

State of Florida



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

FROM: DIVISION OF ECONOMIC REGULATION (COSTNER, FITCH,
WETHERINGTON) *mc*
OFFICE OF THE GENERAL COUNSEL (HARRIS) *JDH MALT*

RF
JD
JDJ

RE: DOCKET NO. 010828-SU - APPLICATION FOR STAFF-ASSISTED RATE
CASE IN HIGHLANDS COUNTY BY HARDER HALL - HOWARD, INC.
COUNTY: HIGHLANDS

AGENDA: 03/05/02 - REGULAR AGENDA - PROPOSED AGENCY ACTION, EXCEPT
FOR ISSUES 13 AND 14 - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: 15-MONTH EFFECTIVE DATE: NOVEMBER 8, 2002 (SARC)

SPECIAL INSTRUCTIONS: NONE

FILE NAME AND LOCATION: S:\PSC\ECR\WP\010828.RCM

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CASE BACKGROUND

Harder Hall-Howard, Inc. (HHH or utility) is a Class C wastewater utility, serving 86 residential customers in the Harder Hall development in Highlands County. HHH also serves two 14-unit time-share condominiums, and five general service customers. In September 1982, the Highlands County Commission transferred jurisdiction of its water and wastewater utilities to this Commission. In April 1983, Harder Hall, Inc., applied to this Commission for a certificate to operate its existing wastewater system pursuant to Section 367.171, Florida Statutes. By Order No. 12878, issued January 13, 1984, the Commission granted the utility Certificate No. 349-S to provide wastewater services.

On June 11, 2001, the utility filed an application for a staff assisted rate case (SARC) and paid the appropriate filing fee on July 18, 2001. Rate base was last established for this utility in Order No. PSC-93-0508-FOF-SU, issued April 5, 1993, in Docket No. 920717-SU. The utility informed staff that it became aware of several unauthorized utility customers who existed and were not billed in previous years. It appears that in 1996 a developer built several homes in the area and connected to the utility's wastewater system without the utility's knowledge. The utility has just recently become aware of the connections and has begun billing these customers.

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 test year ending July 31, 2001, for this rate case.

A customer meeting was conducted on January 16, 2002, at the Harder Hall-Howard Clubhouse in Sebring, Florida. Ten customers attended the meeting and 6 customers chose to give comments regarding the utility's quality of service and the proposed rate increase. One customer had an issue with the quality of service stating that she has had sewage backup in her bathtub and an overflow of sewage in her toilets, whereas other customers that attended the meeting stated that the quality of service was satisfactory. Quality of service issues will be addressed in Issue No. 1. Throughout the meeting, the customers seemed concerned with

the low level of service availability charges. Service availability charges will be discussed further in Issue No. 13. The Commission has jurisdiction pursuant to Section 367.0814, Florida Statutes.

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

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

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

RAFs Regulatory Assessment Fees

SARC Staff Assisted Rate Case

UPIS Utility Plant in Service - The land, facilities, and equipment used to generate, transmit, and/ or distribute utility service to customers.

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

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

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ISSUE 1: Is the quality of service provided by Harder Hall-Howard Utilities to its customers satisfactory?

RECOMMENDATION: Yes, based on the quality of product and plant being satisfactory, as well as the utility's attempt to address customer satisfaction, staff recommends that the quality of service of the utility be considered satisfactory. (WETHERINGTON)

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

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

Staff's analysis below addresses each of the three components that must be addressed pursuant to Rule 25-30.433(1).

The utility's service area is located in Sebring, Florida, which is in Highlands County. The utility provides wastewater service to 86 single family homes, two-14 unit condominiums, a 161 room hotel with a 130 seat restaurant, a sales office, an equipment barn, and a clubhouse/pro shop. Water service is provided by the City of Sebring.

Quality of Utility's Product

A check of DEP files indicates that the utility has had some violations in recent years. These violations are relatively minor and have not been severe enough to cause the treatment facility to be cited for failure to meet treatment standards. Due to the fact that the treatment facility is meeting its required treatment

standards, staff recommends that the quality of product is satisfactory.

Operational Conditions of the Utility's Plant and Facilities:

The wastewater treatment plant is rated by DEP at 60,000 gallons per day on an annual average flow basis. The actual flow during the test year was approximately 27,833 gallons per day.

In the most recent DEP permit, DEP has required the utility to make some improvements to the treatment facility. Staff is recommending that pro forma adjustments to plant be approved for these DEP required improvements in Issue No. 4.

In addition, the facility also has noticeable infiltration and inflow (I&I); however, the problem is not significant enough to cause treatment problems. Since the flows per ERC to the plant are normal and the I&I does not cause treatment problems, staff believes that there is not good cause to expend funds to quantify the amount of I&I. The utility has worked with the Florida Rural Water Association and identified specific sewer lines for repair to alleviate the I&I and staff is recommending that pro forma adjustments to plant be approved for this project in Issue No. 4.

Although there are some relatively minor problems that need to be addressed and improvements made to the treatment facility and collection system, the facility has not been cited by DEP for a treatment standard violation. The treatment facility has been functioning at an acceptable level. Staff recommends that the operational condition of the utility's plant and facilities be considered satisfactory.

Utility's Attempt to Address Customer Satisfaction:

A customer meeting was held on January 16, 2002, in the Harder Hall Clubhouse. Ten customers participated in the meeting. Most of the discussion involved questions about the rate case and about Commission procedures. The only complaint came from a customer who had experienced backups with her sewer line about a year and a half ago. This complaint had been investigated by staff last summer and it was determined at the time that tree roots had clogged her sewer service line and that after the roots had been cleaned out there were no more backups. The customer admitted after the meeting that she had not had a backup since the tree roots were cleaned out but she had concerns about the general

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quality of the sewer line that served her lot. She wanted to be assured that the line was one of the ones that was receiving repair if necessary. Chris Clarke, a representative of the utility, gave assurances that the sewer line serving this customer's area is one that will receive repair work.

Conclusion:

Based on the quality of product and plant being satisfactory, as well as the utility's attempt to address customer satisfaction, staff recommends that the quality of service of the utility be considered satisfactory.

ISSUE 2: What portions of the wastewater treatment plant and wastewater collection system should be considered used and useful?

RECOMMENDATION: The wastewater treatment plant should be considered 52.7% used and useful and the wastewater collection system should be considered 49.6% used and useful. (WETHERINGTON)

STAFF ANALYSIS:

Wastewater treatment plant - The wastewater treatment system is permitted by DEP at 60,000 gallons per day based on annual average flow. During the test year the average daily flow was 27,833 gallons per day.

In the last five years the growth of the system has been solely by the construction of new single family homes. New home construction averages approximately five new homes a year. The staff recommends that the wastewater treatment plant be considered 52.7% used and useful. This is calculated by taking the average flow during the test year plus the growth factor, all of this divided by the permitted capacity. These calculations are summarized in Attachment A.

