of understanding (MOU) with the Florida Water Management Districts. This MOU 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 South Florida Water

Management District (SFWMD or District). The utility is currently operating under water permit No. 43-00097-W, issued July 7, 1996, by the District.

A customer meeting was conducted on April 23, 2001, at the Martin County Commission Meeting Room in Stuart, Florida. Approximately sixteen customers, an attorney representing Beacon 21, and a representative from the Office of Public Counsel (OPC) attended the meeting. Three customers chose to give comments regarding the utility's quality of service and the proposed rate increase. The attorney representing Beacon 21 and the representative from OPC also gave comments.

Customers' complaints included low water pressure, strong chlorine odor, unattractive residue in the water, and slow response times to water leaks and lift station alarms. Quality of service issues will be discussed in Issue No. 1. Customers commented on excessive infiltration and its impact on non-used and useful adjustments; this item is addressed in Issue No. 3. Customers also had concerns about fire hazards, specifically non-testing of fire hydrants and lack of grounds-keeping that could lead to a brush fire. These items will be discussed in Issue Nos. 4 and 7, respectively. Customers also raised questions about the utility's requested wage increase and the change from contracted services to salaried employees. This will be addressed in Issue No. 7.

The following is a list of acronyms and commonly used technical terms which are used throughout this recommendation:

COMPANY AND PARTY NAMES

DEP Department of Environmental Protection

FPSC Florida Public Service Commission

NARUC National Association of Regulatory Utility Commissioners

OPC Office of Public Counsel

SFWMD South Florida Water Management District

GLOSSARY OF TECHNICAL TERMS

- BFC Base Facility Charge - A charge designed to recover the portion of the total expenses required to provide water and sewer service incurred whether or not the customer actually uses the services and regardless of how much is consumed.
- CIAC Contributions In Aid Of Construction - Any amount or item of money, services, or property received by a utility, from any person or governmental agency, any portion of which is provided at no cost to the utility, and which is utilized to offset the acquisition, improvement, or construction costs of the utility's property, facilities, or equipment used to provide utility services to the public. The term includes, but is not limited to, system capacity charges, main extension charges, and customer connection charges.
- ERCs Equivalent Residential Connections - A statistic used to quantify the total number of water or wastewater connections that can be served by a plant of some specific capacity. The consumption of each connection is considered to be that of a single family residential connection, which is usually considered to be a unit comprised of 3.5 persons.
- gpd Gallons Per Day - The amount of liquid that can be delivered or actually measured during a 24-hour period.
- gpm Gallons Per Minute - The amount of liquid that can be delivered or actually measured during a one-minute time period.
- O&M Operations and Maintenance Expense
- RAF Regulatory Assessment Fees
- SARC Staff Assisted Rate Case
- UPIS Utility Plant in Service - The land, facilities, and equipment used to generate, transmit, and/ or distribute utility service to customers.

Used
and
Useful The amount of plant capacity that is used by current customers including an allowance for the margin reserve.

USOA Uniform System of Accounts - A list of accounts for the purpose of classifying all plant and expenses associated with a utility's operations.

DATE: JUNE 28, 2001

ISSUE 1: Is the quality of service provided by Laniger to its customers satisfactory?

RECOMMENDATION: Yes. The quality of service provided by Laniger should be considered satisfactory. However, the utility should be ordered to provide a written plan detailing its methods of responding to lift station alarms and main breaks, within 90 days of the effective date of the Commission Order. This plan should include at a minimum the notifying of every customer of a telephone number to call at the time of an alarm or main break, and the assurance that number will be answered twenty-four hours a day by a utility staff member who is knowledgeable in dealing with these situations. (WETHERINGTON)

STAFF ANALYSIS: Rule 25-30.433(1) Florida Administrative Code, states that:

The Commission in every rate case shall make a determination of the quality of service provided by the 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 and 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 (DOH) or lack thereof over the preceding 3-year period shall also be considered. DEP and DOH officials' comments or testimony concerning quality of service as well as the complaints or testimony of utility's customers shall be considered.

Staff's analysis below addresses each of these three components.

The utility's service area is located in Jensen Beach, Florida, which is in Martin County. The utility provides water service to 277 residential customers. It also provides wastewater service to 524 residential customers. Their raw water is obtained from two wells in the area surrounding the water plant. The water treatment includes a 10,000 gallon hydro pneumatic storage tank and an 82,000 gallon ground storage tank. The wastewater plant is

permitted by DEP at 99,000 MGD based upon three month average daily flow.

Quality of Utility's Product:

A check of DEP files indicates that there are no outstanding significant violations and neither the water or wastewater system is under any enforcement action. Since the utility's treated water meets or exceeds all standards for safe drinking water, and since the wastewater treatment meets required standards, both the water quality and wastewater treatment are considered satisfactory.

Operational Conditions of the Utility's Plant and Facilities:

The two wells are rated at 150 gpm each. The firm reliable capacity of the plant is 191,800 gallons per day (82,000 gallon ground storage tank - 8,200 gallons dead storage + 10,000 gallon hydro pneumatic tank plus the smallest well of 108,000 gpd).

The wastewater treatment plant is rated by DEP at 99,000 gpd three month average daily flow and is currently meeting regulatory requirements. DEP reports no significant violations. Therefore, staff recommends that the quality of the utility's plant is satisfactory.

Utility's Attempt to Address Customer Satisfaction:

A customer meeting was held on April 23, 2001 in the Martin County Commission Chambers. There were representatives from the Beacon 21 and River Club developments. Complaints presented at the meeting centered around pressure problems, a desire to have the fire hydrants tested, lack of timely response by the utility to lift station alarms and water main breaks, and a water sample was brought in which showed a precipitate in the water.

With regard to the low pressure complaints, the utility has all the physical facilities necessary to ensure the required minimum pressure required by DEP and at the time of the inspection the pressure appeared to be more than adequate. With regard to the water sample with the precipitate, staff believes this is simply calcium carbonate (limestone) which sometimes precipitates out in ice cube trays. This substance is harmless and is not a violation of any drinking water standard.

As discussed in Issue No. 4, staff has recommended that the Commission grant the utility pro forma funds for testing of the fire hydrants and will follow up to ensure that this is accomplished.

In regard to the complaints about untimely response to lift station alarms and water main breaks, staff recommends that the utility be required to draft a written plan detailing the actions they will take to ensure timely response to these situations. This plan should include at a minimum notifying every customer of a telephone number to call at the time of an alarm or main break, and the assurance that the number will be answered twenty-four hours a day by a utility staff member (not an answering machine) who is knowledgeable in dealing with these situations.

A complaint was made concerning a specific incident of inexplicable water loss or questionable meter accuracy. Due to the fact that this incident happened some months ago and the meter was apparently functioning correctly before and subsequent to the incident, it is impossible to specifically identify the cause of the problem. Staff recommends that if this situation occurs again the meter should be tested.

Conclusion:

Based on the quality of product and plant being satisfactory, as well as the utility's attempt to address customer satisfaction, staff recommends that the quality of service of the utility should be considered satisfactory. However, the utility should be ordered to provide a written plan detailing its methods of responding to lift station alarms and main breaks, within 90 days of the effective date of the Commission Order.

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

RECOMMENDATION: Yes. Laniger Enterprises of America, Inc., has approximately 2.5% excessive unaccounted for water. Therefore, allowable expenses for purchased electricity and chemicals should be reduced by 2.5%. (WETHERINGTON)

STAFF ANALYSIS: It is Commission practice to allow 10% of the total water treated as an acceptable amount of 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).

The utility reported that 22,124,360 gallons of water were treated during the test year and 19,369,710 gallons were sold or otherwise accounted for, leaving 2,754,650 gallons as unaccounted for. This results in 12.5% unaccounted for water. Staff recommends that, in accordance with Commission practice, 2.5% be considered excessive and that allowable expenses for purchased electricity and chemicals be reduced by 2.5%.

ISSUE 3: What portions of the water and wastewater treatment plants and the water distribution and wastewater collection systems should be considered used and useful?

RECOMMENDATION: The water treatment plant should be considered 64.1% used and useful, the water distribution system should be considered 78.8% used and useful. The wastewater treatment plant should be considered 83.8% used and useful, the effluent disposal system should be considered 100% used and useful and the wastewater collection system should be considered 87.3% used and useful. The utility should be required to test its collection system to determine the level of infiltration and inflow (I&I) as discussed in staff's analysis. (WETHERINGTON)

STAFF ANALYSIS: Water Treatment Plant - The water treatment plant draws raw water from two wells at 150 gpm each. The well pumps deliver the water to an 82,000 gallon ground storage tank. Three 250 gpm high-service pumps deliver the water from the ground storage tank through the 10,000 gallon hydropneumatic tank to the distribution system. The firm reliable capacity of the system with the largest well removed from service plus the storage capacity, minus the dead storage space is 191,800 gpd (150 gpm x 12 hour day + 82,000 gallons of storage - 8,200 gallons of dead storage + 10,000 gallons of storage).

In the last five years the utility has added only one new customer. There are no definitive plans to add any others.

By the formula, it is recommended that the water treatment plant be considered 64.1% used and useful with the exception of accounts:

- 303 Land and Land Rights
- 304 Structures and Improvements
- 309 Supply Mains
- 334 Meters and Meter Installations
- 336 Backflow Prevention Devices
- 310 Power Generation Equipment

which should be considered 100% used and useful.

The used and useful percentage is calculated by taking the average daily flow of the five peak days to which is added the growth allowance 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.

The 64.1% used and useful should be applied to the following accounts:

- 307 Wells and Springs
- 320 Water Treatment Equipment
- 339 Other Plant and Miscellaneous Equipment

Water Distribution System - The water distribution system has been unchanged during the last five years with one exception. A single family residence was added to the system by the addition of 300 feet of two-inch pipe. Otherwise there has been no growth to the system with no definitive plans for growth in the future. The water distribution is estimated to have the potential to serve 353 connections of which 277 are currently connected. Staff recommends that the water distribution system be considered 78.8% used and useful. The calculation is summarized in Attachment A, page 2.

The 78.8% used and useful should be applied to the following accounts:

- 330 Distribution Reservoirs and Standpipes
- 331 Transmission and Distribution Mains
- 333 Services

Wastewater Treatment Plant - The wastewater treatment system is permitted by DEP at 99,000 gpd based on a three month average daily flow. This permitted flow figure is limited by the effluent disposal system. The treatment plant has an actual capacity of 142,000 gpd, while the effluent disposal system is rated at 99,000 gpd. The wastewater treatment system currently is not under any enforcement action by DEP. DEP has indicated the capacity of the effluent disposal system will be re-examined during the next permitting cycle.

In the last five years there have been no new connections to the treatment plant and there are no definitive plans for growth in the future. In spite of there being no growth in customers since the last rate case there has been a large increase in flow to the plant. In the 1995 engineering report the flow to the plant was reported to be 68,000 gpd. In this current test year the annual

average flow was 103,570 gpd. The cause of this increase is unknown and may be due to increased customer usage, increased infiltration and inflow (I&I) or a combination of the two. Staff recommends that the utility be required to test their collection to determine the level of I&I. One part of the collection system, Palm Circle Park, is not owned by the utility and the utility has been given pro forma funds to install a wastewater meter as a means of determining wastewater flow from Palm Circle Park. After sufficient flow records are received the situation can be revisited and a reasonable estimation of I&I can be made.

Due to the increase in flow, which exceeds the current rated capacity of the effluent disposal system, staff recommends that used and useful percentages be calculated for the treatment plant and effluent disposal system separately. Staff recommends that the wastewater treatment plant be considered 83.8% used and useful and the effluent disposal system be considered 100% used and useful. This is calculated by taking the highest three month average daily flow (118,960 gpd for February, March and April 2000) plus the growth factor minus infiltration and inflow all divided by the permitted or actual capacity. These calculations are summarized in Attachment A, pages 3 and 4.

The 83.3% used and useful for the plant should be applied to the following accounts:

353	Land and Land Rights
354	Structures and Improvements
355	Power Generation Equipment
364	Flow Measuring Devices
380	Treatment and Disposal Equipment

The 100.0% used and useful for the effluent disposal should be applied to the following accounts:

353.4	Land and Land Rights
380.4	Treatment and Disposal Equipment

Wastewater Collection System - The wastewater collection system has been unchanged during the last five years and there are no definitive plans for growth in the future. It is estimated that the wastewater collection system has the potential to serve 600 connections while currently serving 524 connections. Staff

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recommends that the wastewater collection system be considered 87.3% used and useful with the exception of account number 360 Collecting Sewers - Force which should be considered 100% used and useful. The calculation is summarized in Attachment A, page 5.

The 87.3% used and useful should be applied to the following accounts:

361	Collecting Sewers - Gravity
363	Services to Customers

WATER TREATMENT PLANT - USED AND USEFUL DATA

Docket No.000584-WS - Laniger Enterprises, Inc.

