

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for staff-assisted rate case in Columbia County by Consolidated Water Works, Inc.

DOCKET NO. 001682-WU  
ORDER NO. PSC-01-1988-PAA-WU  
ISSUED: October 8, 2001

The following Commissioners participated in the disposition of this matter:

- E. LEON JACOBS, JR., Chairman
- J. TERRY DEASON
- LILA A. JABER
- BRAULIO L. BAEZ
- MICHAEL A. PALECKI

ORDER GRANTING TEMPORARY RATES IN THE EVENT OF A PROTEST  
AND  
NOTICE OF PROPOSED AGENCY ACTION  
ORDER APPROVING INCREASE IN RATES AND CHARGES AND  
REQUIRING PRO FORMA ADDITIONS, ESCROW ACCOUNT,  
AND REPORTS

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the actions discussed herein, except for the granting of temporary rates, subject to refund, in the event of a protest and decision not to initiate show cause proceedings, are preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code.

TABLE OF CONTENTS

BACKGROUND . . . . .	2
YEAR END RATE BASE . . . . .	5
QUALITY OF SERVICE . . . . .	6

DOCUMENT NUMBER-DATE  
**12751 OCT-8**  
 FPSC-COMMISSION CLERK

USED AND USEFUL . . . . .	8
DEFICIENCIES IN CONSOLIDATED'S FACILITIES . . . . .	10
PRO FORMA ADDITIONS . . . . .	13
RATE BASE. . . . .	15
NEGATIVE ACQUISITION ADJUSTMENT . . . . .	19
COST OF CAPITAL . . . . .	22
NET OPERATING INCOME . . . . .	23
OPERATING EXPENSE . . . . .	24
REVENUE REQUIREMENT . . . . .	31
RATE STRUCTURE . . . . .	32
REPRESSION . . . . .	34
MONTHLY RATES . . . . .	36
ESCROW AGREEMENT FOR REVENUES RELATED TO PRO FORMA ADDITIONS . . . . .	40
MISCELLANEOUS SERVICE CHARGES . . . . .	42
STATUTORY RATE REDUCTION AND RECOVERY PERIOD . . . . .	43
TEMPORARY RATES IN THE EVENT OF A PROTEST . . . . .	44
NO SHOW CAUSE REQUIRED . . . . .	46
DOCKET TO REMAIN OPEN . . . . .	50

BACKGROUND

Consolidated Water Works, Inc. (Consolidated or utility) is a Class C water utility located in Columbia County. Consolidated currently owns and operates three water systems: Shady Oaks, Azalea Park, and 242 Village. Through these three systems, Consolidated

ORDER NO. PSC-01-1988-PAA-WU

DOCKET NO. 001682-WU

PAGE 3

serves 227 residential customers and three general service customers. The three general service customers consist of two churches and a convenience store.

On November 6, 2000, the utility filed an application for a staff-assisted rate case. The utility paid the required filing fee on January 10, 2001.

We audited the utility's books and records for compliance with our rules and orders and examined all components necessary for rate setting. Our staff engineer conducted a field investigation, including a visual inspection of the facilities and the service area. The utility's rate application, operating expenses, maps, and files were reviewed to determine the reasonableness of maintenance expenses, regulatory compliance, utility plant-in-service, and quality of service.

We selected a test period ending December 31, 2000, for this case. Based on our analysis, the utility's adjusted revenue was \$45,339 for the test year. The adjusted operating expenses were \$62,377 during the test year, resulting in an operating loss of \$17,038.

When the utility initially filed its application, we determined that it 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, we established a schedule for the payment of the delinquent RAFs. The utility timely paid each monthly installment and is now current on its RAFs.

We have jurisdiction pursuant to Section 367.0814, Florida Statutes.

The following is a list of acronyms which are used throughout this Order:

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
- BFC Base Facility Charge - The portion of the total expenses required to provide water and wastewater service incurred whether or not the customer actually uses the services and regardless of how much is consumed.
- CIAC Contributions-in-Aid-of-Construction - Any amount or item of money, services, or property received by a utility, from any person or governmental agency, any portion of which is provided at no cost to the utility, and which is utilized to offset the acquisition, improvement, or construction costs of the utility's property, facilities, or equipment used to provide utility services to the public. The term includes, but is not limited to, system capacity charges, main extension charges, and customer connection charges.
- 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
- RAFs Regulatory Assessment Fees
- UPIS Utility Plant-in-Service - The land, facilities, and equipment used to generate, transmit, and/or distribute utility service to customers.

Used  
and The amount of plant capacity that is used by current  
Useful 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.

YEAR END RATE BASE

The utility's rate base was established by 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 the 242 Village system in 1995. Pro forma items comprise a large percentage of the utility's rate base. The utility has submitted bids or invoices showing that it would cost \$29,617, or 47.34% of the year end rate base, to complete the pro forma improvements. The majority of the utility's plant was installed in 1974. Thus, most of the plant was fully depreciated as of December 1990.

This Commission only applies a year end rate base in extraordinary circumstances. Citizens of Florida v. Hawkins, 356 So. 2d 254, 257 (Fla. 1978). We find 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. Our decision is consistent with Order No. PSC-98-0763-FOF-SU, issued June 3, 1998, in Docket No. 971182-SU, in which we found 36.07% of total plant to be an extraordinary circumstance and Order No. PSC-00-1774-PAA-WU, issued September 27, 2000, in Docket No. 991627-WU, in which we found that improvements representing over 52% of the utility's rate base was an extraordinary circumstance.

We find that 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, we are required to consider the investment in plant made by the utility in the public service. Consolidated has provided bids on the material, labor, and installment of the pro

forma improvements. Based on the foregoing, we hereby approve a year end rate base for this utility.

QUALITY OF SERVICE

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

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

Each of the three components of the utility's operations is addressed below.

Consolidated consists of three, completely separate, small water systems located around Lake City. 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 systems are closed, 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 the Shady Oaks and Azalea Park systems is unsatisfactory. At this time, the utility has numerous outstanding citations or violations on file with the DEP. Consent Order No. 99-1397 was prepared by the DEP in February 2000, but the utility owner refused to sign the order, stating that he did not have the money to fix the

discrepancies set forth in the order. We address the specific problems and estimated costs to rectify these problems later in this Order.

#### Operational Conditions of Utility's Plant and Facilities

The overall condition of the Azalea Park and Shady Oaks water treatment plants is unsatisfactory. Only one of the utility's five wells, the 242 Village system, is fenced or protected. Sanitary seals around all well heads are cracked and leaking. Our initial investigation revealed exposed and dangerous electrical wiring at all wells. 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 the DEP as dangerous and in need of immediate replacement. The electrical wiring at the 242 Village system well is exposed and presents a possible danger. The master flow meter at the Shady Oaks system is inoperative and a master flow meter needs to be installed at the Azalea Park system. Consequently, it is impossible to determine the amount of treated water entering the system for distribution to customers. Numerous customer meters are inoperative; therefore, it is not possible to determine just how much water has been sold.

