



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-

RECEIVED FPSC  
SEP-6 AM 11:24  
COMMISSION  
CLERK

DATE: SEPTEMBER 6, 2001

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

FROM: DIVISION OF ECONOMIC REGULATION (WALKER, EDWARDS, LINGO, CROUCH, RENDELL) *W* *JE* *H* *ESK*  
DIVISION OF LEGAL SERVICES (CIBULA) *S.M.C.* *PS*

RE: DOCKET NO. 001682-WU - APPLICATION FOR STAFF-ASSISTED RATE CASE IN COLUMBIA COUNTY BY CONSOLIDATED WATER WORKS, INC. COUNTY: COLUMBIA

AGENDA: 09/18/2001 - REGULAR AGENDA - PROPOSED AGENCY ACTION EXCEPT FOR ISSUES 18, 19, AND 20 - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: 15-MONTH EFFECTIVE DATE: WAIVED

SPECIAL INSTRUCTIONS: NONE

FILE NAME AND LOCATION: S:\PSC\ECR\WP\001682.RCM

DOCUMENT NUMBER-DATE  
11083 SEP-6 01  
FPSC-COMMISSION CLERK

TABLE OF CONTENTS

<u>ISSUE</u>	<u>DESCRIPTION</u>	<u>PAGE</u>
-	Case Background	4
	Glossary of Technical Terms	5
1	Year End Rate Base (WALKER)	7
	<u>QUALITY OF SERVICE</u>	
2	Quality of Service (EDWARDS, CROUCH)	9
3	Used and Useful Percentages (EDWARDS, CROUCH)	13
4	Plant Deficiencies (EDWARDS, CROUCH)	21
5	Pro Forma Plant Adjustments (EDWARDS)	25
	<u>RATE BASE</u>	
6	Appropriate Rate Base (WALKER, EDWARDS)	27
7	Negative Acquisition Adjustment (WALKER)	31
	<u>COST OF CAPITAL</u>	
8	Rate of Return (WALKER)	35
	<u>NET OPERATING INCOME</u>	
9	Test Year Operating Revenue (WALKER)	36
10	Operating Expenses (WALKER, EDWARDS)	37
	<u>REVENUE REQUIREMENT</u>	
11	Revenue Requirement (WALKER)	45
	<u>RATES AND CHARGES</u>	
12	Conservation Rate Structure (LINGO, WALKER)	46
13	Repression Adjustment (LINGO)	49
14	Rates (LINGO, WALKER)	52
	<u>OTHER ISSUES</u>	
15	Escrow Requirement (WALKER)	56
16	Miscellaneous Service Charges (WALKER)	59
17	Four Year Rate Reduction (CIBULA, WALKER)	61
18	Temporary Rates in Case of Protest (WALKER, CIBULA)	62
19	Show-Cause for Miscellaneous Charges (CIBULA, WALKER)	65
20	Show-Cause for Incorrect Tariffs (CIBULA, WALKER)	68
21	Close Docket (CIBULA, WALKER)	70

<u>SCHEDULES</u>	<u>DESCRIPTION</u>	<u>PAGE</u>
1-A	Water Rate Base	65
1-B	Adjustments to Rate Base	66
2	Capital Structure	67
3-A	Water Operating Income	68
3-B	Adjustments to Operating Income	69-70
3-C	Water Operation and Maintenance Expenses	71
4	4-Year Rate Reduction Schedule	72

**CASE BACKGROUND**

Consolidated Water Works, Inc. (Consolidated or utility) is a Class C water utility operating in Columbia County. On November 6, 2000, the utility applied for a Staff Assisted Rate Case with the Commission. The utility paid the required filing fee on January 10, 2001. Consolidated currently owns and operates three water systems in Columbia County which include: Shady Oaks, Azalea Park, and 242 Village. The three systems make up the total customer base of 227 residential customers and three general service customers consisting of two churches and a convenience store.

Staff audited the utility's books and records for compliance with Commission rules and orders and examined all components necessary for rate setting. The staff engineer has also conducted a field investigation, which included a visual inspection of the water facilities along with the service area. The utility's rate application, operating expenses, maps, and files were reviewed to determine reasonableness of maintenance expenses, regulatory compliance, utility plant in service, and quality of service. Staff has selected a test period ending December 31, 2000.

Based on staff's analysis, the utility's adjusted revenue was \$45,339 for the test year. The adjusted operating expenses were \$62,377 during the test year which resulted in operating loss of \$17,038 (See Schedule 3-A).

When the utility initially filed its SARC application, staff determined that the utility had not paid its 1998 and 1999 regulatory assessment fees (RAFs). On February 7, 2001, the utility submitted a request to pay its delinquent RAFs by way of a payment plan. By Order No. PSC-01-0720-FOF-WU, issued March 22, 2001, the Commission established a schedule for the payment of the delinquent RAFs. The utility timely paid each monthly installment and is now current on its RAFs.

The Commission has jurisdiction pursuant to Section 367.0814, Florida Statutes.

The following is a list of acronyms 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  
SJRWMD St. Johns River Water Management District  
AWWA American Water Works Association

GLOSSARY OF TECHNICAL TERMS

BFC Base Facility Charge - 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 included, but is not limited to, system capacity charges, main extension charges, and customer connection charges.

CWIP Construction Work in Progress - The cost of plant in process of construction, but not ready for service.

ERCs Equivalent Residential Connections - A statistic used to determine the total number of water or wastewater connections that can be served by a plant of some specific capacity. The consumption of each connection size is compared to that of a single family residential connection, which is usually considered to be a unit comprised of 3.5 persons.

- GPD Gallons Per Day - An expression of a measured amount of liquid that can be delivered or actually measured during a 24-hour period.
- GPM Gallons Per Minute - An expression of a measured 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.

**ISSUE 1:** Should the Commission approve a year end rate base for Consolidated?

**RECOMMENDATION:** Yes, the Commission should approve a year end rate base for Consolidated to allow it an opportunity to earn a fair return on the required pro forma items, as well as to provide compensatory rates in this rate case. (WALKER)

**STAFF ANALYSIS:** The utility's rate base was established in Order No. 15124 issued October 1, 1985, in Docket No. 840250-WU. The established rate base resulted in existing plant being fully depreciated on December 31, 1990 prior to the purchase of 242 Village in 1995. A large percentage of the utility's staff recommended rate base is the pro forma items listed in Issue 5. The utility has submitted bids or invoices on the recommended pro forma of \$29,617 or 47.34% of the year end rate base.

The Commission should only apply a year end rate base in extraordinary circumstances. Citizens of Florida v. Hawkins, 356 So. 2d 254, 257 (Fla. 1978). Staff believes that extraordinary circumstances exist in this docket. Staff's engineer indicated that the majority of plant for this utility was installed in 1974. Therefore, most of the plant installed in 1974 was fully depreciated as of December 1990. Staff believes that extraordinary circumstances exist in this docket because the utility, operating under a DEP consent order, is being required to install meters, an additional well, a chlorinator, a hydropneumatic tank, doors on the plant buildings, and a security fence which represents 47.34% of its year end rate base for the test year. This recommendation is consistent with Orders Nos. PSC-98-0763-FOF-SU, issued June 3, 1998, in Docket No. 971182-SU, (finding 36.07% of total plant to be considered an extraordinary circumstance); and PSC-00-1774-PAA-WU, issued September 27, 2000, in Docket No. 991627-WU, (finding improvements representing over 52% of the utility's rate base to be considered an extraordinary circumstance).

The year end rate base will allow the utility an opportunity to earn a fair rate of return on the much needed pro forma plant and to provide compensatory rates for this utility in this rate case proceeding. Pursuant to Section 367.081(2)(a), Florida Statutes, the Commission is required to consider the investment in plant made by the utility in the public service. Consolidated has provided staff with bids on the material, labor, and installment of the recommended pro forma; therefore, staff recommends that the

DOCKET NOS. 001682-WU  
DATE: SEPTEMBER 6, 2001

Commission approve a year end rate base for this utility's water system.

**QUALITY OF SERVICE**

**ISSUE 2:** Is the quality of service provided by Consolidated satisfactory?

**RECOMMENDATION:** No. The quality of service should not be considered satisfactory. In addition, staff recommends that the utility be required to complete the pro forma improvements and rectify all the discrepancies found in this case. (EDWARDS, CROUCH)

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

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 the water utility operations: quality of the utility's product; 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 department (HRS) or lack thereof over the preceding 3-year period shall be considered. DEP and HRS officials' testimony concerning quality of service as well as the testimony of utility's customers shall also be considered.

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

Consolidated consists of three, completely separate small water systems located around Lake City which is in Columbia County. The utility provides water service to approximately 227 residential, and three general service or commercial customers at the three systems. The raw water is obtained from five wells in the area and treatment consists of chlorination, with storage provided by a hydropneumatic tank located at each system. All three are closed systems with no possibility of interconnection between the three systems nor is there a possibility, at this time, for interconnection with another service provider.

**Quality of Utility's Product:**

The overall condition of the treated water provided by two (Shady Oaks and Azalea Park) of the three systems is unsatisfactory. At this time, the utility has numerous outstanding citations or violations on file with the DEP. A Consent Order was prepared by DEP in February 2000, but the utility owner, Mr. Jack Espenship, refused to sign the order stating that he did not have the money to fix the discrepancies noted in the Consent Order. Specific problems and estimated costs to rectify these problems are listed in Issues 4 and 5.

**Operational Conditions or Utility's Plant and Facilities:**

Staff believes that the overall condition of two of the three water treatment plants, Azalea Park and Shady Oaks, is unsatisfactory. Only one of the utility's five wells, 242 Village, is fenced or protected. Sanitary seals around all well heads are cracked and leaking. Electrical wiring at all wells was exposed and dangerous at the beginning of the investigation for this case. The utility has since repaired some of the electrical problems at Shady Oaks and Azalea Park. The chlorine rooms at the Azalea Park and Shady Oaks plants do not have doors and could easily be entered by anyone. The treatment room is not fenced at Azalea Park. The hydropneumatic tank at Shady Oaks is corroded and has been cited by DEP as dangerous and in need of immediate replacement. The electrical wiring at the 242 Village well is exposed and presents possible danger. The master flow meter at the Shady Oaks plant is inoperative and a master flow meter needs to be installed at the Azalea Park plant. Consequently, it is impossible to determine the amount of "treated" water entering the system for distribution to customers. Numerous customer meters were also inoperative; therefore, it is not possible to determine just how much water has been sold.

**Utility's attempt to address Customer Satisfaction:**

On July 11, 2001, staff conducted a customer meeting in the service area. Four customers (out of approx. 227 residential and 3 general service connections) attended the meeting and gave comments. The water quality issues expressed by the majority of the customers were: power outages, sand in the water, boil water notices not issued in a timely manner, communication problems with the utility, high chlorine levels, over billing, and that the

possible rate increase is too high. Staff acknowledges that since the onset of this investigation, the utility has initiated the following corrective actions to restore the system: installed new customer meters, repaired the chlorination pump at the Azalea Park plant, and repaired electrical wiring at the Shady Oaks and Azalea Park plants. The engineering field investigation revealed that other customers in the service territory have similar complaints (receiving an unsatisfactory product and poor service from the utility), expressed by the customers who attended that meeting. After interviews with the customers, staff concludes that the customers have legitimate concerns which need to be addressed in the most economically feasible manner.

**Summary:**

A review of the water treatment plants' sanitary survey yearly evaluations for the past three years, which was provided by DEP, indicates numerous quality compliance problems. In addition, staff's on-site engineering investigation concurs with the DEP assessment of the plants' condition.

The DEP and staff are in agreement that Consolidated should rectify the following issues within 6 months after the effective date of the order: (1) For Shady Oaks: replace and paint a hydropneumatic storage tank, install a new 4-inch master flow meter, drill a new well, repair the door to the chlorine room, install fencing which will enclose all the wells, perform all of the necessary requirements to put well number 2 on line; (2) For Azalea Park: install a new plant 4-inch master flow meter, install fencing to enclose the plant, repair the door and lock to the chlorine room, wire and connect the second well into the system, and paint the hydropneumatic tank. Signs with the emergency contact phone number should be posted on the fence at each plant. In addition, staff recommends that funding for the previously listed pro forma be included in the rate increase. Because of this utility's history of questionable management practices, staff recommends that this utility should be closely monitored to insure the completion of all pro forma improvements. (See Issues 5 and 15)

Consolidated's last rate case was completed in 1985 when the company consisted of two systems: Shady Oaks and Azalea Park. (See Order No. 15124, issued October 1, 1985 in Docket No. 840250-WU). The 242 Village Water Company was purchased by Consolidated in 1995. The utility has never filed for Price Index or Pass Through

DOCKET NOS. 001682-WU  
DATE: SEPTEMBER 6, 2001

rate relief. Two of the three systems have deteriorated to an unacceptable condition due to lack of normal operation and maintenance caused, according to the owner, by lack of money. Specific discrepancies, as well as the corrective actions urgently needed, will be discussed further in Issues 4 and 5.

In view of the information presented above, staff recommends the Commission find that the quality of service provided by Consolidated in treating and distributing water is not satisfactory. In addition, staff recommends that the utility be required to complete the pro forma improvements and rectify all the discrepancies found in this case.

**USED AND USEFUL**

**ISSUE 3:** What used and useful percentages should be applied to the three treatment plants and three distribution systems?

**RECOMMENDATION:** The three separate plants are each closed systems consisting of one operational well, chlorination equipment, and a hydropneumatic tank for storage and pressure control. Each water treatment plant should be considered 100% used and useful. Two of the service areas, Azalea Park and Shady Oaks, are essentially built out with no appreciable growth anticipated. The distribution systems for Azalea Park and Shady Oaks should also be considered 100% used and useful. The remaining system, 242 Village, has numerous undeveloped lots although the distribution lines are in place and capable of serving those lots when needed. The distribution system for 242 Village should be considered 80% used and useful. (EDWARDS, CROUCH)

**STAFF ANALYSIS:** Flow records indicating amounts of water pumped, treated, and sold are incomplete; therefore, normal used and useful calculations and work papers are not available. The Master Meter at the 242 Village treatment plant is the only operational flow meter. Master meters were either not installed or were not operational at Azalea Park and Shady Oaks. Numerous customers have broken, inoperative meters and many others have meters that read slow and do not record accurately.

