

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for staff-assisted rate case in Highlands County by Harder Hall - Howard, Inc.

DOCKET NO. 010828-SU
ORDER NO. PSC-02-0382-PAA-SU
ISSUED: March 21, 2002

The following Commissioners participated in the disposition of this matter:

LILA A. JABER, Chairman
J. TERRY DEASON
BRAULIO L. BAEZ
MICHAEL A. PALECKI
RUDOLPH "RUDY" BRADLEY

ORDER GRANTING TEMPORARY RATES IN THE EVENT OF A PROTEST
AND
NOTICE OF PROPOSED AGENCY ACTION
ORDER GRANTING INCREASED RATES AND CHARGES

BY THE COMMISSION:

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

BACKGROUND

Harder Hall-Howard, Inc. (HHH or utility) is a Class C wastewater utility, serving 86 residential customers in the Harder Hall development in Sebring, Florida, which is in Highlands County. HHH also serves two 14-unit time-share 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.

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FPSC-COMMISSION CLERK

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, we 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 our 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.

Our staff has audited the utility's records for compliance with our rules and Orders and determined the components necessary for rate setting. Our 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 costs. We have 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 subsequently in this Order. Throughout the meeting, the customers seemed concerned with the low level of service availability charges. Service availability charges will be discussed further in

this Order. We have 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 Order.

Entity 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 wastewater service incurred whether or not the customer actually uses the services and regardless of how much is consumed.

CIAC Contributions In Aid Of Construction - Any amount or item of money, services, or property received by a utility, from any person or governmental agency, any portion of which is provided at no cost to the utility, and which is utilized to offset the acquisition, improvement, or construction costs of the utility's property, facilities, or equipment used to provide utility services to the public. The term includes, but is not limited to, system capacity charges, main extension charges, and customer connection charges.

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.

QUALITY OF SERVICE

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.

We address below each of the three components that must be addressed pursuant to Rule 25-30.433(1).

Quality of Utility's Product

A review 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, we find 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 gpd on an annual average flow basis. The actual flow during the test year was approximately 27,833 gpd.

In the most recent DEP permit, DEP has required the utility to make some improvements to the treatment facility. We approve pro forma adjustments to plant for these DEP required improvements in the Cost of Capital portion of this Order.

In addition, the facility 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, we do not believe that there is good cause to justify expenditure of funds to quantify the amount of I&I. The utility has worked with the Florida Rural Water Association and identified specific wastewater lines for repair to alleviate the I&I and we approve pro forma adjustments to plant for this project as specified in the Cost of Capital portion of this Order.

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. We find that the operational condition of the utility's plant and facilities is satisfactory.

Customer Satisfaction

As previously noted, 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 wastewater line about one and one-half years ago. This complaint had been investigated by our staff last summer and it was determined at the time that tree roots had clogged her wastewater 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 quality of the wastewater 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 wastewater line serving this customer's area is one that will receive repair work.

Based on our finding that the quality of product and plant are satisfactory, as well as the utility's attempt to address customer satisfaction, we find that the quality of service of the utility is satisfactory.

WASTEWATER TREATMENT PLANT

Treatment Plant

The wastewater treatment system is permitted by DEP at 60,000 gpd based on annual average flow. During the test year, the average daily flow was 27,833 gpd.

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 per year. We find that the wastewater treatment plant is 52.7% used and useful. This is calculated by adding the growth factor to the average flow during the test year divided by the permitted capacity. These

calculations are summarized in Attachment A. The 52.7% used and useful for the plant shall 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 ERCs and served 184 ERCs during the test year. We find that the wastewater collection system is 49.6% used and useful. This is calculated by adding the growth allowance to the test year ERCs served and dividing by the potential ERCs. These calculations are summarized in Attachment B. The potential ERCs are summarized in the following chart:

<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	<u>46</u>	<u>46</u>
Total	421	186

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

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

TEST YEAR RATE BASE

The utility's rate base was last established by Order No. PSC-93-0508-FOF-SU, issued April 5, 1993, in Docket No. 920717-SU. We have 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 our 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. By Order No. PSC-93-0508-FOF-SU, issued April 5, 1993, in Docket No. 920717-SU, we settled a docketed dispute for this utility regarding amendment of the utility's certificated territory. In that Order, we 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, we have reclassified \$18,343 from UPIS to a separate amortizable asset account in accordance with the prior rate case Order.