- | | | |
|--|---------|-----------------|
| 1) Firm Reliable Capacity of Plant | 191,800 | gallons per day |
| 2) Average of 5 Highest Days From
Maximum Month | 124,200 | gallons per day |
| 3) Average Daily Flow | 60,615 | gallons per day |
| 4) Fire Flow Capacity | 0 | gallons per day |
| a) Required Fire Flow: 500 gallons per minute for 2 hours (Laniger
is not providing fire flow) | | |
| 5) Growth | 219 | gallons per day |
| a) Test year Customers in connections: | | |
| | Begin | 277 |
| | End | 277 |
| | Average | 277 |
| (Use average number of customers) | | |
| b) Customer Growth in connections using Regression Analysis for most recent 5
years including Test Year | | |
| c) Statutory Growth Period | | |
| | | 5 Years |
| (b)x(c)x [3/(a)] = 219 gallons per day for growth | | |
| 6) Excessive Unaccounted for Water | 1,487 | gallons per day |
| a) Total Unaccounted for Water | | |
| | 7,548 | gallons per day |
| Percent of Average Daily Flow | 12.5% | |
| b) Reasonable Amount | | |
| | 6,061 | gallons per day |
| (10% of average Daily Flow) | | |
| c) Excessive Amount | | |
| | 1,487 | gallons per day |

USED AND USEFUL FORMULA

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

$$[124,200+0+219-1,487]/191,800 = 64.1\% \text{ Used and Useful}$$

WATER DISTRIBUTION SYSTEM - USED AND USEFUL DATA

Docket No. 000584-WS - Laniger Enterprises, Inc.

- 1) **Capacity of System** (Number of Potential Customers, ERCs or Lots Without Expansion) 353 connections
- 2) **Test year connections**
 - a) Beginning of Test Year 277 connections
 - b) End of Test Year 277 connections
 - c) Average Test Year 277 connections
- 3) **Growth** 1 connection
(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 0.2/year connections
 - b) Statutory Growth Period 5 Years

(a)x(b) = 1 connection allowed for growth

USED AND USEFUL FORMULA

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

$$(277+1)/353 = 78.8\% \text{ Used and Useful}$$

WASTEWATER TREATMENT PLANT - USED AND USEFUL DATA

Docket No. 000584-WS - Laniger Enterprises, Inc.

- | | | |
|---|---------|-----------------|
| 1) Permitted Capacity of Plant (3 month average) | 142,000 | gallons per day |
| 2) Maximum Daily Flow | 245,000 | gallons per day |
| 3) Average Daily Flow (3 month average daily flow) | 118,960 | gallons per day |
| 4) Growth | 0 | gallons per day |
| a) Test year Customers in connections: | | |
| Beginning | | 524 |
| Ending | | 524 |
| Average | | 524 |
| (Use average number of customers) | | |
| b) Customer Growth in connections using Regression Analysis for most recent 5 years including Test Year | 0 | conn. |
| c) Statutory Growth Period | 5 | Years |
| (b)x(c) x 3/(a)] = 0 gallons per day for growth | | |
| 5) Excessive Infiltration or Inflow (I&I) | Unknown | gallons per day |
| a) Total I&I: | | gallons per day |
| Percent of Average Daily Flow | | |
| b) Reasonable Amount (10% of average Daily Flow) | | gallons per day |
| c) Excessive Amount | | gallons per day |

USED AND USEFUL FORMULA

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

$$(118,960+0-0)/142,000 = 83.8\% \text{ Used and Useful}$$

WASTEWATER TREATMENT PLANT - USED AND USEFUL DATA

Docket No. 000584-WS - Laniger Enterprises, Inc.

- | | | |
|---|---------|-----------------|
| 1) Permitted Capacity of Plant (3 month average) | 99,000 | gallons per day |
| 2) Maximum Daily Flow | 245,000 | gallons per day |
| 3) Average Daily Flow (3 month average daily flow) | 118,960 | gallons per day |
| 4) Growth | 0 | gallons per day |
| a) Test year Customers in connections: | | |
| Beginning | | 524 |
| Ending | | 524 |
| Average | | 524 |
| (Use average number of customers) | | |
| b) Customer Growth in connections using Regression Analysis for most recent 5 years including Test Year | 0 | conn. |
| c) Statutory Growth Period | 5 | Years |
| (b)x(c) x 3/(a)] = 0 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 | | |
| b) Reasonable Amount (10% of average Daily Flow) | | gallons per day |
| c) Excessive Amount | | gallons per day |

USED AND USEFUL FORMULA

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

$$(118,960+0-0)/99,000 = 100\% \text{ Used and Useful}$$

WASTEWATER COLLECTION SYSTEM - USED AND USEFUL DATA

Docket No. 000584-WS - Laniger Enterprises, Inc.

- | | |
|--|-----------------|
| 1) Capacity of System (Number of potential customers, ERCs or Lots without expansion) | 600 connections |
| 2) Test year connections | |
| a) Beginning of Test Year | 524 connections |
| b) End of Test Year | 524 connections |
| c) Average Test Year | 524 connections |
| 3) Growth | 0 connections |
| (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 | 0 connections |
| b) Statutory Growth Period | 5 Years |
| (a)x(b) = 0 connections allowed for growth | |

USED AND USEFUL FORMULA

$$[(2)+(3)]/(1) = \text{Used and Useful}$$
$$(524+0)/600 = 87.3\% \text{ Used and Useful}$$

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

RECOMMENDATION: The appropriate average test year rate base for the utility is \$229,799 for water and \$225,683 for wastewater. The utility should be required to complete all pro forma additions, as discussed in the staff analysis, within nine months of the effective date of the Commission Order. (FITCH)

STAFF ANALYSIS: The utility's rate base was last established at June 30, 1995, in Order No. PSC-96-0629-FOF-WS, issued May 10, 1996, in Docket No. 950515-WS.

Staff has selected a historical test year ended June 30, 2000 for this rate case. Rate base components, established in Order No. PSC-96-0629-FOF-WS, have been updated through June 30, 2000, using information obtained from staff's audit and engineering reports. A discussion of each rate base component follows:

Utility Plant in Service (UPIS): The utility recorded UPIS of \$436,406 for water and \$580,426 for wastewater for the test year ended June 30, 2000.

Currently, the utility allocates common plant used for both water and wastewater systems; 40% to water and 60% to wastewater. In Order No. 17043, issued December 31, 1986, in Docket No. 860325-WS, Southern States Utilities, Inc., the Commission ordered that the utility's allocation of administrative and general expenses should be based on the number of customers. Staff believes that allocations based on the number of customers served by the utility should also apply to plant items common to both systems. Laniger currently provides service to 283 (35%) water customers and 527 (65%) wastewater customers. Staff believes that the appropriate allocation of common plant should be 35% for water and 65% for wastewater.

The utility capitalized \$1,540 in water Account No. 307 for a water operating permit. A water operating permit is an operating and maintenance (O&M) expense and should be reclassified from Account No. 307 to Account No. 675 (miscellaneous expense) and amortized over five years, the life of the permit. Staff has reduced water Account No. 307 by \$1,540 to remove improper capitalization of the operating permit. Staff has decreased wastewater Account No. 354 by \$ 7,257. This amount includes \$1,688

and \$500 to remove improperly capitalized repair expense in 1996 and 1998 respectively and \$5,069 to remove painting expense. Staff has reallocated \$5,069 from wastewater Account No. 354 to O&M Account No. 720.

Staff has reduced water Account No. 309 by \$978 to remove plant undocumented by the utility. Staff has decreased wastewater Account No. 354 by \$2,355 to remove plant items booked twice by the utility.

The utility records overhead based on 25% of total invoiced cost. It is Commission practice to calculate overhead based on labor cost. Staff engineers have determined that 15% of labor is a reasonable rate to charge for overhead. Staff has made the following total adjustments to plant to remove the excess overhead recorded by the utility.

<u>Description</u>	<u>Account #</u>	<u>Water Amount</u>	<u>Wastewater Amount</u>
Regal unit	320	\$504	
Storage Tank Probes	330	\$141	
Copy Machine	340/390	\$359	\$666
Palm Circle Connection	354		\$1,674
STP Components	380		\$527
Catwalk	380		\$200
<u>Blower</u>	<u>380</u>	<u> </u>	<u>\$655</u>
Total		<u>\$1,004</u>	<u>\$3,722</u>

The utility failed to record retirements since the last rate case. Staff has estimated retirements based on 75% of the replacement cost, where no original cost documentation was available. Staff has reduced UPIS by \$7,994 for water and \$3,900 for wastewater to record plant retirements.

The utility purchased a new 1997 GMC 1500 pickup truck for exclusive utility use in November 1997 for \$21,272. In January 1999, the utility traded in this truck for a 1998 GMC Sierra pickup

truck with an after tax price of \$36,602. Although staff believes use of a vehicle is appropriate for this utility, staff does not believe that a \$36,602 truck is appropriate, especially considering that the utility bought a truck in 1997 for \$21,272 and traded it in a little over a year later. Staff believes that the cost of the 1997 truck is appropriate and is the amount which should remain on the books. Staff has removed \$14,641 from water Account No. 341 and \$21,961 from wastewater Account No. 391 to remove the cost of the new truck (1999).

Staff has increased UPIS by \$2,280 for water and \$5,884 for wastewater to record plant additions and capitalization. The following is a description of staff adjustments for plant additions.

Staff has capitalized \$1,200 for a utility trailer from O&M Account No. 730 and allocated 35% to water and 65% to wastewater. This results in an increase to water Account No. 341 and wastewater Account No. 391 of \$420 and \$780 respectively. Staff has reclassified and capitalized \$282 from O&M Account No. 730 to Account No. 380. This amount consist of the balance of a regulator included in expense. The total cost of the regulator to be capitalized as determined by staff is \$500. Therefore staff has increased wastewater Account No. 380 by \$218 to reflect the appropriate capitalized cost. Staff has reclassified and capitalized \$695 for a check valve from O&M Account No. 630 to water Account No. 309. Staff has also reclassified and capitalized \$722 and \$325 for a check valve and a replacement master meter from O&M Account No. 730 to water Account No. 309 and 334 respectively. Staff has reclassified and capitalized \$4,385 from O&M Account No. 730 to wastewater Account No. 380. This amount reflects the repair of a blower.

The utility installed "No Trespassing" signs and expensed the cost associated with the installation. Staff has capitalized \$137 and \$200 from O&M Account No. 630 and 730 to the Other Tangible Plant account. The total cost of the "No Trespassing" signs is \$377. Staff has allocated this amount as follows, \$118 (35%) to water Account No. 348 and \$219 (65%) to wastewater Account No. 398. The capitalization threshold is not applied to water because the utility is capitalizing the total cost of the signs which is above the capitalization threshold, the \$118 is an allocation of a total cost of \$337, which exceeds the capitalization threshold.

The NARUC uniform system of accounts sets a capitalization threshold for Class C utilities of \$150. This means that any invoiced amounts for less than \$150 should be expensed rather than capitalized in the period in which they were incurred. Staff has reclassified a total of \$361 for water and \$263 for wastewater. These amounts consist of the following: \$245 (\$144 and \$101 from water Account No. 343 and 304) to O&M Account No. 675; \$216 from wastewater Account No. 393 to O&M Account No. 775; \$116 and \$47 from water Account No. 340 and wastewater Account No. 389. Because these last two amounts occurred outside of the test year, test year miscellaneous expense will not be increased.

UPIS has been decreased by \$1,603 for water and \$2,279 for wastewater to reflect an averaging adjustment.

Pro Forma Plant

The utility requested pro forma plant items to be included in rate base. Staff has allowed the following items in rate base and has found these items to be reasonable. Staff has increased UPIS by \$18,694 for water and \$31,376 for wastewater to record pro forma plant. The following is a description of staff adjustments for pro forma plant.

Staff has increased UPIS by \$5,000 to include the cost of a new driveway to the water and wastewater plants. Staff has allocated this amount based on the 35/65 customer ratio. Therefore, staff has increased water Account No. 304 by \$1,750 and wastewater Account No. 354 by \$3,250. Staff has also increased water Account No. 343 by \$403 and wastewater Account No. 393 by \$747 to reflect the cost of a new cut-off saw to be used by both water and wastewater plants. The utility also requested \$3,895 to rehabilitate an existing 30 kilowatt (KW) generator and \$1,295 to purchase a new 8KW generator which will be carried on the utility's truck. Staff has allocated these amounts based on the 35/65 customer ratio. Therefore, staff has increased water Account No. 310 by \$1,363 for the rehabilitated generator and \$453 for the new generator. Staff has also increased wastewater Account No. 360 by \$2,532 for the rehabilitated generator and \$842 for the new generator.

Martin County has requested that the utility perform regular interval hydrant testing as required by the County and the National Fire Protection Association Standards. At the customer meeting,

Laniger's customers also expressed a desire for the utility to begin regular hydrant testing. Staff has capitalized the cost of the hydrant testing equipment by increasing water Account No. 334 by \$1,780 so that the utility can perform regular interval hydrant testing. Staff has also increased wastewater Account No. 354 by \$3,480 for the cost of pouring a cement slab at the wastewater plant as required by DEP. DEP has also required the utility to install a fence around its wastewater plant and percolation pond. Staff has increased wastewater Account No. 354 by \$10,940 for the cost of clearing debris and installing a fence around the percolation pond.

Staff has increased water Account No. 311 by \$634 to reflect the cost of upgrading an existing pump. Staff has increased water Account No. 320 by \$2,286 and \$6,250 for a new chlorinator and transfer switch respectively. The utility has also requested \$3,775 to dig up and place cement collars around all its meters. Staff has increased water Account No. 334 by \$3,775 to reflect the cost of installing cement collars around the meters.

