State of Florida

Public Service Commission

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

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

DATE: NOVEMBER 19, 2001

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

FROM: DIVISION OF ECONOMIC REGULATION (FITCH, MERTA, DAVIS, LINGO)
DIVISION OF LEGAL SERVICES (ESPINOZA)

RE: DOCKET NO. 010396-WS - APPLICATION FOR STAFF-ASSISTED RATE CASE BY BURKIM ENTERPRISES, INC.
COUNTY: BREVARD

AGENDA: 12/04/01 - REGULAR AGENDA - PROPOSED AGENCY ACTION EXCEPT FOR ISSUES 19 AND 20 - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: 15-MONTH EFFECTIVE DATE: SEPTEMBER 1, 2002 (SARC)

SPECIAL INSTRUCTIONS: NONE

FILE NAME AND LOCATION: S:\PSC\ECR\WP\010396.RCM.WPD

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CASE BACKGROUND

Burkim Enterprises, Inc. (Burkim or utility) is a Class C water and wastewater utility, serving 364 residential water and wastewater customers in Snug Harbor Village and Snug Harbor Lakes in Brevard County. Burkim also serves three general service customers. The utility began operations in 1981 and the Commission granted Water and Wastewater Certificates 338-W and 470-S by Order No. 10147, issued July 21, 1981, in Docket No. 810007-WS, to Connecticut General Development Corporation, d/b/a/ CGD Utilities, Inc. (CGD). In Order No. PSC-01-1628-FOF-WS, issued August 8, 2001, in Docket No. 001501-WS, the Commission approved the application to transfer facilities and certificates from CGD to Burkim.

On April 4, 2001, the utility filed an application for a staff assisted rate case (SARC) and paid the appropriate filing fee on May 24, 2001. The Commission has the authority to consider this rate case under Section 367.0814, Florida Statutes. Rate base was last established for this utility in Order No. PSC-93-0011-FOF-WS, issued January 5, 1993, in Docket No. 920397-WS. Staff has audited the utility's records for compliance with Commission rules and Orders and determined the components necessary for rate setting. The staff engineer also conducted a field investigation of the utility's plant and service area. A review of the utility's operation expenses, maps, files, and rate application was also performed to obtain information about the physical plant operating cost. Staff has selected a projected test year ending May 31, 2002 for this rate case. Since Burkim is a new corporation, actual data was available for only a nine month period. Revenue and expense balances per utility only reflect a nine-month period. Staff has made adjustments to annualize these expenses to reflect a twelve-month test year.

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

A customer meeting was conducted on October 11, 2001, at the Snug Harbor Clubhouse in Micco, Florida. Over 150 customers attended the meeting and 18 customers chose to give comments

regarding the utility's quality of service and the proposed rate increase. Staff has also received a number of letters from customers voicing the same concerns expressed at the customer meeting. Customers' complaints included low water pressure, high levels of Total Trihalomethanes (TTHMs), numerous line breaks and boil water notices, rudeness of the utility owner, lack of employees to answer questions and respond to complaints, and the condition of the plant purchased and its impact to the ratepayers. Quality of service issues will be discussed in Issue No. 1. Allowance for additional employees will be discussed in Issue No. 9. The condition of the UPIS purchased and its effect on rate base will be discussed in Issue Nos. 1 and 5, respectively.

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

COMPANY AND PARTY NAMES

DEP	Department of Environmental Protection
FPSC	Florida Public Service Commission
NARUC	National Association of Regulatory Utility Commissioners
OPC	Office of Public Counsel
SJRWMD	St. John's River Water Management District

GLOSSARY OF TECHNICAL TERMS

BFC Base Facility Charge - A charge designed to recover the portion of the total expenses required to provide water and sewer service incurred whether or not the customer actually uses the services and regardless of how much is consumed.

CIAC	Contributions In Aid Of Construction - Any amount or item of money, services, or property received by a utility, from any person or governmental agency, any portion of which is provided at no cost to the utility, and which is utilized to offset the acquisition, improvement, or construction costs of the utility's property, facilities, or equipment used to provide utility services to the public. The term includes, but is not limited to, system capacity charges, main extension charges, and customer connection charges.
ERCs	Equivalent Residential Connections - A statistic used to quantify the total number of water or wastewater connections that can be served by a plant of some specific capacity. The consumption of each connection is considered to be that of a single family residential connection, which is usually considered to be a unit comprised of 3.5 persons.
gpd	Gallons Per Day - The amount of liquid that can be delivered or actually measured during a 24-hour period.
gpm	Gallons Per Minute - The amount of liquid that can be delivered or actually measured during a one-minute time period.
O&M	Operations and Maintenance Expense
RAF	Regulatory Assessment Fees
SARC	Staff Assisted Rate Case
TTHMs	Total Trihalomethanes - A group of organic chemicals that are the byproduct of chlorinating water that contains natural organics derived from decaying plant materials. TTHMs are present in virtually all chlorinated water supplies.
UPIS	Utility Plant in Service - The land, facilities, and equipment used to generate, transmit, and/ or distribute utility service to customers.
Used and Useful	The amount of plant capacity that is used by current customers including an allowance for the margin reserve.

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

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

RECOMMENDATION: The quality of service provided by Burkim Enterprises, Inc., should not be considered satisfactory at this time due to deferred maintenance by the previous owner. No penalty should be issued against the current owner. Rather, the utility should be given 180 days from the effective date of the Order to complete the plant upgrades discussed in Issue 6 as Pro Forma plant. (T.DAVIS)

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

> The Commission in every rate case shall make a determination of the quality of service provided by the utility. This shall be derived from an evaluation of three separate components of water and wastewater utility operations: quality of utility's product (water and wastewater); operational conditions of 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 county health departments or lack thereof over the proceeding 3-year period shall also be considered. DEP and health department officials' comments and testimony concerning quality of service as well as the comments and testimony of the utility's customers shall be considered.

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

This utility serves a modular home subdivision known as Snug Harbor. Snug Harbor is located along the west boundary of US Hwy 1, approximately six miles south of Melbourne. The service territory is divided into two areas and is separated by the Florida East Coast Railroad. One area, Snug Harbor Village (the Village), is located between US Hwy 1 and the railroad tracks. This development is accessed directly from US Hwy 1. The second area, known as Snug Harbor Lakes (the Lakes), borders the railroad tracks on the inland side and must be accessed by driving through the adjacent community, Barefoot Bay.

QUALITY OF UTILITY'S PRODUCT

Water

During the mid to late 1990's, Snug Harbor, under the ownership and management of Connecticut General Development (CGD), began receiving violation notices from the Department of Environmental Protection (DEP). Those violations were noted during routine inspections and varied from a lack of bacteriological sampling to algae buildup in the hydropneumatic tank. Subsequent inspections have continued to identify violations.

On June 25, 1997, a letter was sent to the DEP central office in Tallahassee from the Florida Department of Health (DOH) which requested that the DEP impose quarterly monitoring for Total Trihalomethanes (TTHMs). DOH and DEP officials became concerned that the utility was exceeding TTHMs after they reviewed test results obtained during a screening for Group II Unregulated Organic Contaminants. The Group II organic test results indicated that disinfection by chlorination was causing a reaction with naturally-occurring organic and inorganic matter in the raw water and creating potentially hazardous compounds. The DEP acted on the DOH's request and required the utility to test quarterly for TTHMs (normally required of community systems with a population of 10,000 or more). On November 20, 1997, the level of TTHMs was found to be 0.2940 mg/l which exceeded the Maximum Contaminant Level (MCL) of 0.10 mg/l. Subsequent test results varied with the highest level of TTHMs (0.4120 mg/l) occurring on May 25, 2000.

Under regulatory pressure by the DEP to correct its TTHM violations, CGD Utilities submitted an application on June 7, 1999, for a construction permit. This application proposed to replace the existing 65,000 gallon ground storage tank with a 65,000 gallon steel bolted tank. The application was reviewed and considered incomplete. On June 28, 1999, the DEP issued a Request for Additional Information (RAI) to the utility. The DEP's RAI was met with silence on behalf of the previous owners. On February 15, 2000, the DEP issued a WARNING LETTER against CGD. The warning letter was a direct response to findings that the utility had made modifications to the storage tank without first acquiring a permit from DEP and placing the modified storage tank into service without proper clearance. A Consent Order was later issued on May 8, 2000, which contained civil penalties and reimbursement fines for cost incurred by DEP. That Consent Order was considered satisfied after

CGD paid the penalties and fines, but the new ground storage tank remained unpermitted.

With outstanding TTHM violations and an unresolved permit for the water plant modifications, CGD decided to sell the utility. On August 28, 2000, CGD sold the water and wastewater utility systems serving Snug Harbor to Burkim c/o Mr. Keith Burge. Since agreeing to purchase the system, Burkim has been granted DEP acceptance of the modified ground storage tank and has obtained a construction permit to install a third high service pump.

The latest DEP sanitary survey cited the utility for several violations concerning the chlorination facilities. The utility must provide a dual chlorination system in accordance with DEP Rule 62-555.320(5), Florida Administrative Code. An application requesting a construction permit to install an ammonia treatment system to reduce TTHM was approved by the DEP on September 18, 2001. As discussed in Issue 6, the utility has requested pro forma allowances in the rate base in order to bring the plant into compliance with DEP.

Wastewater

The quality of the wastewater treatment has been showing signs of stress since the Wastewater Compliance Inspection Report performed on February 4, 2000. It was noted that "minor" problems existed with the quality of effluent disposal. Another inspection on August 3, 2000, continued to note "minor" problems with the effluent. Being solely concerned with the quality of effluent leaving the plant, these inspections do not comment on the aesthetics of a treatment plant. When the inspector noted "minor" problems, the staff engineer believes that the inspector was making a statement that while the effluent leaving the plant may have been within standards, a violation was anticipated. Clearly, violations were apparent during the last inspection.

The DEP's most recent inspection occurred on July 10, 2001, and is calling for (among other things) the utility to provide an auxiliary power generator, install a stand-by motor/blower assembly, and clean the ponds. The utility is currently serving more than 350 persons which requires it to provide an auxiliary power generator in accordance with Rule 62-400 (1)(b), Florida Administrative Code. In case of power outages, the keeping of a well balanced biological treatment process will not be interrupted.

The DEP is also citing the utility for only one motor/blower assembly. Solids were found in one of the clarifiers, and DEP is requiring a stand-by blower assembly in accordance with Rule 62-600.300(4), Florida Administrative Code, in order to improve aeration of influent. The percolation pond was found to have excessive vegetation, and the utility is being required to remove the build-up of solids in accordance with Rule 62-610.523 (6), Florida Administrative Code, which will provide better conditions for percolation. The utility has requested that the cost of these improvements be allowed as pro forma which is also discussed in Issue 6.

The current quality of product for both the water and wastewater systems is not considered satisfactory.

OPERATIONAL CONDITIONS AT THE PLANT

Water

Maintenance at the water plant and plant-site grounds at Snug Harbor appears to have been deferred over a long period of time. Shortly after the new owners purchased the utility, the hydropneumatic tank exploded which rendered the tank and the attached master meter useless. The hydropneumatic tank serves to equalize water pressure throughout the distribution system. During the engineering field inspection, the hydropneumatic tank was not functional and the water plant equipment was operating merely sufficient to provide emergency service. The new owner was forced to operate the system directly from the high service pumps until a new tank could be ordered, manufactured, transported to the utility, and installed at the plant. During this emergency condition the customers were inconvenienced by pressure surges due to the high service pump cycling. These pressure surges, by their nature, put stress on the mains and caused breaks in weak areas of the distribution mains.

The last Sanitary Survey Report for the water plant was conducted on June 7, 2001, and noted several deficiencies including the hydropneumatic tank being out of service. Among the other deficiencies listed were violations of Rule 62-555.320(5), Florida Administrative Code, concerning the Chlorination facility; Violations of Rule 62-555.320(6), Florida Administrative Code, concerning the auxiliary generator; and the continuing TTHM violation of Rule 62-550.514, Florida Administrative Code.

In order for Burkim to bring the operations of the water plant into compliance, it has requested that pro forma allowances be granted in the rate base to cover the cost of replacing the hydropneumatic tank, refurbishing the chlorine room, and replacing the master meter.

Wastewater

Maintenance at the Snug Harbor wastewater plant and plant-site grounds also appears to have been deferred over a long period of time. As noted above, the wastewater treatment plant was inspected by DEP three times during the last two years with the last inspection occurring on July 10, 2001. Violations noted during this last inspection included a cite for the utility to repair its corroded splitter box. The splitter box is located between the surge tank and the aeration chambers, and serves to disperse the raw influent into appropriate aeration tanks. This box is made of metal and has corroded to a point that splash-over occurs. This is considered to be a raw influent spill, and is a violation of Rule 62-600.410(8), Florida Administrative Code, which is very serious.

In addition, the new owners have requested pro forma allowances be granted that will allow them to make repairs/replacements to the fence around the treatment plant, to construct fencing around each lift station, and to install a bar screen as a prefilter for the splitter box. Each of these items are being required by the DEP and the cost estimated to complete the projects are considered reasonable and prudent.

In consideration, the utility plant in service is not satisfactory. However, the new owners appear to be showing a sufficient good faith effort to bring the plant operations into compliance.

UTILITY'S ATTEMPT TO ADDRESS CUSTOMER SATISFACTION

A series of informal customer meetings were held on October 11, 2001, in the Snug Harbor Clubhouse. Several customers requested individual meetings with staff to discuss problems they were having with the utility. The first of these was a meeting with Mr. Bitter and his wife. Mr. Bitter is very upset due to the water outages, discoloration of water, boil water notices, fluctuations in water pressure, disrepair of the water treatment

plant, the open exposure of the well-site to vandalism, and the boldness of the new owner to leave a mess in customers' yards after making repairs. The second meeting was with the Snug Harbor Homeowner's Association. This group of customers, whose spokesperson was Mr. Aubin, is very concerned about the amount of disrepair that was left by the former owner. However, they expressed their disdain for the level of rates that was being proposed compared with the level of service they were receiving, and believes it is unfair for someone to purchase a run-down utility and make the customers pay higher rates to fix the system. The last of the afternoon meetings with individual customers was with the Snug Harbor Community Association. This was a group of customers whose spokesperson was Ms. Francoeur. The Community Association's major concern was the condition of the wastewater treatment plant, how the Florida Public Service Commission could approve an interim rate increase for this utility, the rudeness of the new utility owner, and "the total lack of maintenance that the Utility Co. (Burkim Enterprises, Inc.) has performed in the past year on the sewer plant in Snug Harbor Lakes Micco, Fla."

The evening meeting opened to all the customers at 6:00 pm in the Snug Harbor Clubhouse. There were over 150 customers in attendance at that meeting, of which, eleven signed the register to speak, and seven others spoke by raising their hands at closing. The concerns these customers expressed about their quality of service can be summarized as: the rundown conditions at each plant, the quality of the drinking water, the boil water notices, the numerous outages, sand and grit in the water, excessive Chlorine in the drinking water, the dramatic fluctuations in water pressure, and the presence of Trihalomethanes in the drinking water. None of the customers who spoke during the evening session made mention of the rudeness of the new owner.

First, it should be stated that the conditions at each of the two plants are a result of deferred maintenance over a period of time longer than one year. To hold the current owner responsible for the condition of the plants is inappropriate. The current owner signed a contract to purchase the utility on August 29, 2000. Order No. PSC-01-1628-FOF-WS, granting the transfer of certificate was issued on August 8, 2001. It was during the time between entering the contractual agreement with the former owner and receiving the transfer of certificates that the current owner has succeeded in elevating the water utility from a "Notice of Violation" status to a "monitor" status with the DEP. Wastewater

violations are still outstanding. Outstanding issues remaining with the DEP will be corrected as the pro forma projects discussed in this recommendation are completed. The most critical of the issues is the level of TTHMs. The new owner was issued permit approval by DEP on September 18, 2001, to install the necessary equipment that will bring the TTHM violation into compliance.

It can not be denied that the customers of Snug Harbor have been inconvenienced. As one customer wrote, "The 10 years that we have lived in Snug Harbor Lakes has undoubtably been the time we have received the very worst quality of water service." When the hydropneumatic tank exploded on March 24, 2001, the situation in the service area became critical and was considered to be an emergency. It is the opinion of both the PSC staff engineer and the DEP engineer that the new owner did the only thing that could have been done under the situation, and that was to supply the service area through the use of the high service pumps. As a result, the distribution system experienced surges as high as 70 psi before the pumps cycled off, and drops as low as 30 psi before the pumps cycled on. The pressure surges stressed the weak areas of the distribution system and caused breaks in the mains of the Snug Harbor system.