**TREATMENT PLANTS**

The three systems are closed systems, consisting of only one operational pump, chlorination equipment, and a hydropneumatic tank. By AWWA standards, a closed system should be capable of producing an average of 1.1 gpm per ERC with a peak requirement of 2.2 gpm per ERC. The following chart shows the number of customers (ERCs) at each plant, the average demand, and the peak demand. Based upon those demands, staff recommends that all three treatment plants be considered 100% used and useful.

PLANT	CAPACITY	ERCS	AVG DEMAND	PEAK DEMAND	U&U%
SHADY OAKS	51 GPM	102	112 GPM	224 GPM	100
AZALEA PARK	133 GPM	89	98 GPM	196 GPM	100

242 VILLAGE	45 GPM	40	44 GPM	88 GPM	100
-------------	--------	----	--------	--------	-----

**DISTRIBUTION SYSTEMS**

Azalea Park and Shady Oaks service areas are essentially built out with little growth potential. Therefore, their distribution systems should be considered 100% used and useful. The 242 Village service area, however, is not built out. This service area is virtually all residential customers; therefore, a single, residential lot should also be considered one ERC. The plant at 242 Village is capable of serving 52 ERCs, but is serving 40 ERCs at this time. There are several vacant lots which could be developed and there are numerous potential customers who have private wells and have not connected to the system even though distribution pipes run in front of their houses. Growth has been very limited over the past several years. Therefore, even allowing for a five year growth period, the 242 Village distribution system should only be considered 80% used and useful. (40 Out of 52 ERCs)

SYSTEM	ERCS NOW	ERCS POSSIBLE	5 YR GROWTH	U&U%
SHADY OAKS	102	102	Built Out	100
AZALEA PARK	89	95	Built Out	100
242 VILLAGE	40	52	almost none	80

The utility was unable to provide adequate maps of the service areas and distribution layout for the three systems. Customer records provided by DEP do not agree with the utility's billing records. Analysis of the distribution systems is the result of an on-site inspection of these areas conducted by the staff engineer on January 8-11, 2001 with another inspection by staff (accompanied by DEP personnel) on January 31, 2001.

SHADY OAKS

Attachment A page 1 of 2

**WATER TREATMENT PLANT - USED AND USEFUL DATA**

Docket No. 001682-WU - Consolidated Water Work, Inc.

- |  |            |                         |     |
|--|------------|-------------------------|-----|
| 1) Firm Reliable Capacity of Plant<br>(SHADY OAKS)   | 51         | gallons per min.        |     |
| 2) Average of 5 Highest Days From Max.<br>Month (2.2 X 102)  | 224        | gallons per min.        |     |
| 3) Average Daily Flow(1.1 x 102)   | 112        | gallons per min.        |     |
| 4) Fire Flow Capacity  | 0          | gallons per day         |     |
| Shady Oaks is not required to provide fire flow protection.  |            |                         |     |
| 5) Growth  | none       | gallons per day         |     |
| a) Test year Customers in ERCs:  | Begin      |                         | 102 |
|  | End        |                         | 102 |
| (Use average number of customers)  | Average    |                         | 102 |
| b) Customer Growth in ERCs using Regression<br>Analysis for most recent 5 years including<br>Test Year | 0          | ERCs                    |     |
| c) Statutory Growth Period   | 5          | Years                   |     |
| (b)x(c)x [3\ (a)] = 000 gallons per day for growth   |            |                         |     |
| 6) Excessive Unaccounted for Water   | <u>n/a</u> | <u>gallons per min.</u> |     |
| a) Total Unaccounted for Water   | n/a        | gallons per min.        |     |
| Percent of Average Daily Flow  | n/a        |                         |     |
| b) Reasonable Amount   | n/a        | gallons per min.        |     |
| (10% of average Daily Flow)  |            |                         |     |
| c) Excessive Amount  | n/a        | gallons per min.        |     |

**USED AND USEFUL FORMULA**

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

SHADY OAKS

Attachment A page 2 of 2

**WATER DISTRIBUTION SYSTEM - USED AND USEFUL DATA**

**Docket No. 001682-WU, Consolidated Water Works, Inc.**

<b>1) Capacity of System</b> (Number of Potential ERCs or Without Expansion)	102	ERCs
<b>2) Test year connections</b>		
a) Beginning of Test Year	102	ERCs
b) End of Test Year	102	ERCs
c) Average Test Year	102	ERCs
<b>3) Growth</b>	n/a	ERCs
(Use End of Test Year and End of Previous Years for growth connections)		
a) customer growth in connections for last 5 years including Test Year using Regression Analysis	1	ERCs
b) Statutory Growth Period	5	Years
(a)x(b) = 5 connections allowed for growth		

**USED AND USEFUL FORMULA**

$$[(2)+(3)]/(1) = *100\% \text{ Used and Useful}$$

\* This utility is built out.

AZALEA PARK

Attachment B page 1 of 2

**WATER TREATMENT PLANT - USED AND USEFUL DATA**

**Docket No. 001682-WU - Consolidated Water Works, Inc.**

- |  |      |                  |       |
|--|------|------------------|-------|
| 1) <b>Firm Reliable Capacity of Plant</b><br>(AZALEA PARK)   | 133  | gallons per min. |       |
| 2) <b>Average of 5 Highest Days From</b><br><b>Maximum Month (2.2 x 89)</b>                            | 196  | gallons per min. |       |
| 3) <b>Average Daily Flow (1.1 x 89)</b>  | 98   | gallons per min. |       |
| 4) <b>Fire Flow Capacity</b>   | 0    | gallons per min. |       |
| Azalea Park is not required to provide fire flow protection.   |      |                  |       |
| 5) <b>Growth</b>   | none | gallons per day  |       |
| a) Test year Customers in ERCs:  |      |                  |       |
|  |      | Begin            | 89    |
|  |      | End              | 89    |
|  |      | Average          | 89    |
| (Use average number of customers)  |      |                  |       |
| b) Customer Growth in ERCs using Regression<br>Analysis for most recent 5 years including<br>Test Year |      | n/a              |       |
| c) Statutory Growth Period   |      | 5                | Years |
| (b)x(c)x [3\ (a)] = 000 gallons per day for growth   |      |                  |       |
| 6) <b>Excessive Unaccounted for Water</b>  | n/a  | gallons per day  |       |
| a) Total Unaccounted for Water   | n/a  | gallons per day  |       |
| Percent of Average Daily Flow  | n/a  |                  |       |
| b) Reasonable Amount   | n/a  | gallons per day  |       |
| (10% of average Daily Flow)  |      |                  |       |
| c) Excessive Amount  | n/a  | gallons per day  |       |

**USED AND USEFUL FORMULA**

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

AZALEA PARK

Attachment B page 2 of 2

**WATER DISTRIBUTION SYSTEM - USED AND USEFUL DATA**

**Docket No. 001682-WU - Consolidated Water Works, Inc.**

1) <b>Capacity of System</b> (Number of Potential Customers, ERCs or Lots Without Expansion)	95	ERCs
2) <b>Test year connections</b>		
a) Beginning of Test Year	89	ERCs
b) End of Test Year	89	ERCs
c) Average Test Year	89	ERCs
3) <b>Growth</b>	n/a	ERCs
(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	ERCs
b) Statutory Growth Period	5	Years
(a)x(b) = 5 connections allowed for growth		

**USED AND USEFUL FORMULA**

$$[(2)+(3)] / (1) = *100\% \text{ Used and Useful}$$

\* This utility is built out.

242 VILLAGE

Attachment C page 1 of 2

**WATER TREATMENT PLANT - USED AND USEFUL DATA**

Docket No. 001682-WU - Consolidated Water Works, Inc.

- |    |  |     |                  |       |
|----|--|-----|------------------|-------|
| 1) | <b>Firm Reliable Capacity of Plant</b><br>(242 VILLAGE)  | 45  | gallons per min. |       |
| 2) | <b>Average of 5 Highest Days From</b><br><b>Maximum Month(2.2 X 40)</b>                                | 88  | gallons per min. |       |
| 3) | <b>Average Daily Flow(1.1 X 40)</b>  | 44  | gallons per min. |       |
| 4) | <b>Fire Flow Capacity</b>  | 0   | gallons per min. |       |
|    | Buffalo Bluff Utilities does not provide fire flow protection.   |     |                  |       |
| 5) | <b>Growth</b>  |     | gallons per day  |       |
|    | a) Test year Customers in ERCs:  |     |                  |       |
|    |  |     | Begin            | 40    |
|    |  |     | End              | 40    |
|    |  |     | Average          | 40    |
|    | (Use average number of customers)  |     |                  |       |
|    | b) Customer Growth in ERCs using Regression<br>Analysis for most recent 5 years including<br>Test Year |     | 1                | ERC   |
|    | c) Statutory Growth Period   |     | 5                | Years |
|    | (b)x(c)x [3\ (a)] = 000 gallons per day for growth   |     |                  |       |
| 6) | <b>Excessive Unaccounted for Water</b>   | n/a | gallons per day  |       |
|    | a) Total Unaccounted for Water   | n/a | gallons per day  |       |
|    | Percent of Average Daily Flow  | n/a |                  |       |
|    | b) Reasonable Amount   | n/a | gallons per day  |       |
|    | (10% of average Daily Flow)  |     |                  |       |
|    | c) Excessive Amount  | n/a | gallons per day  |       |

**USED AND USEFUL FORMULA**

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

242 VILLAGE

Attachment C page 2 of 2

**WATER DISTRIBUTION SYSTEM - USED AND USEFUL DATA**

**Docket No. 001682-WU - Consolidated Water Works, Inc.**

- |  |     |       |
|--|-----|-------|
| 1) <b>Capacity of System</b> (Number of Potential Customers, ERCs or Lots Without Expansion)     | 52  | ERCs  |
| 2) <b>Test year connections</b>  |     |       |
| a) Beginning of Test Year  | 40  | ERCs  |
| b) End of Test Year  | 40  | ERCs  |
| c) Average Test Year   | 40  | ERCs  |
| 3) <b>Growth</b>   | n/a | ERCs  |
| (Use End of Test Year and End of Previous Years for growth connections)                          |     |       |
| a) customer growth in connections for last 5 years including Test Year using Regression Analysis | 1   | ERCs  |
| b) Statutory Growth Period   | 5   | Years |
| (a)x(b) = 5 connections allowed for growth   |     |       |

**USED AND USEFUL FORMULA**

$$[(2)+(3)]/(1) = 80\% \text{ Used and Useful}$$

**ISSUE 4:** Are there deficiencies at Consolidated's water treatment facilities?

**RECOMMENDATION:** Yes. There are numerous deficiencies associated with the plants that provide services to the Shady Oaks and Azalea Park subdivisions. Staff recommends that Consolidated be required to bring its water treatment facilities into compliance with the requirements comprised in the Consent Order issued by the DEP. (EDWARDS, CROUCH)

**STAFF ANALYSIS:** In February 2000, the DEP filed Consent Order No. 99-1397 against Consolidated. However, the owner of the utility, Mr. Jack Espenship, did not sign the Consent Order. Therefore, the utility never agreed to the terms contained in the Order. The Consent Order required this utility to take the following actions:

6. Respondent shall comply with the following actions within the stated time periods.

a. Not later than February 14, 2000, Respondent shall install the new hydropneumatic tank at Azalea Park Subdivision, repair or replace the flowmeter, and replace all corroded piping components.

b. No later than May 10, 2000, Respondent shall purchase a hydropneumatic tank to replace that existing tank at Shady Oaks Subdivision. Respondent shall notify the Department immediately upon delivery of the new tank. The new tank shall be the same capacity as the existing tank. Within 30 days of delivery of the new tank at Shady Oaks, Respondent shall install the new tank and replace all corroded piping components.

c. No later than June 30, 2000, Respondent shall install a 5 horsepower pump in the east well (that standby well) at Shady Oaks Subdivision.

d. Within 10 days of the installation of the new pump at Shady Oaks Subdivision, Respondent shall begin the bacteriological sampling procedure required for clearance of the east well. The Department will clear the well upon receipt of 20 bacteriological analyses results that are negative for bacteria.

e. Within 5 days of the receipt of satisfactory bacteriological results, as mentioned in paragraph 6.d, Respondent shall connect that east well at Shady Oaks to the plant such that raw water from both wells is drawn alternately and treated.

f. Within 24 hours of beginning usage of the east well at Shady Oaks, Respondent shall perform that following chemical analyses at the plant effluent at Shady Oaks: Primary and Secondary Inorganics, Pesticides and PCBs, Volatile Organic Contaminants (VOCs), Radio nuclide chemical analyses.

g. Within 24 hours of completion of sampling for the chemical analyses listed in part 6.f., Respondent shall disconnect or valve off the east well at Shady Oaks until receipt of the chemical analysis results.

h. Within 10 days of receipt of satisfactory chemical analyses for the east well, Respondent shall contact the Florida Rural Water Association (FRWA) for a well specialist to inspect the west well at Shady Oaks and advise Respondent of needed repairs on the well.

i. Within 60 days of consultation by the FRWA well specialist, Respondent shall begin drawing water from the east well, and valve off the west well. Respondent shall immediately began requested repairs on the west well at Shady Oaks.

j. Within 10 days of completion of the requested work on the west well at Shady Oaks, Respondent shall complete two consecutive days of bacteriological analyses to clear it for use. The Department will clear the well upon receipt of two consecutive days of bacteriological analyses results that are negative for bacteria.

k. Within 5 days of bacteriological clearance of the west well at Shady Oaks, Respondent shall connect both wells such that water is drawn from both in an alternating fashion for treatment.

l. Within 60 days of completion of the necessary repairs on the west well at Shady Oaks, Respondent shall install

a 5 horsepower pump in the north well (standby well) at Azalea Park Subdivision.

m. Within 10 days of the installation of the new pump at Azalea Park Subdivision, Respondent shall begin the bacteriological sampling procedure required for clearance of the north well. The Department will clear the well upon receipt of 20 bacteriological analyses results that are negative for bacteria.

n. Within 5 days of the receipt of the satisfactory bacteriological results, as mentioned in paragraph 6.m., Respondent shall connect the north well at Azalea Park to the plant such that raw water from both wells is drawn alternately and treated.

o. Within 24 hours of beginning usage of the north well at Azalea Park, Respondent shall perform the following chemical analyses at the plant effluent tap at Azalea Park: Primary and Secondary Inorganic, Pesticides and PCBs, Volatile Organic Contaminants (VOCs), and Radio nuclide chemical analyses.

p. Within 24 hours of completion of sampling for the chemical analyses listed in part 6.o., Respondent shall disconnect or valve off the north well at Azalea Park until receipt of the chemical analysis results.

q. Within 10 days of receipt of satisfactory results for the chemical analyses on the north well (as determine by the Department), Respondent shall contact the Florida Rural Water Association (FRWA) for a well specialist to inspect the south well at Azalea Park and advise Respondent of needed repairs on the well.

r. Within 60 days of consultation by the FRWA well specialist, Respondent shall begin using the north well, and valve off the south well. Respondent shall immediately begin requested repairs on the south well at Azalea Parks.

s. Within 10 days of completion of the requested work on the south well Azalea Park, Respondent shall complete two consecutive days of bacteriological analyses to clear it

for use. The Department will clear the well upon receipt of bacteriological analysis results that are negative for bacteria for two consecutive days.

t. Within 5 days of bacteriological clearance of the south well at Azalea Park, Respondent shall connect both wells such that water is drawn from both in an alternation fashion for treatment.