According to the utility, the wastewater plant receives excessive infiltration from the Palm Circle Park connection. According to the utility infiltration occurs during heavy rains due to leaky lines at Palm Circle Park. Palm Circle Park owns the lines and at this time does not wish to replace or repair the lines. The utility has requested placing a 6" sewer meter at the Palm Circle connection so that in the future Palm Circle can be charged based on gallons actually received by the wastewater plant. Staff has increased wastewater Account No. 389 by \$4,850 to reflect the cost of the 6" sewer meter. Staff has designed rates so that the general body of rate payers do not pay for the 6" sewer meter as discussed in Issue No. 11.

Staff has increased wastewater Account No. 354 by \$2,065 for the cost of placing a protective screen in front of its wastewater pumps. This screen will prolong the life of the pumps and reduce future cost associated with repairing the pumps. The utility has also requested \$9,430 to clean and remove vegetation and debris from its percolation pond. Of this amount, \$2,670 consist of pumps and pipes that the utility would install to help maintain the percolation ponds. These pumps would be used to move effluent between the percolation ponds allowing the utility to better maintain the ponds on a regular basis. Staff has increased

wastewater Account No. 398 by \$2,670 to include pumping equipment associated with the percolation ponds.

The utility also requested \$31,950 for a backhoe/loader. Staff believes that a utility of this size does not need its own backhoe/loader. Staff believes it would be more economically feasible for the utility to rent the use of a backhoe/loader when needed. Therefore, staff does not recommend the inclusion of the backhoe/loader in utility plant.

The utility has also requested \$7,250 for an ammonia feed system. This system has been requested so that the utility can meet upcoming trihalomethanes (THM) limits set by DEP. Staff has discovered that the new THM limits do not become effective until 2004. Therefore, staff does not believe that it is prudent to install the ammonia feed system at this time. If the utility is not meeting the new THM limits in 2004, it should install the ammonia feed system at that time and seek recovery through another rate case or a limited proceeding.

UPIS has been decreased by \$9,347 for water and \$15,688 for wastewater to reflect an averaging adjustment on pro forma additions.

The following is a summary of UPIS adjustments made by staff:

<u>Adjustments</u>	<u>Water</u>	<u>Wastewater</u>
Reclassified Expenses	(\$1,540)	(\$7,257)
Undocumented/ Double Booked Plant	(\$978)	(\$2,355)
Overhead adjustments	(\$1,004)	(\$3,722)
Retirements	(\$7,994)	(\$3,900)
Removed New Truck	(\$14,641)	(\$21,961)
Additions	\$2,280	\$5,884
Items Below Capitalization Threshold	(\$361)	(\$263)
Pro Forma Additions	\$18,694	\$31,376

<u>Adjustments</u>	<u>Water</u>	<u>Wastewater</u>
Averaging Adjustment Pro Forma	(\$9,347)	(\$15,688)
Averaging Adjustment	<u>(\$1,603)</u>	<u>(\$2,279)</u>
Total Net Adjustments	<u>(\$16,494)</u>	<u>(\$20,165)</u>

Staff has decreased UPIS by \$16,494 for water and \$20,165 for wastewater. Staff recommends UPIS of \$419,912 for water and \$560,261 for wastewater.

Land: Based on the utility's records, at June 30, 2000, Laniger recorded land of \$5,000 for water and \$94,580 for wastewater. The utility did not acquire any additional land or sell any land since the last rate case. Pursuant to Rule 25-30.433(10), Florida Administrative Code, the utility owns the land on which its treatment facility is located. Staff has determined average Land to be \$5,000 for water and \$94,580 for wastewater.

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 \$36,286 for water and \$60,520 for wastewater. The average non-used and useful accumulated depreciation is \$12,973 for water and \$28,282 for wastewater. This results in net non-used and useful plant of \$23,313 for water and \$32,238 for wastewater.

Contribution in Aid of Construction (CIAC): The utility recorded a balance for CIAC of \$2,482 for water and \$262,503 for wastewater for the test year ended June 30, 2000.

The utility included several amounts in plant-in-service from invoices initiated by Pipe Connection. Pipe Connection went out of business in 1998. At the time Pipe Connection went out of business the utility owed \$39,146 for water plant additions recorded in 1997. No portion of this debt has been collected by Pipe Connection. Staff has increased water CIAC for \$39,146 to offset the unpaid utility investment in plant.

Staff has increased wastewater CIAC by \$9,312 to reflect that the DEP required removal of a package plant from the Palm Circle

service area in 1998 to make room for a future percolation pond. The utility has billed Palm Circle for the removal and has recovered \$4,650 from the development. Staff has increased wastewater CIAC by \$16,200 to reflect a developer agreement with Palm Circle to interconnect with the utility. This agreement was entered into before the prior rate case in Docket No. 950515-WS. This amount was not included in the prior rate case, however staff believes that the \$16,200 should be included in CIAC to reflect the cost of the utility plant in service. No CIAC additions were recorded during the test year, therefore there is no averaging adjustment.

Staff has calculated average CIAC to be \$41,628 for water and \$288,015 for wastewater.

Acquisition Adjustment: In Order No. 24817, issued July 15, 1991, in Docket No. 900945-WS, the Commission approved a negative acquisition adjustment of \$28,574 for water and \$66,743 for wastewater. Staff has made no adjustments to this account.

Accumulated Depreciation: The utility's balance for accumulated depreciation was \$150,216 for water and \$290,070 for wastewater at June 30, 2000. 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 at June 30, 2000, is \$134,524 for water and \$281,851 for wastewater. Therefore, staff has decreased this account by \$15,692 for water and \$8,219 for wastewater. This account has been decreased by \$9,243 for water and \$12,353 for wastewater to reflect an averaging adjustment.

This account has also been increased by \$531 for water and \$1,569 for wastewater to reflect one half year of depreciation on pro forma additions. Accumulated depreciation has been decreased by \$265 for water and \$784 for wastewater to reflect an averaging adjustment on pro forma depreciation. Average accumulated depreciation is \$125,547 for water and \$270,283 for wastewater.

Amortization of CIAC: Based on the utility's records at June 30, 2000, the utility recorded amortization of CIAC of \$279 for water and \$186,396 for wastewater. Amortization of CIAC has been recalculated by staff using composite depreciation rates. The beginning balance of CIAC amortization for wastewater has been

increased by \$1,829 to reflect CIAC amortization associated with the Palm Circle Park connection discussed above.

This account has been increased by \$4,847 for water and \$139 for wastewater to reflect the year end amortization of \$5,126 for water and \$188,364 for wastewater as calculated by staff. Amortization of CIAC has been decreased by \$946 for water and \$6,506 for wastewater to reflect an averaging adjustment. Average amortization of CIAC is \$4,180 for water and \$181,858 for wastewater.

Amortization of Acquisition Adjustment: Based on the utility's records at June 30, 2000, the utility's recorded amortization of acquisition adjustment was \$12,147 for water and \$33,310 for wastewater. Amortization of the acquisition adjustment has been recalculated by staff using composite depreciation rates. This account has been increased by \$63 for water and decreased by \$977 for wastewater to reflect the year end amortization of \$12,210 for water and \$32,333 for wastewater as calculated by staff. Amortization of the acquisition adjustment has been decreased by \$649 for water and \$1,508 for wastewater to reflect an averaging adjustment. Average amortization of acquisition adjustment is \$11,561 for water and \$30,825 for wastewater.

Working Capital Allowance: Working Capital is defined as the investor-supplied funds necessary to meet operating expenses or going-concern requirements of the utility. Consistent with Rule 25-30.433(2), Florida Administrative Code, staff recommends that the one-eighth of the O&M expense formula approach be used for calculating working capital allowance. Applying that formula, staff recommends a working capital allowance of \$8,208 (based on O&M of \$65,662) for water and \$15,438 (based on O&M of \$123,501) for wastewater. The utility did not record a working capital allowance. Working capital has been increased by \$8,208 and \$15,438 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 \$229,799 for water and \$225,683 for wastewater.

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

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 rate of return on equity is 9.94% with a range of 8.94% - 10.94%. The appropriate overall rate of return for the utility is 8.85% (FITCH)

STAFF ANALYSIS: According to staff's audit the utility recorded the following items in capital structure; common stock of \$3,000, paid-in-capital of \$302,012, treasury stock of \$281,537, long term debt of \$569,629, and a negative retained earnings of \$171,439. Treasury stock has a negative impact on total common equity. This results in a negative total common equity of \$147,964. An adjustment of \$147,964 was made to retained earnings to increase the negative common equity balance to zero. This adjustment causes the utilities capital structure to be 100% debt.

The utility's \$569,629 of long term debt consists of two debt instruments. The first debt instrument is a note for \$549,212 with a stated interest rate of 8.875%. The second debt instrument is a truck loan in the amount of \$20,417 with a stated interest rate of 7.49%.

As discussed Issue No. 4, staff recommended disallowing the 1998 truck (new truck) from rate base. However, staff recommended that the utility leave the 1997 truck (old truck) on the books. Therefore, staff has made an adjustment to the new truck loan to reflect the cost of capital associated with the old truck. Staff has decreased the long term debt by \$10,755 to reflect the loan value associated with the old truck.

Because this utility's capital structure is 100% debt, the overall rate of return should be equal to the weighted average cost of debt of 8.85% ($8.875 \times 98.27\% + 7.49 \times 1.73\%$).

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 for all capital structures with an equity ratio of less than 40% is 9.94%. Since the utility's capital structure is 100% debt, the rate of return on equity is 9.94% with a range of 8.94% - 10.94%.

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The utility's capital structure has been reconciled with staff's recommended rate base. Staff's recommended return on equity is 9.94% with a range of 8.94% - 10.94% and an overall rate of return of 8.85%.

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 this utility are \$116,419 for water and \$114,516 for wastewater. (FITCH)

STAFF ANALYSIS: The utility booked revenues during the test year of \$115,277 for water and \$111,614 for wastewater. The utility's water tariff, at test year end, authorized a base facility charge of \$10.86 and a gallonage charge of \$3.58 per 1,000 gallons. The utility's wastewater tariff, at test year end, authorized a base facility charge of \$10.80 and a gallonage charge of \$2.70 per 1,000 gallons for all metered customers. For unmetered customers the wastewater tariff, at test year end, authorized a flat rate of \$17.52 for residential customers and \$96.60 for general service customers.

The utility's existing rates at test year end became effective February 1, 2000. The utility's test year includes the period July 1, 1999 through June 30, 2000. The utility received a four year rate reduction effective July 2000. Staff has calculated annualized revenue using rates at test year end times the number of bills and consumption provided in the billing analysis. Test year revenue has been increased by \$1,142 for water and \$2,902 for wastewater to reflect annualized revenue based on test year end rates.

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

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

RECOMMENDATION: The appropriate amount of operating expense for this utility is \$90,942 for water and \$148,206 for wastewater. The utility should be required to provide the Commission with proof of the initiation of a pension plan, as discussed in the staff analysis, within 90 days of the effective date of the Commission Order. Moreover, the utility should be reminded to send bills pursuant to Rule 25-30.335, Florida Administrative Code, at regular intervals. (FITCH)

STAFF ANALYSIS: The utility recorded operating expenses of \$83,520 for water and \$122,649 for wastewater during the 12-month test period ending June 30, 2000. The utility uses the National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts (USOA), however the utility uses the cash basis of accounting rather than the accrual basis of accounting as specified by NARUC. The utility also improperly classified a majority of its expenses in the Contracted Services-Billing account (630/730). Staff has reallocated these expenses to the appropriate accounts.

The utility provided the auditor with access to all books and records, invoices, canceled checks, and other utility records to verify its O&M and taxes other than income expense for the 12-month period ended June 30, 2000. Staff has determined the appropriate operating expenses for the test year and a breakdown of expenses by account class using the documents provided by the utility. 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)

Salaries and Wages-Employees -(601/701) - The utility did not record salaries and wages during the test year. The utility has requested changing its contracted employees to salaried employees.

The utility contracted three related party employees during the test year, Reginald Burge, Keith Burge, and Kevin Burge. Reginald Burge is the utility's owner, president, general manager, and part time maintenance man. Keith Burge handles the utility's books and records, billing, accounting, part time maintenance, and manages the day-to-day operations of the utility. Kevin Burge

handles the maintenance for the utility and was contracted on a job-by-job basis.

Reginald Burge received a contracted salary of \$36,000 a year. The utility has requested a \$6,000 annual increase for his services. Keith Burge received a contracted salary of \$24,000 a year. The utility has requested a \$6,000 annual increase for his services. Kevin Burge received payment "as invoiced".

At the customer meeting held on April 23, 2001, customers and the Office of Public Counsel (OPC) expressed concern about the rate impact of switching from contractual services to salaried employees. The main concern was that the payroll taxes associated with the salaried employees would be an additional expense to the customers, whereas contracted employees and payroll taxes were included in the contracted amounts. The net effect of switching to salaried employees is a rate increase equal to the amount of employment taxes. Staff agrees that a change in utility policy over the status of related party employees should not adversely effect the rate payers. Staff has made adjustments to Reginald and Keith Burge's salaries to reflect salaries net of payroll taxes as discussed below.

The utility has requested \$18,000 a year for a full-time maintenance person. This position would replace the duties of Kevin Burge and reduce or remove the maintenance burden on Reginald and Keith Burge. In Order No. PSC-96-1466-FOF-WU, issued December 3, 1996, in Docket No. 960133-WU, the Commission allowed \$15,232 for a maintenance person. Staff finds the requested amount to be reasonable and consistent with previous Commission allowances. Staff recommends allowing \$18,000 for a full time maintenance person to be split 35/65 between water and wastewater.