The distribution system laterals and some of the smaller mains were originally constructed of polyethylene flexible piping. Polyethylene pipe has a non-polar character due to its molecular structure (molecular chains with very few branches), and thus is subject to crystallinity with age and exposure to chlorine. Polyethylene pipe becomes brittle over time. When the hydropneumatic tank was out of service and the system was being subjected to pressure surges by the high service pumps, ruptures occurred in the weaker portions of those lines. The numerous breaks in the system compounded the existent crisis, and gave rise to even more customer dissatisfaction which caused additional complaints. The outages during this time, while very inconvenient to the customers, appear to have been repaired in as timely a manner as anyone could expect.

The DEP requires that anytime a line experiences open exposure, the utility must issue a boil water notice to its customers. The utility must also purge the system with disinfectant to kill any bacteria that may have entered the system while the line was exposed. Additional bacteriological samples have to be taken to confirm safety of the drinking water. Staff

has confirmed that the utility, after several line breaks, discussed the boiled water notice issue with the DEP and concluded that the boil water notice should be active until the new tank could be installed. A boil water notice was first issued on February 21, 2001. Boil water notices continued sporadically at first, and then uninterrupted until the notice was lifted on July 26, 2001.

Each time repairs are made to a distribution line the inconvenience of outages, sand and grit in the lines, excessive Chlorine dosages, and boil water notices are common. To reduce the sand and grit in the lines the new owner instituted a flushing program. This was an attempt to purge the line of any foreign material that may have gotten into the line while the repair was being made and the main was exposed to the elements. When it is clear to a customer that the flushing program by the utility was not completely successful for its residence, that customer should be willing to flush its own lines until sand and grit is gone.

The accusations by a few of the customers concerning the rudeness and boldness of the new owner may have some merit. It appears that the new owner intends to take full advantage of utility easements, and the customers have become accustomed to those portions of ground being undisturbed by the utility. It appears that some customers have grown to believe that those easements are their property and fail to recognize that, by law, the utility has the unrestricted access to utility facilities located within easements. The staff engineer has listened to the concerns of the customers and has spoken to the new owner about his attitude toward customers. The response by the new owner has the appearance of being satisfactory with a willingness to establish good public relations. However, it appears that the situation has created territorial posturing on both sides.

When the new owner began management of the system, water quality issues that had been dormant during the previous ownership became energetic issues in the DEP files. Since the utility filed with the Commission for rate relief, several customer complaints have been registered with the PSC. The county fire department received at least one complaint that resulted in a letter of violation concerning fireflow. This has not had a positive effect on either the customers or the utility. It is believed that after the repairs and upgrades being allowed in pro forma are completed, the quality of the utility's product, plant in service, and

customer relations will improve. Staff has confidence that the repairs and upgrades will bring the utility into full compliance, and the customers will regain their confidence that the water is drinkable. Meanwhile, the new owner has hired an office person to take utility related phone calls so that his personal contact with customers is kept to a minimum. Also, he has hired a maintenance person to be in the service area to directly respond to customer inquiries.

All things considered, it is recommended that the quality of service provided by Burkim Enterprises, Inc., should be considered not satisfactory due to deferred maintenance by the previous owner. Because the new owner has put forth a sufficient good faith effort to provide satisfactory quality of service, no penalty should be issued against the current owner. Rather, the utility should be given 180 days from the effective date of the Order to complete the plant upgrades discussed in Issue 6 as pro forma plant.

ISSUE 2: Should the Commission approve a projected test year for the utility?

RECOMMENDATION: Yes, the Commission should approve a projected test year for the utility to allow it an opportunity to earn a fair return on the utility's investment and to better match rate base with customer growth on a going forward basis. A projected test year ending May 31, 2003, should be approved. (FITCH, MERTA)

STAFF ANALYSIS: For audit purposes staff selected a historical test year ending May 31, 2001. Because the utility is growing at an exceptionally high rate (29 connections per year), staff believes that rates based on historical data alone will be significantly different than rates based on current or even future conditions, and that the potential for overearning exists if a projected test year is not used. Staff believes that a projected test year ending May 31, 2003 is appropriate in this case and will better match increasing revenues with the high level of DEP required pro forma additions requested.

This is consistent with Order No. 15725, issued February 21, 1986, in Docket No. 840315-WS, In re: Application of Martin Downs Utilities, Inc. For an increase in water and wastewater rates to its customers in Martin County, Florida, in which the Commission found the following:

> The test year is an analytical device used in rate making proceedings to compute current levels of investment and income in order to determine the amount of revenue that will be required to assure a company a fair return on its investment. Test year data must be adjusted to properly reflect conditions in the future period for which rates are being fixed. Based upon historical data we anticipate Martin Downs will continue to experience rapid growth of demand for its services.

Therefore, the Commission found a projected test year was appropriate.

Because of the above factors, staff recommends that a projected test year is appropriate in this case to better match rate base with customer base on a going forward basis, and allow the utility an opportunity to earn a fair return on its

investments. Staff recommends that a projected test year ending May 31, 2003, should be approved.

ISSUE 3: Does Burkim Enterprises, Inc., have an excessive unaccounted for water problem?

RECOMMENDATION: Yes. Burkim Enterprises, Inc., has an excessive unaccounted for water problem. However, staff recommends that due to numerous line breaks and bad meters, an adjustment to chemicals and electricity should not be made; rather a pro forma allowance should be granted to assist the utility in a meter replacement program, and the utility should be required to send monthly monitoring reports to the staff engineer for six months that contain the total metered water treated compared to metered water sold to customers. (T. DAVIS)

STAFF ANALYSIS: The water plant is equipped with a six inch master meter that ceased working and was completely non-functional during two months of the test year. The replacement of that meter is one of the pro forma items requested by the utility which the new owners have just recently completed. Since the subdivision is equipped with residential meters, a total of treated water from the Monthly Operator's Report (MOR) was compared with the metered water sold to customers. Based on a ten month average, water produced at the Snug Harbor treatment plant is about 47% higher than the recorded metered water sold. After an adjustment of 10% allowable unaccounted for water, the utility appears to have 37% unmetered water.

It appears that a large portion of the unmetered water is an issue of brittle laterals that are leaking in very sandy soil. As discussed in Issue No. 1, the distribution system laterals (and some mains), are constructed of polyethylene flexible piping which are subject to crystallinity with age and exposure to chlorine. This has caused breaks in the more weaker portions of the line. The water lost during a break is not considered unaccounted for, it is unmetered water. The new owners are actively making necessary repairs as leaks become apparent. The numerous breaks in the system have been a great inconvenience for the customers of Snug Harbor, and have recently been the subject of numerous complaints.

Another problem that plagues the new owner is old meters that no longer function properly. Again, deferred maintenance appears to have been the practice of the former owner. Residential meters were no exception to this deficiency. With few exceptions, customer meters at Snug Harbor are the original meters installed

when the customer came on-line. Most, if not all, are beyond their normal expected service life, are suspected of being defective, and need replacing. The flow readings from meters that are in need of replacing will typically yield results of less than actual usage. This causes the appearances of excessive unaccounted for water, and causes a loss of revenues for the utility. It is recommended that a meter replacement program be allowed, and the new owners be granted a pro forma allowance to replace approximately 35 meters per year.

All things considered, staff recognizes that the utility has an accountability issue to correct. It is believed that the current data available for review has flaws, and that an adjustment to chemicals and electricity should not be made based on the current information. The new owners have put forth a sufficient good faith effort by already starting to change out some meters, and have illustrated their willingness to resolve the water loss situation. It is recommended that a pro forma allowance be granted for a meter replacement program sufficient to replace no less than 35 meters per year, and the utility be ordered to send the staff engineer a monthly report for six months after the effective date of the Order. This report should include, but not be limited to, the treated water measured leaving the plant, and the corresponding metered water sold to customers.

USED AND USEFUL

ISSUE 4: What portions of Burkim Enterprises, Inc., systems are used and useful?

RECOMMENDATION: The water treatment plant, water distribution system, and wastewater collection system should be considered 100% used and useful. The wastewater treatment plant should be considered to be 54.4% used and useful. (T. DAVIS)

STAFF ANALYSIS:

Water Treatment Plant

The water treatment plant is an open system operation that was determined to be 100% used and useful in the last rate case. Functioning plant equipment remains the same as it was in the last rate case, with the exception of the unused lime softening equipment that stood during 1992, which is now removed. The plant's ability to meet instantaneous fluctuations in flow demands currently rests on the capacity of the high rate filters (rated at 60 gpm each). This system contains fire hydrants which requires 1,000 gpm, to be sustained for a minimum of two hours (120,000 gallons), which can not be supported by the current flow capacities. The filters can be by-passed, and the utility could rely on both high service pumps (rated at 400 gpm each), to provide inadequate fire protection. Recently, the Brevard County Fire Marshal's office received a complaint from a resident at Snug Harbor concerning fire protection which prompted an inspection. The result of that inspection was a citation for failure to meet both fire-flow and pressure requirements.

Normally, the used and useful for an open system water plant would be calculated using the firm reliable capacity. For this utility, the firm reliable capacity is determined to be 356,447 gallons per day (gpd). Since this utility has failed to pass the requirements for adequate fire flow and pressure, staff believes that the plant should be 100% used and useful without further question. The fire marshal evaluates the ability of a system to provide fire protection based on gallons per minute (gpm). It is recommended that this analysis of used and useful also be based on gpm, and should use the minimum design criteria of 1.1 gpm per customer as recognized by the American Water Works Association. From the gpm perspective, the capacity of the plant would be

dependent on the High Service pumping capacity without the highest volume capacity pump (a total 400 gpm) which indicates that a third High Service pump is needed by this utility, and is noted in the issue discussing pro forma plant. The addition of the third pump will raise the total pumping capacity to 1200 gpm which would be reduced to 800 gpm after one pump is removed from the calculation.

There is a large (47%) difference between treated water leaving the plant and metered water sold. It appears that a large portion of the unmetered water is an issue of brittle laterals that are leaking in very sandy soil. The new owners are actively seeking out and making repairs to these sources of water loss. Another problem that the new owners are faced with are old meters that no longer function properly, are suspected of reading slow, and need replacing. In the issue discussing pro forma plant, it is recommended that the new owners be allowed a pro forma allowance to replace approximately 35 meters per year. Even with the high unaccounted for water, the water treatment plant is considered 100% used and useful.

For ratemaking purposes, staff is projecting the average customer count of 421 customers (estimated to be 337 ERCs) which would yield an average flow rate of 463 gallons per minute (gpm). Since the third high service pump will be in service during the projected test year, the capacity of the plant in gpm is rated at 800. Section 367.081(2)(a)2, Florida Statutes, caps the annual growth rate for the calculation of used and useful at 5% per year for a 5-year period. A statutory 5% cap on growth is required in this case which is 17 ERCs per year or 85 ERCs for the statutory five year growth period. Since fire flow is deficient, fire flow capacity has been left out of the formula calculation. Even with an adjustment for 37% excessive unaccounted for water, when compared to the plant capacity of 800 gpm, the water treatment plant is considered to be 100% used and useful.

In accordance with the calculation sheet (Attachment "A", Sheet 1 of 4), it is recommended that the used and useful for the water treatment plant should be 100%. This percentage should be applied to:

Account No. 303 (Land and Land Rights)
Account No. 304 (Structures and Improvements)
Account No. 307 (Wells and Springs)

Account No. 309 (Supply Mains)
Account No. 311 (Pumping Equipment)
Account No. 320 (Water Treatment Equipment)
Account No. 339 (Other Plant and Misc Equipment)

Water Distribution System

The water distribution system has the potential of serving 494 customers (estimated to be 395 ERCs) in a subdivision that will most likely reach its potential customer capacity at the end of the statutory 5 year growth period. The projected average number of customers for the year 2002 is estimated to be 421 customers (estimated to be 337 ERCs). The statutory 5% cap on growth is required in this case which is 17 ERCs per year or 85 ERCs for the statutory five year growth period. By the formula approach, staff calculates the distribution system to be 100% used and useful (See Attachment "A", Page 2 of 4).

It is recommended that 100% be applied to:

Account No. 330 (Distribution Reservoirs and Standpipes)
Account No. 331 (Transmission and Distribution Mains)
Account No. 333 (Services)
Account No. 334 (Meters and Meter Installations)

Wastewater Treatment Plant

As noted above, the existing sewage treatment plant at Snug Harbor is permitted by the DEP as a 0.100 million gallon per day (100,000 gpd) annual average daily flow (AADF). For ratemaking purposes, staff is projecting the average demand for the year 2002. It is estimated that the annual average daily flows for the year 2002 will be 43,466 gpd. The statutory 5% cap on growth is required in this case which is 17 ERCs per year or a computed demand of 10,963 gpd for the statutory five year growth period. There does not appear to be an excessive infiltration problem occurring within the collection system. Therefore, the formula used on the calculation sheet (Attachment "A", Sheet 3 of 4) indicates a used and useful of 54.4% which should be applied to:

Account No. 355 Power Generation Equipment
Account No. 364 Flow Measuring Devices

Account No.	365	Flow Measuring Installations
Account No.	380	Treatment and Disposal Equipment
Account No.	381	Plant Sewers
Account No.	382	Outfall Sewer Lines
Account No.	489	Other Plant and Miscellaneous Equipment

Wastewater Collection System

As noted above, the utility's potential customer base is 494 customers (estimated to be 395 ERCs). The projected average number of customers for the year 2002 is estimated to be 421 customers or 337 ERCs. The statutory 5% cap on growth is required in this case which is 17 ERCs per year or 85 ERCs for the statutory five year growth period. In accordance with the formula method used on the calculation sheet (See Attachment "A", sheet 4 of 4), the used and useful is calculated to be 100%. By the formula method, it is recommended that the wastewater collection system be considered 100% used and useful, and that percentage be applied to the following accounts:

Account No.	360	Collection Sewers - Force
Account No.	361	Collection Sewers - Gravity
Account No.	362	Special Collecting Structures
Account No.	363	Services to Customers
Account No.	370	Receiving Wells

WATER TREATMENT PLANT - USED AND USEFUL DATA

Docket No. 010396-WS - Burkim Enterprises, Inc.

1)	**Capacity of Plant**	800	gallons per minute
2)	**Average of 5 Highest Days From Maximum Month** (421 cust X 1.1 gpm X 2)	926	gallons per minute
3)	**Average Daily Flow** (421 cust X 1.1 gpm)	463	gallons per minute
4)	**Fire Flow Capacity**	N/A	gallons per minute

a) Required Fire Flow: 1,000 gallons per minute for 2 hours

5)	Growth	85	gallons per minute

a) Projected year 2003 Customers in ERCs:

Begin	325
End	348
Average	337

(Use average number of customers)

b) Customer Growth in ERCs using Statutory cap. 5% — 17 ERCs

c) Statutory Growth Period — 5 Years

(b)x(c)x [3\(a)]= 85 gallons per minute for growth

6)	**Excessive Unaccounted for Water**	171	gallons per minute
	a) Total Unaccounted for Water	217	gallons per minute
	Percent of Average Daily Flow	10%	
	b) Reasonable Amount	46	gallons per minute
	(10% of average Daily Flow)		
	c) Excessive Amount	171	gallons per minute

USED AND USEFUL FORMULA

[(2)+(4)+(5)-(6)]/(1) = 100% Used and Useful

WATER DISTRIBUTION SYSTEM - USED AND USEFUL DATA

Docket No. 010396-WS - Burkim Enterprises, Inc.

1)	**Capacity of System** (Number of Potential Customers, ERCs or Lots Without Expansion)	395	ERCs
2)	**Projected year 2003 connections**		
	a) Beginning of Test Year	325	ERCs
	b) End of Test Year	348	ERCs
	c) Average Test Year	337	ERCs
3)	**Growth**	85	ERCs
	a) Projected customer growth in ERCs for 2002 with Statutory 5% cap.	17	ERCs
	b) Statutory Growth Period	5	Years

(a)x(b) = 85 connections allowed for growth

USED AND USEFUL FORMULA

[2+3]/(1) = 100.0% Used and Useful

WASTEWATER TREATMENT PLANT - USED AND USEFUL DATA

Docket No. 010396-WS - Burkim Enterprises, Inc.

1)	**Permitted Capacity of Plant** (AADF)	100,000	gallons per day
2)	**Maximum Daily Flow**	90,840	gallons per day
3)	**Average Daily Flow** (Projected year 2003 AADF)	43,466	gallons per day
4)	**Growth**	10,963	gallons per day

a) Projected Customers in ERCs for year 2003 with Statutory 5% cap:

Beginning	325
Ending	348
Average	337

b) Customer Growth in ERCs using Regression Analysis for most recent 5 years including Test Year: 17 ERCs

c) Statutory Growth Period: 5 Years

(b x c) x [3/(a)]= 10,963 gallons per day for growth

5)	**Excessive Infiltration or Inflow** (I&I)	N/A	gallons per day
	a) Total I&I:	N/A	gallons per day
	Percent of Average Daily Flow	0.00%	
	b) Reasonable Amount	13,303	gallons per day
	(500 gpm per inch dia pipe per mile)		
	c) Excessive Amount	N/A	gallons per day

USED AND USEFUL FORMULA

[(3)+(4)-(5)]/(1) = 54.43% Used and Useful

WASTEWATER COLLECTION SYSTEM - USED AND USEFUL DATA

Docket No. 010396-WS - Burkim Enterprises, Inc.

