

State of Florida



Public Service Commission  
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TALLAHASSEE, FLORIDA 32399-0850

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DATE: JULY 24, 2003

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

FROM: DIVISION OF ECONOMIC REGULATION (SARGENT, FITCH, DAVIS, LINGO, HUDSON) *SH FIL by JS*  
OFFICE OF THE GENERAL COUNSEL (JAEGER) *max*

RE: DOCKET NO. 021228-WS - APPLICATION FOR STAFF-ASSISTED RATE CASE IN BREVARD COUNTY BY SERVICE MANAGEMENT SYSTEMS, INC.

AGENDA: 08/05/03 - REGULAR AGENDA - PROPOSED AGENCY ACTION EXCEPT FOR ISSUE NOS. 13, 16, AND 17 - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: NONE

FILE NAME AND LOCATION: S:\PSC\ECR\WP\021228.RCM

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CASE BACKGROUND

Service Management Systems, Inc. (SMS or Utility) is a Class C water and wastewater utility operating in Brevard County. This utility provides service to approximately 269 customers in the utility's certificated territory. According to the utility's 2002 annual report, total gross revenues were \$182,677 and \$86,967 for water and wastewater, respectively. The utility reported operating expenses of \$176,426 for water and \$61,150 for wastewater.

SMS began operation in 1984 as Aquarina Developments, Inc. By Order No. 22075, issued October 19, 1989, in Docket No. 880595-WS, the Commission granted Aquarina Developments, Inc., Certificate Nos. 517-W and 450-S.

By Order No. PSC-95-1417-FOF-WS, issued November 21, 1995, in Docket No. 941234-WS, the Commission approved an increase in rates for the utility by the application of a staff assisted rate case.

By Order No. PSC-97-0206-FOF-WS, issued February 21, 1997, in Docket No. 960095-WS, the Commission acknowledged a reorganization of Aquarina Developments, Inc. and name change to Service Management Systems, Inc.

In Docket No. 020091-WS, as part of SMS's application for transfer of facilities and Certificate Nos. 517-W and 450-S, rate base was audited for the year ended December 31, 2001. Subsequent to the customer meeting related to this SARC, the Commission issued Order No. PSC-03-0787-FOF-WS, issued July 2, 2003, approving the transfer of SMS from Petrus Group, L.P. to IRD Osprey, LLC d/b/a Aquarina Utilities.

On December 11, 2002, SMS filed an application for a staff assisted rate case (SARC) and paid the appropriate filing fees on February 12, 2003. This SARC application was brought about, in part, because of customer complaints regarding co-mingling of utility and developer business and recordkeeping, overcharging of some services, and undercharging of others. The Commission has the authority to consider this rate case pursuant to Section 367.0814, Florida Statutes. Rate base was last established for this utility in Order No. PSC-95-1417-FOF-WS, issued November 21, 1995, in Docket No. 941234-WS. Staff has audited the utility's records for compliance with Commission rules and orders and determined the components necessary for rate setting. Staff also conducted a

field investigation of the utility's plants 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. Staff has selected a December 31, 2002, average test year for this rate case.

A customer meeting was held in the service area on June 18, 2003. Approximately 36 customers attended the meeting and 9 customers chose to give comments. Staff also conducted informal afternoon meetings with customer representatives. Prior to the customer meeting, staff received phone calls and letters from customers stating their concerns about the proposed increase and the overall conduct of the utility. The most common concerns were related to non-potable consumption and the billing of the golf course. Customers were concerned that the golf course was not paying its share, thus causing the remaining customers' rates for potable and non-potable water to be higher. Several quality of service complaints were also voiced regarding the regularity of line breaks and the utility's failure to make repairs in a timely manner. All the above concerns will be addressed later in the recommendation.