#### Customer Satisfaction

On July 11, 2001, our staff conducted a customer meeting in the service area. Four customers attended the meeting and gave comments. The water quality issues expressed by the majority of the customers pertained to 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 potential rate increase is too high. Since the onset of this investigation, the utility has installed new customer meters, repaired the chlorination pump at the Azalea Park system, and repaired electrical wiring at the Shady Oaks and Azalea Park systems. The engineering field investigation revealed that other customers in the service territory have complaints similar to those expressed by the customers who attended the customer meeting. We conclude that the customers have legitimate concerns which need to be addressed in the most economically feasible manner possible.

Findings and Conclusion

A review of the past three years of the water treatment plants' sanitary survey evaluations, provided by DEP, indicates numerous quality compliance problems. In addition, our on-site engineering investigation concurs with the DEP assessment of the conditions at the plants.

Consolidated shall rectify the following issues within 6 months after the effective date of this Order: (1) 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) 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 shall be posted on the fence at each plant. Consolidated is hereby on notice that if it fails to correct these deficiencies within six months of the effective date of this Order, our staff will bring a recommendation to a future agenda conference to initiate show cause or revocation proceedings.

The funding for the previously listed pro forma shall be included in the rate increase. Because of its history of questionable management practices, this utility shall be closely monitored to ensure the completion of all pro forma improvements.

Based on the foregoing, we find that the quality of service provided by Consolidated in treating and distributing water to be unsatisfactory. The utility shall complete the pro forma improvements and rectify all the discrepancies cited in this Order in a timely fashion.

USED AND USEFUL

Flow records indicating the amount 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 system is the only operational flow meter. Master meters were either not installed or not operational at Azalea Park and Shady Oaks. Numerous customers have broken,



inoperative meters and many others have meters that are slow and inaccurately record flows.

### Treatment Plants

The three systems are closed, 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 ERCs at each plant, the average demand, and the peak demand. Based upon those demands, we find that all three treatment plants are 100% used and useful.

PLANT	CAPACITY	ERCS	AVG DEMAND	PEAK DEMAND	U&U%
SHADY OAKS	102 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 System

The Azalea Park and Shady Oaks service areas are essentially built-out with little growth potential. Therefore, we find that the distribution systems are 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 is one ERC. The 242 Village plant 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, we find that the 242 Village distribution system is 80% used and useful.

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 the distribution layout for the three systems. Customer records provided by the DEP do not agree with the utility's billing records. The analysis of the distribution systems is the result of an on-site inspection of these areas conducted by our engineer on January 8 through 11, 2001, with another inspection by our staff, accompanied by DEP personnel, on January 31, 2001.

DEFICIENCIES IN CONSOLIDATED'S FACILITIES

As previously mentioned, DEP filed a Consent Order against Consolidated in February 2000. The utility owner did not sign the order. The utility, therefore, never agreed to the terms contained in the order. The Consent Order required the 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 determined 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 Park.

s. Within 10 days of completion of the requested work on the south well at 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.

Several of the items listed above cannot be completed without fulfilling the requirements of the previous item. However, the deadlines contained in the Consent Order have passed, and to date the only items in the Consent Order that have been addressed and 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.

Currently, the utility has not submitted to the DEP the results of the required chemical testing. Consequently, the safety level of the water cannot be determined at this time. Consolidated shall bring its water treatment facilities into compliance with the requirements set forth above in the DEP Consent Order.

#### PRO FORMA ADDITIONS

Many of the residential meters have exceeded their expected lives and are inaccurate or do not work at all. Therefore, replacement is necessary. To date, the utility has replaced approximately 50 of the inoperable meters. There are an additional 64 more residential meters that have exceeded 1 million gallons and are scheduled to be replaced as well. We have reviewed the utility's estimate of \$5,455 for meter replacement and find 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 without potable water. Scheduled replacement, which would minimize down time to a few hours, is necessary. We reviewed the utility's estimate of \$8,514 for the installation of a new hydropneumatic tank and find the cost prudent and reasonable.

It is also necessary that the utility paint the new hydropneumatic tank that will be installed at Shady Oaks and the hydropneumatic tank that was recently replaced at Azalea Park to protect the tanks from rust and corrosion. We have reviewed an estimate of \$163 for the proper chemicals and paint and find the cost reasonable.

The utility's plants and wells are not secured. The plants have been vandalized in the past. Installation of a security fence is necessary. We have reviewed the utility's estimate of \$2,593 and find the cost prudent and reasonable.

The utility must also install locking doors on the chlorine rooms at the Shady Oaks and Azalea Park plants. The rooms currently stand open and unsecured which allow for possible vandalism. The utility submitted an estimate of \$1,015 for the installation of locking steel doors for the two plants. We find the amount prudent and reasonable.

The DEP is requiring a new 6-inch well for the Shady Oaks system. The utility has supplied an estimate of \$11,000 for the new well. We have reviewed the estimate and find this amount prudent and reasonable.

The utility must 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. We find this amount reasonable.

The utility must also replace a peristaltic chlorine pump at the Azalea Park plant to properly treat the water being distributed to the customers. We have reviewed the estimate of \$315 and find it prudent and reasonable.

The pro forma plant is a combination of items needed by the utility and those improvements required by the DEP. The total amount of pro forma is \$29,617. This includes 4-inch flow meters, one 6-inch well, a new hydropneumatic tank, painting for two tanks, a new chlorine pump, new meters for residential connections, new fencing, and locking doors for two of the plants. As previously noted, the utility replaced 50 inoperable residential meters but must still replace 64 additional residential meters. The remaining pro forma plant additions shall be installed and operational within six months of the effective date of this Order. Consolidated is hereby on notice that if it fails to make these pro forma additions within six months of the effective date of this Order, our staff will bring a recommendation to a future agenda conference to initiate show cause or revocation proceedings.

#### RATE BASE

Rate base was established for Consolidated by Order No. 15124. We used Order No. 15124 as a starting point for determining the current rate base amount. An original cost study of the 242 Village system was completed using available information and physical inspection of the facilities. The appropriate components of the utility's year end rate base consist of the following: UPIS, land, CIAC, accumulated depreciation, amortization of CIAC, and working capital. In this instance, rate base also includes a negative acquisition adjustment and amortization relating to the negative acquisition adjustment. The negative acquisition adjustment will be addressed in more detail later in this Order.

We selected a test year ending December 31, 2000, for this rate case. Adjustments have been made to reconcile the rate base component balances with our engineer's original cost study and the auditor's working papers to update rate base through December 31, 2000.

Rate base is shown on Schedule No. 1-A, and adjustments are shown on Schedule No. 1-B. These schedules are incorporated herein by reference. Those adjustments which are self-explanatory or which are essentially mechanical in nature are reflected on those schedules without further discussion in the body of this Order. The major adjustments are discussed below.