The 52.7% used and useful for the plant should be applied to the following accounts:

- 354 Structures and Improvements
- 364 Flow Measuring Devices
- 365 Flow Measuring Installations
- 380 Treatment and Disposal Equipment
- 381 Plant Sewers
- 389 Other Plant and Miscellaneous Equipment

Wastewater Collection System - The wastewater collection system has added approximately five new single family homes each year on average for the last five years. The wastewater collection system has the potential to serve 421 equivalent residential connections (ERC) and served 184 during the test year. Staff recommends that the wastewater collection system be considered 49.6% used and useful. This is calculated by taking the test year ERCs served, adding the growth allowance and dividing by the potential ERCs. These calculations are summarized in Attachment B. The potential ERCs are summarized in the following chart:

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<u>Classification</u>	<u>Potential ERCs</u>	<u>Current ERCs</u>
Single Fam. Homes	321 lots	86
Time Share Condos.	23	23
161 room Hotel	18	18
130 seat restaurant	11	11
Sales Office	1	1
Maint. Shed	1	1
Clubhouse/Pro Shop	46	46
	<hr/>	<hr/>
Total	421	186

The 49.6% used and useful for the wastewater collection system should be applied to the following accounts:

360 Collection Sewers Force
361 Collection Sewers Gravity
363 Services to Customers

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ISSUE 3: What is the appropriate test year rate base for the utility?

RECOMMENDATION: The appropriate test year rate base for the utility is \$99,201. The utility should be required to complete all pro forma additions, as discussed below in the staff analysis, within nine months of the effective date of the Commission Order. (COSTNER, FITCH)

STAFF ANALYSIS: The utility's rate base was last established in Order No. PSC-93-0508-FOF-SU, issued April 5, 1993, in Docket No. 920717-SU. Staff has selected a test year ended July 31, 2001, for this rate case. Rate base components which were established in Order No. PSC-93-0508-FOF-SU have been updated through July 31, 2001, using information obtained from staff's audit and engineering reports. A discussion of each rate base component follows:

Utility Plant in Service (UPIS): The utility recorded UPIS of \$612,735 for the test year ended July 31, 2001.

In Order No. PSC-93-0508-FOF-SU, issued April 5, 1993, in Docket No. 920717-SU, the Commission settled a docketed dispute for this utility regarding amendment of the utility's certificated territory. In this Order, the Commission included \$18,343 as an amortizable asset to reflect the expenses incurred by the utility during the certificate amendment process. The utility recorded this amount in Account No. 351. Therefore, staff has reclassified \$18,343 from UPIS to a separate amortizable asset account per the prior rate case Order.

The utility did not reconcile its rate base to the previous Commission Order. Therefore, Staff has decreased Account No. 380 by \$301 to reflect the Commission approved UPIS for the year ended April 5, 1993.

The utility expensed the cost of a master meter in Account No. 720. Staff believes this amount should be capitalized. Therefore, staff reclassified \$868 for the master meter to UPIS from Account No. 720.

Staff has decreased UPIS by \$650 to reflect an averaging adjustment.

Pro Forma Plant

The utility requested pro forma plant items to be included in rate base. Staff has allowed the following items in rate base and has found these items to be reasonable. Staff increased UPIS by \$129,675 to record pro forma plant. The following is a description of staff adjustments for pro forma plant.

The utility requested the following pro forma plant:

<u>Account No.</u>	<u>Description: Wastewater</u>	<u>Amount</u>
355	Backup Generator	\$40,000
354	Walkway/Stairway	\$3,000
354	Fence Percponds	\$20,000
380	Chlorine Contact Chamber	\$10,000
380	Splitter Box/Bar Screen	\$10,000
361	Clay pipe Upgrade	\$7,000
380	Aeration Tank	\$25,675
380	Blower	\$8,000
398	Testing Equipment	<u>\$6,000</u>
	Total Requested Pro Forma Plant	<u>\$129,675</u>

The above plant was required by DEP when the utility obtained its current operating permit with the exception of the clay pipe upgrade and the testing equipment. The utility is currently experiencing an infiltration problem, although not excessive, which is causing the utility additional expenses to clean sand from its lift station and treatment plant. The utility has asked for pro forma expenses in Issue No. 6 to help correct the problem. This request included relining the existing clay pipes of the utility. Staff believes this improvement will extend the life of the asset beyond its original useful life and should therefore be capitalized.

Based on the above, UPIS has been increased by \$129,675 for pro forma plant additions.

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Because pro forma additions account for over 100% of rate base, staff has not made an averaging adjustment to pro forma plant. Although potential for customer growth exists, it is not likely to occur in the immediate future. Therefore, existing customers will benefit from the additions and therefore the full impact of these additions should be included in UPIS.

Staff's net adjustment to UPIS is an increase of \$111,249. Staff's recommended UPIS balance is \$723,984.

Non-used and Useful Plant: The staff engineer has determined the used and useful percentages for the utility's plant accounts. The wastewater treatment plant is 52.7% used and useful, and the wastewater collection system is 49.6% used and useful. Applying the non-used and useful percentages to the wastewater system results in non-used and useful plant of \$102,937. The non-used and useful accumulated depreciation is \$91,114.

Section 367.081(2)(a), Florida Statutes, specifies that the Commission shall approve rates for service which allow a utility to recover from customers the full amount of environmental compliance cost. Staff has not applied used and useful percentages to plant items required by DEP pursuant to the above statute.

Non-used and useful pro forma plant is \$12,144. The non-used and useful pro forma accumulated depreciation is \$405. This results in net non-used and useful UPIS of \$23,562.

Contribution in Aid of Construction (CIAC): The utility recorded CIAC of \$463,845 for the test year ended July 31, 2001.

As discussed above, the utility did not reconcile its rate base to the previous Commission Order. Therefore, staff has increased this account by \$1,300 to reflect the Commission approved CIAC for the year ended April 5, 1993.

The utility did not record tap-in fees of \$600 in 1995, \$1,500 in 1996, and \$2,100 in 2001. This account has been increased by \$4,200 to reflect the unrecorded tap-in fees. Staff has decreased this account by \$1,050 to reflect an averaging adjustment.

Staff has calculated CIAC to be \$468,295.

Amortizable Asset: As specified above, in Order No. PSC-93-0508-FOF-SU, issued April 5, 1993, in Docket No. 920717-SU, the

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Commission included \$18,343 as an amortizable asset to reflect the expenses incurred by the utility during the certificate amendment process. Staff has reclassified \$18,343 to this account from UPIS to reflect the balance approved in the above order.

Accumulated Depreciation: The utility recorded a balance for accumulated depreciation of \$371,965 for the test year. Staff has calculated accumulated depreciation using the prescribed rates in Rule 25-30.140, Florida Administrative Code. Staff's calculated accumulated depreciation at July 31, 2001, is \$379,166. Therefore, staff has increased this account by \$7,201 to reflect depreciation calculated per staff. Staff has decreased this account by \$6,372 to reflect an averaging adjustment. Staff also has increased this account by \$3,779 to reflect one half-year of pro forma depreciation.

These adjustments result in accumulated depreciation of \$376,573.

Amortization of CIAC: Based on the utility's records at July 31, 2001, the utility recorded amortization of CIAC of \$214,013. Amortization of CIAC has been recalculated by staff using composite depreciation rates.

This account has been increased by \$11,662 to reflect year end amortization of \$225,675 as calculated by staff. Staff has decreased this account by \$5,562 to reflect an averaging adjustment. Staff's net adjustments to this account results in Amortization of CIAC of \$220,113.