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

COMPANY AND PARTY NAMES

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

GLOSSARY OF TECHNICAL TERMS

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

- CIAC Contributions In Aid Of Construction - Any amount or item of money, services, or property received by a utility, from any person or governmental agency, any portion of which is provided at no cost to the utility, and which is utilized to offset the acquisition, improvement, or construction costs of the utility's property, facilities, or equipment used to provide utility services to the public. The term includes, but is not limited to, system capacity charges, main extension charges, and customer connection charges.
- ERCs Equivalent Residential Connections - A statistic used to quantify the total number of water or wastewater connections that can be served by a plant of some specific capacity. The consumption of each connection is considered to be that of a single family residential connection, which is usually considered to be a unit comprised of 3.5 persons.
- gpd Gallons Per Day - The amount of liquid that can be delivered or actually measured during a 24-hour period.
- gpm Gallons Per Minute - The amount of liquid that can be delivered or actually measured during a one-minute time period.
- O&M Operations and Maintenance Expense
- RAF Regulatory Assessment Fees
- SARC Staff Assisted Rate Case
- 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 the Service Management Systems, Inc. considered satisfactory?

**RECOMMENDATION:** The quality of service provided by Service Management Systems, Inc. should be considered unsatisfactory until the utility upgrades the fire-flow/irrigation pumping plant, distribution system, hydrants, and associated record keeping in accordance with the "Code" requirements of the National Fire Protection Association (NFPA) codebook. The utility should be granted 180 days from the Consummating Order to meet the NFPA requirements, and to show a better attempt to address customer satisfaction. A newsletter should accompany each utility bill for the next six months with a copy mailed to staff that informs customers of progress made concerning complaints, repairs, upgrades, and if utility service will be impacted by new growth in the community. This newsletter should also include a correct address that will insure all correspondence reaches the utility manager's desk, along with a phone number that will guarantee a response by the utility. (DAVIS)

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

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

Staff's recommendation concerning the overall quality of service provided by the utility is derived from an evaluation of three separate components of water and wastewater utility operations:

- (1) Quality of Utility's Product (compliance with drinking water and wastewater discharge standards);
- (2) Operational Conditions of Utility's Plant or Facility; and
- (3) Utility's Attempt to Address Customer Satisfaction.

### QUALITY OF UTILITY'S PRODUCT

#### Potable Water

In Brevard County, the potable water program is regulated by the Central District Office of the Department of Environmental Protection (DEP). Water treatment is by Reverse Osmosis (R/O) which filters chlorides (salts) and other impurities from the raw water. According to DEP records for the last three years, the utility has maintained its testing program which is designed to detect and evaluate Maximum Contaminant Levels (MCL) in the finished water leaving the plant. The test results were satisfactory and meet or exceed the regulatory standards for safe potable water.

Consumptive use in Brevard County is permitted by the St. Johns River Water Management District. The utility obtained its Consumptive Use Permit (CUP) on June 8, 1999. This permit (Permit Number 1719) states that the "Maximum daily ground water withdrawals for household use, commercial/industrial use, and water utility must not exceed:" a level of 0.123 million gallons per day (mgd) in 2002, or a maximum annual withdrawal of 26.5 million gallons. During the test year the utility sold 11,568,000 gallons for residential use.

The quality of the drinking water produced by the utility meets or exceeds all testing standards for safe drinking water at an acceptable rate of extraction from the groundwater table, and should be considered satisfactory.

#### Wastewater

Jurisdiction over wastewater facilities is also regulated by the Central District Office of the DEP. A five-year permit was issued on September 26, 2002, and is valid until September 1, 2007.



In order to obtain renewal of the operation permit, the utility had to submit an Operations and Performance Report, verify that no areas of equipment/operation were of immediate concern, and provide proof that the wastewater treatment plant was operating well within its capacity. The quality of wastewater service appears to meet or exceed regulatory standards, and should be considered satisfactory.