The utility did not reconcile its rate base to our previous Order No. PSC-93-0508-FOF-SU. Therefore, we have decreased Account No. 380 by \$301 to reflect our approved UPIS for the year ended April 5, 1993.

The utility expensed the cost of a master meter in Account No. 720. We find that this amount should be capitalized. Therefore, we have reclassified \$868 for the master meter to UPIS from Account No. 720.

We have 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. We have allowed the following items in rate base and have found these items to be reasonable. We have increased UPIS by

\$129,675 to record pro forma plant. The following is a description of our adjustments for 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 Percolation Ponds	\$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 Approved 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 to help correct the problem. This request included relining the existing clay pipes of the utility. We find this improvement will extend the life of the asset beyond its original useful life and it shall therefore be capitalized.

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

Because pro forma additions account for over 100% of rate base, we have 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 the full impact of these additions shall be included in UPIS.

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Our net adjustment to UPIS is an increase of \$111,249. We find the UPIS balance to be \$723,984.

Non-Used and Useful Plant

We have 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, requires that we approve rates for service which allow a utility to recover from customers the full amount of environmental compliance costs. We have not applied used and useful percentages to plant items required by DEP, in accordance with this 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 our previous Order No. PSC-93-0508-FOF-SU. Therefore, we have increased this account by \$1,300 to reflect our 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. We have decreased this account by \$1,050 to reflect an averaging adjustment. We have calculated CIAC to be \$468,295.

Amortizable Asset

As specified above, in Order No. PSC-93-0508-FOF-SU we included \$18,343 as an amortizable asset to reflect the expenses incurred by the utility during the certificate amendment process.

We have reclassified \$18,343 to this account from UPIS to reflect the balance approved in that order.

Accumulated Depreciation

The utility recorded a balance for accumulated depreciation of \$371,965 for the test year. We have calculated accumulated depreciation using the rates prescribed in Rule 25-30.140, Florida Administrative Code. Our calculated accumulated depreciation on July 31, 2001, is \$379,166. Therefore, we have increased this account by \$7,201 to reflect recalculated depreciation. We have decreased this account by \$6,372 to reflect an averaging adjustment. We have also 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 using composite depreciation rates.

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

Amortization of Amortizable Asset

As specified above, the utility did not reconcile its rate base to Order No. PSC-93-0508-FOF-SU. Therefore, we have increased this account by \$355 to reflect our approved Amortization for the year ended April 5, 1993.

Amortization of amortizable asset has been calculated using composite depreciation rates. We have increased this account by \$7,334 to reflect our calculated Amortization. We have 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, we find that the one-eighth of the O&M expense formula approach shall be used for calculating working capital allowance. Applying that formula, we determine that a working capital allowance of \$7,763 (based on O&M of \$62,103) is appropriate. Working capital has been increased by \$7,763 to reflect one-eighth of the approved O&M expenses.

Rate Base Summary

Based on the foregoing, we find 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.

RATE OF RETURN ON EQUITY AND
APPROPRIATE OVERALL RATE OF RETURN

According to our 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, we have 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 rate base. We find that the 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.

APPROPRIATE TEST YEAR REVENUE

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, we have recalculated test year revenues using the approved rates and we have 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. This issue is further addressed later in this Order. The utility has supplied our 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. We have annualized revenues for the test year to include the unbilled customers.

The utility's rates at test year end became effective August 11, 1998. We have 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 unbilled customers for wastewater. Total adjustments to test year revenue are \$1,500.

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

APPROPRIATE AMOUNT OF OPERATING EXPENSE

The utility recorded operating expenses of \$53,718 during the test year ending July 31, 2001. The utility improperly classified several of its expenses. We have reallocated these expenses to the appropriate accounts.

The utility provided our staff 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. We have 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 allowances we have made for a utility of this size, we find 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. We find that 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.

We have increased this account by \$18,720 (\$6,240 + \$12,480) to reflect these salaries.

Salaries and Wages-Officers - (702) - The utility recorded \$0 in this account during the test year. We approved a President's salary of \$501 in the utility's last rate case. We have increased this amount for inflation and have increased this account by \$607 to include a President's salary approved in Order No. PSC-93-0508-FOF-SU adjusted for inflation.