1)	**Capacity of System** (Number of potential customers, ERCs or Lots without expansion	395	ERCs
2)	**Projected year 2003 connections**		
	a) Beginning of Test Year	325	ERCs
	b) End of Test Year	348	ERCs
	c) Average Test Year	337	ERCs
3)	**Growth**	85	ERCs
	a) Customer growth in ERCs for Projected year 2002 with Statutory 5% cap.	17	ERCs
	b) Statutory Growth Period	5	Years

(a)x(b) = 85 connections allowed for growth

USED AND USEFUL FORMULA

[(2)+(3)]/(1) = 100% Used and Useful

ISSUE 5: Should an acquisition adjustment be approved in the determination of the utility's rate base at the date of purchase?

RECOMMENDATION: Yes, a negative acquisition adjustment should be approved in the determination of the utility's rate base at the date of purchase. (FITCH, MERTA)

STAFF ANALYSIS: An acquisition adjustment occurs when the purchase price differs from the original cost. The current owner purchased the utility from CGD on August 28, 2000. The Commission approved the transfer in Order No. PSC-01-1628-FOF-WS, issued August 8, 2001, in Docket No. 001501-WS. Rate base was not established in this order. Although rate base and acquisition adjustment issues are typically addressed in transfer proceedings, these issues were not included in the transfer docket because of the utility's pending SARC. The Commission determined that rate base would be established in this SARC proceeding.

Using data from the transfer audit, staff has calculated the net book value of the purchased plant at August 28, 2000 to be $200,058 for water and $145,038 for wastewater. The current owner purchased the utility for $250,000. Staff was unable to determine the amount paid per system. Therefore, staff has allocated the purchase price based on the pro rata share of rate base for each system. The calculation is as follows:

August 28, 2000	Water	Wastewater
Plant in Service	$507,325	$580,205
Accumulated Depreciation	($239,009)	($417,853)
Land	$4,058	$32,157
CIAC	($144,203)	($160,601)
Amortization of CIAC	$71,887	$111,130
Acquired Rate Base	$200,058	$145,038
Purchase Price	($144,929)	($105,071)
Negative Acquisition Adjustment	$55,129	$39,967

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

Staff believes that extraordinary circumstances exist in this case. As discussed in Issue No. 1, the previous owner of the utility did not maintain the utility in accordance with DEP rules and regulations for a number of years. This ultimately resulted in a run-down plant in need of major repairs. The current owner purchased the utility for less than book value. Book value of UPIS is calculated using depreciable lives set by Rule 25-30.140, Florida Administrative Code. The depreciable lives assume that the UPIS will be maintained over its useful life. It is clear in this case that the plant was not maintained properly and therefore its useful life has been severely shortened. This means that book value is not representative of the actual or market value of the UPIS. The current owner purchased the utility, and either knew or should have known the condition of the plant, and purchased the utility for the amount described above. This argument, that the utility bought a run-down system and that this should have been considered in the purchase price, was also the argument made at the customer meeting. Therefore, staff believes the purchase price better represents the actual value of the UPIS and a negative acquisition adjustment should be included to reflect the purchase price.

Staff's recommendation in this regard is consistent with Order No. PSC-93-1675-FOF-WS, issued November 18, 1993, in Docket No. 920148-WS, Application for a Rate Increase in Pasco County by Jasmine Lakes Utilities Corporation. In this case, the Commission found that 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.

Further, staff is recommending pro forma improvements to UPIS to meet DEP required standards. Many of these improvements are necessary because of the poor condition of the existing plant. Not allowing an acquisition adjustment would result in customers paying a return on the book value of the UPIS plus a return on pro forma plant that is caused by the poor condition of the plant. In effect, the customers would be paying twice, once for plant that should be in compliance with DEP standards and operating correctly,

and once for improvements to the plant to bring it into compliance and operating correctly.

For the foregoing reasons, staff is recommending that a negative acquisition adjustment be approved for this utility. The negative acquisition adjustment should be applied to rate base as discussed in Issue No. 6. The acquisition adjustment should be amortized based on composite depreciation rates as described in Issue No. 6 and Issue No. 9.

ISSUE 6: What is the appropriate projected test year rate base for the utility?

RECOMMENDATION: The appropriate projected test year rate base for the utility is $186,184 for water and $133,218 for wastewater. The utility should be required to complete all pro forma additions, as discussed in the staff analysis, within nine months of the effective date of the Commission Order. (FITCH, MERTA)

STAFF ANALYSIS: The utility's rate base was last established on December 31, 1991, in Order No. PSC-93-0011-FOF-WS, issued January 5, 1993, in Docket No. 920397-WS.

Staff has selected a projected test year ended May 31, 2003 for this rate case. Rate base components, established in Order No. PSC-93-0011-FOF-WS, have been updated through May 31, 2003, using information obtained from staff's audit and engineering reports.

Currently, the utility allocates common plant used for both water and wastewater systems in the amount of; 40% to water and 60% to wastewater. In Order No. 17043, issued December 31, 1986, in Docket No. 860325-WS, Southern States Utilities, Inc., the Commission ordered that the utility's allocation of administrative and general expenses should be based on the number of customers. Staff believes that allocations based on the number of customers served by the utility should also apply to plant items common to both systems. Burkim currently provides service to 364 (50%) water customers and 364 (50%) wastewater customers. Staff believes that the appropriate allocation of common plant should be 50% for water and 50% for wastewater.

A discussion of each rate base component follows:

Utility Plant in Service (UPIS): The utility recorded UPIS of $541,772 for water and $607,777 for wastewater for the test year ended May 31, 2001.

Staff increased water UPIS by $5,064. This amount includes $151 for meters (Account No. 334), $4,913 for a storage tank (Account No. 330), and plant improvements that were completed in the historical test year but not reclassified from CWIP.

The utility purchased a new truck for utility use in August of 2000 for $28,126. Staff increased water Account No. 341 by $2,759

and decreased wastewater Account No. 391 by $2,759 to reallocate the cost of the truck based on the 50/50 customer ratio. Staff engineer determined that the use of this vehicle is associated with another utility (Laniger Utilities, Inc.) and with personal use. Based on usage, the engineer estimated that the appropriate allocation is 45% Burkim, 45% Laniger and 10% personal use. Therefore, staff has removed 55% of the cost of the truck for nonutility use. Staff reduced water and wastewater Account Nos. 341 and 391 by $7,735 each.

Staff increased water UPIS by $441 to include the cost of plant that was not recorded by the utility. In addition, staff reduced water Account No. 334 by $5,700 and wastewater Account No. 371 by $439 to remove plant undocumented by the utility.

The utility included in UPIS the cost of a computer that was not transferred to Burkim following the purchase of the utility assets from CGD. Staff reduced water and wastewater by $1,437 each (Account Nos. 340 and 390, respectively) to remove the cost of the computer.

Per Audit Exception No. 4, in 1993 the utility capitalized $7,173 that was applicable to the sandblasting and painting of the water storage tank. Historically, the Commission has deemed the painting of plant facilities to be an expense item not a capital item. The ordinary amortization period of a nonrecurring expense is five years, pursuant to Rule 25-30.433(8), Florida Administrative Code. Since it has been approximately eight years since the sandblasting/painting, no increase to test year expense is necessary because the item would have been fully amortized. Therefore, staff reduced water Account No. 309 by $7,173.

The NARUC uniform system of accounts sets a capitalization threshold for Class C utilities of $150. This means that any invoiced amounts for less than $150 should be expensed rather than capitalized in the period in which they were incurred. Therefore, staff has reclassified $49 from water Account No. 343 to Miscellaneous Expense (Account No. 675) and $51 from wastewater Account No. 393 to Miscellaneous Expense (Account No. 775) to remove items below the capitalization threshold.

Staff determined that the utility's lime softening plant was retired before the last rate case; however, it was not physically removed. In 1998, the utility capitalized $2,500 for dismantling

the lime softening plant. In accordance with NARUC Water, Class C, Instruction 5(D), Account 108, accumulated depreciation shall be charged with the costs of removal of retired plant. Therefore, staff reduced water Account No. 320 by $2,500.

Projected Plant

As discussed in Issue No. 1, the utility needs a large number of repairs to its system to meet DEP standards. The utility has requested pro forma plant items to be included in rate base to meet DEP standards and to improve the quality of the water. Staff has allowed the following items in rate base and has found these items to be reasonable. Staff increased UPIS by $100,906 for water and $51,759 for wastewater to record the projected plant items. The following is a description of staff adjustments for projected plant.

DEP requires the following upgrades and replacements:

Account No.	Description: Water	Amount
320	Upgrade Chlorine System	$4,000
330	Replace Hydropneumatic Tank (Includes $2,650 from CWIP)	$25,900
311	New Electric Control Panel	$28,550
304	Repair Chlorine Room	$990
309	Replace 6" Master Meter	$3,800
304	Fence Well Pump Area	$1,900
320	Add Ammonia Treatment System	$15,900
	Total DEP Required Water Pro Forma Plant	$81,040

Account No.	Description: Wastewater	Amount
354	Fence Wastewater Treatment Plant	$1,895
354	Fence Lift Stations	$5,200
380	Install Standby Blower	$8,600
355	Auxiliary Power Generator	$17,500
380	Splitter Box/Bar Screen	$18,000
	Total DEP Required Wastewater Pro Forma Plant	$51,195

The utility replaced a hydropneumatic tank because the old tank exploded. The utility's insurance company paid $17,318 for the exploded hydropneumatic tank. Therefore, staff has reduced this account for water by $17,318 for the above projected hydropneumatic tank.

Burkim currently treats its raw well water with chlorine gas for disinfection. However, some raw water supplies contain natural organic matter (such as humic acids from decaying plant materials) that react to chlorine and create spin-off compounds (TTHMs) that are determined to be potentially hazardous. The raw water obtained by the well point at Snug Harbor is rich in organic matter and does produce TTHMs. A known method of reducing TTHMs is to change from chlorine treatment to chloramine disinfection. Chloramines are formed from the reaction of ammonia to chlorine. The utility is seeking DEP approval to combine liquid ammonia to the present chlorine gas system to comply with not only the current standard for TTHM, but also the new standard that will be implemented in 2003. The ammonia treatment system was requested in order to comply with the DEP standards.

In addition to the DEP required additions, staff increased water Account No. 311 by $5,800 for the installation of a third High Service Pump and by $6,900 to install a six inch well pump. The utility requested $4,247 for office equipment. This included $160 for a calculator, $260 for a phone system, $707 for a desk and credenza, and $3,120 for a computer. Since the utility already owns one computer, staff removed $3,120 for this item. Therefore, staff increased water and wastewater Account Nos. 340/390 by $564 each for office equipment.

The utility requested $3,317 to rehabilitate a water pump. However, this amount included a 15% utility upcharge on all material, and $25 per hour to pull the pump, travel to Orlando to have it rebuilt, and pick it up and reinstall the pump. Staff believes that $12 per hour is a reasonable rate for labor since the utility has been given transportation expense; therefore, staff reduced the charge for labor by $130. In Order No. PSC-01-1574-PAA-WS, issued July 30, 2001, in Docket No. 000584-WS, the Commission found that 15% overhead was reasonable for related party invoices; however, overhead should only be applied to labor. Staff has reduced this invoice by $375 to reflect 15% of overhead on labor only. Therefore, staff has included $2,812 for rebuilding the pump.

Per the staff engineer's report, the utility's meters are old, no longer function properly, are suspected of reading slow, and need replacing. Therefore, staff increased water Account No. 334 by $3,790 to replace approximately 35 meters per year.

Consistent with prior Commission practice where no original cost documentation was available, staff has estimated the retirement of pro forma additions based on 75% of the replacement cost (Order No. PSC-01-1574-PAA-WS, issued July 30, 2001, in Docket No. 000584-WS). Staff reduced UPIS by $31,117 as follows:

Account No.	Description	Amount
320	Chlorine System Upgrade	$3,000
311	Replace Electrical Control System	$22,425
309	Replace 6" Master Meter	$2,850
334	Meter Replacement	$2,842
Total		$31,117

Based on the above, UPIS has been increased by $100,906 for water and $51,759 for wastewater pro forma plant additions and reduced by $31,117 for water for pro forma retirements. Staff has decreased this account by $237 for water to reflect an averaging adjustment on meter installations for projected customers.

Staff's net adjustment to UPIS is an increase of $35,904 for water and $39,338 for wastewater. Staff recommends UPIS of $577,676 for water and $647,115 for wastewater.

Construction Work in Progress (CWIP) - The utility is currently repairing its water distribution system. The utility recorded Construction Work in Progress (CWIP) of $7,714 for water. Of this amount, $5,064 was for plant items completed during the historical test year, but not recorded in UPIS. Staff has reclassified $151 to Account No. 334 for meters and $4,913 to Account No. 330 for a ground storage tank. In addition, a deposit of $2,650 for the hydropneumatic tank was reclassified to Account No. 330. CWIP has been decreased by $7,714 to reflect a reclassification to plant. Staff recommends zero CWIP for water and wastewater.

Land: Burkim recorded a zero land balance for water and wastewater. Staff has determined that the water plant occupies .94 acres of land and the wastewater plant occupies 7.45 acres of land. Per Audit Disclosure No. 3, staff has determined through documentary stamps on the deed made February 1, 1979, that the price was $4,316.42 per acre. Therefore, staff increased water and wastewater land by $4,058 and $32,157 respectively, based on the engineer and audit reports. Pursuant to Rule 25-30.433(10), Florida Administrative Code, the utility owns the land on which its treatment facility is located. Staff has determined Land to be $4,058 for water and $32,157 for wastewater.

Non-used and Useful Plant: Staff has determined the used and useful percentages for each plant account. Applying the non-used and useful percentages to the wastewater treatment plant results in average non-used and useful plant of $44,616 for wastewater. The average non-used and useful accumulated depreciation is $42,073 for wastewater. Staff has also applied non-used and useful percentages to the portion of the negative acquisition adjustment related to the wastewater treatment plant. Therefore, staff has increased this account by $2,756 to reflect average non-used and useful acquisition adjustment and decreased this account by $267 to reflect the average non-used and useful amortization of acquisition adjustment. Staff's net average non-used and useful adjustment is a decrease of $54 for wastewater.

Contribution in Aid of Construction (CIAC): The utility recorded a balance for CIAC of $149,596 for water and $164,708 for wastewater for the historical test year ended May 31, 2001.

Staff has increased water and decreased wastewater CIAC by $1,007 each to reconcile the utility's balance at December 31, 1991 with the balance approved in Order No. PSC-93-0011-FOF-WS, issued January 5, 1993.

Audit Exception No.9 states that subsequent to the Order date up through December 31, 1996, CGD Utilities, Inc. collected water and wastewater connection fees from the developer of $15,021 and $13,519, respectively. The fees collected were recorded as CIAC. In addition, Burkim collected water and wastewater CIAC from the developer of $6,400 and $3,100, respectively. Order No. PSC-93-0011-FOF-WS, issued January 5, 1993, in Docket No. 920397, directed the utility to discontinue all collection of service availability fees. Therefore, the CIAC collected from the developers was unauthorized. In Order No. PSC-00-1676-PAA-SU, issued September 19, 2000, in Docket No. 000715-SU, the Commission allowed North Peninsula Utilities Corporation to keep unauthorized CIAC collections from the developer, which benefitted the customers. The CIAC collected is a reduction to the utility's investment and therefore a benefit to customers. In addition, the utility is not over contributed and staff is recommending that service availability charges be reinstated in Issue No. 15. Staff recommends that the charges collected from the developers remain on the utility's books as CIAC.

Staff has increased CIAC by $48,462 for water and $16,769 for wastewater to reflect projected CIAC. Staff calculated CIAC based on the customer growth and the recommended service availability charges from Issue No. 15. Staff has decreased this account by $17,139 for water and $5,931 for wastewater to reflect an averaging adjustment.

Staff has calculated CIAC to be $181,926 for water and $174,539 for wastewater.

Acquisition Adjustment: The utility's balance for the acquisition adjustment was a negative $89,409 and a negative $225,728 for water and wastewater, respectively. Acquisition adjustments are determined by comparing the purchase price to the net original cost of the property when first devoted to service. Therefore, the comparison would be made between the purchase price paid by Burkim and the net original cost of the assets. The previous acquisition adjustment arose pursuant to Order No. PSC-93-0011-FOF-WS, issued January 5, 1993. Acquisition adjustments do not survive subsequent

purchases of the utility's assets as addressed in Order No. PSC-00-1165-PAA-WS, issued June 27, 2000, in Docket No. 990243-WS. Therefore, staff has increased this account by $89,409 for water and $225,728 for wastewater to remove the acquisition adjustment.