#### Irrigation/Fire-flow

In addition to being a water and wastewater service provider, the utility also provides irrigation and fire-flow to its customer base through a totally isolated non-potable system. The St. Johns River Water Management District allows additional extraction for irrigation in CUP Number 1719. The utility is allowed a maximum annual withdrawal for urban landscape of 88.98 million gallons, and a maximum annual withdrawal for golf course irrigation of 83.3 million gallons. The total annual withdrawal for irrigation during 2002 (allowed by the CUP) was 172.3 million gallons. The total of non-potable use in 2002 was 146,180,000 gallons. All other regulation of the fire-flow/irrigation system is under the jurisdiction of the Office of the Brevard County Fire Marshal. Compliance with the fire marshal's office will be discussed in the operational conditions at the plant.

#### OPERATIONAL CONDITIONS AT THE PLANT

##### Potable Water

The water treatment plant is located within the utility's maintenance compound, and is behind a 6-foot chain-link fence with natural vegetation to partially obstruct its view from the public. The quality of the utility's plant-in-service is generally reflective of the quality of the utility's product. However, the utility serves a mosaic of development projects located on a barrier island and is subject to extreme weather conditions which shortens equipment life. Over the last three years, the utility has been cited by the DEP for deficiencies found during inspections. The most important plant-in-service deficiency concerned the generator. In 2000, the utility's generator had not been exercised under load for a minimum of four hours per month as required by Rule 62-555.320(6)(c), Florida Administrative Code. In addition, the utility was cited for a leak that was noted at the master meter. In the 2001 compliance inspection by the DEP, there

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were no deficiencies. On December 12, 2002, a compliance inspection was performed which noted the following citations:

- (1) the vent on well number one was plugged,
- (2) pump packing at well number one was leaking,
- (3) the tap at well number one did not meet code,
- (4) electrical junction box on well number one was not properly sealed, and
- (5) no generator readings or log book was made available during the inspection.

On January 15, 2003, the operator responded to the DEP by letter confirming that all the deficiencies noted in the December 12, 2002, compliance report had been corrected. The DEP currently considers those issues resolved. At the present, the quality of the water treatment plant-in-service should be considered satisfactory.

#### Wastewater

The wastewater plant-in-service is also reflective of the product provided by the utility. The overall capacity of the wastewater plant is sufficient to process the average daily flows of the on-line customers. The wastewater plant is also located within the utility compound and screened from the public's view. Behind the fence, the plant appears well maintained with the exception of some accelerated aging due to weather conditions. After DEP reissued the utility's permit to operate on September 26, 2002, the absorption field(s) began experiencing ponding and had to undergo repairs. No foul or obnoxious odors were detected during the engineering investigation which occurred January 29 through 31, 2003, and again on June 19, 2003. Based on the above, the quality of the wastewater plant in service appears to be satisfactory.

#### Irrigation/Fire-flow

As noted above, in addition to being a water and wastewater provider, the utility also provides irrigation/fire-flow via a totally isolated plant and distribution system. Currently, there are plant in service issues with the Office of the Brevard County Fire Marshal. After a line break, a sequence of events between the Brevard County Fire Marshal's office and the utility resulted in a Board of County Commissioners of Brevard County holding a Special Master Hearing (Case No. 02-2158) on August 13, 2002. This hearing

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reviewed facts surrounding catfish found in the fire-flow lines, code violation of Section 7-54.1 (proper maintenance of fire service mains) and code violation of Section 7-54.2 (inspection, testing, and maintenance in accordance with NFPA).

This system came to the attention of a Mr. Michael Taggart, Fire Marshal, when a main ruptured revealing catfish in the fire-flow/irrigation lines on July 19, 2002. At that time, the utility was drawing from local ponds and surface waters to supplement the deep well resource for irrigation water. Since July 19, 2002, the utility has closed all valves related to surface water inlets, and has been relying on raw water from the well to provide fire-flow/irrigation. However, once the system was found to have marine life, issues of compliance with NFPA codes came into question, and a complete inspection of the fire-flow/irrigation system was performed. That inspection resulted in violations concerning the maintenance of the pumping system, maintenance of the distribution system, adequate system pressure, sufficient records of fire hydrant care & testing, etc. that the utility has failed to satisfy.