The utility asked us to consider a higher president's salary than the one approved in the last rate case. The utility provided us 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, we find that our previously-approved 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 recorded eight sludge removals for the test year. Our 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, we 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 six months of extraordinarily 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 six months was approximately three times higher than the other lift stations and three times higher than the last six 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, we have estimated that \$5,720 is a reasonable annual amount for purchased power for this utility. Therefore, we have decreased this account by \$994.

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

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

Our total adjustment to this account is a decrease of \$5,775. This adjustment results in a \$0 balance.

Contractual Services-Professional-(731) - The utility recorded \$13,610 in this account during the test year. We have 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 are enforced by the DEP. The tests and the frequency at which these tests must be repeated for this utility are:

<u>Test</u>	<u>Wastewater</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>

We have 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. We have 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.

We have reclassified \$1,000 from Taxes Other Than Income to this account to reflect a DEP permit. We decreased this account by \$800 to amortize the DEP permit over five years (the life of the permit).

We have 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 five years.

Therefore, we decreased this account by \$3,926 to reflect the amortization of the surge tank cleaning over five years.

We have decreased this account by \$775 to remove an out of period operator invoice. We have 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, we have 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 shall be amortized over five years. The utility has requested \$8,000 to reseal eight of its manholes. We have 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. We have 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. We believe that this expense will be reduced due to the allowance for items to improve the utility's infiltration problems. We believe that cleaning the CCC 12 times per year would be appropriate. Therefore, we have decreased this account by \$680 (8 x \$85) to reflect 12 CCC cleanings per 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 that's grease traps overflow. The utility has notified the Inn of this problem and has asked the Inn to fix the problem. According to the utility, the problem has continued. We believe that the grease removal is a legitimate expense for the utility. However, we do not believe that this expense should be passed on to the general body of rate payers. In the rate setting portion of this Order, we have 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. We believe that the additional charge to the Inn will be an incentive to correct the problem with

the grease traps. Therefore, we consider this a non-recurring expense which shall be amortized over five years. Therefore, we have increased this account by \$1,800 to reflect one-fifth of lift station cleaning expense. Our total adjustments for this account equal 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. We have increased this account by \$1,200. This amount is to reflect a monthly allowance of \$100 for office rent and overhead. We believe 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. We estimate the utility owner would travel 335 miles per year for utility business. Therefore, we have increased this account by \$94 (335 X \$.28 per 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, we have 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. We have decreased this account by \$544 to remove overhead expenses accounted for in rent allowance. We have also decreased this account by \$116 to remove non-utility expense. 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. We find that O&M expenses are \$62,103. O&M expenses are shown on Schedule 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 using the rates prescribed in Rule 25-30.140, Florida Administrative Code. We have decreased Depreciation Expense by \$824 to reflect our calculated depreciation of \$12,788. We have increased this account by \$7,558 to reflect pro forma depreciation expense. We have decreased this account by \$2,130 to reflect non-used and useful depreciation. We have calculated amortization of CIAC based on composite rates. We have decreased this account by \$985 to reflect 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. We have 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. We have decreased this account by \$2,940 to reflect the removal of non-utility property tax. We have reclassified \$1,000 for a DEP permit to Account No. 736. We 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 utility salaries expense approved herein. 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 tax liability.

Operating Revenues - Revenues have been increased by \$24,714 to reflect the change in revenue required to cover expenses and allow the return on investment approved herein.

Taxes Other Than Income - This expense has been increased by \$1,112 to reflect RAFs of 4.5% on the change in revenues.

Operating Expenses Summary - The application of our adjustments to the audited test year operating expenses result in 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.

APPROPRIATE REVENUE REQUIREMENT

The utility shall 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	\$9,920
Adjusted O & M expense	\$62,103
Depreciation Expense (Net)	\$3,843
Amortization	\$872
Taxes Other Than Income	\$5,728
Income Taxes	\$0
Revenue Requirement	<u>\$82,466</u>
Adjusted Test Year Revenues	<u>\$57,752</u>
Percent Increase/(Decrease)	<u>42.79%</u>

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

APPROPRIATE RATES

The rates approved herein are designed to produce revenue of \$82,466 excluding miscellaneous service charge revenue. We have calculated rates using test year number of bills and consumption. Our 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. Our calculated rates also include a 10,000 gallon/gallorage cap for residential wastewater customers.