In Issue No. 5, staff is recommending that a negative acquisition adjustment, at the date of purchase by Burkim from CGD, be included. Therefore, staff has included a negative acquisition adjustment of $55,129 for water and $39,967 for wastewater as discussed in Issue No. 5.

Accumulated Depreciation: The utility's balance for accumulated depreciation was $425,689 for water and $574,467 for wastewater through May 31, 2001. Staff discovered the accumulated depreciation balance approved in the utility's last rate case was largely calculated using the tax basis of accumulated depreciation. In the previous rate case, an original cost study was performed, and accumulated depreciation was calculated by taking the last available tax return's accumulated depreciation (1989) and depreciating plant forward using the rates prescribed in Rule 25-30.140, Florida Administrative Code.

Using the tax basis of depreciation is an apparent violation of Rule 25-30.140(3), Florida Administrative Code. Further, two different methods for calculating accumulated depreciation were used in the previous case [tax basis 1981-1989, Rule 25-30.140, Florida Administrative Code 1990-1991]. Staff believes that accumulated depreciation should be recalculated for the period of 1981-1991 using the prescribed rates in Rule 25-30.140, Florida Administrative Code.

In Order No. 20066, issued September 26, 1988, in Docket No. 870981-WS, Miles Grant Water & Sewer Company, the Commission found that where fraud, surprise, mistake, or inadvertence is shown, the Commission must have the power to alter previously entered final rate orders under extraordinary circumstances.

Staff believes extraordinary circumstances exist in this case. Using the previously approved accumulated depreciation balance results in the UPIS being 90% depreciated for water, and almost 100% depreciated for wastewater. Using Rule 25-30.140, Florida Administrative Code, the utility would be 40% depreciated for water and 70% depreciated for wastewater. This difference has a major impact on the utility's rates and service availability charges.

In Florida, the Commission uses a quasi-judicial hearing process under the Administrative Procedures Act, to reach a legislative result; that is, to set the utility rates to be applied prospectively. Given the unique regulatory responsibility, and under the specific circumstances of this case, staff recommends that the Commission should exercise its sound discretion to prospectively adjust the utility's rate base to reflect accumulated depreciation for the period 1981-1991 per Rule 25-30.140, Florida Administrative Code.

Based on the above, staff has decreased this account by $192,387 for water and $216,113 for wastewater to reflect accumulated depreciation for the period 1981-1991 per Rule 25-30.140, Florida Administrative Code.

Staff has calculated accumulated depreciation using the prescribed rates in Rule 25-30.140, Florida Administrative Code. Staff's calculated accumulated depreciation at May 31, 2001, is $257,308 for water and $437,459 for wastewater. Therefore, staff has increased this account by $24,006 net for water. This amount includes a $2,500 decrease for retirements and an increase of $27,151 based on staff's recalculation of depreciation. Staff increased wastewater by $79,105 to reflect depreciation calculated per staff. Staff has decreased this account by $645 for water and wastewater each to remove 55% of the accumulated depreciation associated with non-utility use of the truck.

This account has also been increased by $42,359 for water and $44,260 for wastewater to reflect two years of depreciation for the projected test year. Accumulated depreciation has been decreased by $31,117 for water to reflect retirements related to projected additions. Staff has further reduced this account by $10,223 for water and $11,453 for wastewater to reflect an averaging adjustment. The above adjustments result in accumulated depreciation of $258,327 for water and $469,621 for wastewater.

Amortization of CIAC: Based on the utility's records through May 31, 2001, the utility recorded amortization of CIAC of $125,204 for water and $154,250 for wastewater. As discussed above, staff believes accumulated depreciation was calculated improperly in the last rate case. In the last rate case, amortization of CIAC was calculated using the ratio of accumulated depreciation to UPIS. Therefore, staff believes that amortization of CIAC should also be adjusted for the period 1981-1991. Staff has decreased this

account by $70,158 for water and $44,268 for wastewater to reflect CIAC amortization based on composite depreciation rates as recalculated by staff for the period of 1981-1991.

Amortization of CIAC has been recalculated by staff using composite depreciation rates. This account has been increased by $21,974 for water and $6,312 for wastewater to reflect CIAC amortization through May 31, 2001 of $77,020 for water and $116,294 for wastewater. Staff has increased this account by $12,480 for water and $11,661 for wastewater to reflect CIAC amortization for the projected test year. Staff has reduced this account by $3,442 for water and $3,089 for wastewater to reflect an averaging adjustment. The above adjustments result in amortization of CIAC of $86,058 for water and $124,866 for wastewater.

Amortization of Acquisition Adjustment: The utility's balance for amortization of acquisition adjustment was $47,751 for water and $136,008 for wastewater. Based on staff's recommendation to remove the acquisition adjustments discussed above, this account has been decreased by $47,751 for water and by $136,008 for wastewater.

Staff is recommending in Issue No. 5 that there be an inclusion of a new negative acquisition adjustment. Because staff is recommending a projected test year, staff has increased this account by $5,482 for water and $3,688 for wastewater to reflect projected amortization. Staff has decreased this account by $1,043 for water and $707 for wastewater to reflect an averaging adjustment. Staff's net adjustment to this account is a decrease of $43,312 for water and $133,027 for wastewater.

Working Capital Allowance: Working Capital is defined as the investor-supplied funds necessary to meet operating expenses or going-concern requirements of the utility. Consistent with Rule 25-30.433(2), Florida Administrative Code, staff recommends that the one-eighth of the O&M expense formula approach be used for calculating working capital allowance. Applying that formula, staff recommends a working capital allowance of $9,335 (based on O&M of $74,682) for water and $10,280 (based on O&M of $82,237) for wastewater. The utility did not record a working capital allowance. Working capital has been increased by $9,335 and $10,280 for water and wastewater respectively to reflect one-eighth of staff's recommended O&M expenses.

Rate Base Summary: Based on the foregoing, staff recommends that the appropriate projected test year rate base is $186,184 for water and $133,218 for wastewater.

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

COST OF CAPITAL

ISSUE 7: What is the appropriate rate of return on equity and the appropriate overall rate of return for this utility?

RECOMMENDATION: The appropriate rate of return on equity is 9.94% with a range of 8.94% - 10.94%. The appropriate overall rate of return for the utility is 9.84% (FITCH, MERTA)

STAFF ANALYSIS: According to staff's audit, the utility recorded the following items in capital structure; common stock of $1,000, negative retained earnings of $39,121, paid-in-capital of $104,595, and long term debt of $222,568

The utility's $222,568 of long term debt consists of two debt instruments. The first debt instrument is a note for $200,280 (72.36%) with a stated interest rate of 10.00%. The second debt instrument is a truck loan in the amount of $22,288 (3.62%) with a stated interest rate of 6.00%.

A specific adjustment was made to reduce long term debt by $12,258 to remove fifty-five percent of the truck loan. Staff engineer determined that the truck is used for nonutility purposes approximately fifty-five percent of the time.

Using the current leverage formula approved by Order No. PSC-00-1162-PAA-WS, issued June 26, 2000, in Docket No. 000006-WS, the appropriate rate of return on equity for all capital structures with an equity ratio of less than 40% is 9.94%. Since the utility's capital structure is 24.02% equity, the rate of return on equity is 9.94% with a range of 8.94% - 10.94%.

The utility's capital structure has been reconciled with staff's recommended rate base. Staff's recommended return on equity is 9.94% with a range of 8.94% - 10.94%, and an overall rate of return of 9.84%.

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

NET OPERATING INCOME

ISSUE 8: What are the appropriate projected test year revenues?

RECOMMENDATION: The appropriate projected test year revenues for this utility are $90,003 for water and $55,742 for wastewater. (FITCH, MERTA)

STAFF ANALYSIS: The utility booked revenues during the test year of $58,373 for water and $29,614 for wastewater. The utility's water tariff, at historical test year end, authorized a base facility charge of $9.92 and a gallonage charge of $1.73 per 1,000 gallons for residential and general service customers. The utility's wastewater tariff, at test year end, authorized a base facility charge of $3.54 and a gallonage charge of $1.62 per 1,000 gallons with a maximum cap of 6,000 gallons for residential customers. For general service customers, the wastewater tariff, at test year end, authorized a base facility charge of $3.54 and a gallonage charge of $1.95 per 1,000 gallons.

Staff has calculated annualized revenue for the historical test period using the current rates times the number of bills and consumption provided in the billing analysis. Test year revenues have been increased by $16,475 for water and $8,022 for wastewater to reflect annualized revenue based on the existing rates.

Burkim recorded $5,625 received from the developer for excavation, as a debit to a "Loan from Keith Burge" account. When the developer is ready to hook up a new lot, Mr. Burge digs down to the service to be sure it is connected to the system and flags it for the plumber. Staff believes this activity is related to the utility business and has increased Other Revenues by $2,813 each for water and wastewater.

Audit Disclosure No. 5 indicates that several motor homes are parked on the wastewater treatment plant land. The utility recorded the rent below-the-line. The rental revenues received should be included above-the-line since they are generated by land which is in rate base. Further, since the revenues generated by the land exceed the rate of return on the land, the customers benefit from this treatment. Therefore, staff has increased wastewater Other Revenues by $9,067.

Staff has increased historical test year revenues by $12,342 for water and $6,226 for wastewater to reflect revenues based on the total number of additional residential connections at projected test year end and average use for those additional connections. Staff recommends test year revenues of $90,003 for water and $55,742 for wastewater.

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

ISSUE 9: What is the appropriate amount of operating expense?

PRELIMINARY RECOMMENDATION: The appropriate amount of operating expense for this utility is $95,905 for water and $106,938 for wastewater. The utility should be required to provide the Commission with proof of the initiation of a pension plan and health insurance, as discussed in the staff analysis, within 90 days of the effective date of the Commission Order. (FITCH, MERTA)

STAFF ANALYSIS: As indicated in Audit Disclosure No. 6, Burkim is a new corporation; therefore, actual data was available for only a nine month period. Staff has annualized these expenses to reflect a twelve month test year. The utility recorded operating expenses of $69,902 for water and $82,698 for wastewater during the nine month period ending May 31, 2001. The utility improperly classified a majority of its expenses in the Contracted Services-Billing account (630/730). Staff has reallocated these expenses to the appropriate accounts.

The utility provided the auditor with access to all books and records, invoices, canceled checks, and other utility records to verify its O&M and taxes other than income expense for the nine month period ended May 31, 2001. Staff has determined the appropriate operating expenses for the historical test year and a breakdown of expenses by account class using the documents provided by the utility. Adjustments have been made to reflect the appropriate annual operating expenses that are required for utility operations on a going forward basis.

Operations and Maintenance Expenses (O&M)

Salaries and Wages-Employees -(601/701) - The utility recorded $6,000 for water and $9,000 for wastewater for salaries and wages during the test year.

In addition, the utility recorded $8,785 for water and $5,847 for wastewater for secretarial and maintenance services in Account Nos. 630/730, Contract Services-Billing. These activities are performed by salaried employees and should be recorded in Account Nos. 601/701, Salaries and Wages-Employees. Therefore, staff has increased this account by $8,785 and $5,847, respectively, to reclassify salaries from contract services to salaries and wages.

The utility has requested a $24,000 annual salary ($11.54 per hour) for a full-time maintenance person. The duties include: responding to customer complaints, responding to water breaks, responding to outages and other emergencies, general maintenance on lift stations and water and wastewater plant and equipment, keeping a maintenance log on all utility equipment, maintaining meter boxes, locating and collaring all water main valves, flushing fire hydrants, assisting the operator in maintenance checks collecting samples, and housekeeping and painting at the water and wastewater facilities. Further, staff believes that the maintenance person will assume additional responsibilities from Mr. Burge. Initially, Mr. Burge handled all aspects of operating the utility - management, maintenance, billing and customer service. At the customer meeting, customers complained of the lack of employees to answer questions and respond to complaints. The addition of a maintenance and an office employee should alleviate this problem. In Order No. PSC-97-0037-FOF-WU, issued January 8, 1997, in Docket No. 960625-WU, the Commission allowed $10.42 per hour for a maintenance person. Indexed to 2001 dollars this amount becomes $11.71 per hour. Staff finds $11.54 per hour to be reasonable and consistent with previous Commission allowances. Staff recommends allowing $24,000 for a full time maintenance person to be split 50/50 between water and wastewater.

The utility has also requested a $24,000 annual salary ($11.54 per hour) for a full time office person. Duties would include: answering the phone, filing, photocopying, word processing, billing, collections, maintaining accounts receivable and payable, keeping and maintaining a customer complaint log, reconciling bank statements, and making bank deposits. In Order No. PSC-96-0869-FOF-WS, issued July 2, 1996, in Docket No. 950966-WS, the Commission allowed $10.00 per hour for an office person. Indexed to 2001 dollars, this amount becomes $11.45 per hour. Staff finds the requested amount to be reasonable and consistent with previous Commission allowances. Therefore, staff recommends allowing $24,000 for a full time office person to be split 50/50 between water and wastewater.

Staff made an annualizing adjustment increasing water by $9,215 and wastewater by $9,153 in order to include a full years' salary for the two employees.

Therefore, staff's net adjustment to this account is $18,000 for water and $15,000 for wastewater.

Salaries and Wages-Officers (603/703) - The utility recorded $4,000 for water and $6,000 for wastewater in this account during the test year.

In addition, the utility recorded $4,800 for water and $7,200 for wastewater for management services in Account Nos. 630/730, Contract Services-Billing. These activities are performed by a salaried officer and should be recorded in Account Nos. 603/703, Salaries and Wages-Officers. Therefore, staff has increased this account by $4,800 and $7,200, respectively, to reclassify officer salary from contract services to salaries and wages.

The utility has requested a $36,000 annual salary ($17.31 per hour) for a full time general manager. This position is being filled by Mr. Keith Burge, the utility's president. Duties include: general management, supervising contractors and capital improvement projects, responding to emergencies, responding to customer complaints not resolved by other personnel, liaison with DEP, PSC, and SJRWMD, and accounting. The utility has estimated that Mr. Burge will work 40 hours per week on Burkim utility matters. It should be noted that Mr. Burge also works part time for Laniger Enterprises of America, Inc. (Laniger). In Order No. PSC-01-1574-PAA-WS, issued July 30, 2001, in Docket No. 000584-WS, the Commission allowed $36,000 for management duties for a similar sized utility. Staff believes that the requested hourly rate is reasonable; however, the hours Mr. Burge works for this utility should be reduced based on staff's allowance for the two full time employees discussed above. Based on Mr. Burge's responsibilities at Laniger, staff has reduced the requested salary to reflect a part time salary (20 hours a week). The general manager's salary should be split 50/50 between water and wastewater.

Staff has made an annualizing adjustment increasing water by $200 and decreasing this account for wastewater by $4,200 in order to include the $18,000 part time salary for Mr. Burge.

Staff's net adjustment to this account is $5,000 for water and $3,000 for wastewater to reflect the recommended annual salary allowance discussed above.

Employee Pensions and Benefits - (604/704) - The utility requested to initiate a pension plan for its employees. The utility has requested to contribute the maximum allowable under the plan. According to the plan provided by the utility, the maximum

contribution is 15% of earned income. Although employee pensions and benefits are a legitimate business expense, staff does not believe that the 15% maximum contribution is appropriate for a utility of this size. Staff believes that one half of the maximum contribution level allowed is reasonable for this utility. In Order No. PSC-01-1574-PAA-WS, the Commission allowed 7.5% for a similar sized utility. Therefore, staff is recommending that the pension cost should be calculated based on a rate of 7.5% of earned income.

Total annual salaries recommended by staff for Keith Burge, the maintenance person, and the office person are $66,000. Applying the 7.5% contribution level to this annual salary results in an annual pension cost of $4,950 to be split 50/50 between water and wastewater.

Staff increased this account by $4,950 and allocated 50% to water ($2,475) and 50% to wastewater ($2,475). The utility should provide staff with a signed contract with Morgan Stanley Dean Witter with proof of the 401 K plan and contributions allowed by staff within 90 days of the effective date of the Commission Order.

Sludge Removal Expense-(711) The utility recorded $940 in this account for sludge removal expenses during the historical test year. Staff engineer estimated that sludge from the wastewater treatment plant should be removed once per quarter, and lift station maintenance required a clean out at least once per year. Staff engineer recommended that $7,520 per year was reasonable for sludge hauling expenses. Therefore, staff increased this account by $6,580.

Purchased Power-(615/715) - The utility recorded $6,256 for water and $7,228 for wastewater in this account during the historical test year. Staff engineer estimated that $7,242 for water and $9,062 for wastewater are reasonable annual amounts for purchased power for this utility. Therefore, staff has increased this account by $986 for water by $1,834 for wastewater. Staff has increased this account by $1,176 for water and by $1,491 for wastewater based on the percent increase in gallons in the projected test year. In addition, staff has decreased this account by $253 for water and $317 for wastewater to reflect a repression adjustment as discussed in Issue No. 12.