Mr. Taggart informed staff that, at present, the utility is under a moratorium which limits the number of model homes that can be constructed, restricts all newly constructed models to single story units, and forbids the selling of those homes for occupancy. This moratorium will remain until irrigation/fire-flow upgrades are completed sufficient to meet all standards of the NFPA. Staff recommends that the irrigation/fire-flow portion of the utility should be considered not satisfactory.

#### UTILITY'S ATTEMPT TO ADDRESS CUSTOMER SATISFACTION

Three informal customer meetings were held on June 18, 2003, in the Chapel By The Sea just south of the utility's service area. Staff conducted two separate afternoon meetings with representatives of different homeowners associations, and an evening meeting that was open to all customers of SMS. Both of the afternoon meetings were intended to give the representatives of the homeowners associations an opportunity to discuss issues and specific concerns about the utility's responsiveness to quality of service issues.

At 2:30 pm, staff met with Mr. Tom McMullen (President of the Aquarina Residence Association) and Mr. George Jockers (President

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of Egret Trace Homeowner's Association (HOA)). Mr. McMullen stated that the water lines breakdown about every two to three weeks which he attributes to poor or deferred maintenance. It appears that when breaks occur in either the potable water system or the irrigation system, the repair of that break is more of a temporary patch than a repair. The duration of time service is interrupted during a break/repair is reported to last several days, and sometimes weeks. During July, 2002, a 14-inch irrigation line broke, revealing catfish in the fire-flow system. This event led to the Special Master Hearing between Brevard County and the utility. Further, the repair of this 14-inch main is reported to have taken several weeks before completion. Mr. McMullen also discussed the wastewater treatment plant absorption field (a complaint by letter prior to the customer meeting) and how recent work on the outfall system created obnoxious odors and effluent on the ground's surface. Mr. George Jockers echoed Mr. McMullen's comments and added that there were five water meters at the Egret Trace swimming pool.

At the 3:30 pm meeting, staff met with Ms. Lisa Adams (President of St. Andrews HOA), Mr. Baldwin (resident), Mr. Richard Weronik (resident), and Mr. George "Skip" Hofmann (resident) with his attorney (Mr. Raul Chacon). Ms. Adams reported to staff that the utility read her meter incorrectly and would not respond when she complained about her water bill, that she distrusted the utility to fairly bill customers, that they had frequent line breaks, that water was provided at insufficient pressure, and the utility manager was arrogant in his response over an easement issue between Mr. Baldwin (resident of St. Andrews) and the utility. Mr. Weronik was upset that the repair of the 14-inch main lasted several weeks, during which time he wrote a letter to the utility office, and never received a response. Mr. Hofmann and his attorney were also very concerned over the length of time it took to repair the broken 14-inch main. Mr. Hofmann provided staff with a copy of the transcript from the Special Master Hearing between Brevard County and the utility. It is his belief, that the fire-flow system is not sufficient to fight a fire and expressed concern over the outcome should such an emergency occur. In addition, he questioned if the utility will ever install the two newly purchased high service pumps.

At the 6:00 pm meeting, 36 customers attended with two customers signing up to speak (Ms. Lisa Adams and Mr. Weronik). Both restated the issues they had previously discussed during the

afternoon meetings. When the floor was opened for questions and statements, seven additional customers decided to speak. Their comments ranged from the catfish in the irrigation mains to their dissatisfaction over the proposed rates. The primary quality of service issues were the customers' lack of trust in the utility manager, and his lack of response to customer complaints.