The utility has a residential customer who switched water service from the City of Sebring to a private well. Therefore, no water meter readings are available. We have designed a flat rate for customers who are not provided metered water service. This rate was calculated based on the BFC approved herein plus the average residential capped usage times the residential gallonage rate.

We have calculated a separate gallonage charge for the Inn on the Lakes. As discussed previously, additional costs have been incurred by the utility for grease removal which were caused by the Inn. These costs shall be recovered from the cost causer, not the general body of rate payers. Therefore, we have 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 our approved rates are as follows:

MONTHLY RATES - WASTEWATER

RESIDENTIAL

	<u>Existing Rates</u>	<u>Commission Approved 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>Commission Approved 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>Commission Approved Rates</u>
<u>Base Facility Charge</u>	\$316.16	\$364.19
 <u>Gallonage Charge</u>		
Per 1,000 Gallons	\$2.57	\$4.67

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

Approximately 43% (\$35,509) of the revenue requirement is recovered through the BFC approved herein. 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>Commission Approved Rate</u>
3,000	\$26.08	\$33.35
5,000	\$30.38	\$40.41
10,000	\$41.13	\$58.06

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 shall be approved upon our staff's verification that the tariffs are consistent with our decision and that 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 or 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.

Appropriate Rate Reduction Reflecting the Removal of the Amortized Rate Case Expense

Section 367.0816, Florida Statutes, requires that the rates be reduced immediately following the expiration of the four year period by the amount of the rate case expense previously included in the rates. The reduction will reflect the removal of revenues associated with the amortization of rate case expense and the gross-up for RAFs, which is \$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 shall file revised tariff sheets no later than one month prior to the actual date of the required rate reduction. The utility shall also 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 shall 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.

Appropriate Customer Deposits

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 two-month period. We calculated customer deposits using the rates approved herein and an average monthly bill for a two-month period. A schedule of the utility's existing and our approved deposits follows:

	<u>Wastewater</u>	
	<u>Residential</u>	
<u>Meter Size</u>	<u>Existing Deposit</u>	<u>Commission Approved 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>Commission Approved Deposit</u>
5/8" x 3/4"	N/A	\$82.00
All over 5/8" x 3/4"	N/A	2 X Average Bill

The utility shall file revised tariff sheets, which will be consistent with this Order. Our staff shall approve the revised tariff sheets upon staff's verification that the tariffs are

consistent with our decision. If revised tariff sheets are filed and approved, the customer deposits shall become effective for connections made on or after the stamped approval date of the revised tariff sheets, if no protest is filed.

Late Charges

The utility requested, with its application, approval to implement a \$3 late payment charge. We believe 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

We find 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. We have 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.

Presently, our rules provide that late payers may be required by the utility to provide an additional deposit. However, in Order No. PSC-96-1409-FOF-WU, issued November 20, 1996, in Docket No.

960716-WU, Crystal River Utilities, Inc., we found 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, we 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.

We find that the goal of allowing late fees to be charged by a utility is twofold: 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, we find that, consistent with the dockets cited above, a \$3 late payment charge shall be approved. The utility shall file revised tariff sheets, which are consistent with this Order. Our staff shall approve the revised tariff sheets upon staff's verification that the tariffs are consistent with this decision. If revised tariff sheets are filed and approved, the late payment charges shall become effective on or after the stamped approval date of the tariff sheets, if no protest is filed.

Service Availability Charges

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 rate increase. However, it should be noted that since we are using a historic test year, an increase or decrease in future service availability charges have no impact on the rates approved herein.

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

It 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, we find that an increase in the utility's current service availability charges would result in the utility being over-contributed. Therefore, the utility's current service availability charges shall not be revised.

TEMPORARY RATES IN THE EVENT OF A PROTEST

This Order 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, the proposed rates shall be approved as temporary rates. The temporary rates

collected by the utility shall be subject to the refund provisions discussed below.