Staff acknowledges that several of the above listed items are sequential (an ordered structure) and one item cannot be completed without fulfilling the requirements of the previous item. However, the deadlines contained in the Consent Order have passed, and currently, the only items in the Consent Order that have been addressed/corrected are: the installation of one new hydropneumatic tank at the Azalea Park plant, replacement of some of the corroded piping components, and the installation of the new pump at Shady Oaks.

Presently, the utility has not submitted to the DEP the results of the required chemical testing of the water. Consequently, the level of safety of the water cannot be determined, at this time. Staff recommends that Consolidated be required to bring its water treatment facilities into compliance with the requirements comprised in the Consent Order issued by the DEP.

**ISSUE 5:** Are any pro forma adjustments needed for Consolidated's plant?

**RECOMMENDATION:** Yes, pro forma adjustments of \$29,617 are needed for a meter replacement program, replacement of a hydropneumatic tank, construction of plant security fences, one new well, flow meters, doors for the chlorinator rooms, tank painting, and replacement of a chlorine pump. These items should be installed and operational within six months of the effective date of the Order arising from this recommendation. (WALKER, EDWARDS)

**STAFF ANALYSIS:** Many of the residential meters (114) have exceeded their expected lives and have been found to be inaccurate or do not work at all. Therefore, replacement is necessary. At the time of this recommendation, the utility has replaced approximately 50 of the meters found to be inoperable. There are an additional 64 more residential meters that have exceeded 1 million gallons and are scheduled to be replaced as well. Staff has reviewed the utility's estimate of \$5,455 for meter replacement and finds the cost reasonable and prudent.

The hydropneumatic tank located at the Shady Oaks plant has also exceeded its expected life, and has been patched twice. Failure of the tank would result in the customers being left with no potable water. Scheduled replacement, which would minimize down time to a few hours, is recommended. Staff has reviewed the utility's estimate of \$8,514 for the installation of a new hydropneumatic tank and finds the cost prudent and reasonable. It is also necessary that the utility paint both the new hydropneumatic tank that will be installed at Shady Oaks and the other one that was recently replaced at Azalea Park in an effort to protect the tanks from rust and corrosion. Staff has reviewed an estimate of \$163 for the proper chemicals and paint and finds the cost reasonable.

All utility plants and wells should be secured. This utility's plants and wells are not. The plants have been vandalized in the past. Installation of a security fence is necessary, prudent and recommended. Staff has reviewed the utility's estimate of \$2,593 and finds it both prudent and reasonable. Staff is also requiring the installation of locking doors on the chlorine rooms at the Shady Oaks and Azalea Park plants. The rooms currently stand open and unsecured which allow a possible outlet for vandalism as well. The utility submitted an

estimate of \$1,015 for the installation of locking steel doors for the two plants and staff finds the estimate prudent and reasonable.

DEP is requiring a new 6-inch well at the Shady Oaks Subdivision. The utility has supplied staff with an estimate of \$11,000 for the new well. Staff has reviewed the estimates and finds this amount both prudent and reasonable.

The utility is being required to replace two 4-inch flow meters at the Shady Oaks and Azalea Park plants. These meters are required to accurately measure water being pumped and distributed to customers. The utility has provided an estimate of \$412 to pay for the purchase and installation of these meters. Staff finds this amount reasonable.

The utility needs to replace a peristaltic chlorine pump at Azalea Park to properly treat the water being distributed to the customers. Staff has reviewed the estimate of \$315 and finds it prudent and reasonable.

The pro forma plant is a combination of utility needed items and DEP required improvements. The total amount of pro forma is \$29,617. This includes 4-inch flow meters, one 6-inch well, a new hydropneumatic tank as well as painting for two tanks, a new chlorine pump, new meters for residential connections, and new fencing and locking doors for two of the plants. As mentioned, the utility has replaced 50 inoperable residential meters but still has 64 additional residential meters to replace. The remaining plant improvements should be installed and operational within six months of the effective date of the Order arising from this recommendation.

Staff will address the necessity of securing the revenue requirement associated with these pro forma items in Issue 15.

**ISSUE 6:** What is the appropriate year end rate base?

**RECOMMENDATION:** The appropriate year end rate base is \$62,449.  
(WALKER)

**STAFF ANALYSIS:** Rate base was established for Consolidated in Order No. 15124. Staff used that order as a starting point for determining the current rate base amount. An original cost study of 242 Village was completed using available information and physical inspection of the facilities during the engineer's investigation. The appropriate components of the utility's year end rate base consist of the following: utility-plant-in-service (UPIS), land, contributions-in-aid-of-construction (CIAC), accumulated depreciation, amortization of CIAC, and working capital. For this docket, rate base will also include an acquisition adjustment and amortization relating to the acquisition adjustment. The acquisition adjustment will be addressed in Issue 7. A discussion of each component follows.

Staff selected a test year ended December 31, 2000, for this rate case. Adjustments have been made to reconcile the rate base component balances with the engineers' original cost study and the auditors' working papers to update rate base through December 31, 2000. A summary of each component and adjustments are listed below:

**Utility Plant in Service:** The utility books reflected a water utility plant in service balance of \$42,789 at the beginning of the test year. Staff made an adjustment of \$10,884 to match the utility balance to the plant balance in Order No. 15124. Staff made an adjustment of \$55,886 to reflect the amount of water plant per the original cost study of 242 Village completed by Commission staff. An adjustment was made to include \$800 in pumping equipment incorrectly recorded in Miscellaneous Expenses. An adjustment of \$3,225 was made to include a previously unrecorded hydropneumatic tank. An adjustment of \$5,022 was added to include previously unrecorded pumping equipment in the amounts of \$1,073, \$2,075, \$1,400, and \$474. An adjustment of \$5,390 was made to include previously unrecorded meters in the amounts of \$740 and \$4,650. An adjustment of \$1,500 was made to include new connections to 242 Village.

The previously mentioned DEP consent order requires a number of pro-forma plant items to be installed and operational in a given

time frame. These items, costs, and compliance allowances total \$29,617 and are addressed in Issue 5. Total adjustments for Utility Plant in Service are \$112,324.

**Land:** The utility recorded a land value of \$0 for the test year. Staff has adjusted this account to \$892 to match the utility's land balance in Order No. 15124. The utility has made no further land purchases since the previous order. Therefore, staff recommends land and land rights of \$892.

**Non-Used and Useful Plant:** As discussed in Issue 3, the water treatment plant should be considered 100% used and useful for Azalea Park, Shady Oaks and 242 Village. Staff made an adjustment of \$7,601 to reflect the 80% used and useful water distribution system for 242 Village. The water distribution system for Azalea Park and Shady Oaks should be considered 100% used and useful.

**Contributions-in-Aid-of-Construction (CIAC):** In Order No. 15124, CIAC was established at a balance of \$36,150. The utility recorded \$32,184 of CIAC on its books at the end of the test year. Staff increased this amount by \$3,966 to adjust to the previously mentioned Commission order. The utility has not recorded any additional CIAC since the last rate case.

The utility did not record any CIAC for the purchase of 242 Village in 1994 as there were no records to indicate what the proper CIAC amount should be. Rule 25-30.570, Florida Administrative Code, states:

If the amount of CIAC has not been recorded on the utility's books and the utility does not submit competent substantial evidence as to the amount of CIAC, the amount of CIAC shall be imputed to be the amount of plant costs charged to the cost of land sales for tax purposes if available, or the proportion of the cost of the facilities and plant attributable to the water transmission and distribution system and the sewage collection system.

Pursuant to Rule 25-30.570, Florida Administrative Code, CIAC has been increased \$37,253 to record the purchase of 242 Village. CIAC for Azalea Park and Shady Oaks has been calculated using the tariffed meter installation fee of \$75 times the difference in the number of customers in the prior rate case (159) and the number of

customers on December 31, 2000 (190) for an increase of \$2,325. Additional CIAC for 242 Village has been calculated using the tariffed meter installation fee of \$75 times the difference in the number of customers at the time of the 1995 purchase (30) and the number of customers on December 31, 2000 (40) for an increase of \$750. Staff has determined year end CIAC to be \$76,478.

**Acquisition Adjustment:** The utility reflected no acquisition adjustment for the purchase of 242 Village in 1994. It is not Commission practice to include acquisition adjustments in rate base calculations without the presence of extraordinary circumstances. In this case, staff believes extraordinary circumstances exist and included a negative acquisition adjustment of \$4,651 for the purchase of 242 Village. Staff's further discusses the acquisition adjustment in Issue 7.

**Accumulated Depreciation:** The utility books reflected no accumulated depreciation balances for the systems at the end of the test year. Staff has increased this account by \$53,673 to reflect the balance set forth in Order No. 15124. Staff has calculated accumulated depreciation using the rates set forth in Rule 25-30.140, Florida Administrative Code, from 1985 through the test year resulting in an increase of \$25,691 to this account. Staff has increased this account \$590 to include depreciation on the pro forma plant items. Staff decreased this account \$2,593 to reflect the non-used and useful portion of the 242 Village plant. Therefore, staff recommends water accumulated depreciation of \$77,361.

**Accumulated Amortization of CIAC:** The utility recorded no accumulated amortization of CIAC at the end of the test year. Staff increased this account by \$30,124 to match the amount set forth in Order No. 15124. Staff calculated accumulated amortization by using a composite rate pursuant to Rule 25-30.140, Florida Administrative Code, through the test year end. Staff's adjustment for the accumulated amortization of CIAC is \$34,541 as of December 31, 2000. Staff recommends accumulated CIAC amortization of \$64,665 for the test year.

**Amortization of Acquisition Adjustment:** The utility did not have a recorded balance for the amortization of the acquisition adjustment. Staff's adjustment for this account is \$957 which reflects the accumulated amortization since the 1994 purchase of 242 Village.

**Working Capital Allowance:** Working Capital is defined as the investor-supplied funds necessary to meet operating expenses or going-concern requirements of the utility. Pursuant to Rule 25-30.433, Florida Administrative Code, staff recommends that the one-eighth of the operation and maintenance expense formula approach be used for calculating working capital allowance. Applying that formula, staff recommends a working capital allowance of \$6,913 for water (based on water operation and maintenance of \$55,300.)

**Rate Base Summary:** Based on the foregoing, the appropriate year end rate base is \$62,449 during the test year.

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

**ISSUE 7:** Should a negative acquisition adjustment be approved relating to the purchase of 242 Village?

**RECOMMENDATION:** Yes. A negative acquisition adjustment in the amount of \$4,651 should be approved relating to the purchase of 242 Village. The acquisition adjustment should be amortized over the life of the plant. This is the first time the Commission has addressed a negative acquisition adjustment for reasons of poor management and/or poor quality of service caused by the subsequent owner of a utility. (WALKER)

**STAFF ANALYSIS:** The 242 Village system was transferred to Consolidated by Order No. PSC-94-1357-FOF-WU, issued November 7, 1994 in Docket No. 930971-WU. In that Order, the Commission did not determine the appropriateness of an acquisition adjustment for 242 Village since no rate base was established noting that "Rate Base for utilities receiving grandfather certificates is typically established in the utility's first rate proceeding filed under our jurisdiction."

An acquisition adjustment results when the purchase price differs from the original cost calculation. The acquisition adjustment resulting from the 1994 purchase of 242 Village by Consolidated is calculated as follows:

Purchase Price (11/07/94)		\$7,500
Plant Value per Original Cost Study	\$55,886	
Accumulated Depreciation (11/07/94)	(17,576)	
CIAC (Lines and Service)	(37,253)	
Amortization of CIAC	<u>11,094</u>	
Less Staff Calculated Rate Base		<u>12,151*</u>
Negative Acquisition Adjustment		<u>\$4,651</u>

\* Rate Base calculated for transfer purposes and does not include normal rate making adjustments for non-used and useful plant or working capital.

Staff calculated rate base using the original cost of the property when it was first dedicated to public service.

In the absence of extraordinary circumstances, it has been Commission practice that the purchase of utility system at a premium or discount shall not affect the rate base calculation.