Amortization of Amortizable Asset: As specified above, the utility did not reconcile its rate base to the previous Commission Order. Therefore, staff has increased this account by \$355 to reflect the Commission approved Amortization for the year ended April 5, 1993.

Amortization of amortizable asset has been calculated by staff using composite depreciation rates. Staff has increased this account by \$7,334 to reflect staff's calculated Amortization. Staff has decreased this account by \$117 to reflect an averaging adjustment. Total amortization of amortizable asset is \$7,572.

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

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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 \$7,763 (based on O&M of \$62,103). Working capital has been increased by \$7,763 to reflect one-eighth of staff's recommended O&M expenses.

Rate Base Summary: Based on the foregoing, staff recommends that the appropriate test year rate base is a positive \$99,201.

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

COST OF CAPITAL

ISSUE 4: 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 10.00% with a range of 9.00% - 11.00%. The appropriate overall rate of return for the utility is 10.00%. (COSTNER, FITCH)

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 \$151,511, paid-in-capital of \$9,000, and long term debt of \$146,005.

The utility's long term debt is a related party account with no debt instrument. Order No. PSC-00-1165-PAA-WS, issued June 27, 2000, in Docket No. 990243-WS, specifies that debt that is not supported by a debt agreement or where interest is not being charged is classified as other common equity. Therefore, Staff has reclassified \$146,005 as Other Paid in Capital. The utility also plans on financing the pro forma improvements through equity.

Using the leverage formula approved by Order No. PSC-01-2514-FOF-WS, issued December 24, 2001, in Docket No. 010006-WS, the appropriate rate of return on equity for all capital structures with an equity ratio of 100% is 10.00%. Because the Capital Structure is 100% equity, the rate of return on equity is 10.00%.

The utility's capital structure has been reconciled with staff's recommended rate base. Staff's recommended return on equity is 10.00% with a range of 9.00% - 11.00% and an overall rate of return of 10.00%.

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

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NET OPERATING INCOME

ISSUE 5: What is the appropriate test year revenue?

RECOMMENDATION: The appropriate test year revenue for this utility is \$57,752 for wastewater. (COSTNER, FITCH)

STAFF ANALYSIS: The utility booked revenues during the test year of \$56,252 for wastewater. Audit Exception No. 4 specifies that the utility did not charge its tariffed rates during the test year. Therefore, staff has recalculated test year revenues using the approved rates and has decreased test year revenue by \$1,315. Once the utility became aware it was charging the inappropriate rate, it immediately began charging its tariffed rates and refunded the difference. The utility has supplied staff with a refund report to verify the appropriate refunds.

The utility also became aware of several customers who were connected to the utility's wastewater system without the utility's knowledge. Staff has annualized revenues for the test year to include the unbilled customers.

The utility's rates at test year end became effective August 11, 1998. Staff has re-calculated revenue using rates at test year end times the number of bills and consumption provided in the billing analysis. Test year revenues have been increased by \$2,815 to include un-billed customers for wastewater. Total adjustments to test year revenue is \$1,500.

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

ISSUE 6: What is the appropriate amount of operating expense?

RECOMMENDATION: The appropriate amount of operating expense for this utility is \$72,546. (COSTNER, FITCH)

STAFF ANALYSIS: The utility recorded operating expenses of \$53,718 during the test year ending July 31, 2001. The utility improperly classified several of its expenses. 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 test year ending July 31, 2001. Staff has determined the appropriate operating expenses for the test year and a breakdown of expenses by account class using the documents provided by the utility. Adjustments have been made to reflect the appropriate annual operating expenses that are required for utility operations on a going forward basis.

Operations and Maintenance Expenses (O&M)

Salaries and Wages-Employees - (701) - The utility's general ledger did not record a dollar amount for salaries and wages during the test year.

The utility has requested a \$15 per hour salary for its secretary and maintenance person. Based on previous Commission allowances for a utility this size, staff believes that a more reasonable salary would be \$12 per hour. According to the utility, the secretary works approximately 10 hours per week and the maintenance employee works approximately 20 hours per week. Staff believes these hours are reasonable for a utility of this size and condition. The total salary for the secretary (\$12/hr x 10hr/week x 52 weeks) is \$6,240. The total salary for the maintenance employee (\$12/hr x 20hr/week x 52 weeks) is \$12,480.

Staff has increased this account by \$18,720 (\$6,240 + \$12,480) to reflect staff recommended salaries.

Salaries and Wages-Officers - (702) - The utility recorded \$0 in this account during the test year. The Commission approved a President's salary of \$501 in the utility's last rate case. Staff has increased this amount for inflation and has increased this

account by \$607 to include a President's salary approved in the previous Commission Order adjusted for inflation.

The utility asked staff to consider a higher president's salary than the one approved in the last rate case. The utility provided staff with a list of duties the president performs in order to justify a higher salary. The majority of the duties submitted were duplicate duties performed by the vice president/maintenance person. Therefore, staff believes that the previously approved Commission allowance adjusted for inflation is reasonable.

Sludge Removal Expense-(711) - The utility recorded \$3,920 in this account during the test year. During the test year, the utility recorded \$980 for one month indicating two sludge removals for that month. Therefore, the utility had recorded eight sludge removals for the test year. Staff engineer estimated that sludge from the wastewater treatment plant should be removed seven times per year at a cost of \$490 per removal. Therefore, staff decreased this account by \$490, to reflect annual sludge removal expense of \$3,430 ($\490×7).

Purchased Power-(715) - The utility recorded \$6,714 in this account during the test year. The utility had 6 months of extraordinary high electric expense that was not related to an increase in flows. The extraordinary amount was identified with a specific lift station. The lift station's electric expense for the first 6 months was approximately three times higher than the other lift stations and three times higher than the last 6 months; however, flows remained fairly constant throughout the year. The utility has been unable to explain a possible reason for the higher charge. Based on the utility's purchased power bills, staff engineer estimated that \$5,720 is a reasonable annual amount for purchased power for this utility. Therefore, staff has decreased this account by \$994.

Chemicals-(718) - The utility recorded \$4,293 in this account during the test year. Staff engineer has estimated that \$2,550 per year is reasonable to purchase chlorine gas and liquid ammonia for the plant. Therefore, staff has decreased this account by \$1,743.

Materials and Supplies-(720) - The utility recorded \$5,775 in this account during the test year. Staff has reclassified \$4,907 (cleaning of surgetank) from this account to Account No. 736, Contractual Services - Other. Staff also reclassified \$868 for a master meter from this account to Account No. 389 (UPIS).

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Staff's total adjustment to this account is a decrease of \$5,775. Staff's adjustment results in a \$0 balance.

Contractual Services-Professional-(731) - The utility recorded \$13,610 in this account during the test year. Staff has reclassified \$11,610 from this account to Account No. 736 (Contractual Services - Other), for operating and repair expense.

Contractual Services-Testing-(735) - The utility recorded \$1,789 in this account during the test year.

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

<u>Wastewater</u>		
<u>Test</u>	<u>Frequency</u>	<u>Annual Amount</u>
Biochemical Oxygen Demand (includes Nitrate, Nitrite)	Monthly	\$1,464
Sludge Analysis	Annually	<u>\$225</u>
Total		<u>\$1,689</u>

Staff has decreased this account by \$100 to reflect DEP required testing.