The staff engineer conducted a series of meetings the next day to detail the customer's concerns and complaints. The first of those meetings was with Mr. Tom McMullen. Staff was shown where the 14-inch irrigation main broke and the repair of the driveway. This appeared to be properly repaired with a fresh pavement overlay. However, the main issue was the magnitude of the repair and the length of time it took to complete the repair. Two other repairs were pointed out. The utility should be placed on notice that Rule 25-30.250(1), (2), & (3), Florida Administrative Code, states:

(1) Each utility shall make all reasonable efforts to provide continuous service. Should interruption in service occur, however, each utility shall reestablish service with the shortest delay consistent with the safety of its customers and the general public.

(2) Each utility shall schedule any necessary interruption in service at a time anticipated to cause the least inconvenience to its customers. Each utility shall notify its customers prior to scheduled interruptions.

(3) Where public fire protection is provided by the mains affected by the interruption, the utility shall notify the Fire Chief or any other public official responsible for fire protection, that an interruption has occurred or will occur. Additionally, the utility shall notify that person when service is or is anticipated to be restored.

The utility should also be placed on notice that Rule 25-30.251(1)&(2), Florida Administrative Code, states:

(1) Each utility shall maintain a record of all interruptions in service which affect ten percent (10%) or more of its customers. The record shall show the cause of the interruption, its date, time, duration, remedy, and steps taken to prevent recurrence.

(2) The utility shall notify the Commission of any interruptions in service which affects ten percent (10%) or more of its customers. Notification to the Commission shall be made within one work day of notification to the utility that such an interruption has occurred, and within one work week after service has been restored. The utility shall file a complete report to the Commission regarding the interruption.

Mr. McMullen and the engineer also visited the wastewater treatment plant absorption field. On the morning after a steady rain during the evening and most of the night prior, the absorption field had drained off nicely and had no standing water. There were no obnoxious odors detected. Staff had previously referred Mr. McMullen's complaint about the absorption field to the DEP. In response, the DEP inspector reported to the Commission (via e-mail) that he inspected the absorption field on June 27, 2003, and noted that the drain field had recently been repaired. It was also stated that there was no effluent discharge of any kind in the area of the facility or the drain field. The DEP inspector further noted that hydrogen sulfide odors do emit from both the water treatment plant degasifier, and the aeration unit located on top of the 1.2 million gallon irrigation storage tank. It appears that the utility corrected Mr. McMullen's concerns prior to the customer meeting.

The second meeting was held with Ms. Lisa Adams. Ms. Adams is concerned that after an unusually large water bill, she believed her water meter had been misread. She confirmed her suspicions when she read her own meter and the numbers didn't match. She is further concerned that when she complained, the utility did not respond. The next month, the utility did read her meter more closely and made the adjustment on her next billing. However, that did not appear to satisfy Ms. Adams. The utility should be placed on notice that Rule 25-30.355(1) & (2), Florida Administrative Code, states:

(1) A utility shall make a full and prompt acknowledgment and investigation of all customer complaints and shall respond fully and promptly to all customer requests.

(2) For the purpose of this rule the word "complaint" used in this rule shall mean an objection made to the utility by the customer as to the utility's charges, facilities or service, where the disposal of the

complaint requires action on the part of the utility.

Concerning Ms. Adams' complaint of low pressure, the DEP is the office of primacy and requires a minimum of 20 psi throughout the system. Staff gave Ms. Adams the phone number of the DEP office in Orlando so she could register a complaint and have a DEP inspector survey her system. Ms. Adams was also very concerned over the utility's claim that they had an easement through Mr. Baldwin's property, ignored the homeowners' association request to provide proof of easement, and installed the irrigation line through his property despite protest. Staff has attempted to explain to both Ms. Adams and Mr. Baldwin that easement disputes and the determination of property rights is a judicial function within the jurisdiction of the Circuit Court pursuant to the Florida Constitution, Article 5, Section 5(b). By letter dated July 17, 2003, staff counsel reiterated this position to Mr. Baldwin. In that letter, staff counsel advised Mr. Baldwin that if he thought that he had been wronged in this matter, then his remedy might be to seek satisfaction through the court system.