The Commission has recognized negative acquisition adjustments in a few instances. In In re: Application for a Rate Increase in Pasco County by Jasmine Lakes Utilities Corporation, Order No. PSC-93-1675-FOF-WS, issued November 18, 1993, in Docket No. 920148-WS, the Commission found that customer testimony, the need for repairs and improvements to the system at the time of the transfer, and the lack of responsibility on the part of the previous management of the utility constituted extraordinary circumstances that justified the inclusion of a negative acquisition adjustment in rate base. In In re: Application of Southern States Utilities, Inc., for increased water and sewer rates to its customers in Putnam County, Florida, Order No. 14364, issued May 14, 1985, in Docket No. 840157-WS, the Commission concluded that extraordinary circumstances existed to impose a negative acquisition adjustment upon finding that the utility failed to demonstrate that the purchase of a wastewater system was prudent. In In re: Application for a staff-assisted rate case in Brevard County by CGD Corporation, Order No. PSC-93-0011-FOF-WS, issued January 5, 1993, in Docket No. 920397-WS, the Commission found that a nontaxable exchange of property that would result in a developer double-recovering his investment in the utility was an extraordinary circumstance that supported a negative acquisition adjustment. Furthermore, in In re: Application for transfer of Certificates 362-W and 317-S from Beacon 21 Development Corporation to Laniger Enterprises of America, Inc., in Martin County, Order No. 22962, issued May 21, 1990, in Docket No. 881500-WS and In re: Request of Water Oak Utility Company, Inc., for cancellation of service availability charges, Order No. 18255, issued October 6, 1987, in Docket No. 870122-WS, the Commission approved settlement agreements that included negative acquisition adjustments. The Commission has not addressed a negative acquisition adjustment for reasons of poor management and/or poor quality of service caused by the subsequent owner of a utility.

In Order No. 23858, issued December 11, 1990, Docket No. 891353-GU, the Commission set forth a number of extraordinary circumstances that justify a positive acquisition adjustment. Among these were:

1. increased quality of service;

2. lowered operating costs;
3. increased ability to attract capital for improvements;
4. a lower overall cost of capital; and
5. more professional and experienced managerial, financial, technical and operational resources...

Staff believes that in this case, these extraordinary circumstances are present but in a reverse state. Since the purchase of 242 Village by Consolidated, staff believes the customers have received a lower quality of service and increased operating costs which will result in increased rates. Staff also believes that 242 Village is not benefitting from a more professional and experienced management. Staff believes management lacks the financial, technical and operational resources that would benefit a water system like 242 Village.

Staff believes that poor management, in this case, is an extraordinary circumstance. The utility has a record of poor management that has been documented in Issues 2, 3, and 4 of this recommendation. Staff believes that, without DEP and the Commission stepping in, the utility would continue to let the condition of 242 Village deteriorate. This is shown by the current condition of the other two plants, Azalea Park and Shady Oaks, which have also deteriorated due to poor management.

Since the purchase of 242 Village in 1994, staff has seen no evidence of the utility making any effort to maintain or improve the facilities at 242 Village. The utility seems content to allow the water plant to operate with little maintenance or care.

For example, on the day of the customer meeting, staff toured the service area and the plant of 242 Village. Staff observed a number of items as evidence of the utility's neglect of the plant. Among those, staff observed broken electrical conduit that leaves wiring exposed to the elements. The wooden privacy fence around the plant is beginning to deteriorate because it has not been painted or maintained. The sole protection for the chlorinator from the sun and weather is a Rubbermaid container placed over the top of the chlorinator head. Although these infractions do not pose an immediate threat to the quality of the water or service for 242 Village, they do have the propensity to cause problems in the future and they could be avoided with minor preventative maintenance.

Also, within the service area of 242 Village, there were a number of meters broken or inoperable. The utility has replaced the inoperable meters since the beginning of the rate case but there are still a number of slow meters and meters with over 1 million gallons that need to be replaced. Typically, utilities replace slow or broken meters during routine maintenance and do not ignore them as they are the direct source for revenues.

Staff believes that poor management has been and may continue to be a problem with the utility. Staff does not believe that the utility should be allowed a financial return on the excess value above the purchase price in this case. In many cases, the customers receive a benefit of better service from a new owner. However, in this case, staff believes that the customers have received not only questionable service but possibly a poorer quality of water since Consolidated has taken over the system.

It should be noted that this is a unique circumstance where the Commission must decide the appropriateness of an acquisition adjustment several years after a purchase. However, in Order PSC-94-1357-FOF-WU, the determination of an acquisition adjustment was deferred until the utility's next rate case. The previous owners of 242 Village, Classic Heritage Homes, did not keep books and records for the utility so an original plant cost and book value could not be determined at the time. Also, it was determined that Jack Espenship was technically and financially able to operate 242 Village based on the fact that he already owned two water plants. Staff believes that had the Commission known the condition of the other two plants at the time, the Commission would not have allowed the transfer to take place.

Staff recommends a negative acquisition adjustment for the purchase of the 242 Village water system and has included a \$4,651 negative acquisition adjustment. The acquisition adjustment should be amortized over the life of the plant so that the amortization will match the corresponding depreciation of the 242 Village plant.

**COST OF CAPITAL**

**ISSUE 8:** What is the appropriate rate of return on equity and the appropriate overall rate of return for this utility?

**RECOMMENDATION:** The appropriate rate of return on equity should be 9.94% with a range of 8.94% to 10.94% and the appropriate overall rate of return should be 10.48%. (WALKER)

**STAFF ANALYSIS:** Based on the utility's records, at December 31, 2000, Consolidated's capital structure consisted of customer deposits of \$4,453 and long term debt of \$67,007.

Common equity represents 0% of the utility's total capital structure. Using the current leverage formula approved in Docket No. 000006-WS, by Order No. PSC-00-1162-PAA-WS, issued June 26, 2000, for all equity ratios less than 40%, the rate of return on common equity should be 9.94% with a range of 8.94% - 10.94%.

The utility's long term debt, which is 95.61% of the utility's capital structure, consists of an existing loan (66.04%) with an interest rate of 11.00% at test year end, and pro forma debt (29.57%) at an interest rate of 10%.

The utility's capital structure has been reconciled with staff's recommended rate base. Applying the cost of each capital component times the pro-rata share of each component results in an overall rate of return of 10.48%.

Staff recommends that the appropriate rate of return on equity for this utility is 9.94% with a range of 8.94% - 10.94%, and the appropriate overall rate of return for this utility is 10.48%.

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

**NET OPERATING INCOME**

**ISSUE 9:** What is the appropriate test year revenue for this utility?

**RECOMMENDATION:** The appropriate test year revenue should be \$45,339. (WALKER)

**STAFF ANALYSIS:** During the test year the utility provided water services to approximately 230 residential customers. Based on the audit, the utility recorded its revenues on a cash basis for the 12-month period ended December 31, 2000. The utility's records stated that test year revenues should be \$32,184. Staff obtained detailed billing records from the company and recalculated revenues based on these records. Staff made adjustments of \$1,602 to bring test year revenue to the proper amount. The difference is believed to be due to the utility's use of the cash basis of accounting.

The utility also had incomplete records for the test year with only nine months available for Shady Oaks and ten months available for 242 Village and Azalea Park. Due to incomplete records, staff determined a monthly average revenue and annualized revenues which increased the total revenue by \$8,558 for the test year.

During analysis of billing records, staff discovered that the utility charged incorrect rates throughout the test year for the Shady Oaks and Azalea Park water systems. The utility's tariff requires a base facility charge and a gallonage charge for all water sold. The utility included 1,000 gallons of free water with the base facility charge and only charged gallonage on anything over 1,000 gallons of usage. Staff determined that 192 customers received 1,000 gallons of water free each month during the test year. Staff adjusted this account \$2,995 (192 customers X \$1.30 per thousand gallons X 12 months) to include incorrectly billed water. Staff discusses a possible Show-Cause for the utility for charging rates that are not in its tariff in Issue 20.

Total adjustments to the test year revenue is \$13,155. Staff recommends test year revenue of \$45,339 for this utility.

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

**Operating Expenses**

**ISSUE 10:** What is the appropriate amount of operating expenses for rate setting purposes?

**RECOMMENDATION:** The appropriate amount of operating expenses for rate setting purposes should be \$63,488. The utility should provide staff with a signed contract with Wiley's Insurance with proof of the insurance policy within 30 days of the effective date of the Commission Order. Further, the utility should maintain its books and records in compliance with NARUC USOA. The utility should provide a statement with its 2002 annual report that it has brought its books and records into compliance with the NARUC USOA.  
(WALKER)

**STAFF ANALYSIS:** The utility's recorded operating expenses include operation and maintenance (O&M) expense, depreciation expense, and taxes other than income.

The books and records of the utility did not meet NARUC USOA standards. Records were kept for only nine months of the year and the amounts that were recorded were not applied to the appropriate accounts. Prior to April 2000, books for the company were not kept. In April 2000, Ms. Pam Dones, was hired by the utility and she began trying to keep the books and records in a more organized manner. She was unaware of the NARUC USOA and outside of payroll and utilities, she put most other expenses in the Miscellaneous Expense account. Staff has made an effort to identify these expenses and reclassify them to the proper NARUC USOA accounts. The utility should maintain its books and records in compliance with NARUC USOA. The utility should provide a statement with its 2002 annual report that it has brought its books and records into compliance with the NARUC USOA.

The test year O&M expenses have been reviewed, and invoices, cancelled checks, and other supporting documentation have been examined. Staff made several adjustments to the utility's operating expenses. A summary of adjustments to operating expenses is as follows:

**OPERATION AND MAINTENANCE EXPENSE**

**Salaries and Wages-Employees (601)** - The utility recorded salaries and wages of \$9,327 for the test year. The utility owner operates

both the utility and a construction company from the same office using one full time employee. A staff audit has determined that the employee spends 90% of the time performing utility duties and 10% of the time performing the construction company duties. Staff has allocated expenses to reflect the portion of utility related duties.

The utility's one full time employee, Ms. Dones, is paid \$7.25/hr. Ms. Dones serves as secretary, bookkeeper, billing clerk, and accountant. Ms. Dones also schedules maintenance duties and orders needed materials and parts for the company. Staff considers this salary low for the duties performed and is allowing \$12/hr for this position. Staff has increased this account \$13,137 to reflect staff's recommended \$22,464 (\$12 per hour X 2,080 hours X 90% per year) for Employee Salaries and Wages Expense for the test year.

Salaries and Wages-Officers (603) - The utility did not record an amount in Salaries and Wages-Officers. The utility owner, Mr. Jack Espenship, serves as the President. The duties of the president are to ensure that required reports are done, to ensure that DEP testing certificates are properly made and filed according to the law, to secure bids on any needed improvements to the utility, and to oversee any construction or maintenance projects. Ordinarily, under these circumstances, staff would recommend that the Officer's Salaries and Wages Expense for the president should be \$6,000 for the test year. (\$25 per hour X 20 hours per month X 12 months per year)

However, staff believes it is appropriate to reduce the salary of Consolidated's president based upon our concerns with the utility's overall quality of service and the performance of its management in the service areas. Staff believes that Consolidated's problems are a direct result of the actions and/or inactions of the president and that he should be held directly responsible. Staff believes the president has been ineffective in his duties. Mr. Espenship has failed to ensure that the appropriate RAFs have been submitted in accordance with Commission rules, failed to perform required DEP testing of the water, and failed to maintain the plant in an acceptable manner.

It has been Commission practice to find that overall poor quality of service and performance by management may justify a reduction in the president's salary. Specifically, in Order No.

PSC-93-0295-FOF-WS, issued February 24, 1993, in Docket No. 910637-WS, the Commission found that it was appropriate to reduce the salary of Mad Hatter Utility Inc.'s (MHU) president because of concerns with MHU's overall quality of service and the performance of its management.

Section 367.111(2), Florida Statutes, authorizes the reduction of return on equity based upon unsatisfactory quality of service. The Commission, in the past, has exercised this authority but staff believes it would be ineffective for Consolidated since the utility's capital structure consists entirely of debt and includes no equity. The Commission stated in Order No. PSC-93-0295-FOF-WS that reducing the salary of the utility's president will have a direct and immediate impact equal to or greater than a reduction to the return on equity. The Commission further stated that it believed that such a salary reduction sends the proper signal to management to make improvements. The Commission found that the person ultimately responsible for the conduct of the corporate entity, its president, should be held accountable. See also PSC-01-1162-PAA-WU, issued May 22, 2001, in Docket No. 001118-WU.

Therefore, staff recommends that the president's salary for this utility be reduced based on the concerns that are mentioned throughout this recommendation. According to the audit work papers, the president did not receive a salary for the test year. Staff would ordinarily recommend an annual salary of \$6,000 but believes that the problems discussed in this recommendation are more than adequate to support a reduction in the president's requested salary by one-half. Therefore, staff recommends that the Officers' Salaries and Wages expense for the president should be \$3,000 for the test year.

Purchased Power (615) - The utility recorded test year-end Purchased Power expenses of \$2,911. Due to incomplete records, this amount includes only nine months of the test year, therefore staff has annualized this expense. Actual test year expenses are \$4,301 requiring an increase of \$1,390. Staff has reduced the purchased power expense for the test year by \$839 to reflect the staff recommended repression adjustment discussed in Issue 13. Staff has allowed a test year purchased power expense of \$3,462.

Chemicals (618) - The utility recorded a Chemical Expense of \$4,975 for the test year. Audit Disclosure No. 9 states that staff was unable to confirm all expenses recorded in this account were

chemicals related. Appropriate documentation either was not available or could not be located to justify these expenses. Staff has reduced this account by \$4,786 to meet the staff engineer's recommended allowance for chemicals for the test year. Staff further reduced this account an additional \$37 to reflect the staff recommended repression adjustment discussed in Issue 13. Staff recommends chemical expense of \$152 for the test year.

Materials and Supplies (620) - The utility recorded test year materials and supplies expense of \$5,286. Again, as with chemicals expense, staff was unable to confirm the expenses recorded in this account. Therefore, staff has reduced the account \$4,336 to more closely reflect actual expenses. Staff recommends a materials and supplies expense of \$950 for the test year based on documented expenses for the test year.