UPIS

The utility's books reflected a water UPIS of \$42,789 at the beginning of the test year. We made an adjustment of \$10,884 to match the utility balance to the plant balance in Order No. 15124. We made an adjustment of \$55,886 to reflect the amount of water plant per the original cost study of 242 Village system. 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 the 242 Village system.

The 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. Total adjustments for UPIS are \$112,324.

Land

The utility recorded a land value of \$0 for the test year. We 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 that time. Therefore, we find that the correct amount for land and land rights is \$892.

Non-Used and Useful Plant

As previously discussed, all three water treatment plants are 100% used and useful. The water distribution systems for Azalea Park and Shady Oaks are 100% used and useful. We adjusted the 242 Village water distribution system by \$7,601 to reflect the fact that the 242 Village water distribution system is 80% used and useful.

CIAC

By Order No. 15124, CIAC was established at \$36,150. The utility recorded \$32,184 in CIAC on its books at the end of the



test year. We increased this amount by \$3,966 to adjust for Order No. 15124. The utility has not recorded any additional CIAC since its last rate case.

The utility did not record any CIAC for the purchase of the 242 Village system 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, we increased CIAC by \$37,253 to record the purchase of the 242 Village system. We calculated CIAC for Azalea Park and Shady Oaks 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 the 242 Village system 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. We find that year end CIAC is \$76,478.

#### Acquisition Adjustment

The utility reflected no acquisition adjustment for the purchase of the 242 Village system in 1994. It is our practice not to include an acquisition adjustment in rate base calculations unless extraordinary circumstances exist. As discussed in more detail later in this Order, we find that extraordinary circumstances exist in this case. Therefore, we include a negative acquisition adjustment in the amount of \$4,651 for the purchase of the 242 Village system.

Accumulated Depreciation

The utility's books reflected no accumulated depreciation balances for the systems at the end of the test year. We increased this account by \$53,673 to reflect the balance set forth in Order No. 15124. We 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. We increased this account by \$590 to include depreciation on the pro forma plant items. We decreased this account by \$2,593 to reflect the non-used and useful portion of the 242 Village plant. Therefore, we find that accumulated depreciation is \$77,361.

Accumulated Amortization of CIAC

The utility recorded no accumulated amortization of CIAC at the end of the test year. We increased this account by \$30,124 to match the amount set forth in Order No. 15124. We calculated accumulated amortization by using a composite rate pursuant to Rule 25-30.140, Florida Administrative Code, for the test year. The adjustment for the accumulated amortization of CIAC is \$34,541 as of December 31, 2000. We find that accumulated CIAC amortization is \$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. We adjusted this account by \$957 to reflect the accumulated amortization since the 1994 purchase of the 242 Village system.

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, we find that the one-eighth of the operation and maintenance expense formula approach is appropriate for calculating working capital allowance. Applying that formula, we find the working capital allowance is \$6,913, based on water O&M of \$55,300.

Based on the foregoing, we find that the appropriate year end rate base is \$62,449 for the test year.

NEGATIVE ACQUISITION ADJUSTMENT

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, we did not determine the appropriateness of an acquisition adjustment for the 242 Village system because no rate base was established. Moreover, we noted 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. In the absence of extraordinary circumstances, it has been Commission practice that the purchase of a utility system at a premium or discount shall not affect the rate base calculation.

The acquisition adjustment resulting from the 1994 purchase of the 242 Village system 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 Commission 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.

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

We have 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, we 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, we concluded that extraordinary circumstances existed and imposed 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, we 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, we approved settlement agreements that included negative acquisition adjustments. We have not, however, previously 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, in Docket No. 891353-GU, we 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.

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

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

On the day of the customer meeting, our staff toured the service area and the 242 Village system. Our staff observed a number of items which demonstrate the utility's neglect of the plant, including broken electrical conduit that leaves wiring exposed to the elements, a wooden privacy fence around the plant beginning to deteriorate because it has not been painted or maintained, and 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 the 242 Village system, they do have the propensity to cause problems in the future which could be avoided with minor preventative maintenance.

There were a number of broken and inoperable meters in the 242 Village service area. The utility has begun replacing inoperable meters since the beginning of this rate case, but there are still a number of slow meters and meters that have recorded 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 the meters are the direct source for revenues.

We note that this case presents a unique circumstance in which we must decide the appropriateness of an acquisition adjustment several years after a purchase. As discussed previously, 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 the 242 Village system, 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 Consolidated was technically and financially able to operate the 242 Village system based on the fact that it already owned two water plants. If we had known the condition of the other two plants at the time, we would not have allowed the transfer to take place.

We find that poor management, in this case, is an extraordinary circumstance. The utility has a record of poor management that has been documented in this Order. Without the DEP and this Commission stepping in, it appears that the utility would have continued to let the condition of the 242 Village system deteriorate. This is shown by the current condition of the other two plants, Azalea Park and Shady Oaks, which have deteriorated due to poor management.

Poor management has been and may continue to be a problem with the utility. Therefore, the utility shall not 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, the customers have received not only questionable service but possibly a poorer quality of water since Consolidated has acquired the system.

For the foregoing reasons, we hereby recognize a negative acquisition adjustment of \$4,651 for the purchase of the 242 Village water system. The acquisition adjustment shall be amortized over the life of the plant so that the amortization will match the corresponding depreciation of the 242 Village system.

#### COST OF CAPITAL

Based on the utility's records, as of 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 graph formula approved by Order No. PSC-00-1162-PAA-WS, issued June 26, 2000, in Docket No.

000006-WS, for all equity ratios less than 40%, the rate of return on common equity is 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 the approved 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%.

We find 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, which by reference is incorporated herein.

#### NET OPERATING INCOME

Based on the audit, the utility recorded its revenues on a cash basis for the 12-month period ending December 31, 2000. The utility's records indicated that test year revenues are \$32,184. We obtained detailed billing records from the utility and recalculated revenues based on these records. We made adjustments of \$1,602 to bring test year revenue to the proper amount. The difference appears 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 the Shady Oaks system and ten months available for the 242 Village and the Azalea Park systems. Due to incomplete records, we determined a monthly average revenue and annualized revenues, which increased the total revenue by \$8,558 for the test year.

During an analysis of the billing records, we discovered that the utility charged incorrect rates throughout the test year for the Shady Oaks and Azalea Park 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 amounts over

1,000 gallons of usage. We determined that 192 customers received 1,000 gallons of water free each month during the test year. We adjusted this account by \$2,995 (192 customers X \$1.30 per thousand gallons X 12 months) to include the incorrectly billed water.

Total adjustments to the test year revenue is \$13,155. We find that test year revenue of \$45,339 is appropriate for this utility.

Test year revenues are shown on Schedule No. 3-A, adjustments are shown on Schedule No. 3-B. These schedules are incorporated herein by reference.