The utility shall be authorized to collect the temporary rates upon our staff's approval of an appropriate security for both the potential refund and a copy of the proposed customer notice. The security shall 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 shall contain wording to the effect that it will be terminated only under the following conditions:

- 1) The Commission approves the rate increase; or
- 2) If the Commission denies the increase, the utility shall refund the amount collected that is attributable to the increase.

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

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

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

- 1) No refunds in the escrow account may be withdrawn by the utility without 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 the Division 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 shall the maintenance and administrative costs associated with the refund be borne by the customers. These costs are the responsibility of, and shall be borne by, the utility. Irrespective of the form of security chosen by the utility, an account of all monies received as result of the rate increase shall be maintained by the utility. If a refund is ultimately required, it shall be paid with interest calculated pursuant to Rule 25-30.360(4), Florida Administrative Code. The utility shall maintain a record of the amount of the bond, and the amount of revenues that are subject to refund. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(7), Florida Administrative Code, the utility shall file reports with the Division of

Commission Clerk and Administrative Services no later than 20 days after each monthly billing. These reports shall indicate the amount of revenue collected under the increased rates subject to refund.

NO SHOW CAUSE REQUIRED FOR APPARENT VIOLATION OF
SECTIONS 367.081(1), AND 367.091(3), FLORIDA STATUTES

Section 367.081(1), Florida Statutes, provides that a utility may only charge rates and charges that we have approved. 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, our 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 us with the refund information on November 28, 2001, and the utility continued to charge the appropriate tariffed rate.

Section 367.161, Florida Statutes, authorizes us 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 our 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 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, having found that the company had not intended to violate the rule, we nevertheless found it appropriate to order it to show cause why it should not be fined, stating that "'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 our rules and statutes, we do 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 utility 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 we find 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, we do not find that the utility's apparent violation of Sections 367.081(1) and 367.091(3), Florida Statutes, rises to the level in these circumstances of warranting a show cause proceeding. However, the utility is hereby put on notice that it must continue to comply with its tariff and bill accordingly in the future.

CLOSURE OF DOCKET

We have required the utility to complete pro forma items described in the body of this Order. If no timely protest is received upon expiration of the protest period, this PAA Order will become final upon the issuance of a Consummating Order. However, this docket shall remain open for an additional nine months from the effective date of this Order to verify completion of the pro forma items. Once our staff has verified that the work has been

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DOCKET NO. 010828-SU
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completed, the docket shall be closed administratively. If a protest is filed within 21 days of the issuance of this Order, the approved temporary rates shall become effective pending resolution of the protest.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Harder Hall-Howard Inc.'s application for increased rates and charges is hereby approved as set forth in the body of this Order. It is further

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

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

ORDERED that Harder Hall-Howard, Inc., is hereby authorized to charge the new rates and charges as set forth in the body of this Order. It is further

ORDERED that the approved rates shall be 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. The tariff sheets will be approved upon our staff's verification that the tariffs are consistent with this Order and the customer notice is adequate. It is further

ORDERED that the rates shall not be implemented until notice has been received by the customers. The utility shall provide proof of the date notice was given within 10 days after the date of the notice. It is further

ORDERED that the utility shall charge the appropriate customer deposits as set forth in the body of this Order. The utility shall file revised tariff sheets which are consistent with this Order, and our staff shall have administrative authority to approve the revised tariff sheets upon staff's verification that the tariffs are consistent with this Order. If revised tariff sheets are filed and approved, the customer deposits shall become effective for

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connections made on or after the stamped approval date of the revised tariff sheets, if no protest is filed. It is further

ORDERED that pursuant to Section 367.0814(7), Florida Statutes, the rates approved herein shall 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. It is further

ORDERED that prior to implementation of any temporary rates, the utility shall provide appropriate security. If the rates are implemented on a temporary basis, the rates collected by the utility shall be subject to the refund provisions as set forth in the body of this Order. It is further

ORDERED that after any temporary rates are in effect, pursuant to Rule 25-30.360(7), Florida Administrative Code, the utility shall file reports with the Division of Economic Regulation no later than 20 days after each monthly billing. These reports shall indicate the amount of revenue collected under the increased rates subject to refund. It is further

ORDERED that the utility shall maintain its books and records in accordance with the NARUC USOA. It is further

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

ORDERED that Harder Hall-Howard shall have nine (9) months from the date this order becomes final to complete the addition of pro forma plant as specified in the body of this order. It is further

ORDERED that in the event that this Order becomes final, this docket shall be closed administratively once our staff has verified that the matters specified herein have been completed.