Contractual Services - Billing (630) - The utility contracts the meter reading duties to Mr. Wayne Wilkes. Billing duties of the utility are performed by Ms. Dones and are included in the Salaries and Wages - Employees account (601). The utility recorded \$1,400 Contractual Services - Billing expense for the test year. Audit Disclosure No. 9 stated the utility recorded a number of expenses incorrectly in Miscellaneous Expense (675). Staff believes that Contractual Services - Billing expenses were among the incorrectly classified expenses included in Miscellaneous Expense. Therefore, staff has reclassified an additional \$100 from Miscellaneous Expense to this account. Staff recommends a Contractual Services - Billing expense of \$1,500 for the test year.

Contractual Services - Professional (631) - The utility did not record any Contractual Services - Professional expense for the test year. Staff believes the utility incorrectly recorded accounting expenses for this account in Miscellaneous Expenses. Staff has reclassified \$1,000 to this account for amounts incorrectly recorded in Miscellaneous Expense. Staff recommends a total Contractual Services - Professional expense of \$1,000 for the test year.

Contractual Services - Testing (635) - The utility did not record an amount in Contractual Services - Testing expense in the test year. The utility incorrectly recorded expenses for this account in the Miscellaneous Expense account. Staff reclassified \$6,128 from Miscellaneous Expense to this account. State and local authorities require that several analyses be submitted in

accordance with Rule 62-550, Florida Administrative Code. A schedule of the required tests, frequency, and costs are as follows:

---WATER---

<u>Description</u>	<u>Frequency</u>	<u>Annual Cost</u>
Microbiological	Monthly	\$1,370
Primary Inorganics	36 Months	147
Secondary Inorganics	36 Months	87
Asbestos	1/ 9 Years	105
Nitrate and Nitrite	Annually	120
Pesticides and PCB	36 Months	330
Volatile Organics	36 Months	438
Lead and Copper	Biannually	1,250
Radio nuclides	36 Months	760
Unregulated Organics	36 Months	<u>513</u>
	Total Amount	<u>\$5,120</u>

Staff reduced this account \$1,008 in order to meet the staff engineer's recommended testing expense. Staff recommends Contractual Services-Testing expense of \$5,120 for the test year.

Contractual Services - Other(636) - The utility recorded no expenses in this account for the test year. Staff again believes the utility incorrectly recorded expenses for this account in Miscellaneous Expenses. Staff reclassified \$2,040 to this account from Miscellaneous Expenses for a computer lease from Dell Financial Services. Staff has also reclassified \$110 from Miscellaneous Expense for Florida Rural Water Association expenses and \$5,400 for operator services. Staff recommends Contractual Services-Other expense of \$7,550 for the test year.

Transportation Expense(650) - The utility recorded \$0 in Transportation Expenses for the test year. The utility owner assists its employees in performing the utility duties; therefore staff made adjustments to reflect gas and maintenance expense in this account. Staff increased this account by \$696 (200 miles per month X 12 months X .29) to allow a Transportation Expense for the utility. Staff recommends an annual Transportation Expense of \$696.

Insurance Expense(655) - The utility did not record an Insurance Expense for the test year as the utility does not currently carry insurance. The utility has supplied staff with an estimate from Wiley's Insurance Inc. in Lake City in the amount of \$3,874 with which to purchase a general liability and property policy. Therefore, staff has allowed \$3,874 for Insurance Expense for the test year. The utility should provide staff with a signed contract with Wiley's Insurance with proof of the insurance policy to staff within 30 days of the effective date of the Commission Order.

Regulatory Commission Expense(665) - The utility did not record an amount in this account for the test year. As with previous accounts, the expenses for this account were incorrectly recorded in Miscellaneous Expenses. The utility paid a rate case fee of \$1,000 pursuant to Rule 25-30.020, Florida Administrative Code. Staff has transferred \$1,000 from Miscellaneous Expense where the expense was improperly recorded. Pursuant 387.0816, Florida Statutes, staff has amortized this amount over four years and reduced the account \$750 to allow the \$250 amortized expense. Staff has also included \$55 (\$220 amortized over four years) from Miscellaneous Expenses to allow the utility relief from additional mailing and copying expenses associated with this rate case. The staff recommended Regulatory Commission Expense for the test year is \$305.

Miscellaneous Expense(675) - The utility recorded \$17,093 in this account during the test year. Staff determined that many expenses in this account were classified incorrectly. Therefore, staff reduced this account in order to correctly classify expenses with their correct NARUC-USOA account. These reductions include: (\$100) moved to Account (630), (\$1,000) moved to Account (631), (\$6,128) moved to Account (635), (\$7,550) moved to Account (636), and (\$1,000) moved to Account (665). Staff reclassified \$350 from this account to Utility Plant in Service - Pumping Equipment. Staff reclassified an additional \$450 from this account to Utility

Plant in Service - Pumping Equipment. Staff has increased this account \$4,712 to allow for mowing expenses, phone expenses, and general maintenance expenses. Total adjustments for this account result in a deduction of \$11,866 for the test year. Staff recommends a miscellaneous expense of \$5,227 for the test year.

Operation and Maintenance Expenses (O & M) Summary: Total operation and maintenance adjustments are \$14,308. Staff recommends Operation and Maintenance Expenses of \$55,300. Operation and Maintenance Expenses for the test year are shown on Schedule No. 3-C.

Depreciation Expense (Net of Amortization of CIAC): The utility did not record any depreciation expense for the test year. Staff calculated test year depreciation expense using the rates prescribed in Rule 25-30.140, Florida Administrative Code. Staff's calculated test year depreciation expense is \$2,322. Staff also made adjustments of \$1,233 to include depreciation on pro forma plant. Staff reduced Depreciation Expense by \$210 to allow for a non-used and useful adjustment. Staff calculated the test year amortization of CIAC to be \$1,698. Staff also included amortization expense for the negative acquisition adjustment in the amount of \$103. Therefore, staff recommends net Depreciation Expense of \$1,544 for the test year.

Taxes Other Than Income Taxes: The utility recorded an amount of \$406 in this account during the test year. Staff made an increase of \$2,528 to correctly record payroll taxes on staff recommended salaries. Staff increased this account an additional \$1,906 to include regulatory assessment fees on test year revenue. Staff has increased the account \$693 to properly reflect property tax expenses for the test year. Total adjustments to this account result in an increase of \$5,127. Staff recommends Taxes Other Than Income expense of \$5,533 for the test year.

Operating Revenues: Revenues have been increased by \$24,697 to \$70,036 to reflect the increase in revenue required to cover expenses and allow the utility the opportunity to earn the recommended rate of return on investment.

Taxes Other Than Income Taxes: This expense has been increased by \$1,111 to reflect the regulatory assessment fee of 4.5% on staff's recommended increase in revenue.

DOCKET NOS. 001682-WU  
DATE: SEPTEMBER 6, 2001

Operating Expenses Summary: The application of staff's recommended adjustments to the utility's test year operating expenses results in staff's recommended operating expenses of \$63,488.

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

**REVENUE REQUIREMENT**

**ISSUE 11:** What is the appropriate revenue requirement for this system?

**RECOMMENDATION:** The appropriate revenue requirement should be \$70,036 for the test year. (WALKER)

**STAFF ANALYSIS:** The utility should be allowed an annual increase in revenue of \$24,697 (54.47%). This will allow the utility the opportunity to recover its expenses and earn the recommended 10.48% return on its investment. The calculation is as follows:

Adjusted Rate Base	\$62,449
Rate of Return	<u>x .1048</u>
Return on Investment	\$ 6,545
Adjusted O&M Expenses	55,300
Depreciation Expense (Net)	1,544
Taxes Other Than Income	<u>6,644</u>
Revenue Requirement	<u>\$70,036</u>
Annual Revenue Increase	\$24,697
Percentage Increase/Decrease	<u>54.47%</u>

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

**ISSUE 12:** Is a continuation of the utility's current rate structures for its separate subdivisions appropriate in this case, and, if not, what is the appropriate rate structure?

**RECOMMENDATION:** No, a continuation of the utility's current rate structures for its separate subdivisions is not appropriate in this case. The current rate structures should be changed to a traditional base facility charge (BFC)/gallorage charge rate structure with uniform rates for the three subdivisions. No conservation adjustment should be implemented at this time. In order to monitor the effects of the new meters on customers' consumption, the utility should be ordered to provide actual billing reports, by customer and subdivision, for the period of August 2001 - December 2001. The implementation of a conservation adjustment and an inclining-block rate structure will be reevaluated in six months after staff has obtained actual billing data for that period. (LINGO)

**STAFF ANALYSIS:** The utility's current rate structure for its Azalea Park and Shady Oaks subdivisions consists of a traditional monthly base facility charge (BFC)/gallorage charge rate structure, in which the BFC is \$7.24, and all gallons used are charged \$1.30 per thousand gallons (kgal). This is the Commission's preferred rate structure, because it is a usage sensitive rate structure which allows customers to reduce their total bill by reducing their water consumption. However, as will be discussed in a subsequent issue, the utility, unilaterally and without Commission authorization, has been including 1 kgal of consumption in the BFC.

For its 242 Village subdivision, the utility also implements a BFC/gallorage charge rate structure, with a BFC of \$17.79 which includes an allotment of 8 kgal of consumption. All consumption in excess of 8 kgal is charged \$2.00 per kgal. This rate structure is considered nonusage sensitive because of the 8 kgal allotment in the BFC. This allotment discourages conservation at and below the allotment level, and customers do not receive the appropriate price signal for each kgal of water used.

Staff recommends the elimination of any consumption allotment included in the BFC, to be consistent not only with Commission practice, but with the overall statewide goal of eliminating conservation-discouraging water rate structures. However, we recommend neither a conservation adjustment nor a shift to an

inclining-block rate structure at this time. A discussion of our analysis follows.

### Conservation Adjustment

Staff believes an important rate design goal is to minimize, to the extent possible, the price increases at monthly consumption levels of 5 kgal or less. We believe this is an appropriate goal because a high percentage of consumption at or below 5 kgal represents nondiscretionary, essential consumption. This goal is consistent with Commission practice. We believe another rate design goal, also consistent with Commission practice, is to recover no more than 40% of the overall revenue requirement through the BFC. This rate structure guideline was developed by the Southwest Florida Water Management District (SWFWMD), and has been generally adopted by the remaining four Water Management Districts (WMDs).

Based upon initial accounting allocations, the utility recovers approximately 32% of the revenue requirement from the BFC and the remaining 68% from the gallonage charge. These initial allocations result in BFC/gallonage charge revenue recovery percentages that are consistent with both Commission practice and the guidelines of the WMDs. In addition, as discussed in Issue 5, meter replacements have been necessary in order to obtain reliable consumption information. To implement a conservation adjustment at this time, without reliable consumption information, could increase the utility's revenue instability. Therefore, staff recommends that no conservation adjustment be made at this time. However, the propriety of a conservation adjustment will be reevaluated in six months after staff obtains actual consumption data for August 2001 - December 2001.

### Rate Structure

The utility serves three different, non-interconnected subdivisions, each with different usage characteristics, as well as several general service customers. Our challenge in this case was to estimate annual, total system consumption based both on: 1) a comparison of one month of new data versus prior consumption data; and 2) our estimates as to what reasonable annual averages of consumption per customer per subdivision might be expected.

Staff has obtained one month of consumption data for the period since the installation of the new meters. We compared the average consumption per subdivision based on the new data to the corresponding annual averages for the 12-month test year. Based upon our analysis, we believe a reasonable estimate of total annual consumption, before repression, is 13,212 kgal.

As discussed previously, Consolidated's authorized rate structures include a traditional, usage sensitive BFC/gallage charge rate structure for two subdivisions, and a nonusage sensitive BFC/gallage charge rate structure with an allotment of 8 kgal included in the BFC for the third subdivision. Staff recommends that all allotments of consumption in the BFC be eliminated to be consistent not only with Commission practice, but with the overall statewide goal of eliminating conservation-discouraging water rate structures.

As discussed in Issues 2 and 5, many of the customers' water meters either failed to register consumption or under-registered consumption during the test period, rendering the consumption data for the 12-month test period inaccurate. As also discussed in Issue 5, staff is recommending that pro forma plant in service, including meter replacements, be included in rate base. Although staff believes that we have reasonably estimated annual consumption, we also believe it would be inappropriate to further modify rate structure without accurate, reliable consumption data.

Based on the foregoing, the utility's current rate structures should be changed to a traditional BFC/gallage charge rate structure with uniform rates for the three subdivisions. No conservation adjustment should be implemented at this time. In order to monitor the effects of the new meters on customers' consumption, the utility should be ordered to provide actual billing reports, by customer and subdivision, for the period of August 2001 - December 2001. The implementation of a conservation adjustment and an inclining-block rate structure will be reevaluated in six months after staff has obtained actual billing data for that period.

**ISSUE 13:** Is an adjustment to reflect repression of residential consumption due to the price increase and change in rate structures appropriate in this case, and, if so, what is the appropriate repression adjustment and the resulting residential consumption for rate-setting?

**RECOMMENDATION:** Yes, a repression adjustment of 2,573 kgal to residential consumption is appropriate, resulting in residential consumption for rate-setting of 10,639 kgal. In order to monitor the effects of the recommended revenue increase, the utility should be ordered to prepare monthly reports detailing the number of bills rendered, the consumption billed and the revenue billed. These reports should be provided, by customer class and meter size, on a quarterly basis for a period of two years, beginning with the first billing period after the increased rates go into effect. (LINGO)

**STAFF ANALYSIS:** Because the utility implements one rate structure for the Shady Oaks and Azalea Park systems and a different rate structure for the 242 Village system, the magnitudes of the price increases between the systems will be different. Therefore, anticipated repression must be calculated for the utility's Shady Oaks and Azalea Park systems separately from the utility's 242 Village system. A discussion of our analysis follows.