#### OPERATING EXPENSE

The utility's recorded operating expenses include O&M expense, depreciation expense, and taxes other than income. The books and records of the utility did not conform to the standards of the NARUC USOA. 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, the utility hired a new employee who 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. We have made an effort to identify these expenses and reclassify them to the proper NARUC USOA accounts. The utility shall maintain its books and records in compliance with the NARUC USOA. The utility shall 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. We have made several adjustments to the utility's operating expenses. A summary of adjustments to operating expenses is set forth below.



O&M Expenses

Salaries and Wages-Employees

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. Our audit determined that the employee spends 90% of the time performing utility duties and 10% of the time performing the construction company duties. We allocated expenses to reflect the portion of utility-related duties.

The utility's one full time employee is paid \$7.25 per hour. This employee serves as secretary, bookkeeper, billing clerk, and accountant. This employee also schedules maintenance duties and orders needed materials and parts for the company. We consider this salary low for the duties performed and find that \$12 per hour is appropriate for this position. We increased this account by \$13,137 to reflect the \$22,464 salary (\$12 per hour X 2,080 hours X 90% per year).

Salaries and Wages-Officers

The utility did not record an amount in Salaries and Wages-Officers. The utility owner serves as the president of the utility. The duties of the president are to ensure that required reports are completed and 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, we would find the Officer's Salaries and Wages Expense for the president to be \$6,000 for the test year. (\$25 per hour X 20 hours per month X 12 months per year)

However, we find it 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 the management. It appears 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. We find that the president has been ineffective in his duties. He has failed to ensure that the appropriate RAFs have been submitted in accordance with our rules,

to perform required DEP testing of the water, and to maintain the plant in an acceptable manner.

Section 367.111(2), Florida Statutes, authorizes the reduction of return on equity based upon unsatisfactory quality of service. We have exercised this authority in the past, but we find that it would be ineffective for Consolidated because the utility's capital structure consists entirely of debt and includes no equity.

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, we found that it was appropriate to reduce the salary of Mad Hatter Utility Inc.'s president because of concerns with the utility's overall quality of service and the performance of its management. In Order No. PSC-93-0295-FOF-WS, we found that reducing the salary of the utility's president would have a direct and immediate impact equal to or greater than a reduction to the return on equity. We further stated that such a salary reduction sends the proper signal to management to make improvements. We found that the person ultimately responsible for the conduct of the corporate entity, its president, should be held accountable. See also Order No. PSC-01-1162-PAA-WU, issued May 22, 2001, in Docket No. 001118-WU.

For the foregoing reasons, the president's salary for this utility shall be reduced based on the concerns addressed in this Order. We find that \$3,000 is reasonable for Salaries and Wages-Officers.

#### Purchased Power

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, we annualized this expense. Actual test year expenses are \$4,301, requiring an increase of \$1,390. We reduced the Purchased Power expense for the test year by \$839 to reflect the repression adjustment detailed later in this Order. We allowed a test year Purchased Power expense of \$3,462.

Chemicals

The utility recorded a Chemical Expense of \$4,975 for the test year. Audit Disclosure No. 9 states that our auditors were unable to confirm that all expenses recorded in this account were related to chemicals. Appropriate documentation either was not available or could not be located to justify these expenses. Moreover, we reduced this account by \$4,786 to meet our staff engineer's recommended allowance for chemicals for the test year. We further reduced this account by \$37 to reflect the repression adjustment discussed later in this Order. We find that \$152 is reasonable for this account.

Materials and Supplies

The utility recorded test year materials and supplies expense of \$5,286. Again, as with chemicals expense, we were unable to confirm the expenses recorded in this account. Therefore, we reduced the account by \$4,336 to more closely reflect actual expenses. We find that a materials and supplies expense of \$950 for the test year is appropriate based on documented expenses for the test year.

Contractual Services - Billing

The utility contracts the meter reading duties to Mr. Wayne Wilkes. Billing duties of the utility are performed by the one utility employee previously mentioned in this Order and are included in the Salaries and Wages - Employees account. The utility recorded \$1,400 in Contractual Services - Billing expense for the test year. Audit Disclosure No. 9 stated that the utility recorded a number of expenses incorrectly in Miscellaneous Expense. It appears that Contractual Services - Billing expenses were among the incorrectly classified expenses included in Miscellaneous Expense. Therefore, we reclassified an additional \$100 from Miscellaneous Expense to this account. We find that \$1,500 is reasonable for Contractual Services - Billing.

Contractual Services - Professional

The utility did not record any Contractual Services - Professional expense for the test year. It appears that the utility incorrectly recorded accounting expenses for this account

in Miscellaneous Expenses. We reclassified \$1,000 to this account for amounts incorrectly recorded in Miscellaneous Expense. We find that a total of \$1,000 is reasonable for Contractual Services - Professional.

Contractual Services - Testing

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. We reclassified \$6,128 from Miscellaneous Expense to this account. State and local authorities require that several tests be submitted in accordance with Rule 62-550, Florida Administrative Code. The following is a schedule of the required tests, frequency, and costs:

<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>

We reduced this account by \$1,008 to meet our staff engineer's recommended testing expense. We find that \$5,120 is reasonable for this account.

Contractual Services - Other

The utility recorded no expenses in this account for the test year. Again, it appears that the utility incorrectly recorded expenses for this account in Miscellaneous Expenses. We reclassified \$2,040 to this account from Miscellaneous Expenses for a computer lease from Dell Financial Services. We also reclassified \$110 from Miscellaneous Expense for Florida Rural Water Association expenses and \$5,400 for operator services. We find that \$7,550 is reasonable for Contractual Services-Other.

Transportation Expense

The utility recorded \$0 in Transportation Expenses for the test year. The utility owner uses his vehicle in performing the utility duties; therefore, we made adjustments to reflect gas and maintenance expense in this account. We increased this account by \$696 (200 miles per month X 12 months X .29) to allow a Transportation Expense for the utility. We find that \$696 is appropriate for this account.

Insurance Expense

The utility did not record an Insurance Expense for the test year, as the utility does not currently carry insurance. The utility has supplied an estimate from Wiley's Insurance, Inc., in the amount of \$3,874 for the purchase of a general liability and property policy. Therefore, we find that \$3,874 for this account is reasonable. The utility shall file the signed contract with Wiley's Insurance, Inc., along with proof of the insurance policy within 30 days of the effective date of this Order.

Regulatory Commission Expense

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 Expense. The utility paid a rate case fee of \$1,000 pursuant to Rule 25-30.020, Florida Administrative Code. We transferred \$1,000 from Miscellaneous Expense. Pursuant to Section 387.0816, Florida Statutes, we amortized this amount over four years and reduced the account by \$750 to allow the \$250 amortized expense. We also included \$55 (\$220 amortized over four years) from Miscellaneous

Expense to allow the utility relief from additional mailing and copying expenses associated with this rate case. We find that \$305 is appropriate for Regulatory Commission Expense.