Fuel for Power Production-(616/716) - The utility recorded $0 for water and wastewater in this account during the historical test year. Burkim maintains a 45KW gas backup generator at its water plant. The utility will be installing a similar generator for the wastewater plant. The utility runs the generator for approximately an hour each week as general maintenance to verify ongoing operational capability. Staff engineer determined that $198 each is reasonable to purchase fuel for electric power generation at the water and wastewater plants. Staff has increased this account by $198 each for water and wastewater to meet the engineer's recommendation.

Chemicals-(618/718) - The utility recorded $1,857 for water and $2,188 for wastewater in this account during the historical test year. Staff engineer has estimated that $3,165 per year is reasonable to purchase chlorine gas ($925) and liquid ammonia ($2,240) for the water system and $1,748 per year is reasonable to purchase chlorine gas ($1,387) and lime ($360) for the wastewater plant. As discussed in Issue No. 6, ammonia is used in treating TTHMs. Therefore, staff has increased this account by $1,308 for water and decreased this account by $440 for wastewater. Staff has increased this account by $513 for water and by $286 for wastewater based on the percent increase in gallons in the projected test year. In addition, staff has decreased this account by $110 for water and $61 for wastewater to reflect a repression adjustment as discussed in Issue No. 12.

Materials and Supplies-(620/720) The utility recorded $1,373 for water and $1,654 for wastewater in this account during the historical test year. Staff has reclassified $119 for water and $178 for wastewater from Account Nos. 675/775, Miscellaneous Expense, to this account to include postage. Staff has increased this account by $316 for water and decreased this account by $316 for wastewater to reallocate expense based on the customer ratio of 50/50 as discussed in Issue No. 6. Staff made an annualizing adjustment increasing water by $603 and wastewater by $505 in order to include a full years' materials and supplies expense.

Staff's net adjustment to this account is an increase of $1,038 for water and $367 for wastewater.

Contracted Services-Billing-(630/730) - The utility recorded $28,857 for water and $26,545 for wastewater in this account during the historical test year. The utility improperly recorded employee

and officer salaries, acquisition costs and contracted services (testing, other) in this account. Billing services are performed by a salaried employee, therefore this account should be reduced to zero. Staff has removed and reallocated expenses to the appropriate accounts as discussed below.

Staff has identified $2,187 for water and $3,280 for wastewater of costs related to the acquisition of the utility from CGD. Purchase costs of utility systems should be charged as acquisition adjustments. See Order No. 25821, issued February 27, 1992. Therefore, staff has removed $2,187 for water and $3,280 for wastewater from this account.

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

Accounts	Water (630)	Wastewater (730)
Per Utility	$28,857	$26,545
Transfers Reductions		
Salaries & Wages Employees (601/701) (Maintenance & Office)	($8,785)	($5,847)
Salaries & Wages Officers (603/703) (Keith Burge)	($4,800)	($7,200)
Contracted Services Testing (635/735)	($703)	($967)
Contracted Services Other (636/736)	($12,382)	($9,251)
Acquisition Costs (114/114)	($2,187)	($3,280)
Contracted Services Billing (630/730)	$0	$0

Staff has decreased this account by $28,857 for water and $26,545 for wastewater.

Contractual Services-Testing-(635/735) - The utility recorded $0 in this account for water and wastewater during the historical test year. Staff has increased this account by $703 for water and $967 for wastewater to reflect a reclassification from Account Nos. 630 and 730 of testing charges from Walsh Environmental and Flowers Chemical.

Each utility must adhere to specific testing conditions prescribed within its operating permit. These testing requirements are tailored to each utility as required by the Florida Administrative Code and enforced by the DEP. The tests and the frequency at which those tests must be repeated for this utility are:

Water

Test	Frequency	Annual Amount
TTHMs	Quarterly	$210
Microbiological	Monthly	$380
Primary Inorganics	3 Years	$70
Secondary Inorganics	3 Years	$53
Asbestos	1/9 Years	$27
Nitrate & Nitrite	Annual	$26
Volatile Organics	Qrtly/1st yr/36 mos.	$158
Pesticides & PCB	3 Years	$220
Radionuclides Group I	3 Years	$30
Radionuclides Group II	3 Years	$35
Unregulated Organics Group I	Qrtly/1st yr./9yr.	$105
Unregulated Organics Group II	3 Years	$45
Unregulated Organics Group III	3 Years	$70
Lead & Copper	Biannual	$316
Total		$1,745

Wastewater

Test	Frequency	Annual Amount
Biochemical Oxygen Demand (includes Nitrate, Nitrite)	Monthly	$768
Total suspended Solids	Monthly	$384
Fecal Coliform	Monthly	$480
Sludge Analysis	Yearly	$350
Total		$1,982

Staff has increased this account for by $1,042 ($1,745 - $703) for water and $1,015 ($1,982 - $967) for wastewater to reflect annualized DEP required testing. Staff recommends a net increase to this account of $1,745 for water and $1,982 for wastewater to reflect annual DEP required testing.

Contractual Services Other-(636/736) - The utility recorded $0 in this account for water and wastewater during the historical test year. Staff has reclassified $12,382 for water and $9,251 for wastewater from Account No. 630 and 730 to this account. The transferred amounts consist of a contracted operator ($3,837 each for water and wastewater), $1,200 for water and $1,800 for wastewater for grounds keeping, and $7,345 for water and $3,614 for wastewater for repairs and maintenance.

During the test year, the hydropneumatic tank exploded. Staff has reduced this account by $2,735 for water and $120 for wastewater to remove expenses related to repairs to the old hydropneumatic tank needed to keep the system in operation until a new tank could be ordered and installed. Since the hydropneumatic tank has been replaced by a new tank, staff believes these expenses will no longer exist.

The utility recorded $1,202 for a roof repair; $420 of this amount was charged to wastewater. Staff has increased this account by $420 for water and decreased this account by $420 for wastewater to reclassify this expense to water because the roof repair was to the water plant. However, the roof repair is a nonrecurring expense and should be amortized over five years in accordance with

Rule 25-30.433(8), Florida Administrative Code. Therefore, staff has reduced this account by $962 for water. In addition, the utility recorded $2,454 for wastewater for repairs and cleanup of a spillover at a lift station. This is also a nonrecurring expense and should be amortized over five years in accordance with Rule 25-30.433(8), Florida Administrative Code. Staff has reduced this account by $1,963 for wastewater ($2,454/5 years x 4 years = $1,963).

The utility has requested pro forma pond cleaning expense of $20,000. Staff believes that if the ponds are well maintained by the utility, a major cleaning of the ponds will not be needed on a regular basis. Therefore, staff has amortized this expense over five years as a nonrecurring expense. Staff has increased this account by $4,000 to reflect pro forma pond cleaning expense ($20,000/5 years).

Staff has increased this account by $44 for water and decreased this account by $44 for wastewater to reallocate repair and maintenance expense based on the customer ratio of 50/50 as discussed in Issue No. 6.

The utility's contracted operator service is provided by Walsh Environmental Services, Inc. (WES). WES is contracted to fulfill the required hours of plant on-site time and to perform the basic treatment and maintenance checks. WES charges $800 a month or $9,600 annually ($4,800 each for water and wastewater) for operator services, according to its contract. Staff has increased this account by $963 each for water and wastewater to annualize annual operator expenses of $4,800 for water and $4,800 for wastewater.

Staff engineer estimated that the water plant should be mowed approximately eighteen times per year at a charge of $75 per mowing or $1,350 per year. The wastewater plant requires ten mowings per year and should be cut by a bush hog four times a year at a cost of $200 per cut. The engineer recommended $1,550 per year for wastewater plant mowing. Staff has increased this account by $150 for water and decreased the account by $250 for wastewater to reflect annualized mowing expenses.

Finally, staff has increased this account by $1,291 for water and $356 for wastewater to annualize contractual repair and maintenance expenses.

Staff recommends a net increase to this account of $11,553 for water and $11,773 for wastewater.

Rent Expense- (640/740) - The utility recorded $2,292 for water and $3,438 for wastewater in this account during the historical test year. Staff has decreased this account by $619 for water and $929 for wastewater to reclassify a copier lease to Miscellaneous Expense (675/775). During the test year, the utility signed a lease for office space with Heather Burge, a related party. The lease amount is $400 a month; which is less than the rent approved in Order No. PSC-01-1574-PAA-WS, issued July 30, 2001, between related parties, Heather Burge and Laniger. Therefore, staff finds the monthly rent expense to be reasonable and has increased this account by $727 for water and decreased this account by $109 to reflect annualized rent per lease contract of $2,400 ($400 x 12 months x 50%) each for water and wastewater.

Staff recommends a net increase to this account of $108 for water and a net decrease to this account of $1,038 for wastewater.

Transportation Expense- (650/750) - The utility recorded $800 for water and $1,200 for wastewater in this account during the historical test year. Staff has increased this account by $200 for water and reduced this account by $200 for wastewater to reallocate transportation expense based on the customer ratio of 50/50 as discussed in Issue No. 6. Additionally, staff has increased this account by $333 each for water and wastewater to annualize transportation expense. Finally, staff has reduced this account by $733 each for water and wastewater to remove 55% of transportation expense related to nonutility use of the truck as discussed in Issue 6.

Staff recommends a net decrease to this account of $200 for water and $600 for wastewater.

Insurance Expense- (655/755) - The utility recorded $2,126 for water and $3,153 for wastewater in this account during the historical test year. These amounts include auto insurance and property insurance. Staff has reduced this account by $179 each for water and wastewater to remove 55% of auto insurance based on nonutility use of the truck as discussed in Issue 6. Staff has decreased this account by $697 for water and $1,724 for wastewater to reflect annualized property and truck insurance expense. The utility provided an estimate for health insurance for its employees

through Pacific Life and Annuity Company of $250 per month for each employee. Staff has increased this account by $3,000 each ($250 x 2 employees x 12 months x 50%) for water and wastewater to include pro forma health insurance for two employees. Keith Burge receives health insurance through his employment with Laniger; therefore, $0 was included for Mr. Burge in this case. The utility should provide staff with a signed contract with a health insurance company with proof of the initiation of a health insurance plan within 90 days of the effective date of the Commission Order. The recommended annual insurance expense is: property insurance - $2,207; truck insurance - $293; and health insurance - $3,000.

Staff recommends a net increase to this account of $2,124 for water and $1,097 for wastewater.

Regulatory Commission Expense-(665/765) - The utility recorded $1,153 for water and $1,070 for wastewater in this account for the historical test year. These amounts are Regulatory Assessment Fees (RAFs) and rate case expense. Staff has reduced this account by $153 for water and $70 for wastewater to remove RAFs from this account and reclassify them as taxes other than income. The utility is required by Rule 25-30.475(1)(a), Florida Administrative Code, to mail notices of any rate increase to its customers. Staff has increased this account by $22 each for water and wastewater to include notice expense amortized over four years ($173/4 years x 50%). The utility paid a $1,000 rate case filing fee for water and wastewater each. This expense has been decreased by $750 ($1,000/4 years - $1,000) for water and wastewater each to amortize rate case expense over four years. The annual rate case expense is $272 per system ($250 + $22).

Staff recommends a net decrease to this account of $881 for water and $798 for wastewater.

Miscellaneous Expense-(675/775) - The utility recorded $11,576 for water and $17,125 for wastewater in this account for the historical test year. Staff has increased this account by reclassifying copier rent, $619 for water and $929 for wastewater, from Account Nos. 640 and 740 respectively. Staff has decreased this account by $119 for water and $178 for wastewater to reclassify postage to Account Nos. 620/720. Staff has decreased this account by $9,224 for water and $13,836 for wastewater to reclassify acquisition costs to Account Nos. 114/114, Acquisition Adjustments.

The bank charges the utility $27 for each overdraft. During the test year, the utility was charged for overdrafts on twenty five occasions. This is an avoidable expense and ratepayers should not have to pay these penalties. Therefore, staff has reduced this account by $270 for water and $405 for wastewater to remove bank return check charges. Staff has increased this account by $49 for water and $51 for wastewater to expense items below the capitalization threshold as discussed in Issue 6.

The utility has included expenses for a cell phone in this account. Staff believes that the cell phone is used for Burkim and Laniger business and for personal use. As discussed in Issue No. 6, Mr. Burge has a truck that is used for Burkim and Laniger business and for personal use. Staff believes that the same usage ratios that apply to the truck should apply to the cell phone. Therefore, staff has decreased this account by $527 for water and $709 for wastewater to remove 55% cell phone expense not associated with Burkim. Per Audit Disclosure No. 7, staff has increased this account by $236 each for water and wastewater to include pro forma trash collection. Staff has also increased this account by $472 for water and decreased this account by $472 for wastewater to reallocate miscellaneous expense based on the customer ratio of 50/50 as discussed in Issue No. 6. Staff has increased this account by $1,233 for water and $796 for wastewater to reflect annualized miscellaneous expense.

Staff recommends a net decrease to this account of $7,531 for water and $13,588 for wastewater. The total annual expense for this account is $4,045 for water and $3,537 for wastewater.

Operation and Maintenance Expense (O&M Summary) - The total O&M adjustment is an increase of $8,392 for water and $2,696 for wastewater. Staff's recommended O&M expenses are $74,682 for water and $82,237 for wastewater. O&M expenses are shown on Schedules 3-D and 3-E.

Depreciation Expense - The utility recorded depreciation expense of $0 for water and wastewater and amortization of CIAC of $0 for water and wastewater during the historical test year. Depreciation expense has been calculated by staff using the prescribed rates in Rule 25-30.140, Florida Administrative Code. Staff has increased depreciation expense by $23,170 for water and $24,195 for wastewater to reflect staff's calculated depreciation. Staff has decreased this account by $1,289 for water and wastewater each to

remove depreciation expense associated with 55% of non-utility use of the truck. Staff has reduced this account by $211 for wastewater to reflect non-used and useful depreciation. Staff has further reduced depreciation expense by $7,537 for water and $6,388 for wastewater to reflect staff's calculated amortization of CIAC. Amortization of CIAC and non-used and useful depreciation have a negative impact on depreciation expense. Net depreciation expense is $14,344 for water and $16,307 for wastewater.

Amortization - The utility recorded amortization of the acquisition adjustment of $0 for water and wastewater during the historical test year. Based on staff's recommendation to approve a negative acquisition adjustment in Issue No. 5, staff has decreased this account by $2,087 for water and by $1,415 for wastewater. In addition, staff has increased wastewater amortization by $368 for the non-used and useful portion of the acquisition adjustment, also discussed in Issue No. 5. Amortization of a negative acquisition adjustment has a negative impact on amortization expense.

Taxes Other Than Income - The utility recorded taxes other than income of $3,612 for water and $3,157 for wastewater during the historical test year. Staff has reallocated $153 for water and $70 for wastewater from regulatory expenses to this account to reflect RAFs paid during the test year. This account has been increased by $2,434 for water and $1,274 for wastewater to reflect RAFs on annualized revenue. Further, this account has been increased by $933 for water and $933 for wastewater to reflect payroll taxes associated with the recommended utility salaries expense.

Staff has decreased this account by $109 for water and increased this account by $503 for wastewater to annualize property taxes. The total adjustment for this expense is an increase of $3,411 for water and $2,780 for wastewater.

Income Tax - The utility recorded income tax of $0 for water and wastewater. Burkim is an 1120 C corporation and an income tax liability is anticipated in the future. Income tax has been calculated based on staff's recommended return on equity times the appropriate composite tax rate. Staff has increased this account by $854 for water and $611 for wastewater to reflect staff calculated income taxes.

Operating Revenues - Revenues have been increased by $24,222 for water and by $64,305 for wastewater to reflect the change in

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

Taxes Other Than Income - This expense has been increased by $1,090 for water and $2,894 for wastewater to reflect regulatory assessment fees of 4.5% on the change in revenues.

Operating Expenses Summary - The application of staff's recommended adjustments to the audited test year operating expenses results in staff's calculated operating expenses of $95,905 for water and $106,938 for wastewater.

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

REVENUE REQUIREMENT

ISSUE 10: What is the appropriate revenue requirement?

RECOMMENDATION: The appropriate revenue requirement is $114,225 for water and $120,047 for wastewater. (FITCH, MERTA)

STAFF ANALYSIS: The utility should be allowed an annual increase of $24,222 (26.91%) for water and $64,305 (115.36%) for wastewater. This will allow the utility the opportunity to recover its expenses and earn a 9.84% return on its investment. The calculations are as follows:

	Water	Wastewater
Adjusted rate base	$186,184	$133,218
Rate of Return	x .0984	x .0984
Return on investment	$18,321	$13,109
Adjusted O & M expense	$74,682	$82,237
Depreciation expense (Net)	$14,344	$16,307
Amortization	($2,087)	($1,047)
Taxes Other Than Income	$8,113	$8,831
Income Taxes	$854	$611
Revenue Requirement	$114,225	$120,047
Adjusted Test Year Revenues	$90,003	$55,742
Percent Increase/(Decrease)	26.91%	115.36%

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

ISSUE 11: Is a continuation of the utility's current rate structure for its water system appropriate in this case, and, if not, what is the appropriate rate structure?