#### **Shady Oaks and Azalea Park**

Based on information contained in our database of utilities receiving rate increases and decreases, there were seven water utilities which exhibited similar prior prices and usage patterns to Consolidated. On average, these utilities experienced an approximate 31% price increase while experiencing a corresponding 1.5% reduction (repression) in average monthly consumption. However, three of these utilities experienced increases in consumption after their respective price increases, which is contrary to the first law of demand. Therefore, staff removed these utilities from the calculation, resulting in revised relationships of an approximate 31% price increase corresponding to a 5.5% repression of consumption. The average prior price and annual consumption per customer figures for these remaining four utilities were \$17.13 and 6.166 kgal, respectively. These figures compare very favorably with Consolidated's corresponding figures of \$13.17 and 5.561 kgal.

Because of this comparability, staff believes it is reasonable to assume that a proportional relationship exists between price increase and consumption reduction. Based on Consolidated's preliminary average price increase of 121.0% for the Shady Oaks and Azalea Park subdivisions, staff formulated the following equation:

$$\frac{\text{Avg price incr of 4 utilities of 31.6\%}}{\text{Avg consump decr of 4 utilities of 5.5\%}} = \frac{\text{Consolidated's avg price incr of 121.0\%}}{X}$$

Solving for x results in an anticipated repression percentage of 21.1%, which staff rounded to 20%. Based on the magnitude of the price increase, staff believes a 20% repression adjustment is both conservative and appropriate.

### 242 Village

Staff performed a similar analysis for 242 Village. In this analysis, there were thirteen water utilities which exhibited similar prior prices and usage patterns to Consolidated. On average, these utilities experienced an approximate 35% price increase while experiencing a corresponding 5% repression in average monthly consumption. However, staff removed five of these utilities from the analysis because they experienced increases in consumption after their respective price increases, which is contrary to the first law of demand. The resulting revised relationships were an approximate 39% price increase corresponding to a 9.7% repression of consumption. The average prior price and annual consumption per customer figures for these remaining eight utilities were \$14.74 and 5.909 kgal, respectively. These figures compare very favorably with Consolidated's corresponding figures of \$17.79 and 5.868 kgal.

Because of this comparability, staff again believes it is reasonable to assume that a proportional relationship exists between price increase and consumption reduction. Based on Consolidated's preliminary average price increase of 69.7% for 242 Village, staff formulated the following equation:

$$\frac{\text{Avg price incr of 8 utilities of 38.8\%}}{\text{Avg consump decr of 8 utilities of 9.7\%}} = \frac{\text{Consolidated's avg price incr of 69.7\%}}{X}$$

Solving for x results in an anticipated repression percentage of 17.4%, which staff rounded to 17%. Based on the magnitude of the price increase, coupled with the change in rate structure for this system, staff believes a 17% repression adjustment is both conservative and appropriate.

DOCKET NOS. 001682 WU  
DATE: SEPTEMBER 6, 2001

Therefore, the resulting overall residential repression percentage, based on a consumption reductions discussed above, is 19.5%. The corresponding overall residential repression adjustment is approximately 2,573 kgal, and the resulting residential consumption for rate-setting is 10,639 kgal.

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

**ISSUE 14:** What are the appropriate monthly rates for service?

**RECOMMENDATION:** The appropriate monthly rates should be designed to produce revenues of \$69,563, excluding miscellaneous service charges. Although the three plants in Consolidated's system operate under two different rate structures, staff recommends combining the three systems under a uniform rate. The utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(1), Florida Administrative Code. The rates should not be implemented until staff has approved the proposed customer notice, and the notice has been received by the customers. The utility should provide proof of the date notice was given no less than 10 days after the date of the notice. (LINGO, WALKER)

**STAFF ANALYSIS:** Based on the audit, during the test year, the utility provided service to approximately 230 residential customers and three general service customers in Columbia County.

As discussed in Issue 11, the appropriate revenue requirement, excluding miscellaneous service charges, is \$69,563. The utility has Miscellaneous Service Charges of \$473. These additional charges should be used to reduce the revenue requirement recovered through rates; therefore, staff has designed rates to produce the revenue requirement not covered by Miscellaneous Service Charges. Staff's recommended revenue requirement increase is \$24,697, or approximately 54.47%. The final rates approved for the utility should be designed to produce revenues of \$69,563 (excluding miscellaneous service charge revenues).

Approximately 32% (or \$22,541) of the 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 68% of the revenue requirement (or \$47,022) represents revenues collected through the consumption charge based on the number of factored gallons.

The rates have been calculated using the projected number of bills and the number of gallons of water billed during the test year. However, staff has adjusted the number of gallons consumed by the customers to reflect both the broken and slow reading meters mentioned in Issues Numbers 2 and 5.

Currently, the utility has two different rate structures. The utility has one set of tariffed rates for the Azalea Park and Shady Oaks systems and another set of tariffed rates for the 242 Village system. Staff recommends combining all three systems under a uniform rate structure.

Staff believes that a uniform rate for all three systems is the most economically feasible for the utility. Due to the small size of the three plants, staff believes that it would be difficult for the utility to separate expenses and keep separate books which would be required if the utility were to maintain two different rates. Also, when the included gallonage at 242 Village is taken into account and compared to the Azalea Park and Shady Oaks systems, all three plants currently have similar rates which would indicate that rate shock will not occur. Therefore, staff recommends that all three plants be assigned a uniform rate.

Schedules of the utility's existing rates and staff's proposed rates are as follows:

**Residential & General Service Water Rates**  
**For Shady Oaks and Azalea Park**

Base Facility Charge

<u>Meter Size</u>	Minimum Charge for 3,000 gallons	
	<u>Existing Monthly Rates</u>	<u>Recommended Monthly Rates</u>
5/8" x 3/4"	\$ 7.24	9.41
3/4"	N/A	14.11
1"	18.11	23.52
1-1/2"	36.22	47.04
2"	57.97	75.26
3"	108.68	150.53
4"	181.13	235.20
6"	362.28	470.40



Gallonge Charge

Per 1,000 Gallons                      \$ 2.00                      \$ 4.29

<u>Monthly Consumption (In Gallons)</u>	<u>Monthly Billing for 242 Village</u>	<u>Using Staff's Recommended Rates</u>
3,000	\$17.79	\$22.28
5,000	\$17.79	\$30.86
7,500	\$17.79	\$41.59

The rates should not be implemented until staff has approved the proposed customer notice, and the notice has been received by the customers. The utility should provide proof of the date notice was given no less than 10 days after the date of the notice.

The utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(1), Florida Administrative Code.

**ISSUE 15:** Should the utility be required to place in escrow the percentage of revenues that are directly related to the necessary pro forma plant additions?

**RECOMMENDATION:** Yes. The utility should be required to escrow 11.18% of revenues related to the pro forma items. Consolidated should file a monthly report with this Commission detailing the monthly collections, as well as the aggregate amount. The escrow requirement should remain in effect until the requirements set forth in the DEP Consent Order are met and all additional pro-forma items are purchased and properly installed. (WALKER)

**STAFF ANALYSIS:** Consolidated is currently operating under a Consent Order from DEP and does not have a good record of proper financial management or good maintenance practices. As discussed in Issues Numbers 2, 4, and 5, a number of items that were to be corrected pursuant to Order No. 15124 have not been corrected to date. For this reason, staff believes a percentage of revenues should be placed in escrow in order to ensure that monies are available for the needed capital improvements. Staff recommends that 11.18% of the monthly revenue should be deposited into the escrow account. This percentage has been determined as follows:

Proforma Plant	\$29,617
½ Year Accumulated Depreciation	- 617
Net Pro Forma Plant	29,000
Rate of Return	x .1048
Subtotal	3,039
Depreciation Expense	1,233
Pro Forma Insurance	+ 3,872
Subtotal	\$8,144
Divide to Gross Up for RAFs	.955
<b>Total</b>	<b>\$7,778</b>

7,778/69,563 Revenue Requirement = 11.1894%

Accordingly, Consolidated shall establish a commercial escrow account for proforma items. The following conditions should be part of the agreement for the account:

- 1) No refunds in the escrow account may be withdrawn by the utility without the express approval of the Commission.
- 2) The escrow account shall be an interest-bearing account.
- 3) If a refund to the customers is required, all interest earned by the escrow account shall be distributed to the customers.
- 4) If a refund to the customers is not required, the interest earned by the escrow account shall revert to the utility.
- 5) All information on the escrow account shall be available from the holder of the escrow account to a Commission representative at all times.
- 6) The amount of revenue subject to refund shall be deposited in the escrow account within seven days of receipt.
- 7) This escrow account is established by the direction of the Florida Public Service Commission for the purpose(z.) 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 Commission Clerk and Administrative Services must be a signatory to the escrow agreement.

Before funds may be released, the account administrator shall receive:

1. a written request for release of such funds from Consolidated;
2. copies of each invoice from the vendor and written approval of each disbursement and the amount thereof
3. an affidavit from Consolidated stating the names of all parties owed, the amount owed to each and a lien waiver from each, and;
4. evidence of the proper payment of all prior disbursements.

Consolidated should file a monthly report with this Commission detailing the monthly collections, as well as the aggregate amount. The escrow requirement should remain in effect until the requirements set forth in the DEP Consent Order are met and all additional pro-forma items are purchased and properly installed.

**ISSUE 16:** Should the utility be authorized to collect miscellaneous service charges, and if so, what are the appropriate charges?

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

**STAFF ANALYSIS:** The utility's existing tariff authorizes the utility to collect miscellaneous service charges. The utility has requested an increase in the authorized charges. The requested charges have been reviewed and appear reasonable.

Staff recommends that the utility be authorized to collect charges consistent with Rule 25-30.460, Florida Administrative Code, and past Commission practice. The recommended charges are preliminary and designed to defray the costs associated with each service and place the responsibility of the cost on the person creating it rather than on the rate paying body as a whole. A schedule of staff's recommended charges follows:

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

A definition of each charge is provided for clarification:

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

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

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

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

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

**ISSUE 17:** 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 rates should be reduced, as shown on Schedule 4, to remove rate case expense grossed-up for RAFs 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.  
(WALKER)

**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 \$319 annually. 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 Schedule No. 4.

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 18:** 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(6), Florida Administrative Code, the utility should file reports with the Office of the Commission Clerk & Administrative Services no later than the 20th of each month indicating the monthly and total amount of money subject to refund at the end of the preceding month. The report filed should also indicate the status of the security being used to guarantee repayment of any potential refund. (CIBULA, WALKER)

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

The utility should be authorized to collect the temporary rates upon the staff's approval of appropriate security for the potential refund and the proposed customer notice. Security should be in the form of a bond or letter of credit in the amount of \$21,653. Alternatively, the utility could establish an escrow agreement with an independent financial institution.

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

- 1) The Commission approves the rate increase; or

- 2) If the Commission denies the increase, the utility shall refund the amount collected that is attributable to the increase.

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

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

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

- 1) No refunds in the escrow account may be withdrawn by the utility without the express approval of the Commission.
- 2) The escrow account shall be an interest-bearing account.
- 3) If a refund to the customers is required, all interest earned by the escrow account shall be distributed to the customers.
- 4) If a refund to the customers is not required, the interest earned by the escrow account shall revert to the utility.
- 5) All information on the escrow account shall be available from the holder of the escrow account to a Commission representative at all times.
- 6) The amount of revenue subject to refund shall be deposited in the escrow account within seven days of receipt.
- 7) This escrow account is established by the direction of the Florida Public Service Commission for the purpose 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 Commission Clerk and Administrative Services must be a signatory to the escrow agreement.

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

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

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

**ISSUE 19:** Should Consolidated be ordered to show cause, in writing within 21 days, why it should not be fined for charging rates and charges that are not contained in its tariff, in apparent violation of Sections 367.081(1) and 367.091(4), Florida Statutes?

**RECOMMENDATION:** No, a show cause proceeding should not be initiated. The utility should, however, be put on notice that, pursuant to Sections 367.081(1) and 367.091(4), Florida Statutes, it must only charge those rates and charges approved by the Commission in its tariff. (CIBULA, WALKER)

**STAFF ANALYSIS:** During a discussion with the utility, staff discovered that Consolidated had been collecting disconnection charges in excess of what was approved by the Commission in its tariff. The utility's current tariff allows a \$15 charge for disconnection and reconnection of customers found to be delinquent with their monthly payment. The utility was instead charging \$25 for disconnection.

It was also discovered that in billing the Shady Oaks and Azalea Park customers, the utility was charging the correct base facility and gallonage charges; however, the utility did not charge the gallonage charge until the customer used over 1,000 gallons. The gallonage charge in the utility's tariff, however, applies to the first 1,000 gallons of water used as well. Thus, the utility was not charging the Shady Oaks and Azalea Park customers for the first 1,000 gallons of water they used each month.

Section 367.081(1), Florida Statutes, states that a utility may only charge the rates and charges that have been approved by the Commission. Moreover, Section 367.091(4), Florida Statutes, states that a utility may only impose and collect those rates and charges approved by the Commission for the particular class of service involved and that a change in any rate schedule may not be made without Commission approval. By charging rates and charges different than those approved by the Commission, it appears that the utility is in apparent violation of Sections 367.081(1) and 367.091(4), Florida Statutes.

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 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 a 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 "in our view, 'willful' implies an intent to do an act, and this is distinct from an intent to violate a statute or rule." Additionally, "it 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).

The utility's apparent violations of Sections 367.081(1) and 367.091(4), Florida Statutes, can be considered "willful" in the sense intended by Section 367.161, Florida Statutes. However, there are circumstances which appear to mitigate the utility's apparent violations.

The utility stated that it was not aware that the fee for disconnection was set within its tariff. The utility stated that it believed that because its expenses associated with the disconnections increased, it could increase its charges accordingly.

Upon learning of the apparent violation by the utility, staff requested records of all customers that had been charged the unauthorized disconnection charge. Staff discovered that the higher charge had only been levied on a very limited number of occasions in the last two years. Moreover, upon being made aware of its apparent violation of Sections 367.081(1) and 367.091(4), Florida Statutes, the utility credited all the accounts of customers who paid the unauthorized charge. As of this date, all the customers who paid the unauthorized disconnection charge have been credited the appropriate amounts.