Miscellaneous Expense

The utility recorded \$17,093 in this account during the test year. We determined that many expenses in this account were classified incorrectly. Therefore, we 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. We also reclassified \$350 from this account to UPIS - Pumping Equipment. Moreover, we reclassified an additional \$450 from this account to UPIS - Pumping Equipment. We increased this account by \$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. We find that \$5,227 for Miscellaneous Expense is reasonable.

O&M Summary

We find that total O&M adjustments are \$14,308. We find \$55,300 appropriate for O&M Expenses. O&M Expenses for the test year are shown on Schedule No. 3-C, which is incorporated herein by reference.

Depreciation Expense (Net of Amortization of CIAC)

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

Taxes Other Than Income Taxes

The utility recorded an amount of \$406 in this account during the test year. We increased this account by \$2,528 to correctly record payroll taxes on the approved salaries. We increased this account by an additional \$1,906 to include RAFs for the test year revenue. We increased the account by \$693 to properly reflect property tax expenses for the test year. Total adjustments to this account result in an increase of \$5,127. We find that \$5,533 is appropriate for this account for the test year.

Operating Revenues

We increased revenues by \$24,697 to total \$70,036 to cover expenses and allow the utility the opportunity to earn the approved rate of return on investment.

Taxes Other Than Income Taxes

This expense has been increased by \$1,111 to reflect RAFs of 4.5% on the approved increase in revenue.

Operating Expenses Summary

The adjustments to the utility's test year operating expenses result in 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. These schedules are incorporated herein by reference.

REVENUE REQUIREMENT

The utility shall 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 10.48% return on its investment approved herein. The calculation is as follows:

Adjusted Rate Base	\$62,449
Rate of Return	x .1048
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>

As shown above, the appropriate revenue requirement shall be \$70,036 for the test year. The revenue requirement and resulting annual increase are shown on Schedule No. 3-A, which by reference are incorporated herein.

#### RATE STRUCTURE

The utility's current rate structure for the Azalea Park and Shady Oaks systems consists of a traditional monthly BFC/gallonage 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 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, the utility unilaterally and without our authorization has been including 1 kgal of consumption in the BFC.

As for the 242 Village system, the utility also implements a BFC/gallonage 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 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.

We hereby eliminate any consumption allotment included in the BFC, to be consistent not only with our practice, but with the overall statewide goal of eliminating conservation-discouraging water rate structures.



### Conservation Adjustment

An important rate design goal is to minimize, to the extent possible, the price increases at monthly consumption levels of 5 kgal or less. 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 our practice. Another rate design goal, also consistent with our 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, 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 our practice and the guidelines of the WMDs. In addition, as previously discussed, 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, no conservation adjustment shall be made at this time. The propriety of a conservation adjustment will, however, be reevaluated in six months after we obtain actual consumption data for August 2001 through December 2001.

### Rate Structure

The utility serves three different, non-interconnected systems, 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 system might be expected.

We obtained one month of consumption data for the period since the installation of the new meters. We compared the average consumption per system based on the new data to the corresponding annual averages for the 12-month test year. Based upon our

analysis, we find that 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/gallongage charge rate structure for two systems, and a nonusage sensitive BFC/gallongage charge rate structure with an allotment of 8 kgal included in the BFC for the third system. We find it appropriate to eliminate all allotments of consumption in the BFC to be consistent not only with our practice, but with the overall statewide goal of eliminating conservation-discouraging water rate structures.

As previously discussed, 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 previously, we included the pro forma plant-in-service, including meter replacements, in rate base. Although we have reasonably estimated annual consumption, we find that it would be inappropriate to further modify rate structure without accurate, reliable consumption data.

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

#### REPRESSION

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 differ. 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 is set forth below.

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 as those of 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, we 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, we find that 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 systems, we formulated the following equation:

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

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

242 Village

We performed a similar analysis for the 242 Village system. In this analysis, there were 13 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, we 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, we find that 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 the 242 Village system, we 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 we rounded to 17%. Based on the magnitude of the price increase, coupled with the change in rate structure for this system, we find that a 17% repression adjustment is both conservative and appropriate.

Therefore, the resulting overall residential repression percentage, based on 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 revenue increases, the utility shall prepare monthly reports detailing the number of bills rendered, the consumption billed and the revenue billed. These reports shall 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.

#### MONTHLY RATES

As previously noted, based on the audit, the utility provided service to approximately 230 residential customers and three general service customers during the test year.

Also, as previously discussed, the appropriate revenue requirement, excluding miscellaneous service charges, is \$69,563.

The utility has miscellaneous service charges of \$473. These additional charges shall be used to reduce the revenue requirement recovered through rates; therefore, we have designed rates to produce the revenue requirement not covered by miscellaneous service charges. The revenue requirement increase is \$24,697, or approximately 54.47%. The final rates approved for the utility shall 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 approved 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.

We have calculated rates using the projected number of bills and the number of gallons of water billed during the test year. However, we adjusted the number of gallons consumed by the customers to reflect both the broken and slow reading meters previously discussed.

The utility had two different rate structures. The utility had one set of tariffed rates for the Azalea Park and Shady Oaks systems and another set of tariffed rates for the 242 Village system. We shall combine all three systems under a uniform rate structure.

We find that a uniform rate for all three systems is the most economically feasible approach for the utility. Due to the small size of the three systems, 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 the 242 Village system 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, all three plants shall be assigned a uniform rate.

The utility's existing rates and approved rates follow:

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

Base Facility Charge  
 Minimum Charge for  
 3,000 gallons

<u>Meter Size</u>	<u>Existing Monthly Rates</u>	<u>Approved 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

Gallonage Charge

Per 1,000 Gallons	\$ 1.30	\$ 4.29
-------------------	---------	---------

Based on the approved rates, the following are the estimated average residential and general service monthly billings for the consumption shown:

<u>Monthly Consumption (In Gallons)</u>	<u>Monthly Billing for S.O. and A.P</u>	<u>Using Approved Rates</u>
3,000	\$11.14	\$22.28
5,000	\$13.74	\$30.86
7,500	\$16.99	\$41.59

Residential and General Water Rates  
For 242 Village

Base Facility Charge  
 Minimum Charge  
 includes 8,000 Gallons

<u>Meter Size</u>	<u>Existing Monthly Rates</u>	<u>Approved Monthly Rates</u>
5/8" x 3/4"	\$ 17.79	9.41
3/4"	N/A	14.11
1"	N/A	23.52
1-1/2"	N/A	47.04
2"	N/A	75.26
3"	N/A	150.53
4"	N/A	235.20
6"	N/A	470.40
<u>Gallonage Charge</u>		
Per 1,000 Gallons	\$ 2.00	\$ 4.29

Based on the approved rates, the following are the estimated average residential and general service monthly billings for the consumption shown:

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

The rates shall not be implemented until our staff has approved the proposed customer notice and the required escrow agreement for revenues related to the pro forma additions,

discussed below, and the notice has been received by the customers. The utility shall provide proof of the date notice was given no less than ten days after the date of the notice.