RECOMMENDATION: No, a continuation of the utility's current rate structure for its water system is not appropriate in this case. A conservation adjustment of 15% should be implemented. In addition, the rate structure should be changed to a two-tier inclining-block rate structure, with recommended usage blocks of 0-10,000 gallons (10 kgal) and over 10 kgal. The recommended usage block rate factor for the second block is 1.50. (LINGO)

STAFF ANALYSIS: The utility's current water system rate structure consists of a traditional monthly base facility charge (BFC)/gallonage charge rate structure, in which the BFC is $9.92, and all gallons used are charged $1.73 per kgal. This is the Commission's preferred rate structure, because it is a usage sensitive rate structure which allows customers to reduce their total bill by reducing their water consumption.

Burkim is located in Brevard County, within the South Florida Water Management District (SFWMD or District). The District has asked that, whenever possible, the Commission implement inclining-block rate structures for water utilities located within the District. The goal of the inclining-block rate structure is to reduce average demand. Under this rate structure, it is anticipated that demand in the higher usage block(s) will be more elastic (responsive to price) than demand in the first block. Water users with low monthly usage will benefit, while water users with higher monthly use will pay increasingly higher rates, thereby creating a greater incentive to conserve. Several factors to consider when designing inclining-block rates include, but are not limited to, the selection of the appropriate: a) conservation adjustment; b) usage blocks; and c) usage block rate factors. Consideration of other rate structure issues, such as a target usage established by environmental regulators, elasticity of demand and revenue stability will also have an impact on how each of the components in the inclining-block rate structure should be designed.

Staff analyzed the rate structure to determine whether to make it more conservation-oriented. A discussion of our analysis follows.

Conservation Adjustment

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

Based upon initial accounting allocations, the utility recovers approximately 47% of the revenue requirement from the BFC, and the remaining 53% from the gallonage charge. Staff ran several iterations of the conservation adjustment calculation and determined that a 15% conservation adjustment is necessary to achieve a BFC recovery rate of 40%. Further analysis is contained in the table below.

PRELIMINARY PRICE INCREASES AT VARIOUS CONSERVATION ADJUSTMENTS

	Conservation Adjustment Percentages	
Monthly Consumption	**0%**	**15%**
0 kgal	2.3%	-13.0%
1 kgal	11.6%	1.7%
2 kgal	18.5%	12.6%
3 kgal	23.8%	21.0%
4 kgal	28.0%	27.7%
5 kgal	31.4%	33.2%
10 kgal	42.0%	50.0%
20 kgal	50.8%	64.0%

30 kgal	54.7%	70.2%
50 kgal	58.3%	75.9%

As shown above, the 15% conservation adjustment accomplishes several rate design goals: a) it minimizes the price increases for monthly consumption at less than 5 kgal; b) the preliminary price increase at the system-wide average monthly consumption per customer level of 4 kgal is approximately equal to the overall revenue requirement percentage increase; c) it maximizes the price increases for monthly usage at levels greater than the system-wide average monthly consumption level; and d) it results in a 40% BFC and 60% gallonage charge revenue recovery allocation, which meets the generally accepted conservation rate structure criteria of the various Water Management Districts. Therefore, staff recommends that a 15% conservation adjustment is appropriate.

Usage Blocks and
Usage Block Rate Factors

It is Commission practice to consider revenue stability as the primary criteria when designing the first usage block. Based on Commission practice, the first usage block should capture at least 50 percent of total gallons sold, thereby mitigating somewhat the revenue stability concerns. Based on consumption patterns of other utilities which have been subject to an inclining-block rate structure, this has resulted in the first usage block typically being set at or near the 10 kgal consumption level.

Although staff's analysis of customers' consumption patterns revealed that approximately 75 percent of customers have bills at monthly usage of 5 kgal or below, staff believes that a usage block capped at 10 kgal is more appropriate. Approximately 90% of customers' bills and consumption is captured in this block, with the corresponding average consumption per customer a low 3.0 kgal per month. These usage patterns indicate very little excessive use. In addition, almost 25% of the bills are captured at 1 kgal or less, indicating seasonality among the customer base. Therefore, staff recommends that the first usage block be capped at 10 kgal.

When considering whether additional usage blocks are necessary, staff considered the following consumption patterns of the utility's customers:

Kgal per Month	% Cum Bills	% Consol Factor
10	92%	89%
15	97%	95%
20	99%	98%

Because so few bills and gallons (approximately 10%) are captured at usage above 10 kgal, we believe it is unnecessary to create additional usage blocks. Therefore, we recommend that the first usage block be for monthly usage of 0-10 kgal, and the second block be for monthly usage in excess of 10 kgal. Finally, the small percentage of gallons over 10 kgal and the low system-wide average consumption per customer would ordinarily lead staff to recommend a nominal usage block rate factor for the second usage block of 1.25. However, due to the average monthly consumption per customer disparity between those using less than 10 kgal (at a 3.0 kgal average) versus those using greater than 10 kgal (at a 15.4 kgal average), we believe it is appropriate to recommend a more aggressive rate factor of 1.5 for the second usage block.

Therefore, a continuation of the utility's current rate structure for its water system is not appropriate in this case. A conservation adjustment of 15% should be implemented. In addition, the rate structure should be changed to a two-tier inclining-block rate structure, with recommended usage blocks of 0-10,000 gallons (10 kgal) and over 10 kgal. The recommended usage block rate factor for the second block is 1.50.

ISSUE 12: Is an adjustment to reflect repression of residential consumption appropriate due to the change in rate structure and price increase in this case, and, if so, what is the appropriate repression adjustment?

RECOMMENDATION: Yes, a repression adjustment of 601 kgal to residential water consumption and a corresponding adjustment of 481 kgal to residential wastewater consumption is appropriate. In order to monitor the effects of both the change in rate structure and the recommended revenue increase, the utility should be ordered to prepare monthly reports detailing the number of bills rendered, the consumption billed and the revenue billed. These reports should be provided, by customer class and meter size, on a quarterly basis for a period of two years, beginning with the first billing period after the increased rates go into effect. (LINGO)

STAFF ANALYSIS: Based on information contained in our database of utilities receiving rate increases and decreases, there were seven water utilities which experienced similar price increases, as well as similar prior consumption and prior prices. On average, these utilities experienced an approximate 29% price increase while experiencing an approximate 9.5% reduction (repression) in average monthly consumption. The average prior price and average annual consumption per customer figures for these utilities were $11.94 and 3.561 kgal, respectively. These figures compare favorably with Burkim's corresponding figures of $15.12 and 2.998 kgal, respectively.

Because of this comparability, staff initially assumed a proportional relationship between price increase and consumption reduction. Based on Burkim's preliminary average price increase of 53.5%, staff formulated the following equation:

$$\frac{\text{Avg price incr of 7 utilities of 28.9\%}}{\text{Avg consump decr of 7 utilities of 9.5\%}} = \frac{\text{Burkim's avg price incr of 23.7\%}}{X}$$

Solving for x yields an anticipated repression adjustment for Burkim of approximately 7%.

However, staff does not believe a 7% consumption reduction is appropriate in this case. Average monthly consumption in the first usage block of 3 kgal is equal to the minimum subsistence consumption levels established by the World Health Organization of 50 gallons per person per day (50 gallons per day x 2 persons x 30 days = 3 kgal). Therefore, regardless of the magnitude of the

price increase, we do not believe that significant repression can be sustained at average monthly consumption levels less than 3 kgal.

However, staff notes that average consumption per customer is approximately 6.9 kgal for customers using between 5 kgal and 10 kgal per month. Therefore, staff applied the 7% adjustment to those gallons captured in the 5 kgal to 10 kgal usage range. This results in an overall repression adjustment for the first usage block of 258 kgal.

An examination of our database revealed no sufficiently similar utilities upon which staff could base a recommended repression adjustment for monthly usage levels above 10 kgal. Absent any comparable utilities, staff assumed the following relationship:

$$\frac{\text{Avg price incr of all utilities of 33.3\%}}{\text{Avg consump decr of all utilities of 7.0\%}} = \frac{\text{Burkim's avg price incr of 74.5\%}}{X}$$

Solving for X, the anticipated repression in the second usage block is 15.7%, resulting in an adjustment of 343 kgal. Based on the average monthly consumption per customer in the second usage block of 15.4 kgal, staff believes this adjustment is reasonable.

Therefore, the overall repression adjustment to the water system is 601 kgal, with a corresponding adjustment of 481 kgal to the wastewater system. In order to monitor the effects of both the changes in rate structure and the recommended revenue increases, the utility should be ordered to prepare monthly reports detailing the number of bills rendered, the consumption billed and the revenue billed. These reports should be provided, by customer class and meter size, on a quarterly basis for a period of two years, beginning with the first billing period after the increased rates go into effect.

ISSUE 13: What are the appropriate rates for each system?

PRELIMINARY RECOMMENDATION: The recommended rates should be designed to produce revenue of $111,412 for water and $108,167 for wastewater, as shown in the staff analysis. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), Florida Administrative Code. The rates should not be implemented until notice has been received by the customers. The utility should provide proof of the date notice was given within 10 days after the date of the notice. (FITCH, MERTA, LINGO)

STAFF ANALYSIS: During the historical test year the utility provided service to approximately 364 water customers and 364 wastewater customers. The service area includes Snug Harbor Village and Snug Harbor Lakes in Brevard County. The utility also serves three general service customers.

As discussed in Issue No. 10, the appropriate revenue requirement, excluding miscellaneous service charges, is $114,225 for the water system and $120,047 for the wastewater system. However, for rate setting purposes, the revenue requirement is $111,412 for water and $108,167 for wastewater. As discussed in Issue No. 8, the utility has other revenues of $2,813 for water and $11,880 for wastewater. Other revenues should be used to reduce the revenue requirement recovered through rates; therefore, staff has designed rates to produce the revenue requirement not covered by the Other Revenues.

As discussed in Issue No. 11, staff recommends that the water system rate structure be changed to a two-tier inclining-block rate structure, with monthly usage blocks of 0-10 kgal and over 10 kgal. As also discussed in Issue No. 11, staff recommends that the rate factor for the second usage block be 1.5, and that a 15% conservation adjustment be implemented. As discussed in Issue No. 12, staff recommends that the appropriate repression adjustment for the water system is 1,061 kgal, and that the corresponding repression adjustment for the wastewater system is 849 kgal.

Staff has calculated rates using two year projected number of bills and consumption as well as the repression adjustment discussed above for water. Staff's calculated rates for wastewater have been calculated based on 80% of the water used by residential customers less a repression adjustment and actual usage for the

general service customers. Schedules of the rates and rate structure in effect at the end of the test year, the utility's interim rates and rate structure, and staff's recommended rates and rate structure are as follows:

Monthly Rates - Water

Residential and General Service

Base Facility Charge Meter Sizes	Test Year Rates	Interim Rates	Staff's Recommended Rates
5/8" x 3/4"	$9.92	N/A	$8.47
3/4"	$14.88	N/A	$12.71
1"	$24.81	N/A	$21.18
1 ½"	$49.62	N/A	$42.35
2"	$79.38	N/A	$67.76
3"	$158.76	N/A	$135.52
4"	$248.06	N/A	$211.75
6"	$496.12	N/A	$423.50
Gallonage Charge (Per 1,000 Gallons)			
0-10,000 Gallons	$1.73	N/A	$3.15
Above 10,000 Gallons	$1.73	N/A	$4.73
General Service Only	$1.73	N/A	$3.29

Monthly Rates - Wastewater

RESIDENTIAL

	Test Year Rates	Interim Rates	Staff's Recommended Rates
Base Facility Charge Meter Size: All Meter Sizes	$3.54	$7.42	$11.17
Gallonage Charge Per 1,000 Gallons (6,000 gallon cap)	$1.62	$3.40	$3.31

Monthly Rates - Wastewater

GENERAL SERVICE

	Test Year	Interim Rates	Staff's Recommended Rates
Base Facility Charge			
Meter Sizes			
5/8" x 3/4"	$3.54	$7.42	$11.17
3/4"	$5.32	$11.16	$16.75
1"	$8.85	$18.56	$27.92
1 ½"	$17.72	$37.16	$55.83
2"	$28.34	$59.43	$89.34
3"	$56.66	$118.68	$178.67
4"	$88.55	$183.68	$279.17
6"	$177.10	$371.36	$558.35
Gallonage Charge			
Per 1,000 Gallons	$1.95	$4.09	$3.97

Approximately 2% ($2,813) of the water and 10% ($11,880) of the wastewater revenue requirement is recovered with Other Revenues. Approximately 39% ($44,281) of the water and 48% ($57,286) of the wastewater system revenue requirement is recovered through the recommended base facility charge. The fixed costs are recovered through the BFC based on the number of factored ERCs. The remaining 59% ($67,131) for water and 42% ($50,881) for wastewater of the revenue requirement represents revenues collected through the consumption charge based on the number of factored gallons.

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

If the effective date of the new rates falls within a regular billing cycle, the initial bills at the new rate may be prorated.

The old charge shall be prorated based on the number of days in the billing cycle before the effective date of the new rates. The new charge shall be prorated based on the number of days in the billing cycle on and after the effective date of the new rates. In no event shall the rates be effective for service rendered prior to the stamped approval date.

ISSUE 14: What is the appropriate amount by which rates should be reduced four years after the established effective date to reflect the removal of the amortized rate case expense as required by Section 367.0816, Florida Statutes?

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

STAFF ANALYSIS: Section 367.0816, Florida Statutes requires that the rates be reduced immediately following the expiration of the four year period by the amount of the rate case expense previously included in the rates. The reduction will reflect the removal of revenues associated with the amortization of rate case expense and the gross-up for regulatory assessment fees which is $285 annually for water and $285 annually for wastewater. Using the utility's current revenues, expenses, capital structure and customer base the reduction in revenues will result in the rate decreases as shown on Schedules Nos. 4 and 4A.

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

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

ISSUE 15: Should the utility be authorized to collect service availability charges, and if so, what are the appropriate charges?

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

STAFF ANALYSIS: In Order No. PSC-93-0011-FOF-WS, issued January 5, 1993, in Docket No. 920397-WS, the Commission discontinued the utility's service availability charges for the previous utility, CGD. In that order, the Commission found that, if the utility continued to collect service availability charges, the utility would have a negative plant balance at designed capacity.

Staff believes that, if the original negative acquisition adjustment were to remain on the utility's books, continuing to collect service availability charges would result in a negative plant balance at designed capacity. However, in Issue No. 6 staff has recommended removing the original negative acquisition adjustment. Staff believes that the utility would not have a negative plant balance at designed capacity if the original negative acquisition adjustment is removed. Further, removing the original negative acquisition adjustment results in the utility being under contributed. Therefore, staff believes that service availability charges should be reinstated so that the utility can meet the contribution guidelines as described in Rule 25-30.580, Florida Administrative Code, which states in part that:

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

such facilities and plant that is represented by the water transmission and distribution and sewage collection systems.

The utility's current contribution level is 27.39% for water and 29.90% for wastewater. The utility's water and wastewater facilities can accommodate additional connections. Therefore, staff has calculated service availability charges for water and wastewater based on existing capacity.

Staff's calculated charges will not cause the utility to exceed the 75% maximum contribution level. Currently both the contributed amounts for water and wastewater are less than the minimum contribution level (64.56% for water and 72.75% for wastewater). Staff has designed the service availability charges to exceed the minimum level of CIAC and approach the maximum level of CIAC at designed capacity as outlined in Rule 25-30.580, Florida Administrative Code. Staff has allocated the service availability charges between a plant capacity charge and a main extension charge based on the ratio of transmission & distribution lines and collection lines to plant. Staff has also calculated a meter installation charge of $100 based on cost justification provided by the utility.

A schedule of the staff's recommended charges is as follows:

Water

Plant Capacity Charge	Recommended Charge
Residential-Per Unit (132 GPD)	$281.00
All Others-Per Gallon	$2.13

Main Extension Charge	Recommended Charge
Residential-Per Unit (132 GPD)	$901.00
All Others-Per Gallon	$6.83

Meter Installation Charge	Recommended Charge
5/8" x 3/4"	$100.00
All Over 5/8" x 3/4"	Actual Cost

Wastewater

Plant Capacity Charge	Preliminary Charge
Residential-Per Unit (83 GPD)	$92.00
All Others-Per Gallon	$1.11

Main Extension Charge	Preliminary Charge
Residential-Per Unit (83 GPD)	$317.00
All Others-Per Gallon	$3.82

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

ISSUE 16: What are the appropriate customer deposits for this utility?