Staff notes that the utility has requested in this docket an increase in its miscellaneous service charges. Staff is recommending in Issue 16 that the requested increase be approved.

In regard to the utility not charging the Shady Oaks and Azalea Park customers a gallonage charge for the first 1,000 gallons of water used, the utility stated that it was unaware that it was incorrectly applying its tariff rates. The utility's error was in favor of the Shady Oaks and Azalea Park customers as they have been receiving their first 1,000 gallons of water at no charge

DOCKET NO. 001682-WU  
DATE: SEPTEMBER 6, 2001

each month. Now that the utility has been made aware of its error, it will begin to correctly apply its tariffed rates.

Based on the foregoing, staff does not believe that the apparent violations of Sections 367.081(1) and 367.091(4), Florida Statutes, rise to the level that would warrant the initiation of a show cause proceeding in these circumstances. Therefore, staff recommends that the utility should not be required to show cause. The utility should, however, be put on notice that, pursuant to Sections 367.081(1) and 367.091(4), Florida Statutes, it must only charge those rates and charges approved by the Commission in its tariff.

**ISSUE 20:** Should Consolidated be ordered to show cause, in writing within 21 days, why it should not be fined for failing to file a revised tariff for the 242 Village system, in apparent violation of Order No. PSC-94-1357-FOF-WU and Section 367.091(3), Florida Statutes?

**RECOMMENDATION:** No, a show cause proceeding should not be initiated. The utility should, however, be put on notice that, pursuant to Section 367.091(3), Florida Statutes, it must have a tariff on file with the Commission containing its Commission-approved rates, charges and customer service policies. (CIBULA, WALKER)

**STAFF ANALYSIS:** As previously discussed, by Order No. PSC-94-1357-FOF-WU, the Commission approved the transfer of the 242 Village system to Consolidated. Order No. PSC-94-1357-FOF-WU also required Consolidated to submit revised tariff sheets reflecting the rates and charges authorized for the 242 Village system as a result of the approval of the transfer. During staff's review of Consolidated's SARC application in this docket, it was discovered that Consolidated did not have a tariff on file with the Commission for the 242 Village system.

Section 367.091(3), Florida Statutes, states that "Each utility's rates, charges, and customer service policies must be contained in a tariff approved by and on file with the Commission." By failing to file the revised tariff, Consolidated appears to be in apparent violation of Section 367.091(3), Florida Statutes, and Order No. PSC-94-1357-FOF-WU.

As discussed in Issue 19, 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 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 a 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 "in our view, 'willful' implies an intent to do an act, and this is distinct from an intent to violate a statute or rule." Additionally, "it is a common maxim, familiar to all minds that 'ignorance of the law' will not excuse

DOCKET NO. 001682-WU  
DATE: SEPTEMBER 6, 2001

any person, either civilly or criminally." Barlow v. United States, 32 U.S. 404, 411 (1833).

The utility's apparent violation of Section 367.091(3), Florida Statutes, and Order No. PSC-94-1357-FOF-WU can be considered "willful" in the sense intended by Section 367.161, Florida Statutes. However, there are circumstances which appear to mitigate the utility's apparent violation.

The utility stated that it was not aware that its tariff was not on file. Furthermore, it stated that although it did not file the tariff, it was charging the rates and charges authorized by the Commission in Order No. PSC-94-1357-FOF-WU.

Staff has verified that the utility was indeed charging the rates and charges authorized by the Commission in Order No. PSC-94-1357-FOF-WU despite the fact that it did not file the tariff with the Commission. Thus, it appears that no customers were harmed by the utility's apparent failure to file the tariff sheets. Staff believes that, if the Commission approves staff's recommendations in Issues 14 and 16, ordering the utility to now file the tariff sheets required by Order No. PSC-94-1357-FOF-WU would be unproductive as those tariff sheets will no longer be applicable.

Based on the foregoing, staff does not believe that the apparent violation of Order No. PSC-94-1357-FOF-WU and Section 367.091(3), Florida Statutes, rises to the level that would warrant the initiation of a show cause proceeding in these circumstances. Therefore, staff recommends that the utility should not be required to show cause. The utility should, however, be put on notice that, pursuant to Section 367.091(3), Florida Statutes, it must have a tariff on file with the Commission containing its Commission-approved rates, charges and customer service policies.

**ISSUE 21:** 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 12 months from the effective date of the Order to allow staff to verify completion of pro forma meter installations and other system repairs as described in Issues 4 and 5. Due to incomplete gallonage data, staff will adjust rates, if necessary, six months from the effective date of the Order to better match rates with the approved revenue requirement. If staff determines that a rate adjustment is necessary at that time, staff will file a recommendation with the new rates for the Commission's consideration at a future agenda conference. At that time, staff will readdress the escrow requirement discussed in Issue 15 and the appropriate time to close the docket. (CIBULA, WALKER)

**STAFF ANALYSIS:** Staff has recommended that the utility install pro forma items as listed in Issue 5 and perform all actions as required by the DEP Consent Order. If no timely protest is received upon expiration of the protest period, the PAA Order should become final upon the issuance of a Consummating Order. However, this docket should remain open for an additional 12 months from the effective date of the Order to verify that this work has been completed.

In addition, staff is recommending rates based on incomplete and annualized gallonage data. During the test year, approximately half of the utility's residential meters were either inoperable or reading incorrectly due to failure of the utility to replace them. Also, the utility's books and records were incomplete which further inhibits staff's ability to obtain an accurate gallonage figure. Staff has annualized available data and estimated an appropriate gallonage for the purpose of setting rates for the utility.

Due to the incomplete gallonage data, staff will adjust rates, if necessary, six months from the effective date of the Order to better match rates with the approved revenue requirement. If staff determines that a rate adjustment is necessary at that time, staff will file a recommendation with the new rates for the Commission's consideration at a future agenda conference. At that time, staff will readdress the escrow requirement discussed in Issue 15. At that time, staff will also readdress the appropriate time to close the docket.

<b>CONSOLIDATED WATER WORKS                      TEST YEAR ENDING 12/31/00                      SCHEDULE OF WATER RATE BASE</b>		<b>SCHEDULE 1-A                      DOCKET NO. 001682-WS</b>	
<b>DESCRIPTION</b>	<b>BALANCE                      PER                      UTILITY</b>	<b>STAFF                      ADJUSTMENTS                      TO UTIL. BAL.</b>	<b>BALANCE                      PER                      STAFF</b>
1. UTILITY PLANT IN SERVICE	\$42,789	\$112,324	\$155,113
2. LAND & LAND RIGHTS	0	\$892	\$892
3. NON-USED AND USEFUL COMPONENTS	0	(\$7,601)	(\$7,601)
4. CIAC	(32,184)	(\$44,294)	(\$76,478)
5. ACQUISITION ADJUSTMENT	0	(\$4,651)	(\$4,651)
6. ACCUMULATED DEPRECIATION	0	(\$77,361)	(\$77,361)
7. AMORTIZATION OF CIAC	0	\$64,665	\$64,665
8. AMORTIZATION OF ACQUISITION ADJ.	0	\$957	\$957
7. WORKING CAPITAL ALLOWANCE	0	\$6,913	\$6,913
8. WATER RATE BASE	<u>\$10,605</u>	<u>\$51,844</u>	<u>\$62,449</u>

**CONSOLIDATED WATER WORKS  
 TEST YEAR ENDING 12/31/00  
 ADJUSTMENTS TO RATE BASE**

**SCHEDULE NO. 1-B  
 DOCKET NO. 001682-WS**

	<u>WATER</u>
<b><u>UTILITY PLANT IN SERVICE</u></b>	
1. Adjust to plant balance per Order 15124.	\$10,884
2. Include original cost study of 242 Village.	55,886
3. Include pumping equipment allocated to Miscellaneous Expenses.	800
4. Include previously unrecorded pressure tank.	3,225
5. Include previously unrecorded pumping equipment.	5,022
6. Include additional connections in 242 Village.	1,500
7. Include previously unrecorded meters.	5,390
8. Include pro-forma plant and equipment.	29,617
Total	<u>\$112,324</u>
<b><u>LAND AND LAND RIGHTS</u></b>	
1. Include land rights unrecorded by utility.	<u>\$892</u>
<b><u>NONUSED AND USEFUL</u></b>	
1. Non-used and useful components.	<u>(\$7,601)</u>
<b><u>CIAC</u></b>	
1. To reflect Commission Order 15124.	(\$3,966)
2. To reflect the purchase of 242 Village.	(37,253)
3. To reflect additional connections.	<u>(3,075)</u>
Total	<u>(\$44,294)</u>
<b><u>ACQUISITION ADJUSTMENT</u></b>	
1. To include negative acquisition adjustment for purchase of 242 Village	<u>(\$4,651)</u>
<b><u>ACCUMULATED DEPRECIATION</u></b>	
1. To reflect balance set in Commission Order 15124	(\$53,673)
2. To adjust for unrecorded accumulated depreciation.	(25,691)
3. To reflect non-used and useful components.	2,593
3. To reflect pro-forma plant additions.	<u>(590)</u>
Total	<u>(\$77,361)</u>
<b><u>AMORTIZATION OF CIAC</u></b>	
1. Adjust to balance per Commission Order 15124.	\$30,124
2. To reflect accumulated amortization per 25-30.140 FAC.	34,541
Total	<u>\$64,665</u>
<b><u>AMORTIZATION OF ACQUISITION ADJUSTMENT</u></b>	
1. To reflect accumulated amortization per 25-30.140 FAC.	<u>\$957</u>
<b><u>WORKING CAPITAL ALLOWANCE</u></b>	
1. To reflect 1/8 of test year O & M expenses.	<u>\$6,913</u>

**CONSOLIDATED WATER  
 TEST YEAR ENDING DECEMBER 31, 2000  
 SCHEDULE OF CAPITAL STRUCTURE**

**SCHEDULE NO. 2  
 DOCKET NO. 001682-WU**

CAPITAL COMPONENT	PER Utility	SPECIFIC ADJUST- MENTS	BALANCE		PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST
			BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUST- MENTS				
1. COMMON EQUITY	\$0	\$0	0	0	0	0.00%	9.94%	0.00%
2. LONG TERM DEBT		0	0	0	0	0.00%	0.00%	0.00%
NOTE FOR 242	67,007	0	67,007	(25,692)	41,315	66.04%	11.00%	7.26%
NOTE FOR PRO-FORMA	0	30,000	30,000	(11,503)	18,497	29.57%	10.00%	2.96%
TOTAL LONG TERM DEBT	<u>97,007</u>	<u>0</u>	<u>97,007</u>	<u>(37,195)</u>	<u>59,812</u>	<u>95.61%</u>		
3. CUSTOMER DEPOSITS	<u>0</u>	<u>4,453</u>	<u>4,453</u>	<u>(1,707)</u>	<u>2,746</u>	<u>4.39%</u>	6.00%	<u>0.26%</u>
4. TOTAL	<u>\$97,007</u>	<u>\$34,453</u>	<u>\$101,460</u>	<u>(\$38,902)</u>	<u>\$62,558</u>	<u>100.00%</u>		<u>10.48%</u>
RANGE OF REASONABLENESS						<u>LOW</u>	<u>HIGH</u>	
RETURN ON EQUITY						<u>8.94%</u>	<u>10.94%</u>	
OVERALL RATE OF RETURN						<u>10.48%</u>	<u>10.48%</u>	

CONSOLIDATED WATER WORKS TEST YEAR ENDING 12/31/00 SCHEDULE OF WATER OPERATING INCOME			SCHEDULE NO. 3-A DOCKET NO. 001682-WU		
	TEST YEAR PER UTILITY	STAFF ADJ. PER UTILITY	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$32,184</u>	<u>\$13,155</u>	<u>\$45,339</u>	<u>\$24,697</u> 54.47%	<u>\$70,036</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	40,992	14,308	55,300	0	55,300
3. DEPRECIATION (NET)	0	1,544	1,544	0	1,544
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	406	5,127	5,533	1,111	6,644
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$41,398</u>	<u>\$20,979</u>	<u>\$62,377</u>	<u>\$1,111</u>	<u>\$63,488</u>
8. OPERATING INCOME/(LOSS)	<u>(\$9,214)</u>		<u>(\$17,038)</u>		<u>\$6,548</u>
9. WATER RATE BASE	<u>\$10,605</u>		<u>\$62,449</u>		<u>\$62,449</u>
10. RATE OF RETURN	<u>-86.88%</u>		<u>-27.28%</u>		<u>10.48%</u>

<b>CONSOLIDATED WATER WORKS</b> <b>TEST YEAR ENDING 12/31/00</b> <b>ADJUSTMENTS TO OPERATING INCOME</b>		<b>SCHEDULE NO. 3-B</b>  <u><b>WATER</b></u>
<b>OPERATING REVENUES</b>		
1. To adjust from cash to accrual basis.		1,602
2. To include water given away due to incorrect billing.		2,995
3. Annualized revenues to complete records.		<u>\$8,558</u>
<b>Total</b>		<u><b>\$13,155</b></u>
<b>OPERATION AND MAINTENANCE EXPENSES</b>		
1. <b>Salaries and Wages - Employees (601)</b>		
Adjustment to increase office salaries.		<u>\$13,137</u>
2. <b>Salaries and Wages - Officers (603)</b>		
Allow salary for President (Jack Espenship).		6,000
Reduce for poor management.		<u>(\$3,000)</u>
3. <b>Purchased Power (615)</b>		
To reflect actual test year expense.		1,390
To reflect repression adjustment.		<u>(\$839)</u>
<b>Total</b>		<u><b>\$551</b></u>
4. <b>Chemicals (618)</b>		
Removed undocumented amount.		(4,786)
To reflect repression adjustment.		<u>(\$37)</u>
<b>Total</b>		<u><b>(\$4,823)</b></u>
5. <b>Materials and Supplies (620)</b>		
Removed undocumented amount.		<u>(\$4,336)</u>
6. <b>Contractual Services - Billing (630)</b>		
Include amount incorrectly recorded in Miscellaneous Expenses.		<u>100</u>
7. <b>Contractual Services - Professional (632)</b>		
Include amount incorrectly recorded in Miscellaneous Expenses.		<u>1,000</u>
8. <b>Contractual Services - Testing (635)</b>		
Include amount incorrectly recorded in Miscellaneous Expenses.		6,128
Reduce account to meet staff engineer's recommendation.		<u>(\$1,008)</u>
<b>Total</b>		<u><b>\$5,120</b></u>
9. <b>Contractual Services - Other (636)</b>		
Include amount for computer lease incorrectly recorded in Misc. Exp.		2,040
Include amount for FL Rural Water incorrectly recorded in Misc. Exp.		110
Include amount for operator's fees incorrectly recorded in Misc. Exp.		<u>5,400</u>
<b>Total</b>		<u><b>\$7,550</b></u>
10. <b>Transportation Expense (650)</b>		
Include allowance for Owner/President's car.		<u>\$696</u>
Continued on next page...		