The utility shall file revised tariff sheets and a proposed customer notice to reflect the approved rates. The approved rates shall 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.

ESCROW AGREEMENT FOR REVENUES RELATED TO  
PRO FORMA ADDITIONS

As previously discussed, Consolidated is currently operating under a Consent Order from the DEP and does not have a good record of proper financial management nor good maintenance practices. Also, as previously discussed, a number of items that were to be corrected pursuant to Order No. 15124 have not been corrected to date. For this reason, 11.18% of revenues shall be placed in escrow in order to ensure that monies are available for the needed capital improvements. The percentage was determined as follows:

Pro forma Plant	\$29,617
1/2 Year Accumulated Depreciation	<u>- 617</u>
Net Pro Forma Plant	29,000
Rate of Return	<u>x .1048</u>
Subtotal	3,039
Depreciation Expense	1,233
Pro Forma Insurance	<u>+ 3,872</u>
Subtotal	\$8,144
Divide to Gross Up for RAFs	<u>.955</u>
Total	\$7,778

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



Accordingly, Consolidated shall establish a commercial escrow account for pro forma items. The following conditions shall 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(s) set forth in its order requiring such account. Pursuant to Cosentino v. Elson, 263 So. 2d 253 (Fla. 3d DCA 1972), escrow accounts are not subject to garnishments.
- 8) The Director of the Division of the 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 shall file a monthly report with this Commission detailing the monthly collections, as well as the aggregate amount. The escrow requirement shall 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.

MISCELLANEOUS SERVICE CHARGES

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.

The utility shall be authorized to collect charges consistent with Rule 25-30.460, Florida Administrative Code, and past Commission practice. The 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 approved charges follows:

	<u>Water Existing</u>	<u>Approved 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 will be levied for service initiation at a location where service did not exist previously.

Normal Reconnection - this charge will 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 will 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 will 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 shall file revised tariff sheets which are consistent with this Order. The revised tariff sheets shall be approved administratively upon our staff's verification that the tariffs are consistent with this Order. If revised tariff sheets are filed and approved, the miscellaneous service charges shall become effective for connections made on or after the stamped approval date on the revised tariff sheets, if no protest is filed.

#### STATUTORY RATE REDUCTION AND RECOVERY PERIOD

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 RAFs, 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, which by reference is incorporated herein.

The utility shall file revised tariff sheets 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 shall 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.

TEMPORARY RATES IN THE EVENT OF A PROTEST

A timely protest to this Order 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 substantially affected person other than the utility, we hereby authorize the utility to collect the rates approved herein as temporary rates. The rates collected by the utility shall be subject to the refund provisions discussed below.

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

If the utility chooses a bond as security, the bond shall 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 shall 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 shall be part of the agreement:

- 1) No refunds in the escrow account may be withdrawn by the utility without the express approval of the Commission.
- 2) The escrow account shall be an interest-bearing account.
- 3) If a refund to the customers is required, all interest earned by the escrow account shall be distributed to the customers.
- 4) If a refund to the customers is not required, the interest earned by the escrow account shall revert to the utility.
- 5) All information on the escrow account shall be available from the holder of the escrow account to a Commission representative at all times.
- 6) The amount of revenue subject to refund shall be deposited in the escrow account within seven days of receipt.
- 7) This escrow account is established by the direction of the Florida Public Service Commission for the purpose(s) set forth in its order requiring such account. Pursuant to Cosentino v. Elson, 263 So. 2d 253 (Fla. 3d DCA 1972), escrow accounts are not subject to garnishments.
- 8) The Director of the Division of the Commission Clerk and Administrative Services must be a signatory to the escrow agreement.

In no instance shall the maintenance and administrative costs associated with the refund be borne by the customers. These costs

are the responsibility of, and shall be borne by, the utility. Irrespective of the form of security chosen by the utility, an account of all monies received as a result of the rate increase shall be maintained by the utility. This account must specify by whom and on whose behalf such monies were paid. If a refund is ultimately required, it shall be paid with interest calculated pursuant to Rule 25-30.360(4), Florida Administrative Code.

The utility shall 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, the utility shall file reports with the Division 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 pursuant to Rule 25-30.360(6), Florida Administrative Code. The report shall also indicate the status of the security being used to guarantee repayment of any potential refund.

NO SHOW CAUSE REQUIRED

Apparent Violation of Sections 367.081(1) and 367.091(4), Florida Statutes

During a discussion with the utility, it was discovered that Consolidated had been collecting disconnection charges in excess of what was approved 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.

As previously discussed, 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 our approval. By charging rates and charges different than those approved by this 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 this 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., having found that a company had not intended to violate the rule, we 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, we requested records of all customers that had been charged the unauthorized disconnection charge. We 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.

We note that the utility requested an increase in its miscellaneous service charges. As previously discussed herein, we have approved the requested increase.

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 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, we find that the apparent violations of Sections 367.081(1) and 367.091(4), Florida Statutes, do not rise to the level that would warrant the initiation of a show cause proceeding in these circumstances. Therefore, the utility shall not be required to show cause. The utility is, however, hereby 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 this Commission in its tariff.

Apparent Violation of Order No. PSC-94-1357-FOF-WU and Section 367.091(3), Florida Statutes

As previously discussed, by Order No. PSC-94-1357-FOF-WU, we 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 the review of Consolidated's application, it was discovered that Consolidated did not have a tariff on file 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."



ORDER NO. PSC-01-1988-PAA-WU  
DOCKET NO. 001682-WU  
PAGE 49

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 previously discussed, we have the authority pursuant to Section 367.161, Florida Statutes, to assess a penalty 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. Also, as discussed above, we have interpreted "willful" as an intent to do an act, distinct from an intent to violate a statute or rule. See Order No. 24306.

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 Order No. PSC-94-1357-FOF-WU.

We verified that the utility was indeed charging the rates and charges authorized by Order No. PSC-94-1357-FOF-WU despite the fact that it did not file the tariff. Thus, it appears that no customers were harmed by the utility's apparent failure to file the tariff sheets. Also, as we have approved a rate change for the utility, 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, we find that the apparent violation of Order No. PSC-94-1357-FOF-WU and Section 367.091(3), Florida Statutes, do not rise to the level that would warrant the initiation of a show cause proceeding in these circumstances. Therefore, the utility shall not be required to show cause. The utility is, however, hereby on notice that, pursuant to Section 367.091(3), Florida Statutes, it must have a tariff on file with this Commission containing its approved rates, charges and customer service policies.

DOCKET TO REMAIN OPEN

We have ordered the utility to install pro forma items which are included in the DEP Consent Order. If no timely protest is received upon expiration of the protest period, this Order shall become final upon the issuance of a Consummating Order. However, this docket shall remain open for an additional 12 months from the effective date of this Order to verify that this work has been completed.

In addition, the rates approved herein are 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 our ability to obtain an accurate gallonage figure. We have annualized available data and estimated appropriate gallonage for the purpose of setting rates for the utility.