Contractual Services Other-(736) - The utility recorded \$0 in this account during the test year. Staff has reclassified \$11,610 from Account No. 731 to this account. This amount includes contracted operator expense and repairs made by the operator on an as needed basis.

Staff has reclassified \$1,000 from Taxes other than Income to this account to reflect a DEP permit. Staff decreased this account by \$800 to amortize the DEP permit over 5 years (the life of the permit).

Staff has reclassified \$4,907 from Account No. 720 to this account, to reflect surge tank cleaning. This is a non-recurring expense. Rule 25-30.433(8), Florida Administrative Code, specifies

that non-recurring expenses should be amortized over 5 years. Therefore, staff decreased this account \$3,926 to reflect the amortization of the surge tank cleaning over 5 years.

Staff has decreased this account by \$775 to remove an out of period operator invoice. Staff has also decreased this account by \$85 to remove undocumented expense.

The utility requested \$500 to repair an audible alarm at one of its lift stations. This is a non-recurring expense; therefore, Staff has increased this account by \$100 to reflect one fifth of the requested expense.

The utility has requested several items as pro forma plant and expenses to help it correct an infiltration problem. The expense items requested are non-recurring and should be amortized over 5 years. The utility has requested \$8,000 to reseal 8 of its manholes. Staff has increased this account by \$1,600 to reflect one-fifth of the manhole repair expense. The utility has requested \$35,000 to clean the sand out of its collection lines so that it can pinpoint areas of infiltration. Staff has increased this account by \$7,000 to reflect one-fifth of the line cleaning expense. The utility cleaned its Chlorine Contact Chamber (CCC) 20 times during the test year at \$85 per cleaning. Staff believes that this expense will be reduced due to the allowance for items to improve the utility's infiltration problems. Staff believes that cleaning the CCC 12 times a year would be appropriate. Therefore, staff has decreased this account by \$680 (8 x \$85) to reflect 12 CCC cleanings a year.

The utility has requested \$9,000 to remove grease from its lift stations. The grease build up is due to the Inn on the Lakes (Inn), which has a restaurant whose grease traps overflow. The utility has notified the Inn of this problem and asked the Inn to fix the problem. According to the utility, the problem has continued. Staff believes that the grease removal is a legitimate expense for the utility. However, staff does not believe this expense should be passed on to the general body of rate payers. In Issue No. 9, staff has designed a rate for the Inn that will recover the grease removal cost. Although the problem has continued, the removal of the grease from the lift station is not an annual cost. Staff also believes that the additional charge to the Inn will be an incentive to correct the problem with the grease traps. Therefore, staff considers this a non-recurring expense that should be amortized over 5 years. Therefore, Staff has

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increased this account by \$1,800 to reflect one-fifth of lift station cleaning expense.

Staff's total adjustments for this account is an increase of \$21,751.

Rent Expense- (740) - The utility recorded \$0 in this account during the test year. The utility operates out of the HHH Clubhouse. Staff has increased this account by \$1,200. This amount is to reflect a monthly allowance of \$100 for office rent and overhead. Staff believes this amount is reasonable for a utility of this size.

Transportation Expense- (750) - The utility recorded \$0 in this account during the test year. Although the utility does not own a vehicle, occasionally a meeting in Ft. Myers with DEP does occur, as well as regular transversing of the system. Staff estimates the utility owner would travel 335 miles a year for utility business. Therefore, staff has increased this account by \$94 (335 X \$.28 a mile) to reflect transportation expense.

Insurance Expense- (755) - The utility recorded \$5,575 in this account during the test year. This amount included insurance for HHH Country Club. The utility stated that its share of the insurance is \$500 annually. Therefore, staff has decreased this account by \$5,075 for the removal of non-utility insurance. Total expense for this account is \$500.

Regulatory Commission Expense- (765) - The utility recorded \$1,000 for a SARC filing fee in this account for the test year. This expense has been decreased by \$750 ($\$1,000/4$ years - \$1,000) to amortize rate case expense over four years.

Miscellaneous Expense- (775) - The utility recorded \$4,252 in this account for the test year. Staff has decreased this account by \$544 to remove overhead expenses accounted for in rent allowance. Staff also has decreased this account by \$116 to remove non-utility expense.

Staff recommends a net decrease to this account of \$660. The total annual expense for this account is \$3,592.

Operation and Maintenance Expense (O&M Summary) - The total O&M adjustment is an increase of \$15,175. Staff's recommended O&M expenses are \$62,103. O&M expenses are shown on Schedules 3-C.

Depreciation Expense - The utility recorded depreciation expense net of CIAC amortization of \$224 (\$13,612 Depreciation Expense and \$13,388 Amortization of CIAC) during the test year. Depreciation expense has been calculated by staff using the prescribed rates in Rule 25-30.140, Florida Administrative Code. Staff has decreased depreciation expense by \$824 to reflect staff's calculated depreciation of \$12,788. Staff has increased this account by \$7,558 to reflect pro forma depreciation expense. Staff has decreased this account by \$2,130 to reflect non-used and useful depreciation. Staff has calculated amortization of CIAC based on composite rates. Staff has decreased this account by \$985 to reflect staff's calculated amortization of CIAC of \$14,373. Non-used and useful depreciation, and amortization of CIAC have a negative impact on depreciation expense. Net depreciation expense is \$3,843.

Amortizable Asset - The utility recorded \$0 in this account during the test year. Staff has increased this account by \$872 to reflect the annual asset amortization expense based on composite depreciation rates.

Taxes Other Than Income - The utility recorded taxes other than income of \$6,566 during the test year. Staff decreased this account by \$2,940 to reflect the removal of non-utility property tax. Staff reclassified \$1,000 for a DEP permit to Account No. 736. Staff increased this account by \$201 to reflect RAFs on annualized revenue. Further, this account has been increased by \$1,789 to reflect payroll taxes associated with the recommended utility salaries expense.

The total adjustment for this expense is a decrease of \$1,950.

Income Taxes - HHH is a Subchapter S Corporation; therefore, the utility has no Income Taxes liability.

Operating Revenues - Revenues have been increased by \$24,714 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 \$1,112 to reflect regulatory assessment fees of 4.5% on the change in revenues.

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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 \$72,546.

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

REVENUE REQUIREMENT

ISSUE 7: What is the appropriate revenue requirement?

RECOMMENDATION: The appropriate revenue requirement is \$82,466 for wastewater. (COSTNER, FITCH)

STAFF ANALYSIS: The utility should be allowed an annual increase of \$24,714 (42.79%) for wastewater. This will allow the utility the opportunity to recover its expenses and earn a 10.00% return on its investment. The calculations are as follows:

	<u>Wastewater</u>
Adjusted Rate Base	\$99,201
Rate of Return	x 0.10
Return on Rate of Return	<u>\$9,920</u>
Adjusted O & M expense	\$62,103
Depreciation expense (Net)	\$3,843
Amortization	\$872
Taxes Other Than Income	\$5,728
Income Taxes	<u>\$0</u>
Revenue Requirement	<u><u>\$82,466</u></u>
Adjusted Test Year Revenues	<u>\$57,752</u>
Percent Increase/(Decrease)	<u><u>42.79%</u></u>

Revenue requirements are shown on Schedule No. 3-A.