The utility has requested a \$30,000 annual salary for Keith Burge. Staff has reduced this amount by \$2,307 to remove payroll tax that would have been included in the contracted salary. This reduces the requested salary to \$27,693. Payroll taxes on this salary are equal to the \$2,307 removed above. As discussed above, Keith Burge is responsible for the day-to-day operations of the utility. In Laniger's last rate case, the Commission allowed an amount for an office clerk of 20 hrs. per week at \$10.15 an hour. Staff has adjusted this rate for inflation to \$11.10 an hour. Staff has allocated \$11,544 (52 weeks x \$11.10 an hour x 20hrs) of the requested salary for office clerk duties (accounting/

bookkeeping). The remaining \$16,149 is for managing the utility and providing part-time maintenance where necessary. In Order No. PSC-98-1579-FOF-WS, issued November 25, 1998, in Docket No. 980441-WS, for Orchid Springs, a similar sized utility, the Commission allowed \$15,000 for management services alone. Staff finds the requested amount to be reasonable and consistent with previous Commission allowances. Therefore, staff has allowed \$27,693 for Keith Burge's services.

The utility has requested a \$42,000 annual salary for Reginald Burge. Reginald Burge received \$36,000 for his services during the test year. Since Keith Burge handles the majority of the utility's day-to-day operations and the staff has allowed for a full time maintenance person, staff believes that \$36,000 is an appropriate amount for Reginald Burge's services.

Staff has reduced this amount by \$2,734 to remove payroll taxes that would have been included in the contracted salary. This reduces the requested salary to \$33,266, payroll taxes on this salary are equal to the \$2,734 removed above. Staff has split this salary between an officer's salary and a management/maintenance salary. In Order No. PSC-98-1579-FOF-WS, for Orchid Springs, the Commission allowed \$25,000 for officer's salary. Staff will allocate \$25,000 of the \$33,266 staff believes is reasonable to the Salaries and Wages-Officer account. Staff believes that the remaining \$8,266 is a reasonable amount for a general manager/maintenance persons duties. The total management salary for Reginald and Keith Burge is consistent with past Commission allowances for similar sized utilities. In Order No. PSC-98-0130-FOF-WS, issued January 26, 1998, in Docket No. 970633-WS, the Commission allowed \$17,517 for management duties for a similar sized utility. Therefore, staff recommends an allowance of \$8,266 for Reginald Burge's services.

The utility capitalized supervisory hours during the test year of \$240 for water and \$400 for wastewater. These amounts are consistent with the average amount of supervisory hours capitalized by the utility in the previous three years. Staff has also identified \$1,750 of pro forma labor cost to be capitalized by the utility for water. This amount is consistent with past capitalized labor cost for this utility. The allowance for this account should be reduced by \$1,990 (\$240 + \$1,750) for water and \$400 for wastewater to reflect capitalized labor and supervisory hours.

Staff has recommended total salaries and wages expense for employees as follows:

	Total (100%)	Water (35%)	Wastewater (65%)
Reginald Burge	\$8,266	\$2,893	\$5,373
Keith Burge	\$27,693	\$9,693	\$18,000
Kevin Burge	\$18,000	\$6,300	\$11,700
<u>Capitalized Labor</u>	<u>(\$2,390)</u>	<u>(\$1,990)</u>	<u>(\$400)</u>
Total	<u>\$51,569</u>	<u>\$16,896</u>	<u>\$34,673</u>

Therefore, staff has increased this account by \$16,896 for water and \$34,673 for wastewater to reflect the recommended annual salary allowances listed above.

Salaries and Wages-Officers (603/703) - The utility did not record an amount in this account during the test year. As discussed above staff believes that an officer's salary of \$25,000 annually is appropriate for Reginald Burge. Staff has increased this account by \$8,750 (\$25,000 x 35%) for water and \$16,250 (\$25,000 x 65%) for wastewater to reflect officer's salary for Reginald Burge.

Employee Pensions and Benefits - (604/704) - The utility requested initiating a pension plan for its employees. Laniger provided staff with a defined contribution plan (401 K) from Morgan Stanley Dean Witter. The utility has requested contributing the maximum allowable under the plan. According to the plan provided by the utility, the maximum contribution is 15% of earned income. For self-employed persons, earned income is defined as net earnings from self employment less any contributions to a qualified retirement plan for the year involved. Although employee pensions and benefits are a legitimate business expense, staff does not believe that the 15% maximum contribution is appropriate for a utility of this size. Staff believes that one half of the maximum contribution level allowed is reasonable for this utility. Therefore, staff is recommending that the pension cost should be calculated based on a rate of 7.5% of earned income.

Total annual salaries recommended by staff for Keith and Kevin Burge are \$45,693. Applying the 7.5% contribution level to this

annual salary results in an annual pension cost of \$3,427. Reginald Burge is the utility's owner and thus earned income for Reginald Burge is earned income as defined for self-employed persons. When applying the rate for a self-employed person, the algebraic effective rate is 6.98% ($[\text{net earnings} \times 7.5\%] / [1 + 7.5\%]$). The annual salary recommended by staff for Reginald Burge is \$33,266. Applying the 6.98% maximum contribution level for a self employed person results in an annual pension cost of \$2,321.

Staff has increased this account by \$5,748 ($\$3,427 + \$2,321$) and allocated 35% to water (\$2,012) and 65% to wastewater (\$3,736). The utility should provide staff with a signed contract with Morgan Stanley Dean Witter with proof of the 401 K plan and contributions allowed by staff within 90 days of the effective date of the Commission Order.

Sludge Removal Expense-(711) The utility recorded \$0 in this account, however the utility incurred sludge removal expenses twice during the test year. Staff has increased this account by \$1,760 to include the cost of sludge removal incurred during the test period but not recorded. Staff has also reclassified \$1,760 from Account No. 730 to remove sludge hauling expense recorded in the Contractual Services Billing account.

Purchased Power-(615/715) - The utility recorded \$3,507 for water and \$8,491 for wastewater in this account during the test year. Staff has decreased this account by \$777 for water and increased this account by \$1,062 for wastewater to reflect expenses on an accrual basis. Staff has also increased this account by \$477 for water and decreased this account by \$477 for wastewater to reallocate purchased power for the utility's office based on the 35/65 customer ratio. A decrease of \$68 has been made to water in this account to reflect a 2.5% adjustment for excessive unaccounted for water as determined by the staff engineer.

Chemicals-(618/718) - The utility recorded \$0 for water and \$865 for wastewater in this account during the test year. Staff has reallocated \$1,665 for water and \$2,170 for wastewater to this account from Account No. 630 and 730 respectively. Staff has increased this account by \$339 for wastewater to include chemical expense incurred but not recorded during the test year. In addition the annual chemical expense for water has been decreased by \$42 to reflect a 2.5% adjustment for excessive unaccounted for water as determined by the staff engineer.

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Materials and Supplies-(620/720) The utility recorded \$1,984 for water and \$4,215 for wastewater in this account during the test year. Staff has reallocated \$5,069 of painting expense from plant Account No. 354. This amount included \$4,840 of labor cost. Staff has reduced this amount by \$4,840 to remove labor cost accounted for in the salaries and wages account. The remaining \$230 is for painting supplies. Because this is a nonrecurring expense, staff has amortized the cost over five years in accordance with Rule 25-30.433(8), Florida Administrative Code. Therefore, staff has decreased this account by \$184 ($[\$230/5 \text{ years}] - \230) for wastewater to amortize test year painting supplies over five years.

The utility also requested pro forma painting expense of \$7,185 for painting its pipes, tanks, and water and wastewater plants. Staff has identified painting cost of \$3,440 for water and \$3,745 for wastewater from the utility's request. Again, these amounts include labor cost of \$2,500 for water and \$2,000 for wastewater. Because staff has made an allowance for a maintenance person in Account No. 601 and 701, staff has disallowed \$2,500 for water and \$2,000 for wastewater of the utility's requested amount for labor cost. The remaining \$940 for water and \$1,745 for wastewater is for painting supplies. Staff believes that these costs are not annual costs and should be amortized over five years, pursuant to Rule 25-30.433(8), Florida Administrative Code. Staff has increased this account by \$188 ($\$940/5 \text{ years}$) for water and \$349 ($\$1,745/5 \text{ years}$) for wastewater for painting expense.

Staff has decreased this account by \$146 for water and increased this account by \$146 for wastewater to reallocate expense based on the customer ratio of 35/65 as discussed in Issue No. 4. Staff's net adjustment to this account is an increase of \$42 for water and \$541 for wastewater.

Contracted Services-Billing-(630/730) - The utility recorded \$42,511 for water and \$80,437 for wastewater in this account during the test year. The utility improperly recorded sludge removal, chemicals, contracted services (professional, testing, other), and miscellaneous expenses in this account. Billing services are performed by Keith Burge, a salaried employee. Because billing is performed by a salaried employee, this account should be reduced to zero. During the customer meeting, customers raised concerns about not receiving bills timely. The utility should be reminded to send bills pursuant to Rule 25-30.335, Florida Administrative Code, at

regular intervals. Staff has removed and reallocated expenses to the appropriate accounts as discussed below.

Staff has identified \$937 for water as out of period expense. Staff has also identified the following amounts as capital items: \$695 for a check valve and \$137 for plant signs for water and \$1,200 for a utility trailer, \$722 for a check valve, \$325 for a meter, \$4,384 for a blower, \$282 for a regulator, and \$200 for a plant sign for wastewater in this account. Capitalized items are further discussed in Issue No. 4.

Staff has identified \$24,787 for water and \$45,466 for wastewater of contracted employee expense for Reginald, Keith, and Kevin Burge. Because staff has allowed salaried wages for these employees, staff has removed \$24,787 for water and \$45,466 for wastewater from this account.

The following is a summary of amounts removed from or transferred out of this account. All amounts transferred to a different account, will be further discussed in those accounts.

<u>Accounts</u>	<u>Water (630)</u>	<u>Wastewater (730)</u>
Per Utility	\$42,511	\$80,437
<u>Transfers Reductions</u>		
Contracted Salaries (Reginald, Keith, and Kevin Burge)	(\$24,787)	(\$45,466)
Sludge Removal (711)	\$0	(\$1,760)
Chemicals (618/718)	(\$1,665)	(\$2,170)
Contacted Services Professional (631/731)	(\$9,635)	(\$14,538)
Contracted Services Testing (635/735)	(\$3,091)	(\$1,525)
Contracted Services Other (636/736)	(\$1,524)	(\$6,284)
Miscellaneous (675/775)	(\$40)	(\$1,581)
Capitalized Expense	(\$832)	(\$7,113)
Out of Period Expense	<u>(\$937)</u>	<u>\$0</u>
Contracted Services Billing (630/730)	<u>\$0</u>	<u>\$0</u>

Staff has decreased this account by \$42,511 for water and \$80,437 for wastewater.

Contracted Services-Professional-(631/731) -The utility recorded \$0 in this account for both water and wastewater during the test year. Staff has increased this account by \$9,635 for water to reclassify legal and consulting fees from Account No. 630. This amount includes \$8,135 for legal fees and \$1,500 for engineering fees. Staff has also increased this account by \$14,538 for wastewater to reclassify legal and consulting fees from Account No. 730. This amount includes \$12,203 for legal fees and \$2,335 for engineering fees. Staff has further increased this account by \$375 for water to reflect unrecorded consulting fees.

During the test year the utility recorded higher than normal legal expenses due to a territory dispute with Martin County.

Staff has determined that the average normal legal expense incurred over the last five years is \$5,015. This amount should be allocated based on the 35/65 customer ratio. The utility recorded \$8,135 of legal expenses for water. Staff has reduced this amount by \$6,380 to reflect normalized legal expense of \$1,755 ($\$5,015 \times 35\%$). Staff has also increased this account for water by \$1,276 ($\$6,380/5$ years) to amortize the extraordinary portion of the legal expense. The utility recorded \$12,203 of legal expenses for wastewater. Staff has reduced this amount by \$8,943 to reflect normalized legal expense of 3,260 ($\$5,015 \times 65\%$). Staff has increased this account for wastewater by \$1,789 ($\$8,943/5$ years) to amortize the extraordinary portion of the legal expense.

Staff's net adjustment to this account is an increase of \$4,906 for water and \$7,384 for wastewater.

Contractual Services-Testing-(635/735) - The utility recorded \$0 in this account for water and wastewater during the test year. Staff has increased this account by \$3,091 for water and \$1,525 for wastewater to reflect a reclassification from Account No. 630 and 730. Staff has also increased this account for wastewater by \$945 to reflect unrecorded DEP required testing incurred during the test year.