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

STAFF ANALYSIS: Rule 25-30.311, Florida Administrative Code, provides guidelines for collecting, administering and refunding customer deposits. It also authorizes customer deposits to be calculated using an average monthly bill for a 2-month period. The utility's existing tariff authorizes the utility to collect a $15 customer deposit for water and wastewater. This amount will not provide an average bill for a 2-month period based on staff's recommended rates in Issue No. 13. Therefore, staff has calculated customer deposits using recommended rates and an average monthly bill for a 2-month period. A schedule of the utility's existing and staff's recommended deposits follows:

Water

Residential and General Service

Meter Size	Existing Deposit	Staff's Recommended Deposit
5/8" x 3/4"	$15.00	$43.00
All over 5/8" x 3/4"	N/A	2 x Average Bill
1"	$25.00	N/A
1 1/2"	$40.00	N/A
2" and over	$60.00	N/A

Wastewater

Residential

Meter Size	Existing Deposit	Staff's Recommended Deposit
5/8" x 3/4"	$15.00	$42.00
All over 5/8" x 3/4"	N/A	2 X Average Bill

Wastewater

General Service

Meter Size	Existing Deposit	Staff's Recommended Deposit
5/8" x 3/4"	$15.00	$46.00
All over 5/8" x 3/4"	N/A	2 X Average Bill
1"	$25.00	N/A
1 1/2"	$40.00	N/A
2" and over	$60.00	N/A

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

ISSUE 17: What are the appropriate private fire protection rates for this utility?

RECOMMENDATION: The private fire protection tariffed rates should be calculated and set equivalent to one-twelfth of the tariffed base facility charges in accordance with Rule 25-30.465, Florida Administrative Code. The tariff should become effective for service rendered on or after the stamped approval date on the tariff sheets, pursuant to Rule 25-30.475(1), Florida Administrative Code, provided the customers have received notice. (FITCH, MERTA)

STAFF ANALYSIS: Private fire protection service has not been historically utilized by Burkim's customers. However, Burkim's current tariffs include private fire protection rates. Staff believes that it is appropriate to change these rates in accordance with Rule 25-30.465, Florida Administrative Code, and to ensure the availability of private fire protection rates if such service is requested in the service area.

Rule 25-30.465, Florida Administrative Code, states that:

> The rate for private fire protection service shall be a charge based on the size of the connection rather than the number of fixtures connected. The rate shall be one-twelfth the current base facility charge of the utility's meter sizes, unless otherwise supported by the utility.

The private fire protection tariffed rates should be calculated and set equivalent to one-twelfth of the tariffed general service base facility charges in accordance with Rule 25-30.465, Florida Administrative Code. The tariff should become effective for service rendered on or after the stamped approval date on the tariff sheets, pursuant to Rule 25-30.475(1), Florida Administrative Code, provided the customers have received notice.

ISSUE 18: What is the appropriate amount of the interim refund, if any?

RECOMMENDATION: The proper refund amount should be calculated by using the same data used to establish final rates, excluding rate case expense and UPIS and operating expenses not incurred during the interim period. This revised revenue requirement for the interim collection period should be compared to the amount of interim revenues granted. Based on this calculation, the utility should not be required to refund wastewater revenues collected under interim rates, and the escrow account should be released. (FITCH, MERTA)

STAFF ANALYSIS: In Order No. PSC-01-1654-FOF-WS, issued on August 13, 2001, interim wastewater rates were approved subject to refund, pursuant to Section 367.0814(4), Florida Statutes. The approved interim revenue from rates is shown below:

Wastewater	Revenues	Increase	Percentage
	$96,816	$50,646	109.69%

This is the first time interim rates have been requested and granted under Section 367.0814(4), Florida Statutes. This statute restricts the calculation of interim rates to O&M expenses. Staff believes this is a conservative approach that takes into consideration the nature of a SARC. Unlike other rate cases, the utility does not file MFRs for a SARC. The utility fills out a SARC application which includes data for the previous calendar year or annual report. Often this information is inaccurate due to poor record keeping and/or a lack of accounting knowledge. In order to bring an interim rate request before the Commission in a timely manner, staff must rely on the utility's unaudited application and annual report for the calculation of interim rates.

Section 367.0814(4), Florida Statutes, is silent on the issue of refunding of interim rates. Staff has evaluated the interim rates, using audited data, to determine if the rates are just, fair, and reasonable. Staff has relied on Section 367.082, Florida Statutes, to determine the appropriate amount for refunds, if any.

According to Section 367.082, Florida Statutes, any refund should be calculated to reduce the rate of return of the utility during the pendency of the proceeding to the same level within the

range of the newly authorized rate of return. Adjustments made in the rate case test period that do not relate to the period interim rates are in effect should be removed. Examples of these adjustments would be pro forma plant not placed in service during the interim period or rate case expense, which are recovered only after final rates are established.

In this proceeding, the period which interim rates were in effect is September 6, 2001 to December 4, 2001. The approved interim rates did not include any provisions for consideration of staff proposed adjustments in operating and maintenance expenses or an allowance for return on rate base or other operating expenses.

To establish the proper refund amount, staff has calculated a revised interim revenue requirement utilizing the same data used to establish final rates. Rate case expense was excluded because it was not an actual expense during the interim collection period. Pro forma plant and expenses not implemented or incurred during the interim period have also been removed.

Using the principles discussed above, staff has calculated the interim revenue requirement from rates for the interim collection period to be $96,986 for wastewater. This revenue level is greater than the interim revenue which was granted in Order No. PSC-01-1654-FOF-WS, issued on August 13, 2001. Therefore, staff recommends that a refund of interim rates should not be approved.

The refund has been calculated by using the same data used to establish final rates, excluding rate case expense and UPIS and operating expenses not incurred during the interim period. This revised revenue requirement for the interim collection period has been compared to the amount of interim revenues granted. Based on this calculation, the utility should not be required to refund wastewater revenues collected under interim rates, and the escrow account should be released.

ISSUE 19: Should the recommended rates be approved for the utility on a temporary basis, subject to refund, in the event of a protest filed by a party other than the utility?

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

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

The utility should be authorized to collect the temporary rates upon the staff's approval of an appropriate security for both the potential refund and a copy of the proposed customer notice. The security should be in the form of a bond or letter of credit in the amount of $59,980. Alternatively, the utility could establish an escrow agreement with an independent financial institution.

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

1) The Commission approves the rate increase; or

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

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

1) The letter of credit is irrevocable for the period it is in effect.

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

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

1) No refunds in the escrow account may be withdrawn by the utility without express approval of the Commission.

2) The escrow account shall be an interest bearing account.

3) If a refund to the customers is required, all interest earned by the escrow account shall be distributed to the customers.

4) If a refund to the customers is not required, the interest earned by the escrow account shall revert to the utility.

5) All information on the escrow account shall be available from the holder of the escrow account to a Commission representative at all times.

6) The amount of revenue subject to refund shall be deposited in the escrow account within seven days of receipt.

7) This escrow account is established by the direction of the Florida Public Service Commission for the purpose(s) set forth in its

order requiring such account. Pursuant to Cosentino v. Elson, 263 So. 2d 253 (Fla. 3d DCA 1972), escrow accounts are not subject to garnishments.

8) The Director of Commission Clerk and Administrative Services must be a signatory to the escrow agreement.

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

In no instance should the maintenance and administrative costs associated with the refund be borne by the customers. These costs are the responsibility of, and should be borne by, the utility. Irrespective of the form of security chosen by the utility, an account of all monies received as result of the rate increase should be maintained by the utility. If a refund is ultimately required, it should be paid with interest calculated pursuant to Rule 25-30.360(4), Florida Administrative Code. The utility should maintain a record of the amount of the bond, and the amount of revenues that are subject to refund. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(7), Florida Administrative Code, the utility should file reports with the Division of Commission Clerk and Administrative Services no later than 20 days after each monthly billing. These reports should indicate the amount of revenue collected under the increased rates subject to refund.

ISSUE 20: Should Burkim Enterprises, Inc. be ordered to show cause, in writing, within 21 days, why it should not be fined for collecting charges not approved by the Commission, in apparent violation of Sections 367.081(1), and 367.091(3), Florida Statutes?

RECOMMENDATION: No, show cause proceedings should not be initiated at this time. The utility should be put on notice that pursuant to Sections 367.081(1) and 367.091(3), Florida Statutes, it may only charge rates and charges approved by the Commission. (ESPINOZA, FITCH, MERTA)

STAFF ANALYSIS: Section 367.081(1), Florida Statutes, provides that a utility may only charge rates and charges that have been approved by the Commission. Section 367.091(3), Florida Statutes provides that "each utility's rates, charges, and customer service policies must be contained in a tariff approved by and on file with the Commission". It appears that Burkim violated these statutes.

As stated previously, the Commission approved the transfer from CGD to Burkim in Order No. PSC-01-1628-FOF-WS, issued August 8, 2001, in Docket No. 001501-WS. Prior to the transfer, the rate base for this utility was last established pursuant to CGD's staff-assisted rate case in Order No. PSC-93-0011-FOF-WS, issued January 5, 1993, in Docket No. 920397-WS. Pursuant to that order, the utility was ordered to discontinue all collection of service availability charges. However, Audit Exception No. 9 states that subsequent to the date of the order and through December 31, 1996, CGD collected water and wastewater connection fees from the developer in the amount of $15,021 and $13,519, respectively. The fees collected were recorded as CIAC. In addition, Burkim collected water and wastewater CIAC from the developer in the amount of $6,400 and $3,100, respectively. This collection of CIAC that was collected from the developers was unauthorized, and thus was an apparent violation of Sections 367.081(1) and 367.091(3), Florida Statutes.

Section 367.161, Florida Statutes, authorizes the Commission to assess a penalty of not more than $5,000 per day for each offense, if a utility is found to have knowingly refused to comply with, or to have willfully violated any Commission rule, order, or provision of Chapter 367, Florida Statutes. Utilities are charged with the knowledge of the Commission's rules and statutes. 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).

Thus, any intentional act, such as the utility's collection of charges not approved by the Commission would meet the standard for a "willful violation." 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., Order No. 24306, issued April 1, 1991, in Docket No. 890216-TL, the Commission having found that the company had not intended to violate the rule, nevertheless found it appropriate to order it to show cause why it should not be fined, stating that "'willful' implies an intent to do an act, and this is distinct from an intent to violate a statute or rule." Id. at 6.

Although regulated utilities are charged with knowledge of the Commission's rules and statutes, staff does not believe that Burkim's apparent violation of Sections 367.081(1) and 367.091(3), Florida Statutes, rises in these circumstances to the level which warrants the initiation of a show cause proceeding.

The CIAC collected is a reduction to the utility's investment and therefore a benefit to the customers. In addition, the utility is not over contributed and staff is recommending that service availability charges by reinstituted in Issue No. 15. Further, in Order No. PSC-00-1676-PAA-SU, issued September 19, 2000, in Docket No. 000715-SU, the Commission allowed North Peninsula Utilities Corporation to keep unauthorized CIAC collections from the developer, which benefitted the customers. In Issue No. 6, staff is also recommending that the utility keep the unauthorized CIAC collected from the developer.

For the foregoing reasons, staff does not believe that the utility's apparent violation of Sections 367.081(1) and 367.091(3), Florida Statutes rises in these circumstances to warrant a show cause proceeding. However, the utility should hereby be put on notice that it may only charge rates and charges that have been approved by the Commission.

ISSUE 21: Should this docket be closed?

RECOMMENDATION: No. If no timely protest is received upon expiration of the protest period, the PAA Order will become final upon the issuance of a Consummating Order. However, this docket should remain open for an additional three months from the effective date of the Order to allow staff to verify completion of pro forma plant items as described in Issue No. 6. Once staff has verified that this work has been completed, the docket should be closed administratively. (FITCH, MERTA, ESPINOZA)

STAFF ANALYSIS: Staff has recommended that the utility complete pro forma items described in Issue No. 6. If no timely protest is received upon expiration of the protest period, the PAA Order will become final upon the issuance of a Consummating Order. However, this docket should remain open for an additional three months from the effective date of the Order to verify completion of the pro forma items. Once staff has verified that the work has been completed, the docket should be closed administratively.

BURKIM ENTERPRISES, INC. TEST YEAR ENDING 5/31/03 SCHEDULE OF WATER RATE BASE			SCHEDULE NO. 1-A DOCKET NO. 010396-WS
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	$541,772	$35,904	$577,676
2. CWIP	7,714	($7,714)	0
3. LAND & LAND RIGHTS	0	4,058	4,058
4. NON-USED AND USEFUL COMPONENTS	0	0	0
5. CIAC	(149,596)	(32,330)	(181,926)
6. ACQUISITION ADJUSTMENT	(89,409)	34,280	(55,129)
7. ACCUMULATED DEPRECIATION	(425,689)	167,362	(258,327)
8. AMORTIZATION OF CIAC	125,204	(39,146)	86,058
9. AMORTIZATION OF ACQUISITION ADJ.	47,751	(43,312)	4,439
10. WORKING CAPITAL ALLOWANCE	0	9,335	9,335
11. WATER RATE BASE	$57,747	$128,437	$186,184

BURKIM ENTERPRISES, INC.
TEST YEAR ENDING 5/31/03
SCHEDULE OF WASTEWATER RATE BASE

SCHEDULE NO. 1-B
DOCKET NO. 010396-WS

DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	$607,777	$39,338	$647,115
2. LAND & LAND RIGHTS	0	32,157	32,157
3. NON-USED AND USEFUL COMPONENTS	0	(54)	(54)
4. CIAC	(164,708)	(9,831)	(174,539)
5. ACQUISITION ADJUSTMENT	(225,728)	185,761	(39,967)
6. ACCUMULATED DEPRECIATION	(574,467)	104,846	(469,621)
7. AMORTIZATION OF CIAC	154,250	(29,384)	124,866
8. AMORTIZATION OF ACQUISITION ADJ.	136,008	(133,027)	2,981
9. WORKING CAPITAL ALLOWANCE	0	10,280	10,280
10. WASTEWATER RATE BASE	($66,868)	$200,086	$133,218

BURKIM ENTERPRISES, INC. TEST YEAR ENDING 5/31/03 ADJUSTMENTS TO RATE BASE	SCHEDULE NO. 1-C DOCKET NO. 010396-WS PAGE 1 OF 2	
	WATER	WASTEWATER
UTILITY PLANT IN SERVICE		
1. Reclassify Plant from CWIP	$5,064	$0
2. Reallocate Truck 50/50 Water/Wastewater	2,759	(2,759)
3. Remove 55% Non utility Use of Truck	(7,735)	(7,735)
4. Unrecorded Plant	441	0
5. Remove Undocumented Plant	(5,700)	(439)
6. Remove Computer Not Transferred to Burkim	(1,437)	(1,437)
7. Remove Painting Expense	(7,173)	0
8. Remove Items Below Capitalization	(49)	(51)
9. Retirements	(2,500)	0
10. Averaging Adjustment	(237)	0
11. Projected test year additions (Includes $2,650 from CWIP)	100,906	51,759
12. Insurance payment for the Hydro. Tank	(17,318)	0
13. Projected test year Retirements	(31,117)	0
Total	$35,904	$39,338
CWIP		
1. Reclassify CWIP as Pro Forma (Hydro Tank)	($2,650)	$0
2. Reclassify CWIP to Acct. No. 334 and 330	(5,064)	0
Total	($7,714)	$0
LAND		
1. Land Value Determined by Staff Auditor Engineer	$4,058	$32,157
NON-USED AND USEFUL PLANT		
1. To reflect non-used and useful plant.	$0	($44,616)
2. To reflect non-used and useful accumulated depreciation.	0	42,073
3. To reflect non-used and useful acquisition adjustment.	0	2,756
4. To reflect non-used and useful amort of acq adjustment.	0	(267)
Total	$0	($54)
CIAC		
1. Reclassify CIAC From Wastewater to Match Prior Order	($1,007)	$1,007
2. Projected CIAC	($48,462)	($16,769)
3. Averaging Adjustment	17,139	5,931
Total	($32,330)	($9,831)
ACQUISITION ADJUSTMENT		
1. Remove Previous Acquisition Adjustment	$89,409	$225,728
2. Include new acquisition adjustment	(55,129)	(39,967)
Total	$34,280	$185,761