ISSUE 8: What are the appropriate rates for the system?

RECOMMENDATION: The recommended rates should be designed to produce revenue of \$82,466 excluding miscellaneous service charge revenue, 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. (COSTNER, FITCH)

STAFF ANALYSIS: The recommended rates should be designed to produce revenue of \$82,466 excluding miscellaneous service charge revenue. Staff has calculated rates using test year number of bills and consumption. Staff's calculated rates for wastewater have been calculated based on 80% of the water used by residential customers and actual usage for the general service customers. Staff's calculated rates also include a 10,000 gallon cap for residential wastewater customers. The utility also has a residential customer who switched water service from the city to a private well. Therefore, no water meter readings are available. Staff has designed a flat rate for customers who are not provided metered water service. This rate was calculated based on staff's recommended BFC plus the average residential capped usage times the residential gallonage rate.

Staff has calculated a separate gallonage charge for the Inn on the Lakes. As discussed in Issue No. 6, additional costs have been incurred by the utility (grease removal) which were caused by the Inn. Staff believes that these costs should be recovered through the cost causer, not the general body of rate payers. Therefore, staff has designed a gallonage charge that will recover \$1,800 annually from the Inn for the grease removal. Although the \$1,800 is included in the revenue requirement, rates have been designed such that the general body of rate payers will not bear the burden of this expense.

Schedules of the utility's current rates and staff's recommended rates is as follows:

MONTHLY RATES - WASTEWATER

RESIDENTIAL

	<u>Existing Rates</u>	<u>Staff's Recommended Rates</u>
<u>Flat Rate</u>		
Unmetered Customers Only	N/A	\$38.18
 <u>Base Facility Charge</u>		
<u>Meter Size:</u>		
All Meter Sizes	\$19.63	\$22.76
 <u>Gallonage Charge</u>		
Per 1,000 Gallons (10,000 gallon cap)	\$2.15	\$3.53

MONTHLY RATES - WASTEWATER

MULTI-RESIDENTIAL & GENERAL SERVICE

	<u>Existing Rates</u>	<u>Staff's Recommended Rates</u>
<u>Base Facility Charge</u>		
<u>Meter Sizes</u>		
5/8" x 3/4"	\$19.63	\$22.76
3/4"	\$29.64	\$34.14
1"	\$49.40	\$56.90
1 1/2"	\$98.81	\$113.81
2"	\$158.09	\$182.10
3"	\$316.16	\$364.19
4"	\$494.00	\$569.05
6"	\$988.00	\$1,138.09
 <u>Gallonage Charge</u>		
Per 1,000 Gallons	\$2.57	\$4.24

MONTHLY RATES - WASTEWATER

INN ON THE LAKES

	<u>Existing Rates</u>	<u>Staff's Recommended Rates</u>
<u>Base Facility Charge</u>	\$316.16	\$364.19
<u>Gallonge Charge</u>		
Per 1,000 Gallons	\$2.57	\$4.67

Staff's recommended increase in revenue requirements is \$24,714 or approximately 42.79%. The rates approved for the utility should be designed to produce revenues of \$82,466 (excluding miscellaneous service charge revenues).

Approximately 43% (\$35,509) of the revenue requirement is recovered through the recommended base facility charge. The fixed costs are recovered through the BFC based on the number of factored ERCs. The remaining 57% (\$46,958) represents revenues collected through the consumption charge based on the number of gallons.

The following is a comparison of residential wastewater rates at 3,000, 5,000, and 10,000 gallons. Average residential use for this utility is 4,367 gallons per month.

<u>Gallons</u>	<u>Existing Rate</u>	<u>Recommended Rate</u>
3,000	\$26.08	\$33.35
5,000	\$30.38	\$40.41
10,000	\$41.13	\$58.06

If the Commission approves staff's recommendation, these rates should be effective for service rendered as of the stamped approval date on the tariff sheets provided customers have received notice. The tariff sheets should 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

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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 9: 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 wastewater rates should be reduced as shown on Schedule No. 4, 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 or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense. (COSTNER, FITCH)

STAFF ANALYSIS: Section 367.0816, Florida Statutes requires that the rates be reduced immediately following the expiration of the four year period by the amount of the rate case expense previously included in the rates. The reduction will reflect the removal of revenues associated with the amortization of rate case expense and the gross-up for regulatory assessment fees which is \$262 annually. Using the utility's current revenues, expenses, capital structure, and customer base the reduction in revenues will result in the rate decreases as shown on Schedule No. 4.

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

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

ISSUE 10: 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. (COSTNER, FITCH)

STAFF ANALYSIS: Rule 25-30.311, Florida Administrative Code, provides guidelines for collecting, administering and refunding customer deposits. It also authorizes customer deposits to be calculated using an average monthly bill for a 2-month period. Staff has calculated customer deposits using recommended rates and an average monthly bill for a 2-month period. A schedule of the utility's existing and staff's recommended deposits follows:

<u>Wastewater</u>		
<u>Residential</u>		
<u>Meter Size</u>	<u>Existing Deposit</u>	<u>Staff's Recommended Deposit</u>
All meter sizes	N/A	\$76.00

<u>Wastewater</u>		
<u>Multi-Residential & General Service</u>		
<u>Meter Size</u>	<u>Existing Deposit</u>	<u>Staff's Recommended Deposit</u>
5/8" x 3/4"	N/A	\$82.00
All over 5/8" x 3/4"	N/A	2 X Average Bill

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The utility should file revised tariff sheets, which are consistent with the Commission's vote. Staff should be given administrative authority to approve the revised tariff sheets upon staff's verification that the tariffs are consistent with the Commission's decision. If revised tariff sheets are 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 11: Should HHH's request to implement a late payment charge be approved and, if so, what is the appropriate charge?

RECOMMENDATION: Yes, the utility should be allowed to implement a \$3.00 late payment charge. 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 late payment charges should become effective on the stamped approval date of the revised tariff sheets, if no protest is filed. (COSTNER, FITCH, HARRIS)

STAFF ANALYSIS: The utility requested, with its SARC application, approval to implement a \$3.00 late payment charge. Staff believes that the purpose of this charge is not only to provide an incentive for customers to make timely payment, thereby reducing the number of delinquent accounts, but also to place the cost burden of processing such delinquencies solely upon those who are the cost causers.

The utility provided the following cost justification:

- \$2.50 Labor (Separating past due bills and typing individual late notices. Approximately 10 to 15 minutes to handle each account, the utility does not own a computer, so the above is done by hand.)
- \$0.05 To make copy of late notice for utility's records
- \$0.34 Postage
- \$2.89 Total

Staff finds these amounts to be reasonable and the \$0.11 difference between the utility's requested charge and the cost justification to be nominal.

In the past, late payment fee requests have been handled on a case-by-case basis. The Commission has approved late fees in the amount of \$3 for both water and wastewater operations: by Order No. 22455, issued January 24, 1990, in Docket No. 891365-WS, Ortega Utility; by Order No. PSC-92-0611-FOF-WS, issued July 7, 1992, in Docket No. 920349-WS, Palm Coast Utility Corporation; by Order No. PSC-92-0779-FOF-WS, issued August 10, 1992, in Docket No. 920535-WS, Ferncrest Utilities, Inc.; and by Order No. PSC-97-1616-FOF-SU, issued December 24, 1997, in Docket No. 971441-SU, Gulf Aire Properties, Inc.