Due to the incomplete gallonage data, we shall adjust rates, if necessary, after six months from the effective date of the Order to better match rates with the approved revenue requirement. If it is determined that a rate adjustment is necessary at that time, our staff will file a recommendation with the new rates for our consideration at a future agenda conference. At that time, we will readdress the escrow requirement discussed herein and the appropriate time to close the docket.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Consolidated Water Works, Inc.'s application for increased rates and charges is hereby approved as set forth in the body of this Order. It is further

ORDERED that each of the findings made in the body of this Order is hereby approved in every respect. It is further

ORDERED that all the matters contained in the attachments and schedules appended hereto are incorporated herein by reference. It is further

ORDERED that a negative acquisition adjustment of \$4,651 is hereby recognized for the purchase of the 242 Village water system. The negative acquisition adjustment shall be amortized over the life of the plant so that the amortization will match the corresponding depreciation of the 242 Village system. It is further

ORDERED that Consolidated Water Works, Inc., is authorized to charge the new rates and charges as set forth in the body of this Order. It is further

ORDERED that, prior to its implementation of the rates and charges approved herein, Consolidated Water Works, Inc., shall submit and have approved revised tariff sheets. The revised tariff sheets shall be approved administratively upon Commission staff's verification that the tariff sheets are consistent with this Order, that the customer notice and required escrow agreement are adequate, and that the required security has been provided. It is further

ORDERED that Consolidated Water Works, Inc.'s rates and charges shall be effective for services rendered on or after the stamped approval date on the tariff sheets, pursuant to Rule 25-30.475(1), Florida Administrative Code, provided that customers have received notice. It is further

ORDERED that Consolidated Water Works, Inc., shall provide proof that the customers have receive notice. It is further

ORDERED that in the event of a protest by a substantially affected person other than the utility, Consolidated Water Works, Inc., is authorized to collect the rates approved herein on a temporary basis, subject to refund in accordance with Rule 25-30.360, Florida Administrative Code, provided that the utility first furnishes and has approved by Commission staff adequate security for any potential refund and a proposed customer notice. It is further

ORDERED that in the event of a protest, Consolidated Water Works, Inc., shall submit and have approved a bond or letter of credit in the amount of \$21,653 as a guarantee of any potential refund of revenues collected on a temporary basis prior to implementation of the rates and charges approved in the body of

this Order. Alternatively, the utility may establish an escrow account with an independent financial institution. In no instance shall the maintenance and administrative costs associated with the refund be borne by the customers. These costs are the responsibility of, and shall be borne by, the utility. It is further

ORDERED that in the event of a protest, Consolidated Water Works, Inc., shall maintain an account of all monies received as a result of the rate increase, irrespective of the form of security chosen by the utility. This account must specify by whom and on whose behalf such monies were paid. If a refund is ultimately required, it shall be paid with interest calculated pursuant to Rule 25-30.360(4), Florida Administrative Code. It is further

ORDERED that in the event of a protest, Consolidated Water Works, Inc., shall maintain a record of the amount of the bond, and the amount of revenues that are subject to refund. The utility shall file reports with the Division 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 shall also indicate the status of the security being used to guarantee repayment of any potential refund. It is further

ORDERED that the rates shall be reduced at the end of the four-year rate case amortization period, consistent with our decision herein. The utility shall file revised tariff sheets 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 reduction. If Consolidated Water Works, Inc., files this reduction in conjunction with a price index or pass-through rate adjustment, separate data shall 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. It is further

ORDERED that Consolidated Water Works, Inc., shall be authorized to collect miscellaneous service charges as set forth in the body of this Order. It is further

ORDERED that prior to implementing the miscellaneous service charges set forth the body of this Order, Consolidated Water Works, Inc., shall file revised tariff sheets which are consistent with

this Order. The revised tariff sheets shall be approved administratively upon Commission staff's verification that the tariffs are consistent with this Order. If revised tariff sheets are filed and approved, the miscellaneous service charges shall become effective for connections made on or after the stamped approval date on the revised tariff sheets, if no protest is filed. It is further

ORDERED that Consolidated Water Works, Inc., shall bring its water treatment facilities into compliance with the requirements of the DEP Consent Order, as set forth in the body of this Order. It is further

ORDERED that pro forma plant additions set forth in the body of this Order shall be installed and operational within six months of the effective date of this Order. Consolidated Water Works, Inc., is hereby on notice that if it fails to correct these deficiencies within six months of the effective date of this Order, Commission staff will bring a recommendation to a future agenda conference to initiate show cause or revocation proceedings. It is further

ORDERED that 11.18% of revenues shall be placed in escrow in order to ensure that monies are available for the needed capital improvements. The escrow account shall include the conditions set forth in the body of this Order and the funds in the escrow account shall not be released until the conditions set forth in the body of this Order have been met. Consolidated Water Works, Inc., shall file a monthly report with this Commission detailing the monthly collections, as well as the aggregate amount. The escrow requirement shall 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. It is further

ORDERED that Consolidated Water Works, Inc., shall maintain its books and records in compliance with the NARUC USOA. In addition, the utility shall provide a statement with its 2002 annual report that it has brought its books and records into compliance with the NARUC USOA. It is further

ORDERED that Consolidated Water Works, Inc., shall be allowed an annual increase in revenue of \$24,697 (54.47%). The final rates

ORDER NO. PSC-01-1988-PAA-WU  
DOCKET NO. 001682-WU  
PAGE 54

approved herein shall be designed to produce revenues of \$69,563, excluding miscellaneous service charge revenues. It is further

ORDERED that Consolidated Water Works, Inc., shall file a signed contract with Wiley's Insurance, Inc., along with proof of the utility's insurance policy within 30 days of the effective date of this Order. It is further

ORDERED that all three of Consolidated Water Works, Inc.'s systems shall be combined under one uniform rate structure. It is further

ORDERED that Consolidated Water Works, Inc.'s current rate structures shall be changed to a traditional BFC/gallongage charge rate structure with uniform rates for the three systems. No conservation adjustment shall be implemented at this time. It is further

ORDERED that in order to monitor the effects of the new meters on customers' consumption, Consolidated Water Works, Inc., shall provide actual billing reports, by customer and system, for the period of August 2001 through December 2001. The implementation of a conservation adjustment and an inclining-block rate structure will be reevaluated after six months once actual billing data for that period is obtained. It is further

ORDERED that in order to monitor the effects of both the new meters and the revenue increases, Consolidated Water Works, Inc., shall prepare monthly reports detailing the number of bills rendered, the consumption billed and the revenue billed. These reports shall 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. It is further

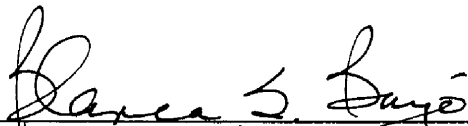
ORDERED that Consolidated Water Works, Inc., is hereby on notice that, pursuant to Sections 367.081(1) and 367.091(4), Florida Statutes, it must only charge those rates and charges approved by this Commission in its tariff, and that pursuant to Section 367.091(3), Florida Statutes, it must have a tariff on file with this Commission containing its approved rates, charges and customer service policies. It is further

ORDER NO. PSC-01-1988-PAA-WU  
DOCKET NO. 001682-WU  
PAGE 55

ORDERED that the provisions of this Order, issued as proposed agency action, shall become final and effective upon the issuance of a Consummating Order unless an appropriate petition, in the form provided by Rule 28-106.201, Florida Administrative Code, is received by the Director, Division of the Commission Clerk and Administrative Services, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings or Judicial Review" attached hereto. It is further

ORDERED this docket shall remain open for an additional 12 months from the effective date of this Order to verify that Consolidated Water Works, Inc., has completed the pro forma items set forth in the body of this Order including the performance of all actions required by the Department of Environmental Protection's Consent Order.