Each utility must adhere to specific testing conditions prescribed within its operating permit. These testing requirements are tailored to each utility as required by the 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>Water</u>		<u>Groundwater</u>	
	<u>Frequency</u>	<u>Amount</u>	<u>Frequency</u>	<u>Amount</u>
Bacteriological	Monthly	\$240	2 Per month	\$480
Nitrates	Yearly	\$55		
Lead & Copper	Yearly	\$325		
VOC's	3 Years	\$65		
Gross Alpha	3 Years	\$28		
P&S Inorganic	3 Years	\$182		
Secondary Drinking Water	3 Years	\$83		
Unregulated Organic Compounds	3 Years	\$109		
<u>Pest \$ PCB's</u>	<u>3 Years</u>	<u>\$292</u>		
Total		<u>\$1,379</u>		<u>\$480</u>

Wastewater

<u>Test</u>	<u>Plant</u>		<u>Groundwater</u>	
	<u>Frequency</u>	<u>Amount</u>	<u>Frequency</u>	<u>Amount</u>
PH	1 Per Week	\$780	2 Years	\$30
CBOD	2 Weeks	\$585		
TSS	2 Weeks	\$585		
Nitrates	Monthly	\$360	2 Years	\$60
Fecal Coliform	2 Weeks	\$520	2 Years	\$40
Total Chlorine	1 Per Week	\$260		
Total Dissolved Solids			2 Years	\$60
Chloride			2 Years	\$60
Total Recoverable Cadmium			2 Years	\$100
Total Recoverable Chromium			2 Years	\$100
<u>Total Sulfate</u>	_____	_____	<u>2 Years</u>	<u>\$100</u>
Total		<u>\$3,090</u>		<u>\$550</u>

Staff has decreased contractual services testing by \$1,232 (\$1,859-\$3,091) for water and increased contractual services testing by \$1,170 (\$3,640-\$2,470) for wastewater to reflect annual DEP required testing.

Contractual Services Other-(636/736) - The utility recorded \$0 in this account for water and wastewater during the test year. Staff has reclassified \$1,524 for water and \$6,284 for wastewater from Account No. 630 and 730 to this account. The transferred amounts consist of a contracted operator (\$1,295 for water and \$6,284 for wastewater) and \$229 for grounds keeping at the water plant.

The utility's contracted operator service is provided by Accurate Utilities. Accurate Utilities performs operator services as well as testing and supplying the utility with chemicals.

Accurate Utilities charges \$717 a month or \$8,604 annually for operator services, according to its contract and billing invoices. Staff has increased this account by \$1,716 for water and decreased this account by \$691 for wastewater to annualize and reallocate annual operator expenses of \$3,011 for water ($\$8,604 \times 35\%$) and \$5,593 ($8,604 \times 65\%$).

The utility also submitted signed estimates for mowing/grounds-keeping expense in the amounts of \$1,185 for water and \$9,000 for wastewater. These estimates include the cost per mowing and the number of times a year mowing would be performed. The estimates included mowing of twice a month. At the customer meeting, customers stated that the utility did not maintain grounds-keeping at the plant on a regular basis and that the amount requested was too high for services that were not being performed. Customers also commented on fire hazards caused by the utility not removing overgrown brush. The utility's estimate includes money for brush removal 3 times a year. The utility should be allowed an allowance for grounds-keeping, however, staff believes that 24 mowings a year is too high. Staff believes that 18 mowings a year is appropriate and will allow the utility to mow once a month during the dry and winter months and twice a month during the rainy and summer months. Staff has reduced the utility's estimate by \$180 for water and \$900 for wastewater to reflect 18 mowings a year.

Staff has further reduced this estimate by \$300 for wastewater to remove the labor cost associated with spraying herbicide around the wastewater plant. This is a cost that should be covered by the utility's maintenance man. The utility recorded \$229 for water grounds-keeping expense during the test year. Therefore staff has increased this account by \$776 ($\$1,005 - \229) for water and \$7,800 for wastewater.

The utility requested pro forma expenses of \$6,760 to clear debris and vegetation in and around the percolation ponds. In issue No. 4 staff has allowed proforma plant items that in the future will reduce the frequency in which the ponds will have to be cleared of debris and vegetation. Therefore, staff has spread this cost over five years and increased this account by \$1,352 ($\$6,760 / 5$ years) for wastewater.

The Utility requested pro forma labor cost associated with the Martin County required hydrant testing of \$3,019. Staff has made

an allowance for a full-time maintenance person in the salaries and wages account. This labor cost should be included in the duties of the full-time maintenance person. Therefore, no adjustment has been made for this amount.

The utility has also requested pro forma expense to refurbish its 82,000 gallon storage tank, as required by DEP. The utility has submitted an estimate ranging from \$27,000 to \$30,000 to clean, sandblast corroded areas, repaint the inside of the tank, and bacteriologically clear it for use. Staff believes the average of the estimated range, \$28,500, is reasonable. The utility also submitted an estimate ranging from \$10,000 to \$12,000 to paint the outside of the tank, and perform substantial metal work to the outside of the tank. Staff believes that the average of the estimate range, \$11,000, is reasonable. Staff has determined the total cost of refurbishing the tank to be \$39,500. Because this is a non-recurring expense, staff has amortized this expense over five years. Staff has increased this account by \$7,900 ($\$39,500 / 5$ years) to reflect pro forma tank repair expense.

Staff has also increased this account by \$100 to amortize an improperly capitalized repair expense over five years for wastewater. Staff has increased this account by \$325 to reflect unrecorded consulting fees for wastewater.

Staff recommends a net increase to this account of \$11,916 for water and \$15,170 for wastewater.

Rent Expense- (640/740) - The utility recorded \$1,929 for water and \$3,079 for wastewater in this account during the test year. During the test year the utility signed a new lease for office space with Holly Burge, a related party. The lease amount (\$600 a month) was less than the amount paid previously by the company (\$642 a month). Because the utility did not record rent expense on the accrual basis during the test year, the utility's test year rent expense was understated. Staff finds the monthly rent expense to be reasonable and has increased this account by \$591 for water and \$1,601 for wastewater to reflect rent per lease contract of \$2,520 ($\600×12 months $\times 35\%$) for water and \$4,680 ($\600×12 months $\times 65\%$) for wastewater.

Transportation Expense- (650/750) - The utility recorded \$1,039 for water and \$1,013 for wastewater in this account during the test

year. Staff has increased this amount by \$118 for water and \$219 for wastewater to reflect unrecorded transportation expense.

Insurance Expense- (655/755) - The utility recorded \$4,796 for water and \$7,199 for wastewater in this account during the test year. These amounts include health insurance for Reginald and Keith Burge, auto insurance, and property insurance. Staff has annualized the insurance policies and determined annualized health insurance of \$11,487, property insurance of \$2,870, and auto insurance of \$1,579. These amounts have been allocated based on the customer ratio of 35/65. Staff has increased this account by \$782 for water and \$3,159 for wastewater to reflect annualized insurance expense.

Regulatory Commission Expense-(665/765) - The utility recorded \$5,295 for water and \$5,123 for wastewater in this account for the test year. These amounts are Regulatory Assessment Fees (RAFs) and have been removed from this account and reclassified as taxes other than income. The utility paid a \$1,000 rate case filing fee for water and wastewater each. This expense has been increased by \$250 (\$1,000/4 years) for water and wastewater each to amortize rate case expense over four years. The total annual expense is \$250 per system.

Miscellaneous Expense-(675/775) - The utility recorded \$2,447 for water and \$3,626 for wastewater in this account for the test year. Staff has increased this account by reclassifying \$40 for water and \$1,581 for wastewater from Account No. 630 and 730 respectively. Staff has decreased this account by \$10 for water and \$20 for wastewater to remove a non-utility club membership fee. Staff has increased this account by \$308 for water to amortize water permit expense over five years, the life of the permit. Staff has also increased this account by \$245 for water and \$216 for wastewater to included expenses improperly capitalized during the test year (\$144 from Acct. 343, \$101 from Acct. 304, and \$216 from Acct. 393). The total annual expense for this account is \$3,030 for water and \$5,403 for wastewater.

Operation and Maintenance Expense (O&M Summary) - The total O&M adjustment is an increase of \$2,154 for water \$9,453 for wastewater. Staff's recommended O&M expenses are \$65,662 for water and \$123,501 for wastewater. O&M expenses are shown on Schedules 3-D and 3-E.

Depreciation Expense - The utility recorded depreciation expense of \$17,073 for water and \$8,965 for wastewater and amortization of CIAC of \$1,106 for water and \$3,060 for wastewater during the test year. Depreciation expense has been calculated by staff using the prescribed rates in Rule 25-30.140, Florida Administrative Code. Staff has increased depreciation expense by \$2,829 for water and \$17,483 for wastewater to reflect staff's calculated depreciation of \$19,902 for water and \$26,448 for wastewater. Staff has reduced this account for non-used and useful depreciation by \$1,089 for water and \$2,133 for wastewater. Staff has further reduced depreciation expense by \$817 for water and \$10,391 for wastewater to reflect staff's calculated amortization of CIAC of \$1,923 for water and \$13,451 for wastewater. Staff has reduced this account for amortization of a negative acquisition adjustment by \$1,320 for water and \$3,117 for wastewater. Non-used and useful depreciation, amortization of CIAC, and amortization of a negative acquisition adjustment have a negative impact on depreciation expense. Net depreciation expense is \$15,570 for water and \$7,747 for wastewater. Staff's net adjustment to this account is a decrease of \$397 for water and an increased of \$1,842 for wastewater to reflect staff's calculated annual net depreciation expense.

Taxes Other Than Income - The utility recorded taxes other than income of \$4,045 for water and \$2,696 for wastewater during the test year. Staff has reallocated \$5,295 for water and \$5,123 for wastewater from regulatory expenses to this account to reflect RAFs paid during the test year. This account has been decreased by \$56 for water and increased by \$30 for wastewater to reflect RAFs on annualized revenue. This account has been increased by \$2,313 for water and \$4,295 for wastewater to reflect payroll taxes associated with the recommended utility salaries expense.

Staff has also increased this account by \$30 for water and \$713 for wastewater to include real estate taxes. Staff has reallocated \$1,686 from water to wastewater to reflect proper allocation of property taxes. The total adjustment for this expense is an increase of \$5,896 for water and \$11,847 for wastewater.

Income Tax - Laniger is a sub Chapter S corporation, therefore this utility pays no income taxes.

Operating Revenues - Revenues have been decreased by \$5,141 for water and increased by \$53,663 for wastewater to reflect the change

in revenue required to cover expenses and allow the recommended return on investment.

Taxes Other Than Income - This expense has been decreased by \$231 for water and increased by \$2,415 for wastewater to reflect regulatory assessment fees of 4.5% on the change 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 \$90,942 for water and \$148,206 for wastewater.

Operating expenses are shown on Schedule Nos. 3-A and 3-B. The related adjustments are shown on Schedule No. 3-C.

REVENUE REQUIREMENT

ISSUE 8: What is the appropriate revenue requirement?

RECOMMENDATION: The appropriate revenue requirement is \$111,279 for water and \$168,179 for wastewater. (FITCH)

STAFF ANALYSIS: The utility's revenue requirement should be reduced by \$5,141 (-4.42%) for water and the utility should be allowed an annual increase of \$53,663 (46.86%) for wastewater. This will allow the utility the opportunity to recover its expenses and earn a 8.85% return on its investment. Disposition of overearnings will be discussed in Issue No. 9. The calculations are as follows:

	<u>Water</u>	<u>Wastewater</u>
Adjusted rate base	\$229,799	\$225,683
Rate of Return	x .0885	x .0885
Return on investment	\$20,337	\$19,973
Adjusted O & M expense	\$65,662	\$123,501
Depreciation expense (Net)	\$15,570	\$7,747
Taxes Other Than Income	\$9,710	\$16,958
Revenue Requirement	<u>\$111,279</u>	<u>\$168,179</u>
Adjusted Test Year Revenues	<u>\$116,419</u>	<u>\$114,516</u>
Percent Increase/(Decrease)	<u>(4.42)%</u>	<u>46.86%</u>

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

DISPOSITION OF OVERTURNINGS

ISSUE 9: What is the appropriate disposition of the overearnings associated with the water system?

RECOMMENDATION: The utility should be required to spend the total recommended level of the water system's overearnings to implement the water conservation programs discussed in the Staff Analysis below. The utility should, at a minimum, spend the recommended amount for each of the first two years of its conservation programs, and be required to file quarterly reports with the Commission on its program covering the same two year period. These reports should list the conservation measures that were implemented during the period and the amounts expended. Staff should confer with the SFWMD in reviewing the reports in order to evaluate the effectiveness of the program and ensure that the program and amounts spent are consistent with the Commission order.

(LINGO)

STAFF ANALYSIS: In 1991, the Commission entered into a Memorandum of Understanding (MOU) with the five Water Management Districts (WMDs), in which the agencies recognized that it is in the public interest to engage in a joint goal to ensure the efficient and conservative utilization of water resources in Florida, and that a joint cooperative effort is necessary to implement an effective, state-wide water conservation policy. Since that time, staff has increased its efforts in assisting the WMDs in achieving conservation goals. More recently, staff has worked with the St. Johns River Water Management District (SFWMD) and the Southwest Florida Water Management District (SWFWMD) in tailoring conservation programs for jurisdictional utilities that are designed to achieve significant and lasting water use reductions. Staff believes that reasonable expenses for such programs should be included in utility rates, because the WMDs hold the utilities, rather than utilities' customers, responsible for reductions in water use.

Laniger is located in Martin County within the SFWMD. The District has requested that the Commission consider implementing both water conservation programs and inclining-block rate structures applicable to all customer classes in this proceeding. The rate structure issue will be discussed in greater detail in Issue 10. Irrigation usage represents 53% of all gallons sold during the test year. As a means of addressing irrigation usage,

and absent an increase in water system revenue requirement, staff is recommending that in the first year of the conservation program, the utility implement a proactive program geared to achieve lasting reductions in irrigation consumption.