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Presently, Commission rules provide that late payers may be required by the utility to provide an additional deposit. However, the Commission found in Order No. PSC-96-1409-FOF-WU, issued November 20, 1996, in Docket No. 960716-WU, Crystal River Utilities, Inc., that there is no further incentive for either delinquent or late paying customers to pay their bills on time after the additional deposit. In that same Order, the Commission also found that the cost causer should pay the additional cost incurred to the utility by late payments, rather than the general body of the utility's rate payers.

Staff believes that the goal of allowing late fees to be charged by a utility is two fold: first, to encourage current and future customers to pay their bills on time; and second, if payment is not made on time, to insure that the cost associated with the late payments is not passed on to the customers who do pay on time.

Therefore, staff recommends that, consistent with the dockets cited above, a \$3.00 late payment should be approved. 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 late payment charges should become effective on the stamped approval date of the tariff sheets, if no protest is filed.

ISSUE 12: Should the utility's service availability charges be revised?

RECOMMENDATION: No, the utility's service availability charges should not be revised. (COSTNER, FITCH)

STAFF ANALYSIS: The utility's current tariff authorizes a \$300 system capacity charge. The utility has requested an increase in this charge because the utility contends that this charge will not cover the cost associated with connecting new customers and expansion of its plant for the increased capacity needed to serve new customers. At the customer meeting, customers also raised concerns that the \$300 charge was too low compared to the county's and city's connection fees. The customers believed that a higher service availability charge would help offset the recommended increase in rates. It should be noted that since staff is using a historic test year, an increase or decrease in future service availability charges would have no impact on staff's recommended rates.

Rule 25-30.580, Florida Administrative Code, specifies guidelines for determining service availability charges as follows:

- (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.

Currently the utility's lines are fully contributed and the utility's contribution level is 71%. The possibility for an increase in customer base exists; however, the utility has not been able to provide staff with the number of potential customers or the rate at which these customers are expected to receive service from the utility. Further, the utility has not been able to provide staff with cost estimates for the increase in plant associated with growth. Although the utility has a high level of non-used and useful plant, used and useful calculations are based on permitted

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capacity. The plant's actual current capacity is sufficient to meet current demands but would not be sufficient to take on additional customers.

Staff is uncertain if future growth will occur for this utility. If future growth does occur, the utility will have to expand its plant capacity. However, because the utility's current contribution level is already approaching the maximum limit prescribed in Rule 25-30.580, Florida Administrative Code, staff believes that an increase in the utility's current service availability charges would result in the utility being over contributed. Therefore, staff believes that the utility's current service availability charges should not be revised.

ISSUE 13: Should the recommended rates be approved for the utility on a temporary basis, subject to refund, in the event of a protest filed by a party other than the utility?

RECOMMENDATION: Yes. Pursuant to Section 367.0814(7), Florida Statutes, the recommended rates should be approved for the utility on a temporary basis, subject to refund, in the event of a protest filed by a party other than the utility. Prior to implementation of any temporary rates, the utility should provide appropriate security. If the recommended rates are approved on a temporary basis, the rates collected by the utility should be subject to the refund provisions discussed below in the staff analysis. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(7), Florida Administrative Code, the utility should file reports with the Division of 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. (COSTNER, FITCH, HARRIS)

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

The utility should be authorized to collect the temporary rates upon the staff's approval of an appropriate security for both the potential refund and a copy of the proposed customer notice. The security should be in the form of a bond or letter of credit in the amount of \$16,710. 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 purposes 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 14: Should HHH be ordered to show cause, in writing, within 21 days, why it should not be fined for failure to comply with its tariff, in apparent violation of Sections 367.081(1), and 367.091(3), Florida Statutes?

STAFF RECOMMENDATION: No, show cause proceedings should not be initiated at this time. The utility should hereby be put on notice that it must continue to comply with its tariff and bill accordingly in the future. (HARRIS, FITCH, COSTNER)

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."

According to Audit Exception No. 4, the utility was not charging its tariffed rate during the test year. The utility filed for an index in 1998, the index was approved and revised tariff sheets were sent to the utility. However, staff subsequently discovered an error in the calculation of the index and immediately sent the utility revised tariffs, canceling the previous tariff sheets. The revised tariff sheets were never implemented.

The difference in residential tariff sheets resulted in an overcharge of \$0.10 for the BFC and \$0.02 per 1,000 gallons for the gallonage charge. The current utility management was not present during the 1998 index filing and was unaware of a revised 1998 tariff sheet. Once notified of the error, the utility immediately calculated refunds for its customers and began charging the appropriate tariffed rate. The utility provided staff with the refund information on November 28, 2001, and the utility continued to charge the appropriate tariffed rate.

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).

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Thus, any intentional act, such as the utility's failure to adhere to its rate tariff would meet the standard for a "willful violation." In 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 HHH's apparent violation of Sections 367.081(1) and 367.091(3), Florida Statutes, rises in these circumstances to the level that warrants the initiation of a show cause proceeding. As stated previously, the utility's failure to adhere to its revenue tariff resulted in slight overcharges, which the Company immediately refunded to the affected consumers upon being made aware of the overcharges. Additionally, the overcharges to individual consumers were relatively small in total and occurred over an extended time period, which staff believes caused very slight harm to any customer. Furthermore, upon being made aware of the oversight by staff, the utility is now charging the appropriate tariff rates.

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 for the level in these circumstances to warrant a show cause proceeding. However, the utility should be put on notice that it must continue to comply with its tariff and bill accordingly in the future.

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ISSUE 15: Should this docket be closed?

RECOMMENDATION: No. If no timely protest is received upon expiration of the protest period, the PAA Order will become final upon the issuance of a Consummating Order. However, this docket should remain open for an additional nine months from the effective date of the Order to allow staff to verify completion of pro forma plant items as described in Issue No. 4. Once staff has verified that this work has been completed, the docket should be closed administratively. (HARRIS, FITCH, COSTNER)

STAFF ANALYSIS: Staff has recommended that the utility complete pro forma items described in Issue No. 4. If no timely protest is received upon expiration of the protest period, the PAA Order will become final upon the issuance of a Consummating Order. However, this docket should remain open for an additional nine months from the effective date of the Order to verify completion of the pro forma items. Once staff has verified that the work has been completed, the docket should be closed administratively.

Attachment A

WASTEWATER TREATMENT PLANT - USED AND USEFUL DATA

Docket No. 010828SU - Harder Hall-Howard Inc.

1) Capacity of Plant (Annual average)	60,000	gallons per day
2) Average Daily Flow (Annual average)	27,833	gallons per day
3) Growth		5 ERC
a) Test year Customers in connections:	Beginning	181
	Ending	186
	Average	184
b) Customer growth in ERCs using regression analysis for most recent 5 years including test year		5 ERC
c) Statutory Growth Period		5 years
	[(b)x(c) x 2/(a)] = 3782 gallons per day for growth	
4) Excessive Infiltration or Inflow (I&I) - Insufficient evidence of excess to warrant expense of quantification		gallons per day
a) Total I&I		gallons per day
Percent of Average Daily Flow		
b) Reasonable Amount		gallons per day
(10% of average Daily Flow)		
c) Excessive Amount		gallons per day

USED AND USEFUL FORMULA

$$[(2)+(3) - (4)] / (1) = \text{Used and Useful}$$

$$27,833 + 3782 - 0 / 60,000 = 52.7\% \text{ Used and Useful}$$

Attachment B

WASTEWATER COLLECTION SYSTEM - USED AND USEFUL DATA

Docket No. 010828SU - Harder Hall-Howard Inc.