By ORDER of the Florida Public Service Commission this 8th day of October, 2001.

  
\_\_\_\_\_  
BLANCA S. BAYÓ, Director  
Division of the Commission Clerk  
and Administrative Services

( S E A L )

SMC

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

As identified in the body of this order, the actions discussed herein, except the granting of temporary rates, subject to refund, in the event of a protest and our decision not to initiate show cause proceedings, are preliminary in nature. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Director, Division of the Commission Clerk and Administrative Services, at 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on October 29, 2001. If such a petition is filed, mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing. In the absence of such a petition, this order shall become effective and final upon the issuance of a Consummating Order.

Any objection or protest filed in this docket before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

Any party adversely affected by the Commission's final action in this matter may request: (1) reconsideration of the decision by filing a motion for reconsideration with the Director, Division of the Commission Clerk and Administrative Services within fifteen (15) days of the issuance of this order in the form prescribed by Rule 25-22.060, Florida Administrative Code; or (2) judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or the First District Court of Appeal in the case of a water or wastewater utility by filing a notice of appeal with the Director, Division of the Commission Clerk and Administrative Services and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days after the issuance of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.



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)  | 102     | 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  | n/a     | gallons per min. |     |
|    | 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.

1)	Capacity of System (Number of Potential ERCs or Without Expansion)	102	ERCs
2)	Test year connections		
	a) Beginning of Test Year	102	ERCs
	b) End of Test Year	102	ERCs
	c) Average Test Year	102	ERCs
3)	Growth	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) | Firm Reliable Capacity of Plant<br>(AZALEA PARK)           | 133 | gallons per min. |
| 2) | Average of 5 Highest Days From<br>Maximum Month (2.2 x 89) | 196 | gallons per min. |
| 3) | Average Daily Flow (1.1 x 89)                              | 98  | gallons per min. |
| 4) | Fire Flow Capacity   | 0   | gallons per min. |
- Azalea Park is not required to provide fire flow protection.
- |    |                              |         |                 |
|----|------------------------------|---------|-----------------|
| 5) | Growth                       | 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) | Excessive Unaccounted for Water | 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) Capacity of System (Number of Potential Customers, ERCs or Lots Without Expansion)	95	ERCs
2) Test year connections		
a) Beginning of Test Year	89	ERCs
b) End of Test Year	89	ERCs
c) Average Test Year	89	ERCs
3) Growth	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)	Firm Reliable Capacity of Plant (242 VILLAGE)	45	gallons per min.	
2)	Average of 5 Highest Days From Maximum Month(2.2 X 40)	88	gallons per min.	
3)	Average Daily Flow(1.1 X 40)	44	gallons per min.	
4)	Fire Flow Capacity	0	gallons per min.	
	Buffalo Bluff Utilities does not provide fire flow protection.			
5)	Growth		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 Analysis for most recent 5 years including Test Year	1	ERC	
c)	Statutory Growth Period	5	Years	
	(b)x(c)x [3\ (a)] = 000 gallons per day for growth			
6)	Excessive Unaccounted for Water	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) Capacity of System (Number of Potential Customers, ERCs or Lots Without Expansion)	52	ERCs
2) Test year connections		
a) Beginning of Test Year	40	ERCs
b) End of Test Year	40	ERCs
c) Average Test Year	40	ERCs
3) Growth	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

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

<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>	
DESCRIPTION	BALANCE PER UTILITY	COMMISSION ADJUSTMENTS TO UTIL. BAL.	BALANCE PER COMM.
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	<u>0</u>	<u>\$6,913</u>	<u>\$6,913</u>
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**

**WATER**

**UTILITY PLANT IN SERVICE**

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.	<u>29,617</u>
<b>Total</b>	<b><u>\$112,324</u></b>

**LAND AND LAND RIGHTS**

1. Include land rights unrecorded by utility.	<u>\$892</u>
---	--------------

**NONUSED AND USEFUL**

1. Non-used and useful components.	<u>(\$7,601)</u>
------------------------------------	------------------

**CIAC**

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>
<b>Total</b>	<b><u>(\$44,294)</u></b>

**ACQUISITION ADJUSTMENT**

1. To include negative acquisition adjustment for purchase of 242 Village	<u>(\$4,651)</u>
---	------------------

**ACCUMULATED DEPRECIATION**

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>
<b>Total</b>	<b><u>(\$77,361)</u></b>

**AMORTIZATION OF CIAC**

1. Adjust to balance per Commission Order 15124.	\$30,124
2. To reflect accumulated amortization per 25-30.140 FAC.	<u>34,541</u>
<b>Total</b>	<b><u>\$64,665</u></b>

**AMORTIZATION OF ACQUISITION ADJUSTMENT**

1. To reflect accumulated amortization per 25-30.140 FAC.	<u>\$957</u>
---	--------------

**WORKING CAPITAL ALLOWANCE**

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 BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUST- MENTS	BALANCE PER COMM.	PERCENT OF TOTAL	COST	WEIGHTED COST
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>
<b>RANGE OF REASONABLENESS</b>						<b>LOW</b>	<b>HIGH</b>	
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	COMM. ADJ. PER UTILITY	COMMISSION 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>

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

## Continued from previous page

<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.	(103)
<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.	693
<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>		
	<b>TOTAL</b> <b>PER</b> <b>UTILITY</b>	<b>ADJUST.</b> <b>PER</b> <b>COMM.</b>		<b>TOTAL</b> <b>PER</b> <b>COMM.</b>
(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>

**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  
 APPROVED  
 RATES

MONTHLY  
 RATE  
 REDUCTION

Meter Size:

5/8"X3/4" (MULTI-RESIDENTIAL PER UNIT)	\$ 9.41	0.04
3/4"	14.11	0.05
1"	23.52	0.09
1-1/2"	47.04	0.17
2"	75.26	0.28
3"	150.53	0.56
4"	235.20	0.87
6"	470.40	1.74

RESIDENTIAL GALLONAGE  
 CHARGE PER 1,000 GALLONS

\$ 4.29 0.02