Staff called upon the technical expertise of the SFWMD to design a conservation program that utilizes the total recommended level of overearnings and is applicable to Laniger's specific circumstances. The conservation measures and associated estimated costs listed below, developed in conjunction with the SFWMD, represents a program specifically designed to target in year one of the program the District's major area of concern regarding Laniger's usage, which is irrigation. The focus of the conservation measures in year two is on the reduction of any unaccounted-for water.

Recommended Conservation Programs

Year One:

1. Purchase and install rain switches on all irrigation meters. The cost will be approximately \$100 per sensor. These sensors will be donated to the various Homeowners' Associations. \$ 2,000
 2. Due to the age of the residential subdivisions, any remaining funds should be used to purchase low-flow shower-heads. The cost will be approximately \$10 per showerhead, and will be available on a first-come, first-served basis. \$ 3,100
- Total** \$ 5,100

Year Two:

1. Water audit of the utility's transmission and distribution system. The cost will depend on the condition of the system.
 2. Any remaining funds should be used to repair leaks in the utility's transmission and distribution system.
- Total** \$ 5,100

The Commission has taken a similar approach in prior cases involving excess earnings, low rates and high consumption. On June 25, 2001, in Docket No. 981147-WS, the Commission approved a pilot water conservation program for Highlands Ridge Associates, Inc., in Highlands County. Specifically, the Commission approved a pilot program for no-maintenance soil sensors, and also approved funds to begin irrigation audits. This decision is PAA and won't become final until the expiration of the protest period and issuance of a Consummating Order.

In related decisions, in Order No. 23809, issued November 27, 1990, in Docket No. 900338, in which the Commission required Sanlando Utilities Corporation (Sanlando) to set aside \$25,008 in annual revenues for future expenses specifically related to water conservation. Additionally, by Order No. PSC-93-1771-FOF-WS, issued on December 10, 1993, in Docket No. 930256-WS, the Commission approved an inclining block rate structure for Sanlando for the purpose of funding future capital investment related solely to conservation.

Moreover, the Commission recently made a similar finding in a case involving excess earnings, low rates and high consumption, involving a utility in Lake County. In Order No. PSC-00-1165-PAA-WS, issued June 27, 2000, the Commission required Sun Communities Finance Limited Partnership (Sun Communities) to implement a conservation program developed in conjunction with the utility, staff and the SFWMD. Specifically, the Commission approved an aggressive conservation program which included such items as xeriscape consulting and rebates, installation of moisture sensors, meter replacements and irrigation audits.

Staff believes that there are similar circumstances regarding the need for conservation in the instant proceeding. Although the conservation program ultimately recommended will come at some cost, staff and the SFWMD believe the circumstances in this case warrant such measures.

Laniger is an established utility. Furthermore, staff believes the utility is able to comply with District and Commission requirements and implement conservation measures. Additionally, as discussed below, staff proposes to monitor the utility's progress on a quarterly basis in order to ensure compliance with the Commission order. Staff believes these factors provide sufficient

assurance that the conservation programs will, in fact, be implemented.

Therefore, staff recommends that the utility should be required to spend the total recommended level of the water system's overearnings to implement the water conservation programs discussed above. The utility should, at a minimum, spend the recommended amount for each of the first two years of its conservation programs, and be required to file quarterly reports with the Commission on its program covering the same two year period. These reports should list the conservation measures that were implemented during the period and the amounts expended. Staff should confer with the SFWMD in reviewing the reports in order to evaluate the effectiveness of the program and ensure that the program and amounts spent are consistent with the Commission order.

ISSUE 10: Is a continuation of the utility's current rate structure appropriate in this case?

RECOMMENDATION: Yes, a continuation of the utility's current rate structure is appropriate. (LINGO)

STAFF ANALYSIS: As discussed previously, the Commission has entered into a MOU with the five WMDs, in which the agencies recognized that it is in the public interest to engage in a joint goal to ensure the efficient and conservative utilization of water resources in Florida, and that a joint, cooperative effort is necessary to implement an effective, state-wide water conservation policy. Since that time, staff has increased its efforts in assisting the WMDs in achieving conservation goals.

As previously mentioned, Laniger is located in Martin County within the SFWMD. The District has established specific water-use restrictions according to the severity of the water shortage: Phase I, moderate; Phase II, severe; Phase III, extreme; and Phase IV, critical. Each phase requires an increasingly larger reduction in water use. The District correlates each phase of the restrictions to the overall percentage of reductions needed. Phase II aims for a 30% reduction in water use. The majority of the District is now subject to Phase II water-use restrictions.

Staff's analysis indicates that the average consumption for the 277 customers billed at the 5/8" x 3/4" base facility charge (BFC) is approximately 2,800 gallons per month. This relatively low average monthly consumption indicates a high proportion of nondiscretionary, essential usage, and the total gallons sold to these customers account for less than one-half (approximately 47%) of all water gallons sold.

The remaining 12 customers, representing irrigation, swimming pool and recreational area usage, accounts for approximately 53% of all water gallons sold. Staff contemplated whether a change to an inclining-block rate structure for this discretionary, non-essential consumption is appropriate. However, as discussed in Issue 9, staff recommends that the utility's overearnings be applied toward a program that first requires the utility to install rain switches on all irrigation meters. Staff and the SFWMD believe that the recommended conservation programs will have a significant effect on consumption. However, we do not believe it is possible to appropriately quantify the magnitude of the

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conservation programs' effects on consumption at this time. There are ranges of consumption reductions that might reasonably be expected to occur, and we believe this information is critical in order to appropriately design rates.

Therefore, since we lack any historical information in this regard, staff recommends that a continuation of the utility's current rate structure is appropriate.

ISSUE 11: What are the appropriate rates for each system?

RECOMMENDATION: The recommended rates should be designed to produce revenue of \$116,419 for water and \$168,179 for wastewater, as shown in the staff analysis. 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. (FITCH, LINGO)

STAFF ANALYSIS: During the test year the utility provided service to approximately 283 water customers and 527 wastewater customers. The service area includes condominium style developments known as Beacon 21 (277 water and wastewater customers), River Club (192 wastewater customers), and a mobile home park known as Palm Circle (56 wastewater customers). The utility also serves 6 general service water customers and 2 general service wastewater customers.

As discussed in Issue No. 8, the appropriate revenue requirement, excluding miscellaneous service charges, is \$111,279 for the water system and \$168,179 for the wastewater system. However, for rate setting purposes, the revenue requirement for water is \$116,379, which amount includes the conservation expenses discussed in Issue No. 9. Staff has calculated rates using test year number of bills and consumption for water. Staff's calculated rates for wastewater have been calculated based on 80% of the water used by residential customers and actual usage for the multi-residential and general service customers. Flat rates have been calculated by staff for wastewater customers who do not receive water service from the utility. Staff has calculated flat rates for the River Club development based on staff's recommended base facility charge and gallonage charge times the average number of water gallons used by River Club. Staff was able to determine wastewater usage for River Club based on water consumption provided to River Club by the local municipality.

Because the utility's water revenue requirement for rate setting purposes is virtually unchanged (a decrease of \$40 or 0.03%) from its test year revenues, staff has elected to leave water rates unchanged. Schedules of the rates and rate structure in effect at the end of the test year, the utility's current rates

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and rate structure, and staff's recommended rates and rate structure are as follows:

<u>Monthly Rates - Water</u>			
<u>Residential and General Service</u>			
<u>Base Facility Charge</u>			
<u>Meter Sizes</u>	<u>Test Year</u> <u>Rates</u>	<u>Current</u> <u>Rates</u>	<u>Staff's</u> <u>Recommended Rates</u>
5/8" x 3/4"	\$10.86	\$10.83	\$10.83
3/4"	\$16.28	\$16.24	\$16.24
1"	\$27.14	\$27.07	\$27.07
1 1/2"	\$54.27	\$54.14	\$54.14
2"	\$86.83	\$86.62	\$86.62
3"	\$173.66	\$173.23	\$173.23
4"	\$271.33	\$270.66	\$270.66
6"	\$542.67	\$541.33	\$542.67
<u>Gallorage Charge</u>			
per 1,000 gallons	\$3.58	\$3.57	\$3.57

<u>Monthly Rates - Water</u>			
<u>Multi-Residential Service</u>			
<u>Base Facility Charge</u>	<u>Test Year</u> <u>Rates</u>	<u>Current</u> <u>Rates</u>	<u>Staff's</u> <u>Recommended Rates</u>
Per Unit	\$10.86	\$10.83	\$10.83
<u>Gallorage Charge</u>			
per 1,000 gallons	\$3.58	\$3.57	\$3.57

Monthly Rates - Wastewater

	<u>Residential</u>		<u>Staff's</u>
	<u>Test Year</u>	<u>Current</u>	<u>Recommended Rates</u>
	<u>Rates</u>	<u>Rates</u>	
<u>Flat Rates</u>			
River Club (Per Unit)	\$17.52	\$17.47	\$24.96
<u>Base Facility Charge</u>			
All Meter Sizes	N/A	N/A	\$14.14
<u>Gallonge Charge</u>			
per 1,000 gallons	N/A	N/A	\$3.92

Monthly Rates - Wastewater

	<u>Multi-Residential Service</u>		<u>Staff's</u>
	<u>Test Year</u>	<u>Current</u>	<u>Recommended Rates</u>
	<u>Rates</u>	<u>Rates</u>	
<u>Base Facility Charge</u>			
Per Unit	\$10.80	\$10.77	\$14.14
<u>Gallonge Charge</u>			
per 1,000 gallons	\$2.70	\$2.69	\$4.70

Monthly Rates - Wastewater

	<u>General Service</u>		
	<u>Test Year</u>	<u>Current</u>	<u>Staff's</u>
	<u>Rates</u>	<u>Rates</u>	<u>Recommended Rates</u>
Flat Rate (River Club Wash House)	\$96.60	\$96.60	\$139.72
<u>Base Facility Charge</u>			
<u>Meter Sizes</u>			
5/8" x 3/4"	\$10.80	\$10.77	\$14.14
3/4"	\$16.22	\$16.18	\$21.21
1"	\$27.02	\$26.95	\$35.35
1 1/2"	\$54.03	\$53.89	\$70.69
2"	\$86.44	\$86.22	\$113.11
3"	\$172.89	\$172.45	\$226.21
4"	\$270.14	\$269.46	\$353.45
6"	\$540.02	\$538.65	\$706.91
<u>Gallorage Charge</u>			
Per 1,000 Gallons	\$2.70	\$2.69	\$4.70

Staff has calculated different rates for Palm Circle Park, a flat rate (Phase I) and a base facility gallorage charge rate (Phase II). As discussed in Issue No. 4, the utility believes that excessive infiltration is entering the plant from the Palm Circle Park connection due to the condition of the park's lines. Staff has calculated a \$.58 excessive infiltration charge that is included in the Palm Circle base facility charge. This charge is based on a revenue requirement of \$393 that is caused by the cost directly associated with the Palm Circle Park connection, specifically the sewage meter requested by the utility. The \$393 was removed from revenue requirement when calculating the rates of Laniger's other customers. Therefore, the cost of the excessive infiltration will be born by the cost causer. Staff has also calculated an influent gallorage charge for metered wastewater only customers based on actual wastewater gallons. The Commission approved an influent gallorage charge based on actual wastewater gallons in Order No. 21450, issued June 26, 1998, in Docket No. 890110-SU. Staff has calculated flat rates for the Palm Circle Park development based on staff's recommended base facility charge,

excessive infiltration charge, and influent gallonage charge times the average number of gallons used by Beacon 21 and River Club customers (Phase I rates).

Staff has allowed for a six inch master meter to be placed at the Palm Circle Park connection, at which time the utility shall charge based on actual wastewater gallons rather than a flat rate (Phase II rates). Staff's calculated Influent gallonage charge applies to all future metered wastewater customers.

<u>Monthly Rates - Wastewater</u>			
<u>Palm Circle Park (Phase I)</u>			
	<u>Test Year</u>	<u>Current</u>	<u>Staff's</u>
	<u>Rates</u>	<u>Rates</u>	<u>Recommended Rates</u>
<u>Flat Rates</u>			
Palm Circle Park (Per Unit)	\$17.52	\$17.47	\$26.86

<u>Monthly Rates - Wastewater</u>			
<u>Palm Circle Park (Phase II)</u>			
	<u>Test Year</u>	<u>Current</u>	<u>Staff's</u>
	<u>Rates</u>	<u>Rates</u>	<u>Recommended Rates</u>
<u>Base Facility Charge</u>			
Per Unit	N/A	N/A	\$14.72
<u>Influent Gallonage Charge</u>			
metered wastewater only customers (per 1,000 gal)	N/A	N/A	\$4.70

Approximately 54% (\$91,245) 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 46% of the revenue requirement (\$76,934) represents revenues collected through the consumption charge based on the number of factored gallons.

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 and the customer notice is adequate.

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.

DATE: JUNE 28, 2001

ISSUE 12: Is an adjustment to reflect repression of consumption appropriate in this case, and, if so, what is the appropriate repression adjustment?

RECOMMENDATION: No, a repression adjustment is not appropriate in this case. (LINGO)

STAFF ANALYSIS: As discussed in Issue Nos. 8 and 9, staff recommends no increase to the water system revenue requirement. As discussed in Issue No. 10, staff's recommendation is that no change be made to the water system rate structure. Therefore, our recommendation is that a repression adjustment is not appropriate.