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By ORDER of the Florida Public Service Commission this 21st
day of March, 2002.

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

By: Kay Flynn
Kay Flynn, Chief
Bureau of Records and Hearing
Services

(S E A L)

LDH

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

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

As identified in the body of this order, our action granting increased rates and charges is preliminary in nature. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Director, Division of the

Commission Clerk and Administrative Services, at 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on April 11, 2002. If such a petition is filed, mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing. In the absence of such a petition, this order shall become effective and final upon the issuance of a Consummating Order.

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

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

Attachment A

WASTEWATER TREATMENT PLANT - USED AND USEFUL DATA

Docket No. 010828-SU - 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 |
| $[(b) \times (c) \times 2 / (a)] = 3782$ 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. 010828-SU - 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	ADJUST. TO UTIL. BALANCE	FINAL ADJUST. BALANCE	
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

	<u>WASTEWATER</u>
<u>UTILITY PLANT IN SERVICE</u>	
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>
<u>NON-USED AND USEFUL PLANT</u>	
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.	<u>405</u>
Total	<u>(\$23,562)</u>
<u>CIAC</u>	
1. Adjust CIAC per previous order	(\$1,300)
2. Add unrecorded tap-in fees	(4,200)
3. Averaging adjustment	<u>1,050</u>
	<u>(\$4,450)</u>
<u>AMORTIZABLE ASSET</u>	
1. Reclassify amort. asset from UPIS per prior order	<u>\$18,343</u>
<u>ACCUMULATED DEPRECIATION</u>	
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>
<u>AMORTIZATION OF CIAC</u>	
1. To adjust amortization of CIAC based on composite rates	\$11,662
2. Average adjustment	<u>(5,562)</u>
Total	<u>\$6,100</u>
<u>AMORTIZATION OF ASSET</u>	
1. Adjustment per previous order	(\$355)
2. To adjust amort based on composite rates before staff adj.	(7,334)
3. Average adjustment	<u>117</u>
Total	<u>(\$7,572)</u>
<u>WORKING CAPITAL ALLOWANCE</u>	
1. To reflect 1/8. of test year O & M expenses.	\$7,763

HARDER HALL-HOWARD, INC.
 TEST YEAR ENDING
 7/31/01
 SCHEDULE OF CAPITAL STRUCTURE

SCHEDULE NO. 2
 DOCKET NO. 010828-SU

CAPITAL COMPONENT	BALANCE					PERCENT OF TOTAL	COST	WEIGHTED COST
	PER UTILITY	SPECIFIC ADJUST- MENTS	BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUST- MENTS	ADJUSTED BALANCE			
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>	0.00%	<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.		SCHEDULE NO. 3-A			
TEST YEAR ENDING 7/31/01		DOCKET NO. 010828-SU			
SCHEDULE OF WASTEWATER OPERATING INCOME					
	TEST YEAR PER UTILITY	COMMISSION ADJUSTMENTS	COMM. 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>	<u>\$82,466</u>
				42.79%	
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

WASTEWATER

OPERATING REVENUES

1. Recalculated Revenues based on billing analysis	(\$1,315)
2. Adjusted Revenues to reflect year end number of bills	<u>2,815</u>
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	<u>(868)</u>
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	\$94

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	(\$544)
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	(\$824)
2. Pro forma depreciation expense	7,558
3. Non-used and useful depreciation	(2,130)
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)	(\$2,940)
2. Reclassify DEP permit to account number 736	(\$1,000)
3. Adjust RAF's to annualized revenue	201
4. Payroll tax	<u>1,789</u>
Total	<u>(\$1,950)</u>

HARDER HALL-HOWARD, INC.		SCHEDULE NO. 3-C	
TEST YEAR ENDING 7/31/01		DOCKET NO. 010828-SU	
ANALYSIS OF WASTEWATER OPERATION AND MAINTENANCE EXPENSE			
	TOTAL PER UTILITY	FPSC ADJUST- MENT	TOTAL PER FPSC
(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 APPROVED 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