- | | |
|---|---------|
| 1) Capacity of System (Number of potential customers, ERCs or Lots without expansion) | 421 ERC |
| 2) Test year ERCs | |
| a) Beginning of Test Year | 181 ERC |
| b) End of Test Year | 186 ERC |
| c) Average Test Year | 184 ERC |
| 3) Growth | 5 ERC |
| (Use End of Test Year and End of Previous Years for growth ERCs) | |
| a) customer growth in ERC for last 5 years including Test year | 5 ERC |
| b) Statutory Growth Period | 5 years |
| (a) x (b) = 25 ERCs allowed for growth | |

USED AND USEFUL FORMULA

$$[(2c) + (3)] / (1) = \text{Used and Useful}$$
$$(184 + 25) / 421 = 49.6\% \text{ Used and Useful}$$

HARDER HALL-HOWARD, INC. TEST YEAR ENDING 7/31/01 SCHEDULE OF WASTEWATER RATE BASE		SCHEDULE NO. 1-A DOCKET NO. 010828-SU	
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	\$612,735	\$111,249	\$723,984
2. LAND & LAND RIGHTS	5,000	0	5,000
3. NON-USED AND USEFUL COMPONENTS	0	(23,562)	(23,562)
4. CIAC	(463,845)	(4,450)	(468,295)
5. AMORTIZABLE ASSET	0	18,343	18,343
6. ACCUMULATED DEPRECIATION	(371,965)	(4,608)	(376,573)
7. AMORTIZATION OF CIAC	214,013	6,100	220,113
8. AMORTIZATION OF ASSET	0	(7,572)	(7,572)
9. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>7,763</u>	<u>7,763</u>
10. WASTEWATER RATE BASE	(\$4,062)	\$103,263	\$99,201

**HARDER HALL-HOWARD, INC.
 TEST YEAR ENDING 7/31/01
 ADJUSTMENTS TO RATE BASE**

**SCHEDULE NO. 1-B
 DOCKET NO. 010828-SU**

WASTEWATER

UTILITY PLANT IN SERVICE

1. Reclassify amort. asset per Order No. PSC-93-0508-FOF-SU	(\$18,343)
2. Adjust utility's book to prior order	(301)
3. Reclassify master meter from Acct. No. 720	868
4. Averaging adjustment	(650)
5. Pro forma plant	<u>129,675</u>
Total	<u>\$111,249</u>

NON-USED AND USEFUL PLANT

1. To reflect non-used and useful plant.	(\$102,937)
2. To reflect non-used and useful accumulated depreciation.	91,114
3. To reflect non-used and useful pro forma plant.	(12,144)
4. To reflect non-used and useful pro forma accumulated depreciation.	405
Total	<u>(\$23,562)</u>

CIAC

1. Adjust CIAC per previous order	(\$1,300)
2. Add unrecorded tap-in fees	(4,200)
3. Averaging adjustment	1,050
	<u>(\$4,450)</u>

AMORTIZABLE ASSET

1. Reclassify amort. asset from UPIS per prior order	<u>\$18,343</u>
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ACCUMULATED DEPRECIATION

1. Depreciation adjustment per Rule 25-30.140 FAC	(\$7,201)
2. Averaging adjustment	6,372
3. Pro forma depreciation	<u>(3,779)</u>
Total	<u>(\$4,608)</u>

AMORTIZATION OF CIAC

1. To adjust amortization of CIAC based on composite rates	\$11,662
2. Average adjustment	<u>(5,562)</u>
Total	<u>\$6,100</u>

AMORTIZATION OF ASSET

1. Adjustment per previous order	(\$355)
2. To adjust amort based on composite rates before staff adj.	(7,334)
3. Average adjustment	117
Total	<u>(\$7,572)</u>

WORKING CAPITAL ALLOWANCE

1. To reflect 1/8 of test year O & M expenses.	<u>\$7,763</u>
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HARDER HALL-HOWARD, INC. TEST YEAR ENDING 7/31/01 SCHEDULE OF CAPITAL STRUCTURE			SCHEDULE NO. 2 DOCKET NO. 010828-SU					
CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUST-MENTS	BALANCE		BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST
			BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUST-MENTS				
1. COMMON STOCK	\$1,000	\$0	\$1,000					
2. RETAINED EARNINGS	(151,511)	0	(151,511)					
3. PAID IN CAPITAL	9,000	0	9,000					
4. OTHER COMMON EQUITY	<u>0</u>	<u>146,005</u>	<u>146,005</u>					
5. TOTAL COMMON EQUITY	(\$141,511)	\$146,005	4,494	94,707	99,201	100.00%	10.00%	10.00%
6. LONG TERM DEBT	146,005	(146,005)	0	0	0	0.00%	0.00%	0.00%
7. LONG TERM DEBT	0	0	0	0	0	0.00%	0.00%	0.00%
8. CUSTOMER DEPOSITS	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>
9. TOTAL	<u>\$4,494</u>	<u>\$0</u>	<u>\$4,494</u>	<u>\$94,707</u>	<u>\$99,201</u>	<u>100.00%</u>		<u>10.00%</u>
RANGE OF REASONABLENESS						<u>LOW</u>	<u>HIGH</u>	
RETURN ON EQUITY						<u>9.00%</u>	<u>11.00%</u>	
OVERALL RATE OF RETURN						<u>9.00%</u>	<u>11.00%</u>	

HARDER HALL-HOWARD, INC. TEST YEAR ENDING 7/31/01 SCHEDULE OF WASTEWATER OPERATING INCOME			SCHEDULE NO. 3-A DOCKET NO. 010828-SU		
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$56,252</u>	<u>\$1,500</u>	<u>\$57,752</u>	<u>\$24,714</u> 42.79%	<u>\$82,466</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	46,928	15,175	62,103	0	62,103
3. DEPRECIATION (NET)	224	3,619	3,843	0	3,843
4. AMORTIZATION	0	872	872	0	872
5. TAXES OTHER THAN INCOME	6,566	(1,950)	4,616	1,112	5,728
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$53,718</u>	<u>\$17,716</u>	<u>\$71,434</u>	<u>\$1,112</u>	<u>\$72,546</u>
8. OPERATING INCOME/(LOSS)	<u>\$2,534</u>		<u>(\$13,682)</u>		<u>\$9,920</u>
9. WASTEWATER RATE BASE	<u>(\$4,062)</u>		<u>\$99,201</u>		<u>\$99,201</u>
10. RATE OF RETURN	<u>N/A</u>		<u>-13.79%</u>		<u>10.00%</u>

**HARDER HALL-HOWARD, INC.
 TEST YEAR ENDING 7/31/01
 ADJUSTMENTS TO OPERATING INCOME**

Schedule No. 3-B
 DOCKET NO. 010828-SU
 Page 1 of 2

WASTEWATER

OPERATING REVENUES

1. Recalculated Revenues based on billing analysis	(\$1,315)
2. Adjusted Revenues to reflect year end number of bills	2,815
Subtotal	<u>\$1,500</u>