ISSUE 13: What is the appropriate amount by which rates should be reduced four years after the established effective date to reflect the removal of the amortized rate case expense as required by Section 367.0816, Florida Statutes?

RECOMMENDATION: The water and wastewater rates should be reduced as shown on Schedules 4 and 4A, to remove rate case expense grossed-up for regulatory assessment fees and amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the four year rate case expense recovery period, pursuant to Section 367.0816, Florida Statutes. The utility should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. If the utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense. (FITCH)

STAFF ANALYSIS: Section 367.0816, Florida Statutes requires that the rates be reduced immediately following the expiration of the four year period by the amount of the rate case expense previously included in the rates. The reduction will reflect the removal of revenues associated with the amortization of rate case expense and the gross-up for regulatory assessment fees which is \$262 annually for water and \$262 annually for wastewater. Using the utility's current revenues, expenses, capital structure and customer base the reduction in revenues will result in the rate decreases as shown on Schedules Nos. 4 and 4A.

The utility should be required to file revised tariff sheets no later than one month prior to the actual date of the required rate reduction. The utility also should be required to file a proposed customer notice setting forth the lower rates and the reason for the reduction.

If the utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense.

ISSUE 14: 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. (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 does not include a customer deposit for water and wastewater. 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:

<u>Water</u>		
<u>Residential, Multi-Residential, and General Service</u>		
<u>Meter Size</u>	<u>Existing Deposit</u>	<u>Staff's Recommended Deposit</u>
5/8" x 3/4"	N/A	\$55.00
All over 5/8" x 3/4"	N/A	2 x average bill

Wastewater

Residential, Multi-Residential, and General Service

<u>Meter Size</u>	<u>Existing Deposit</u>	<u>Staff's Recommended Deposit</u>
5/8" x 3/4"	N/A	\$50.00
All over 5/8" x 3/4"	N/A	2 x average 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 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 15: 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. Although the utility was not in compliance with the NARUC USOA during the test year, the utility is currently in compliance with the NARUC USOA. (BRUBAKER, 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. The utility used the NARUC USOA accounts, however, the utility used the cash basis of accounting for expenses rather than the accrual basis of accounting as specified by NARUC. 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". Staff notes that this is not the first time the utility has been in apparent violation of Rule 25-30.115, Florida Administrative Code. See Order No. PSC-96-0629-FOF-WS, issued May 10, 1996, in Docket No. 950515-WS.

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).

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. In this case, the utility mistakenly used the cash basis for some of its expense accounts. However, once notified, the utility immediately corrected the oversight on its books and records.

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.

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 should be subject to the refund provisions discussed below in the staff analysis. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(7), Florida Administrative Code, the utility should file reports with the Division of Economic Regulation no later than 20 days after each monthly billing. These reports should indicate the amount of revenue collected under the increased rates subject to refund. (FITCH, BRUBAKER)

STAFF ANALYSIS: This recommendation proposes an increase in wastewater rates. A timely protest might delay what may be a justified rate increase resulting in an unrecoverable loss of revenue to the utility. Therefore, 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 an appropriate security for both the potential refund and a copy of the proposed customer notice. The security should be in the form of a bond or letter of credit in the amount of \$37,087. 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 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(7), Florida Administrative Code, the utility should file reports with the Division of Economic Regulation no later than 20 days after each monthly billing. These reports should indicate the amount of revenue collected under the increased rates subject to refund.

ISSUE 17: 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 nine months from the effective date of the Order to allow staff to verify completion of proforma plant items as described in Issue No. 4. Once staff has verified that this work has been completed, the docket should be closed administratively. (FITCH, BRUBAKER)

STAFF ANALYSIS: Staff has recommended that the utility complete proforma items described in Issue No. 4. 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 nine months from the effective date of the Order to verify completion of the proforma items. Once staff has verified that the work has been completed, the docket should be closed administratively.

LANIGER ENTERPRISES OF AMERICA TEST YEAR ENDING 6/30/00 SCHEDULE OF WATER RATE BASE		SCHEDULE NO. 1-A DOCKET NO. 000584-WS	
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	\$436,406	(\$16,494)	\$419,912
2. LAND & LAND RIGHTS	5,000	0	5,000
3. NON-USED AND USEFUL COMPONENTS	0	(23,313)	(23,313)
4. CIAC	(2,482)	(39,146)	(41,628)
5. ACQUISITION ADJUSTMENT	(28,574)	0	(28,574)
6. ACCUMULATED DEPRECIATION	(150,216)	24,669	(125,547)
7. AMORTIZATION OF CIAC	279	3,901	4,180
8. AMORTIZATION OF ACQUISITION ADJ.	12,147	(586)	11,561
9. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>8,208</u>	<u>8,208</u>
10. WATER RATE BASE	\$272,560	(\$42,761)	\$229,799

LANIGER ENTERPRISES OF AMERICA TEST YEAR ENDING 6/30/00 SCHEDULE OF WASTEWATER RATE BASE		SCHEDULE NO. 1-B DOCKET NO. 000584-WS	
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	\$580,426	(\$20,165)	\$560,261
2. LAND & LAND RIGHTS	94,580	0	94,580
3. NON-USED AND USEFUL COMPONENTS	0	(32,238)	(32,238)
4. CIAC	(262,503)	(25,512)	(288,015)
5. ACQUISITION ADJUSTMENT	(66,743)	0	(66,743)
6. ACCUMULATED DEPRECIATION	(290,070)	19,787	(270,283)
7. AMORTIZATION OF CIAC	186,396	(4,538)	181,858
8. AMORTIZATION OF ACQUISITION ADJ.	33,310	(2,485)	30,825
9. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>15,438</u>	<u>15,438</u>
10. WATER RATE BASE	\$275,396	(\$49,713)	\$225,683

LANIGER ENTERPRISES OF AMERICA TEST YEAR ENDING 6/30/00	SCHEDULE NO. 1-C DOCKET NO. 000584-WS	
ADJUSTMENTS TO RATE BASE		
	<u>WATER</u>	<u>WASTEWATER</u>
<u>UTILITY PLANT IN SERVICE</u>		
1. Remove/ Reclassify expenses	(\$1,540)	(\$7,257)
2. Remove Undocumented/ double booked plant	(978)	(2,355)
3. Reduce Utility Upcharge (Overhead)	(1,004)	(3,722)
4. Retirements	(7,994)	(3,900)
5. Remove New Truck	(14,641)	(21,961)
6. Capitalized Plant	2,280	5,884
7. Remove Items Below Capitalization	(361)	(263)
8. Pro forma Plant	18,694	31,376
9. Avg. adjustment Pro forma	(9,347)	(15,688)
10. Avg. adjustment	<u>(1,603)</u>	<u>(2,279)</u>
Total	<u>(\$16,494)</u>	<u>(\$20,165)</u>
<u>NON-USED AND USEFUL PLANT</u>		
1. To reflect non-used and useful plant.	(\$36,286)	(\$60,520)
2. To reflect non-used and useful accumulated depreciation.	<u>12,973</u>	<u>28,282</u>
Total	<u>(\$23,313)</u>	<u>(\$32,238)</u>
<u>CIAC</u>		
1. Reclassify from non-utility income (Palm Circle Park)	\$0	(\$9,312)
2. Unrecorded CIAC	<u>(39,146)</u>	<u>(16,200)</u>
	<u>(\$39,146)</u>	<u>(\$25,512)</u>
<u>ACCUMULATED DEPRECIATION</u>		
1. Depreciation Adjustment Per Rule 25-30.140 FAC	\$15,692	\$8,219
2. Pro forma Depreciation	(531)	(1,569)
3. Avg. adjustment Pro forma	265	784
4. Avg. adjustment	<u>9,243</u>	<u>12,353</u>
Total	<u>\$24,669</u>	<u>\$19,787</u>
<u>AMORTIZATION OF CIAC</u>		
1. To adjust Amortization of CIAC based on composite rates	\$4,847	\$139
2. Palm Circle Balance	0	1,829
3. Avg. adjustment	(946)	(6,506)
Total	<u>\$3,901</u>	<u>(\$4,538)</u>
<u>AMORTIZATION OF ACQUISITION ADJUSTMENT</u>		
1. To adjust Amort based on Composite rates before staff adj.	\$63	(\$977)
2. Avg. adjustment	(649)	(1,508)
Total	<u>(\$586)</u>	<u>(\$2,485)</u>
<u>WORKING CAPITAL ALLOWANCE</u>		
1. To reflect 1/8 of test year O & M expenses.	<u>\$8,208</u>	<u>\$15,438</u>

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LANIGER ENTERPRISES OF AMERICA				SCHEDULE NO. 2				
TEST YEAR ENDING 6/30/00				DOCKET NO. 000584-WS				
SCHEDULE OF CAPITAL STRUCTURE								
CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUSTMENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUSTMENTS	BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST
1. COMMON STOCK	\$3,000	\$0	\$3,000					
2. RETAINED EARNINGS	(171,439)	147,964	(23,475)					
3. PAID IN CAPITAL	302,012	0	302,012					
4. TREASURY STOCK	<u>(281,537)</u>	<u>0</u>	<u>(281,537)</u>					
5. TOTAL COMMON EQUITY	(\$147,964)	\$147,964	0	0	0	0.00%	9.94%	0.00%
6. LONG TERM DEBT	549,212	0	549,212	(101,605)	447,607	98.27%	8.88%	8.72%
7. LONG TERM DEBT Truck	20,417	(10,755)	9,662	(1,787)	7,875	1.73%	7.49%	0.13%
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>\$421,665</u>	<u>\$137,209</u>	<u>\$558,874</u>	<u>(\$103,393)</u>	<u>\$455,481</u>	<u>100.00%</u>		<u>8.85%</u>
RANGE OF REASONABLENESS						LOW	HIGH	
RETURN ON EQUITY						<u>8.94%</u>	<u>10.94%</u>	
OVERALL RATE OF RETURN						<u>8.85%</u>	<u>8.85%</u>	

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LANIGER ENTERPRISES OF AMERICA TEST YEAR ENDING 6/30/00 SCHEDULE OF WATER OPERATING INCOME			SCHEDULE NO. 3-A DOCKET NO. 000584-WS		
	TEST YEAR PER UTILITY	STAFF ADJUSTMENT S	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$115,277</u>	<u>\$1,142</u>	<u>\$116,419</u>	<u>(\$5,141)</u> -4.42%	<u>\$111,279</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	63,508	2,154	65,662	0	65,662
3. DEPRECIATION (NET)	15,967	(397)	15,570	0	15,570
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	4,045	5,896	9,941	(231)	9,710
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$83,520</u>	<u>\$7,653</u>	<u>\$91,173</u>	<u>(\$231)</u>	<u>\$90,942</u>
8. OPERATING INCOME/(LOSS)	<u>\$31,757</u>		<u>\$25,246</u>		<u>\$20,337</u>
9. WATER RATE BASE	<u>\$272,560</u>		<u>\$229,799</u>		<u>\$229,799</u>
10. RATE OF RETURN	<u>11.65%</u>		<u>10.99%</u>		<u>8.85%</u>

DOCKET NO. 000584-WS

DATE: JUNE 28, 2001

LANIGER ENTERPRISES OF AMERICA TEST YEAR ENDING 6/30/00 SCHEDULE OF WASTEWATER OPERATING INCOME			SCHEDULE NO. 3-B DOCKET NO. 000584-WS		
	TEST YEAR PER UTILITY	STAFF ADJUSTMENT S	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$111,614</u>	<u>\$2,902</u>	<u>\$114,516</u>	<u>\$53,663</u> 46.86%	<u>\$168,179</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	114,048	9,453	123,501	0	123,501
3. DEPRECIATION (NET)	5,905	1,842	7,747	0	7,747
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	2,696	11,847	14,543	2,415	16,958
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$122,649</u>	<u>\$23,142</u>	<u>\$145,791</u>	<u>\$2,415</u>	<u>\$148,206</u>
8. OPERATING INCOME/(LOSS)	<u>(\$11,035)</u>		<u>(\$31,275)</u>		<u>\$19,973</u>
9. WASTEWATER RATE BASE	<u>\$275,396</u>		<u>\$225,683</u>		<u>\$225,683</u>
10. RATE OF RETURN	<u>-4.01%</u>		<u>-13.86%</u>		<u>8.85%</u>