BURKIM ENTERPRISES, INC. TEST YEAR ENDING 5/31/03 ADJUSTMENTS TO RATE BASE	SCHEDULE NO. 1-C DOCKET NO. 010396-WS PAGE 2 OF 2	
	WATER	WASTEWATER
ACCUMULATED DEPRECIATION		
1. Recalc. Depreciation from previous order	$192,387	$216,113
2. Depreciation Adjustment Per Rule 25-30.140 FAC	($27,151)	($79,105)
3. Retirements	$2,500	$0
4. Remove 55% of Truck Accm. Depreciation	$645	$645
5. Projected test year Depreciation	(42,359)	(44,260)
6. Projected test year Retirements	31,117	0
7. Averaging Adjustment	10,223	11,453
Total	$167,362	$104,846
AMORTIZATION OF CIAC		
1. Recalc. Amortization from previous order	($70,158)	($44,268)
2. To adjust Amortization of CIAC based on composite rates	$21,974	$6,312
3. Amortization for projected test year	12,480	11,661
4. Averaging Adjustment	(3,442)	(3,089)
Total	($39,146)	($29,384)
AMORTIZATION OF ACQUISITION ADJUSTMENT		
1. Remove Amortization of previous Acquisition Adjustment	($47,751)	($136,008)
2. Include recommended amortization of acquisition adjustment	$5,482	$3,688
3. Averaging Adjustment	(1,043)	(707)
Total	($43,312)	($133,027)
WORKING CAPITAL ALLOWANCE		
1. To reflect 1/8 of test year O & M expenses.	$9,335	$10,280

BURKIM ENTERPRISES, INC.
TEST YEAR ENDING 5/31/03
SCHEDULE OF CAPITAL STRUCTURE

SCHEDULE NO. 2
DOCKET NO. 010396-WS

CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUST-MENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUST-MENTS	BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST
1. COMMON STOCK	$1,000	$0	$1,000					
2. RETAINED EARNINGS	(39,121)	0	(39,121)					
3. PAID IN CAPITAL	104,595		104,595					
4. TREASURY STOCK	0	0	0					
5. TOTAL COMMON EQUITY	$66,474	$0	66,474	10,235	76,709	24.02%	9.94%	2.39%
6. LONG TERM DEBT - Fidelity	200,280		200,280	30,838	231,118	72.36%	10.00%	7.24%
7. LONG TERM DEBT Truck	22,288	(12,258)	10,030	1,544	11,574	3.62%	6.00%	0.22%
8. CUSTOMER DEPOSITS	0	0	0	0	0	0.00%	6.00%	0.00%
9. TOTAL	$289,042	($12,258)	$276,784	$42,618	$319,402	100.00%		9.84%

RANGE OF REASONABLENESS	LOW	HIGH
RETURN ON EQUITY	8.94%	10.94%
OVERALL RATE OF RETURN	9.60%	10.08%

BURKIM ENTERPRISES, INC.
TEST YEAR ENDING 5/31/03
SCHEDULE OF WATER OPERATING INCOME

SCHEDULE NO. 3-A
DOCKET NO. 010396-WS

	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	$58,373	$31,630	$90,003	$24,222 26.91%	$114,225
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	66,290	8,392	74,682	0	74,682
3. DEPRECIATION (NET)	0	14,344	14,344	0	14,344
4. AMORTIZATION	0	(2,087)	(2,087)	0	(2,087)
5. TAXES OTHER THAN INCOME	3,612	3,411	7,023	1,090	8,113
6. INCOME TAXES	0	854	854	0	854
7. TOTAL OPERATING EXPENSES	$69,902	$24,913	$94,815	$1,090	$95,905
8. OPERATING INCOME/(LOSS)	($11,529)		($4,812)		$18,321
9. WATER RATE BASE	$57,747		$186,184		$186,184
10. RATE OF RETURN	-19.96%		-2.58%		9.84%

BURKIM ENTERPRISES, INC.
TEST YEAR ENDING 5/31/03
SCHEDULE OF WASTEWATER OPERATING INCOME

SCHEDULE NO. 3-B
DOCKET NO. 010396-WS

	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	$29,614	$26,128	$55,742	$64,305 115.36%	$120,047
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	79,541	2,696	82,237	0	82,237
3. DEPRECIATION (NET)	0	16,307	16,307	0	16,307
4. AMORTIZATION	0	(1,047)	(1,047)	0	(1,047)
5. TAXES OTHER THAN INCOME	3,157	2,780	5,937	2,894	8,831
6. INCOME TAXES	0	611	611	0	611
7. TOTAL OPERATING EXPENSES	$82,698	$21,347	$104,045	$2,894	$106,938
8. OPERATING INCOME/(LOSS)	($53,084)		($48,303)		$13,109
9. WASTEWATER RATE BASE	($66,868)		$133,218		$133,218
10. RATE OF RETURN	79.39%		-36.26%		9.84%

BURKIM ENTERPRISES, INC.	SCHEDULE NO. 3-C	
TEST YEAR ENDING 5/31/03	DOCKET NO. 010396-WS	
ADJUSTMENTS TO OPERATING INCOME		PAGE 1 OF 3
	WATER	WASTEWATER
OPERATING REVENUES		
1. To adjust utility revenues to audited test year amount.	$16,475	$8,022
2. Projected Revenue	12,342	6,226
3. Revenue From Excavation Work (Above the Line)	2,813	2,813
4. RV Revenue Above the Line	0	9,067
Subtotal	$31,630	$26,128
OPERATION AND MAINTENANCE EXPENSES		
1. Salaries and Wages Employees (601/ 701)		
a. Reclassify Salaries From Acct. No. 630/730	$8,785	$5,847
b. To Reflect Annualized Proforma Salary	9,215	9,153
Subtotal	$18,000	$15,000
2. Salaries and Wages Officers (603/ 703)		
a. Reclassify Salaries From Acct. No. 630/730	$4,800	$7,200
b. To Reflect Annualized Proforma Salary	200	(4,200)
Subtotal	$5,000	$3,000
3. Employees Pension and Benefits (604/ 704)		
a. To reflect Annual Pension Cost	$2,475	$2,475
4. Sludge Removal Expense (711)		
a. Annualize Sludge Removal Per Engineer Report	$0	$6,580
5. Purchased Power (615/ 715)		
a. Annualize Purchased Power Expense	$986	$1,834
b. Increase for Projected Expense	1,176	1,491
c. Repression Adjustment	(253)	(317)
Subtotal	$1,909	$3,008
6. Fuel for Power Production (616/617)		
a. Fuel for Power Generator Test Runs	$198	$198
7. Chemicals (618/ 718)		
a. Annualize and Include Ammonia	$1,308	($440)
b. Increase for Projected Expense	513	286
c. Repression Adjustment	(110)	(61)
Subtotal	$1,711	($215)
8. Materials & Supplies (620/ 720)		
a. Reclassify Postage From Acct. No. 675/775	$119	$178
b. Reallocate From Wastewater Based on 50/50 Split	316	(316)
c. Annualize Materials & Supplies	603	505
Subtotal	$1,038	$367

(O & M EXPENSES CONTINUED ON NEXT PAGE)

BURKIM ENTERPRISES, INC.
TEST YEAR ENDING 5/31/03
ADJUSTMENTS TO OPERATING INCOME

SCHEDULE NO. 3-C
DOCKET NO. 010396-WS
PAGE 2 OF 3

(O & M EXPENSES CONTINUED)	WATER	WASTEWATER
9. Contractual Services - Billing (630/ 730)		
a. Reallocate to Salaries Employees (601/701)	($8,785)	($5,847)
b. Reallocate to Salaries Officers (603/703)	(4,800)	(7,200)
c. Reallocate to Contracted Services Testing (635/ 735)	(703)	(967)
d. Reallocate to Contracted Services Other (636/ 736)	(12,382)	(9,251)
e. Remove Costs Associated With Acquisition	(2,187)	(3,280)
Subtotal	($28,857)	($26,545)
10. Contractual Services - Testing (635/ 735)		
a. Reallocate From Contracted Services Billing (630/ 730)	$703	$967
b. To Include Annualized DEP Required Testing	1,042	1,015
Subtotal	$1,745	$1,982
11. Contractual Services - Other (636/ 736)		
a. Reallocate From Contracted Services Billing (630/ 730)	$12,382	$9,251
b. Remove Expense Associated With Pro Forma	(2,735)	(120)
c. Reclassify Water Roof Repair From Wastewater	420	(420)
d. Amortize Nonrecurring Expenses	(962)	(1,963)
e. Amortize Pro Forma Pond Clearing Exp over 5 years	0	4,000
f. Reclassify Repair/Maint Expense Based on 50/50 Split	44	(44)
g. Annualize Operator Fees	963	963
h. Annualize Grounds Keeping	150	(250)
i. Annualize Repair Maintenance	1,291	356
Subtotal	$11,553	$11,773
12. Rents (640/ 740)		
a. Reclassify Copier to Acct. No. 675/775	($619)	($929)
b. Annualize Rents	727	(109)
Subtotal	$108	($1,038)
13. Transportation Expense (650/ 750)		
a. Reallocate Based on 50/50 Split	$200	($200)
b. Remove 55% of Transportation Expense	(733)	(733)
c. Annualize Transportation Expense	333	333
Subtotal	($200)	($600)
14. Insurance Expenses (655/ 755)		
a. Annualize Insurance for Truck and General Liability	($697)	($1,724)
b. Remove 55% of Truck Insurance (NON-Utility)	(179)	(179)
c. Pro Forma Health Insurance	3,000	3,000
Subtotal	$2,124	$1,097
15. Regulatory Expense (665/ 765)		
a. Reclassify RAF's as Taxes Other Than Income	($153)	($70)
b. Notice Expense Amortized Over 4 Years	22	22
c. Amort Rate Case Filing Fee over 4 years ($1000/4) -$1,000	(750)	(750)
Subtotal	($881)	($798)

(O & M EXPENSES CONTINUED ON NEXT PAGE)

BURKIM ENTERPRISES, INC. TEST YEAR ENDING 5/31/03 ADJUSTMENTS TO OPERATING INCOME		SCHEDULE NO. 3-C DOCKET NO. 010396-WS PAGE 3 OF 3
(O & M EXPENSES CONTINUED)	WATER	WASTEWATER
16. Miscellaneous Expense (675/ 775)		
a. Reclassify Copier Rent From Acct. No. (640/740)	$619	$929
b. Reclassify Postage to Acct. No 620/720	(119)	(178)
c. Reclassify Cost Associated With Acquisition	(9,224)	(13,836)
d. Remove Return Check Charges	(270)	(405)
e. Below Cap. Threshold from #343	49	51
f. Allocate Cell Phone Usage	(527)	(709)
g. Reallocate Based on 50/50 Split	472	(472)
h. Annualize Miscellaneous Expense	1,233	796
i. Proforma Trash Collection	236	236
Subtotal	($7,531)	($13,588)
TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	$8,392	$2,696
DEPRECIATION EXPENSE		
1. To reflect test year dep calculated per 25-30.140, FAC	$23,170	$24,195
2. To remove 55% of non-utility truck expense	(1,289)	(1,289)
3. Non-used and useful depreciation	0	(211)
4. To reflect test year CIAC amortization calculated by staff	(7,537)	(6,388)
Total	$14,344	$16,307
AMORTIZATION OF ACQUISITION ADJUSTMENT		
1. Annual amortization of negative acquisition adjustment	($2,087)	($1,415)
2. Non-used and useful amortization of acquisition adjustment	0	368
Total	($2,087)	($1,047)
TAXES OTHER THAN INCOME		
1. Reallocate From Regulatory Expense (665/ 765)	$153	$70
2. Adjust RAF's to Annualized Revenue	2,434	1,274
3. Payroll Tax	933	933
4. Annualize Property Taxes	(109)	503
Total	$3,411	$2,780
INCOME TAX		
1. Income Tax Per Staff	$854	$611

BURKIM ENTERPRISES, INC. TEST YEAR ENDING 5/31/03 ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE			SCHEDULE NO. 3-D DOCKET NO. 010396-WS	
	TOTAL PER UTILITY	STAFF PER ADJUST.		TOTAL PER PER STAFF
(601) SALARIES AND WAGES - EMPLOYEES	$6,000	$18,000	[1]	$24,000
(603) SALARIES AND WAGES - OFFICERS	4,000	5,000	[2]	9,000
(604) EMPLOYEE PENSIONS AND BENEFITS	0	2,475	[3]	2,475
(610) PURCHASED WATER	0	0		0
(615) PURCHASED POWER	6,256	1,909	[5]	8,165
(616) FUEL FOR POWER PRODUCTION	0	198	[6]	198
(618) CHEMICALS	1,857	1,711	[7]	3,568
(620) MATERIALS AND SUPPLIES	1,373	1,038	[8]	2,411
(630) CONTRACTUAL SERVICES - BILLING	28,857	(28,857)	[9]	0
(631) CONTRACTUAL SERVICES - PROFESSIONAL	0	0		0
(635) CONTRACTUAL SERVICES - TESTING	0	1,745	[10]	1,745
(636) CONTRACTUAL SERVICES - OTHER	0	11,553	[11]	11,553
(640) RENTS	2,292	108	[12]	2,400
(650) TRANSPORTATION EXPENSE	800	(200)	[13]	600
(655) INSURANCE EXPENSE	2,126	2,124	[14]	4,250
(655) REGULATORY COMMISSION EXPENSE	1,153	(881)	[15]	272
(670) BAD DEBT EXPENSE	0	0		0
(675) MISCELLANEOUS EXPENSES	11,576	(7,531)	[16]	4,045
	66,290	8,392		74,682

BURKIM ENTERPRISES, INC.
TEST YEAR ENDING 5/31/03
ANALYSIS OF WASTEWATER OPERATION AND MAINTENANCE EXPENSE

SCHEDULE NO. 3-E
DOCKET NO. 010396-WS

	TOTAL PER UTILITY	STAFF ADJUST-MENT		TOTAL PER STAFF
(701) SALARIES AND WAGES - EMPLOYEES	$9,000	$15,000	[1]	$24,000
(703) SALARIES AND WAGES - OFFICERS	6,000	3,000	[2]	9,000
(704) EMPLOYEE PENSIONS AND BENEFITS	0	2,475	[3]	2,475
(710) PURCHASED SEWAGE TREATMENT	0	0		0
(711) SLUDGE REMOVAL EXPENSE	940	6,580	[4]	7,520
(715) PURCHASED POWER	7,228	3,008	[5]	10,236
(716) FUEL FOR POWER PRODUCTION	0	198	[6]	198
(718) CHEMICALS	2,188	(215)	[7]	1,973
(720) MATERIALS AND SUPPLIES	1,654	367	[8]	2,021
(730) CONTRACTUAL SERVICES - BILLING	26,545	(26,545)	[9]	0
(731) CONTRACTUAL SERVICES - PROFESSIONAL	0	0		0
(735) CONTRACTUAL SERVICES - TESTING	0	1,982	[10]	1,982
(736) CONTRACTUAL SERVICES - OTHER	0	11,773	[11]	11,773
(740) RENTS	3,438	(1,038)	[12]	2,400
(750) TRANSPORTATION EXPENSE	1,200	(600)	[13]	600
(755) INSURANCE EXPENSE	3,153	1,097	[14]	4,250
(765) REGULATORY COMMISSION EXPENSES	1,070	(798)	[15]	272
(770) BAD DEBT EXPENSE	0	0		0
(775) MISCELLANEOUS EXPENSES	17,125	(13,588)	[16]	3,537
	79,541	2,696		82,237

RECOMMENDED RATE REDUCTION SCHEDULE

BURKIM ENTERPRISES, INC. — SCHEDULE NO. 4
TEST YEAR ENDING 5/31/03 — DOCKET NO. 010396-WS

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

MONTHLY
WATER RATES

RESIDENTIAL AND GENERAL SERVICE		MONTHLY PRELIMINARY RATES	MONTHLY RATE REDUCTION
BASE FACILITY CHARGE:			
Meter Size:			
5/8"X3/4"	$	8.47	0.02
3/4"		12.71	0.03
1"		21.18	0.05
1-1/2"		42.35	0.11
2"		67.76	0.17
3"		135.52	0.35
4"		211.75	0.54
6"		423.50	1.09
RESIDENTIAL GALLONAGE CHARGE (per 1,000 Gallons)			
0-10,000 GALLONS	$	3.15	0.01
ABOVE 10,000 GALLONS	$	4.73	0.01
GENERAL SERVICE GALLONAGE CHARGE PER 1,000 GALLONS	$	3.29	0.01

RECOMMENDED RATE REDUCTION SCHEDULE

BURKIM ENTERPRISES, INC. — **SCHEDULE NO. 4A**
TEST YEAR ENDING 5/31/03 — **DOCKET NO. 010396-WS**

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

MONTHLY WASTEWATER RATES

		MONTHLY PRELIMINARY RATES	MONTHLY RATE REDUCTION
RESIDENTIAL			
BASE FACILITY CHARGE:			
Meter Size: All Meter Sizes	$	11.17	0.03
GALLONAGE CHARGE:			
PER 1,000 GALLONS (6,000 gallon cap)	$	3.31	0.01
GENERAL SERVICE			
BASE FACILITY CHARGE:			
Meter Size:			
5/8"X3/4"	$	11.17	0.03
3/4"		16.75	0.04
1"		27.92	0.07
1-1/2"		55.83	0.13
2"		89.34	0.21
3"		178.67	0.42
4"		279.17	0.66
6"		558.35	1.33
GALLONAGE CHARGE:			
PER 1,000 GALLONS	$	3.97	0.01