OPERATION AND MAINTENANCE EXPENSES

1. Salaries and Wages Employees (701)	
a. To reflect secretary and maintenance salary	<u>\$18,720</u>
2. Salaries and Wages Officers (703)	
a. To include presidents salary approved in last rate case adjusted for inflation	<u>\$607</u>
3. Sludge Removal Expense (711)	
a. To meet engineers calculated sludge removal	<u>(\$490)</u>
4. Purchased Power (715)	
a. To meet engineers calculated purchased power	<u>(\$994)</u>
5. Chemicals (718)	
a. To meet engineers calculated chemical expense	<u>(\$1,743)</u>
6. Materials & Supplies (720)	
a. To reclassify to Account No. 775 (clean surge tank)	(\$4,907)
b. To reclassify master meter to UPIS	(868)
Subtotal	<u>(\$5,775)</u>
7. Contractual Services - Professional (731)	
a. To reclassify operating and repair expense to Acc. No. 736	<u>(\$11,610)</u>
8. Contractual Services - Testing (735)	
a. To Include annualized DEP required testing	<u>(\$100)</u>
9. Contractual Services - Other (736)	
a. Reclassify from Account No. 731	\$11,610
b. Reclassify from TOTI (DEP permit)	1,000
c. Amortize DEP permit over 5 years	(800)
d. Reclassify from Account No. 720	4,907
e. Amortize surge tank cleaning over 5 years	(3,926)
f. Remove out of period expense	(775)
g. Remove undocumented expense	(85)
h. Repair alarm and amortize over 5 years	100
i. Manhole repairs Amortize over 5 years	1,600
j. Clean lines amort over 5 years	7,000
k. Reduce CCC cleaning to 12 times a year	(680)
l. Remove grease form lift stations	1,800
Subtotal	<u>\$21,751</u>
10. Rents (740)	
a. To include unrecorded rent	<u>\$1,200</u>
11. Transportation Expense (750)	
a. Mileage allowance	<u>\$94</u>

**HARDER HALL-HOWARD, INC.
 TEST YEAR ENDING 7/31/01
 ADJUSTMENTS TO OPERATING INCOME**

**Schedule No. 3-B
 DOCKET NO. 010828-SU
 Page 2 of 2**

(O & M EXPENSES CONTINUED)	<u>WASTEWATER</u>
12. Insurance Expenses (755)	
a. Remove non-utility insurance	(<u>\$5,075</u>)
13. Regulatory Expense (765)	
a. Amortize rate case filing fee over 4 years (\$1000/4)	(<u>\$750</u>)
14. Miscellaneous Expense (775)	
a. Remove expenses accounted for in rent allowance	(<u>\$544</u>)
b. Remove non-utility expense	(<u>116</u>)
Subtotal	(<u>\$660</u>)
 TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	 <u>\$15,175</u>
 DEPRECIATION EXPENSE	
1. To reflect depreciation calculated per 25-30.140, FAC	(<u>\$824</u>)
2. Pro forma depreciation expense	7,558
3. Non-used and useful depreciation	(<u>2,130</u>)
4. To reflect test year CIAC amortization calculated by staff	(<u>985</u>)
Total	<u>\$3,619</u>
 AMORTIZABLE ASSET	
1. Annual asset amortization expense	<u>\$872</u>
 TAXES OTHER THAN INCOME	
1. Remove non-utility property tax (golf course)	(<u>\$2,940</u>)
2. Reclassify DEP permit to account number 736	(<u>\$1,000</u>)
3. Adjust RAF's to annualized revenue	201
4. Payroll tax	<u>1,789</u>
Total	<u>(\$1,950)</u>

HARDER HALL-HOWARD, INC. TEST YEAR ENDING 7/31/01 ANALYSIS OF WASTEWATER OPERATION AND MAINTENANCE EXPENSE		SCHEDULE NO. 3-C DOCKET NO. 010828-SU		
	TOTAL PER UTILITY	STAFF ADJUST- MENT		TOTAL PER STAFF
(701) SALARIES AND WAGES - EMPLOYEES	\$0	\$18,720	[1]	\$18,720
(703) SALARIES AND WAGES - OFFICERS	0	607	[2]	607
(704) EMPLOYEE PENSIONS AND BENEFITS	0	0		0
(710) PURCHASED SEWAGE TREATMENT	0	0		0
(711) SLUDGE REMOVAL EXPENSE	3,920	(490)	[3]	3,430
(715) PURCHASED POWER	6,714	(994)	[4]	5,720
(716) FUEL FOR POWER PRODUCTION	0	0		0
(718) CHEMICALS	4,293	(1,743)	[5]	2,550
(720) MATERIALS AND SUPPLIES	5,775	(5,775)	[6]	0
(730) CONTRACTUAL SERVICES - BILLING	0	0		0
(731) CONTRACTUAL SERVICES - PROFESSIONAL	13,610	(11,610)	[7]	2,000
(735) CONTRACTUAL SERVICES - TESTING	1,789	(100)	[8]	1,689
(736) CONTRACTUAL SERVICES - OTHER	0	21,751	[9]	21,751
(740) RENTS	0	1,200	[10]	1,200
(750) TRANSPORTATION EXPENSE	0	94	[11]	94
(755) INSURANCE EXPENSE	5,575	(5,075)	[12]	500
(765) REGULATORY COMMISSION EXPENSES	1,000	(750)	[13]	250
(770) BAD DEBT EXPENSE	0	0		0
(775) MISCELLANEOUS EXPENSES	<u>4,252</u>	<u>(660)</u>	[14]	<u>3,592</u>
	<u>46,928</u>	<u>15,175</u>		<u>62,103</u>

RECOMMENDED RATE REDUCTION SCHEDULE

HARDER HALL-HOWARD, INC.
 TEST YEAR ENDING 7/31/01

SCHEDULE NO. 4
 DOCKET NO. 010828-SU

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

MONTHLY WASTEWATER RATES

<u>BASE FACILITY CHARGE:</u>	<u>MONTHLY RECOMMENDED RATES</u>	<u>MONTHLY RATE REDUCTION</u>
RESIDENTIAL (ALL METER SIZES)	\$ 22.76	0.07
FLAT RATE (UNMETERED SERVICE ONLY)	\$ 38.18	0.12
GENERAL AND MULTI-RESIDENTIAL SERVICE		
5/8"X3/4"	\$ 22.76	0.07
3/4"	34.14	0.11
1"	56.90	0.18
1-1/2"	113.81	0.36
2"	182.10	0.58
3"	364.19	1.16
4"	569.05	1.81
6"	1,138.09	3.61
<u>GALLONAGE CHARGE:</u>		
RESIDENTIAL GALLONAGE CHARGE PER 1,000 GALLONS (10,000 gallon cap)	\$ 3.53	0.01
GENERAL AND MULTI-RESIDENTIAL SERVICE GALLONAGE CHARGE PER 1,000 GALLONS	\$ 4.24	0.01
INN ON THE LAKES GALLONAGE CHARGE PER 1,000 GALLONS	\$ 4.67	0.01