**LANIGER ENTERPRISES OF AMERICA
 TEST YEAR ENDING 6/30/00
 ADJUSTMENTS TO OPERATING INCOME**

**SCHEDULE NO. 3-C
 DOCKET NO. 000584-WS
 PAGE 1 OF 3**

	<u>WATER</u>	<u>WASTEWATER</u>
OPERATING REVENUES		
To adjust utility revenues to audited test year amount.	<u>\$1,142</u>	<u>\$2,902</u>
OPERATION AND MAINTENANCE EXPENSES		
1. Salaries and Wages Employees (601/ 701)		
a. To allow requested salaries expense	\$18,886	\$35,073
b. Capitalized Salaries Expense	(1,990)	(400)
Subtotal	<u>\$16,896</u>	<u>\$34,673</u>
2. Salaries and Wages Officers (603/ 703)		
a. To reclassify Salaries expense from Acct. No. 601/ 701	<u>\$8,750</u>	<u>\$16,250</u>
3. Employees Pension and Benefits (604/ 704)		
a. To reflect Annual Pension Cost	<u>\$2,012</u>	<u>\$3,736</u>
4. Sludge Removal Expense (711)		
a. To Include Sludge Hauling from Acct# 730	\$0	\$1,760
b. Unrecorded Expense (Accrual vs. Cash)	0	1,760
Subtotal	<u>\$0</u>	<u>\$3,520</u>
5. Purchased Power (615/ 715)		
a. To Reflect Timing Difference (Accrual vs. Cash)	(\$777)	\$1,062
b. Reallocate Expense from Acct# 715 to 615	477	(477)
c. Excessive Unaccounted for Water 2.5%	(68)	0
Subtotal	<u>(\$368)</u>	<u>\$585</u>
6. Chemicals (618/ 718)		
a. To reclassify chemical expense from Account No. 630/ 730	\$1,665	\$2,170
b. Unrecorded Expense (Accrual vs. Cash)	0	339
c. Excessive Unaccounted for Water 2.5%	(42)	0
Subtotal	<u>\$1,623</u>	<u>\$2,509</u>
7. Materials & Supplies (620/ 720)		
a. From UPIS Account	\$0	\$5,069
b. To remove labor cost on painting expense from UPIS	0	(4,840)
c. Painting Supplies (5 year amortization) from UPIS	0	(184)
d. Pro forma painting Supplies (5 year amortization)	188	349
e. Reallocation based on 35/65 split	(146)	146
Subtotal	<u>\$42</u>	<u>\$540</u>

(O & M EXPENSES CONTINUED ON NEXT PAGE)

**LANIGER ENTERPRISES OF AMERICA
TEST YEAR ENDING 6/30/00
ADJUSTMENTS TO OPERATING INCOME**

**SCHEDULE NO. 3-C
DOCKET NO. 000584-WS
PAGE 2 OF 3**

(O & M EXPENSES CONTINUED)	<u>WATER</u>	<u>WASTEWATER</u>
8. Contractual Services - Billing (630/ 730)		
a. Remove Salaries and Wages-Employees Expense (Burge)	(\$24,787)	(\$45,466)
b. Reallocate to Sludge Removal Expense (711)	0	(1,760)
c. Reallocate to Chemicals Expense (618/ 718)	(1,665)	(2,170)
d. Reallocate to Contracted Services Professional (631/ 731)	(9,635)	(14,538)
e. Reallocate to Contracted Services Testing (635/ 735)	(3,091)	(1,525)
f. Reallocate to Contracted Services Other (636/ 736)	(1,524)	(6,284)
g. Reallocate to Misc. Expense (675/ 775)	(40)	(1,581)
h. Capitalize Expense to Acct# (309/ 347/ 397/ 380)	(832)	(7,113)
i. Remove Out of test year Expense (Accrual vs. Cash)	<u>(937)</u>	<u>0</u>
Subtotal	<u>(\$42,511)</u>	<u>(\$80,437)</u>
9. Contractual Services - Professional (631/ 731)		
a. Reallocate From Contracted Services Billing (630/ 730)	\$9,635	\$14,538
b. Unrecorded Consulting Fees	375	0
c. Normalize Nonrecurring Legal Expense Over 5 years	(6,380)	(8,943)
d. 1/5 of nonrecurring Legal expense	<u>1,276</u>	<u>1,789</u>
Subtotal	<u>\$4,906</u>	<u>\$7,384</u>
10. Contractual Services - Testing (635/ 735)		
a. Reallocate From Contracted Services Billing (630/ 730)	\$3,091	\$1,525
b. Unrecorded Expense	0	945
c. To Include Annualized DEP Required Testing	<u>(1,232)</u>	<u>1,170</u>
Subtotal	<u>\$1,859</u>	<u>\$3,640</u>
11. Contractual Services - Other (636/ 736)		
a. Reallocate From Contracted Services Billing (630/ 730)	\$1,524	\$6,284
b. Normalize Operator/ Management Fees	1,716	(691)
c. Grounds Keeping	776	7,800
d. Tank Refurbishing (amort. 5 years)	7,900	0
e. Pond Cleaning Expense	0	1,352
f. Improperly Capitalized Repair Expense 5 years	0	100
g. Unrecorded Expense (Accrual vs. Cash)	<u>0</u>	<u>325</u>
Subtotal	<u>\$11,916</u>	<u>\$15,170</u>
12. Rents (640/ 740)		
a. To Annualize Rent Per Lease Contract	<u>\$591</u>	<u>\$1,601</u>
13. Transportation Expense (650/ 750)		
a. Unrecorded Transportation Expense	<u>\$118</u>	<u>\$219</u>
14. Insurance Expenses (655/ 755)		
a. To Reflect Auto, Health, and Plant Insurance	<u>\$782</u>	<u>\$3,159</u>
15. Regulatory Expense (665/ 765)		
a. Reclassify RAF's as Taxes Other Than Income	(\$5,295)	(\$5,123)
b. Amortize Rate Case Filing Fee over 4 years (\$1000/4)	<u>250</u>	<u>250</u>
Subtotal	<u>(\$5,045)</u>	<u>(\$4,873)</u>
(O & M EXPENSES CONTINUED ON NEXT PAGE)		

**LANIGER ENTERPRISES OF AMERICA
 TEST YEAR ENDING 6/30/00
 ADJUSTMENTS TO OPERATING INCOME**

**SCHEDULE NO. 3-C
 DOCKET NO. 000584-WS
 PAGE 3 OF 3**

(O & M EXPENSES CONTINUED)	<u>WATER</u>	<u>WASTEWATER</u>
16. Miscellaneous Expense (675/ 775)		
a. Reallocate From Contracted Services Billing (630/ 730)	\$40	\$1,581
b. Non Utility Expense	(10)	(20)
c. Amortize Water Permit Over 5 years	308	0
d. Below Cap. Threshold from #343/ 939	<u>245</u>	<u>216</u>
Subtotal	<u>\$583</u>	<u>\$1,777</u>
 TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	 <u>\$2,154</u>	 <u>\$9,453</u>
 DEPRECIATION EXPENSE		
1. To reflect test year depreciation calculated per 25-30.140, F.A.C.	\$2,829	\$17,483
2. Non-used and useful depreciation	(1,089)	(2,133)
3. To reflect test year CIAC amortization calculated by staff	(817)	(10,391)
4. Amortization of negative acquisition adjustment	<u>(1,320)</u>	<u>(3,117)</u>
Total	<u>(\$397)</u>	<u>\$1,842</u>
 TAXES OTHER THAN INCOME		
1. Reallocate From Regulatory Expense (665/ 765)	\$5,295	\$5,123
2. Adjust RAF's to Annualized Revenue	(56)	30
3. Payroll Tax	2,313	4,295
4. Real Estate Taxes	30	713
5. Reallocation of Property Taxes	<u>(1,686)</u>	<u>1,686</u>
Total	<u>\$5,896</u>	<u>\$11,847</u>

LANIGER ENTERPRISES OF AMERICA		SCHEDULE NO. 3-D		
TEST YEAR ENDING 6/30/00		DOCKET NO. 000584-WS		
ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE				
	TOTAL PER PER UTILITY	STAFF PER ADJUST.		TOTAL PER PER STAFF
(601) SALARIES AND WAGES - EMPLOYEES	\$0	\$16,896	[1]	\$16,896
(603) SALARIES AND WAGES - OFFICERS	0	8,750	[2]	8,750
(604) EMPLOYEE PENSIONS AND BENEFITS	0	2,012	[3]	2,012
(610) PURCHASED WATER	0	0		0
(615) PURCHASED POWER	3,507	(368)	[5]	3,139
(616) FUEL FOR POWER PRODUCTION	0	0		0
(618) CHEMICALS	0	1,623	[6]	1,623
(620) MATERIALS AND SUPPLIES	1,984	42	[7]	2,026
(630) CONTRACTUAL SERVICES - BILLING	42,511	(42,511)	[8]	0
(631) CONTRACTUAL SERVICES - PROFESSIONAL	0	4,906	[9]	4,906
(635) CONTRACTUAL SERVICES - TESTING	0	1,859	[10]	1,859
(636) CONTRACTUAL SERVICES - OTHER	0	11,916	[11]	11,916
(640) RENTS	1,929	591	[12]	2,520
(650) TRANSPORTATION EXPENSE	1,039	118	[13]	1,157
(655) INSURANCE EXPENSE	4,796	782	[14]	5,578
(655) REGULATORY COMMISSION EXPENSE	5,295	(5,045)	[15]	250
(670) BAD DEBT EXPENSE	0	0		0
(675) MISCELLANEOUS EXPENSES	<u>2,447</u>	<u>583</u>	[16]	<u>3,030</u>
	63,508	2,154		65,662

LANIGER ENTERPRISES OF AMERICA		SCHEDULE NO. 3-E		
TEST YEAR ENDING 6/30/00		DOCKET NO. 000584-WS		
ANALYSIS OF WASTEWATER OPERATION AND MAINTENANCE EXPENSE				
	TOTAL PER UTILITY	STAFF ADJUST- MENT		TOTAL PER STAFF
(701) SALARIES AND WAGES - EMPLOYEES	\$0	\$34,673	[1]	\$34,673
(703) SALARIES AND WAGES - OFFICERS	0	16,250	[2]	16,250
(704) EMPLOYEE PENSIONS AND BENEFITS	0	3,736	[3]	3,736
(710) PURCHASED SEWAGE TREATMENT	0	0		0
(711) SLUDGE REMOVAL EXPENSE	0	3,520	[4]	3,520
(715) PURCHASED POWER	8,491	585	[5]	9,076
(716) FUEL FOR POWER PRODUCTION	0	0		0
(718) CHEMICALS	865	2,509	[6]	3,374
(720) MATERIALS AND SUPPLIES	4,215	540	[7]	4,755
(730) CONTRACTUAL SERVICES - BILLING	80,437	(80,437)	[8]	0
(731) CONTRACTUAL SERVICES - PROFESSIONAL	0	7,384	[9]	7,384
(735) CONTRACTUAL SERVICES - TESTING	0	3,640	[10]	3,640
(736) CONTRACTUAL SERVICES - OTHER	0	15,170	[11]	15,170
(740) RENTS	3,079	1,601	[12]	4,680
(750) TRANSPORTATION EXPENSE	1,013	219	[13]	1,232
(755) INSURANCE EXPENSE	7,199	3,159	[14]	10,358
(765) REGULATORY COMMISSION EXPENSES	5,123	(4,873)	[15]	250
(770) BAD DEBT EXPENSE	0	0		0
(775) MISCELLANEOUS EXPENSES	<u>3,626</u>	<u>1,777</u>	<u>[16]</u>	<u>5,403</u>
	<u>114,048</u>	<u>9,453</u>		<u>123,501</u>

RECOMMENDED RATE REDUCTION SCHEDULE

LANIGER ENTERPRISES OF AMERICA
 TEST YEAR ENDING 6/30/00

SCHEDULE NO. 4
 DOCKET NO. 000584-WS

CALCULATION OF RATE REDUCTION AMOUNT
AFTER RECOVERY OF RATE CASE EXPENSE AMORTIZATION PERIOD OF FOUR YEARS

MONTHLY WATER RATES

RESIDENTIAL, MULTI-RESIDENTIAL, AND GENERAL SERVICE BASE FACILITY CHARGE:		MONTHLY RECOMMENDED RATES	MONTHLY RATE REDUCTION
Meter Size:			
5/8"X3/4" (Multi-Residential per unit)	\$	10.83	0.03
3/4"		16.24	0.04
1"		27.07	0.06
1-1/2"		54.14	0.13
2"		86.62	0.20
3"		173.23	0.41
4"		270.66	0.64
6"		541.33	1.27
RESIDENTIAL GALLONAGE CHARGE PER 1,000 GALLONS	\$	3.57	0.01

RECOMMENDED RATE REDUCTION SCHEDULE

LANIGER ENTERPRISES OF AMERICA
TEST YEAR ENDING 6/30/00

SCHEDULE NO. 4A
DOCKET NO. 000584-WS

CALCULATION OF RATE REDUCTION AMOUNT
AFTER RECOVERY OF RATE CASE EXPENSE AMORTIZATION PERIOD OF FOUR YEARS

MONTHLY WASTEWATER RATES

<u>RESIDENTIAL, MULTI-RESIDENTIAL, AND GENERAL SERVICE</u>	<u>MONTHLY RECOMMENDED RATES</u>	<u>MONTHLY RATE REDUCTION</u>
BASE FACILITY CHARGE:		
Meter Size:		
5/8"X3/4" (multi residential per unit)	\$ 14.14	0.02
3/4"	21.21	0.03
1"	35.35	0.06
1-1/2"	70.69	0.11
2"	113.11	0.18
3"	226.21	0.35
4"	353.45	0.55
6"	706.91	1.10
RESIDENTIAL GALLONAGE CHARGE PER 1,000 GALLONS	\$ 3.92	0.01
MULTI RESIDENTIAL & GENERAL SERVICE GALLONAGE CHARGE PER 1,000 GALLONS	\$ 4.70	0.01
FLAT RATE RIVER CLUB	\$ 24.96	0.04
FLAT RATE RIVER CLUB WASH HOUSE	\$ 139.72	0.22
FLAT RATE PALM CIRCLE (PHASE I)	\$ 26.86	0.04
Palm Circle Park BFC (Phase II) EFFLUENT CHARGE (PALM CIRCLE PHASE II)	14.72	0.02
GALLONAGE CHARGE PER 1,000 GALLONS	\$ 4.70	0.01