<b>Continued from previous page</b>	
<b>12. Regulatory Commission Expense (665)</b>	
Include amount incorrectly recorded in Miscellaneous Expenses.	1,000
Reduce account to amortize rate case expense.	(750)
Include amortized amount for additional rate case expenses.	<u>55</u>
<b>Total</b>	<b><u>\$305</u></b>
<b>13. Miscellaneous Expense (675)</b>	
Move incorrectly classified amount to Contractual Services - Billing.	(100)
Move incorrectly classified amount to Contractual Services - Professional.	(1,000)
Move incorrectly classified amount to Contractual Services - Testing.	(6,128)
Move incorrectly classified amount to Contractual Services - Other.	(7,550)
Move incorrectly classified amount to Regulatory Commission Expenses.	(1,000)
Move equipment to UPIS.	(800)
Increase account to allow for mowing, phones, and maintenance exp.	<u>4,712</u>
<b>Total</b>	<b><u>(\$11,866)</u></b>
<b>TOTAL OPERATION &amp; MAINTENANCE ADJUSTMENTS</b>	<b><u>\$14,308</u></b>
<b>DEPRECIATION EXPENSE</b>	
1. To reflect test year depreciation calculated per 25-30.140, F.A.C.	\$2,322
2. Include depreciation for pro-forma plant.	\$1,233
3. Reduction for non-used and useful plant.	(210)
4. Test year amortization of CIAC.	(1,698)
5. Amortization of negative acquisition adjustment.	<u>(103)</u>
<b>Total</b>	<b><u>\$1,544</u></b>
<b>TAXES OTHER THAN INCOME</b>	
1. To include regulatory assessment fees on test year revenue.	\$1,906
2. To adjust payroll tax for recommended salaries.	2,528
3. To adjust property taxes to audited amount.	<u>693</u>
<b>Total</b>	<b><u>\$5,127</u></b>

<b>CONSOLIDATED WATER WORKS</b> <b>TEST YEAR ENDING 12/31/00</b> <b>ANALYSIS OF WATER OPERATION AND</b> <b>MAINTENANCE EXPENSE</b>		<b>SCHEDULE NO. 3-C</b> <b>DOCKET NO. 001682-WU</b>		
	TOTAL PER UTILITY	STAFF PER ADJUST.		TOTAL PER STAFF
(601) SALARIES AND WAGES - EMPLOYEES	9,327	13,137	[1]	22,464
(603) SALARIES AND WAGES - OFFICERS	0	3,000	[2]	3,000
(615) PURCHASED POWER	2,911	551	[3]	3,462
(618) CHEMICALS	4,975	(4,823)	[4]	152
(620) MATERIALS AND SUPPLIES	5,286	(4,336)	[5]	950
(630) CONTRACTUAL SERVICES - BILLING	1,400	100	[6]	1,500
(631) CONTRACTUAL SERVICES - PROFESSIONAL	0	1,000	[7]	1,000
(635) CONTRACTUAL SERVICES - TESTING	0	5,120	[8]	5,120
(636) CONTRACTUAL SERVICES - OTHER	0	7,550	[9]	7,550
(650) TRANSPORTATION EXPENSE	0	696	[10]	696
(655) INSURANCE EXPENSE	0	3,874	[11]	3,874
(655) REGULATORY COMMISSION EXPENSE	0	305	[12]	305
(670) BAD DEBT EXPENSE	0	0		0
(675) MISCELLANEOUS EXPENSES	<u>17,093</u>	<u>(11,866)</u>	[13]	<u>5,227</u>
	<u>40,992</u>	<u>14,308</u>		<u>55,300</u>

**RECOMMENDED RATE REDUCTION SCHEDULE**

**CONSOLIDATED WATER WORKS  
 TEST YEAR ENDING 12/31/00**

**SCHEDULE NO. 4  
 DOCKET NO. 001682-WU**

**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:**

<u>5/8"X3/4"</u>	<u>(MULTI-RESIDENTIAL PER UNIT)</u>	\$	<u>9.41</u>	<u>0.04</u>
<u>3/4"</u>			<u>14.11</u>	<u>0.05</u>
<u>1"</u>			<u>23.52</u>	<u>0.09</u>
<u>1-1/2"</u>			<u>47.04</u>	<u>0.17</u>
<u>2"</u>			<u>75.26</u>	<u>0.28</u>
<u>3"</u>			<u>150.53</u>	<u>0.56</u>
<u>4"</u>			<u>235.20</u>	<u>0.87</u>
<u>6"</u>			<u>470.40</u>	<u>1.74</u>
 <b><u>RESIDENTIAL GALLONAGE              CHARGE PER 1,000 GALLONS</u></b>		\$	<u>4.29</u>	<u>0.02</u>

**ISSUE 1:** Should the Commission approve a year end rate base for Consolidated?

**RECOMMENDATION:** Yes, the Commission should approve a year end rate base for Consolidated to allow it an opportunity to earn a fair return on the required pro forma items, as well as to provide compensatory rates in this rate case. (WALKER)

**ISSUE 2:** Is the quality of service provided by Consolidated satisfactory?

**RECOMMENDATION:** No. The quality of service should not be considered satisfactory. In addition, staff recommends that the utility be required to complete the pro forma improvements and rectify all the discrepancies found in this case. (EDWARDS, CROUCH)

**ISSUE 3:** What used and useful percentages should be applied to the three treatment plants and three distribution systems?

**RECOMMENDATION:** The three separate plants are each closed systems consisting of one operational well, chlorination equipment, and a hydropneumatic tank for storage and pressure control. Each water treatment plant should be considered 100% used and useful. Two of the service areas, Azalea Park and Shady Oaks, are essentially built out with no appreciable growth anticipated. The distribution systems for Azalea Park and Shady Oaks should also be considered 100% used and useful. The remaining system, 242 Village, has numerous undeveloped lots although the distribution lines are in place and capable of serving those lots when needed. The distribution system for 242 Village should be considered 80% used and useful. (EDWARDS, CROUCH)

**ISSUE 4:** Are there deficiencies at Consolidated's water treatment facilities?

**RECOMMENDATION:** Yes. There are numerous deficiencies associated with the plants that provide services to the Shady Oaks and Azalea Park subdivisions. Staff recommends that Consolidated be required to bring its water treatment facilities into compliance with the requirements comprised in the Consent Order issued by the DEP. (EDWARDS, CROUCH)

DOCKET NO. 001682-WU  
DATE: SEPTEMBER 6, 2001

**ISSUE 5:** Are any pro forma adjustments needed for Consolidated's plant?

**RECOMMENDATION:** Yes, pro forma adjustments of \$29,617 are needed for a meter replacement program, replacement of a hydropneumatic tank, construction of plant security fences, one new well, flow meters, doors for the chlorinator rooms, tank painting, and replacement of a chlorine pump. These items should be installed and operational within six months of the effective date of the Order arising from this recommendation. (WALKER, EDWARDS)

**ISSUE 6:** What is the appropriate year end rate base?

**RECOMMENDATION:** The appropriate year end rate base is \$62,449. (WALKER)

**ISSUE 7:** Should a negative acquisition adjustment be approved relating to the purchase of 242 Village?

**RECOMMENDATION:** Yes. A negative acquisition adjustment in the amount of \$4,651 should be approved relating to the purchase of 242 Village. The acquisition adjustment should be amortized over the life of the plant. (WALKER)

**ISSUE 8:** What is the appropriate rate of return on equity and the appropriate overall rate of return for this utility?

**RECOMMENDATION:** The appropriate rate of return on equity should be 9.94% with a range of 8.94% to 10.94% and the appropriate overall rate of return should be 10.48%. (WALKER)

**ISSUE 9:** What is the appropriate test year revenue for this utility?

**RECOMMENDATION:** The appropriate test year revenue should be \$45,339. (WALKER)

**ISSUE 10:** What is the appropriate amount of operating expenses for rate setting purposes?

**RECOMMENDATION:** The appropriate amount of operating expenses for rate setting purposes should be \$63,488. The utility should provide staff with a signed contract with

Wiley's Insurance with proof of the insurance policy within 30 days of the effective date of the Commission Order. Further, the utility should maintain its books and records in compliance with NARUC USOA. The utility should provide a statement with its 2002 annual report that it has brought its books and records into compliance with the NARUC USOA. (WALKER)

**ISSUE 11:** What is the appropriate revenue requirement for this system?

**RECOMMENDATION:** The appropriate revenue requirement should be \$70,036 for the test year. (WALKER)

**ISSUE 12:** Is a continuation of the utility's current rate structures for its separate subdivisions appropriate in this case, and, if not, what is the appropriate rate structure?

**RECOMMENDATION:** No, a continuation of the utility's current rate structures for its separate subdivisions is not appropriate in this case. The current rate structures should be changed to a traditional base facility charge (BFC)/gallage charge rate structure with uniform rates for the three subdivisions. No conservation adjustment should be implemented at this time. In order to monitor the effects of the new meters on customers' consumption, the utility should be ordered to provide actual billing reports, by customer and subdivision, for the period of August 2001 - December 2001. The implementation of a conservation adjustment and an inclining-block rate structure will be reevaluated in six months after staff has obtained actual billing data for that period. (LINGO)

**ISSUE 13:** Is an adjustment to reflect repression of residential consumption due to the price increase and change in rate structures appropriate in this case, and, if so, what is the appropriate repression adjustment and the resulting residential consumption for rate-setting?

**RECOMMENDATION:** Yes, a repression adjustment of 2,573 kgal to residential consumption is appropriate, resulting in residential consumption for rate-setting of 10,639 kgal. In order to monitor the effects of the recommended revenue increase, the utility should be ordered to prepare monthly reports detailing the number of bills rendered, the

DOCKET NO. 001682-WU  
DATE: SEPTEMBER 6, 2001

consumption billed and the revenue billed. These reports should be provided, by customer class and meter size, on a quarterly basis for a period of two years, beginning with the first billing period after the increased rates go into effect. (LINGO)

**ISSUE 14:** What are the appropriate monthly rates for service?

**RECOMMENDATION:** The appropriate monthly rates should be designed to produce revenues of \$69,563, excluding miscellaneous service charges. Although the three plants in Consolidated's system operate under two different rate structures, staff recommends combining the three systems under a uniform rate. The utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(1), Florida Administrative Code. The rates should not be implemented until staff has approved the proposed customer notice, and the notice has been received by the customers. The utility should provide proof of the date notice was given no less than 10 days after the date of the notice. (LINGO, WALKER)

**ISSUE 15:** Should the utility be required to place in escrow the percentage of revenues that are directly related to the necessary pro forma plant additions?

**RECOMMENDATION:** Yes. The utility should be required to escrow 11.18% of revenues related to the pro forma items. Consolidated should file a monthly report with this Commission detailing the monthly collections, as well as the aggregate amount. The escrow requirement should remain in effect until the requirements set forth in the DEP Consent Order are met and all additional pro-forma items are purchased and properly installed. (WALKER)

**ISSUE 16:** Should the utility be authorized to collect miscellaneous service charges, and if so, what are the appropriate charges?

**RECOMMENDATION:** Yes, the utility should be authorized to collect miscellaneous service charges as recommended in the staff analysis. The utility should file revised

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

**ISSUE 17:** 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 rates should be reduced, as shown on Schedule 4, to remove rate case expense grossed-up for RAFs 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. (WALKER)

**ISSUE 18:** 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.

DOCKET NO. 001682-WU  
DATE: SEPTEMBER 6, 2001

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

**ISSUE 19:** Should Consolidated be ordered to show cause, in writing within 21 days, why it should not be fined for charging rates and charges that are not contained in its tariff, in apparent violation of Sections 367.081(1) and 367.091(4), Florida Statutes?

**RECOMMENDATION:** No, a show cause proceeding should not be initiated. The utility should, however, be put on notice that, pursuant to Sections 367.081(1) and 367.091(4), Florida Statutes, it must only charge those rates and charges approved by the Commission in its tariff. (CIBULA, WALKER)

**ISSUE 20:** Should Consolidated be ordered to show cause, in writing within 21 days, why it should not be fined for failing to file a revised tariff for the 242 Village system, in apparent violation of Order No. PSC-94-1357-FOF-WU and Section 367.091(3), Florida Statutes?

**RECOMMENDATION:** No, a show cause proceeding should not be initiated. The utility should, however, be put on notice that, pursuant to Section 367.091(3), Florida Statutes, it must have a tariff on file with the Commission containing its Commission-approved rates, charges and customer service policies. (CIBULA, WALKER)

**ISSUE 21:** 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 12 months from the effective date of the Order to allow staff to verify completion of pro forma meter installations and other system repairs as described in Issues 4 and 5. Due to incomplete gallonage data, staff

DOCKET NO. 001682-WU

DATE: SEPTEMBER 6, 2001

will adjust rates, if necessary, six months from the effective date of the Order to better match rates with the approved revenue requirement. If staff determines that a rate adjustment is necessary at that time, staff will file a recommendation with the new rates for the Commission's consideration at a future agenda conference. At that time, staff will readdress the escrow requirement discussed in Issue 15 and the appropriate time to close the docket. (CIBULA, WALKER)