Another issue that Ms. Adams is concerned about is the fair appropriation of irrigation rates between the golf course, the commonly irrigated grounds, and the St. Andrews development. Staff recommends that all irrigation usage be metered. Once meters are installed for all customers, everybody will pay their fair share based on gallons used. However, Ms. Adams does not trust the utility and does not believe the Commission will be successful in its quest to require that all customers are metered.

The next meeting was with Mr. George Jockers. Mr. Jockers did not understand why the utility needed five meters for the Egret Trace pool. So, an on-site visit with the handyman (known as Buddy) was conducted. Buddy is an employee of Vista Properties which is the management company for the common areas of Aquarina. He does all of the maintenance and most of the repairs relating to the irrigation system. Vista properties then bills each HOA for any work performed in their specific area. Buddy has been with Aquarina for a long time and has a working knowledge of both the potable water and the irrigation systems. Several customers and HOA representatives spoke highly of Buddy and expressed a trust in his knowledge and character. Buddy was able to show Mr. Jockers that there were only four meters in the pool area at Egret Trace. Two meters are for irrigation zones that need to be controlled and metered separately. The other two meters were potable water

meters, one for the bathhouse, and the other for the pool. Mr. Jockers appeared satisfied with these findings. Mr. Jockers further expressed fears that the cost to achieve 100% metered rates will not only be recovered through the rates, but the utility will attempt to double bill the HOA for those costs. Staff explained that the prudent costs for these select meters and meter installations would be recovered through rates. Further, that if the homeowners association gets a bill for cost associated with these meters; he should call the Commission immediately.

The final meeting was with the utility manager (Mr. Bates). Mr. Bates could not explain why there is such a lack of trust between him and the customers. He did point out that the customers in attendance were just a fraction of the customer base and he believed that those customers not attending the meeting did trust him. Mr. Bates noted that the line breaks the customers were talking about were irrigation/fire-flow and not potable water. He also stated that most of the meters needed on all irrigation outlets have been installed. He also said he did not know anything about the complaint letters the customers were claiming they sent to the utility, but that the utility had received a complaint letter from the PSC. Mr. Bates offered that if the customers would raise specific issues with him through the HOAs, he would work with them to resolve any problems. When asked for the approximate date the new pumps would be installed at the fire pumping station, he stated that he was unsure of the exact date, and that the decision would be made by the new owners.

The utility made a copy of their complaint file for staff which does not qualify as a complaint record in accordance with Rule 25-30.130(2), Florida Administrative Code, which states:

The record shall include the name and address of the complainant, the nature of the complaint, the date received, the results of the investigation, the disposition of the complaint and the date of the disposition of the complaint.

The utility's file does not contain any customer complaint letters. However, it does contain a letter from the PSC, signed by Mr. Harold McLean and dated September 5, 2002. This letter requires the utility to respond within fifteen business days to the complaints attached (five complaints) to his letter. It also informs Mr. Bates that "Despite numerous attempts by CAF to obtain



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a reply to the complaint, our records show that no company response has been received to date." In Mr. Bates' response, dated September 11, 2002, he contends that Mr McLean's letter "is the first notice received regarding this matter." Those complaints were all related to the catfish found in the water mains, issues that are now resolved, and are now closed.

All things considered, it appears that the attention required to perform normal management duties is being supplanted by other business interest, and utility issues are resolved on a "crisis" basis. This raises the perception that the utility's manager ignores the customer's plea for help when problems are reported. An illustration of this utility's management style can be detected in the situation over the 14-inch line-break which lead to the discovery of the catfish. Mr. Michael Taggart (Fire Marshal) in the Special Master Hearing (held August 13, 2002) stated:

And to be quite honest with you, and I'm just going to be blunt, action seemed to be very difficult to be obtained from the operators of the system, because it took a Code Board hearing for us to get to the point where we actually drained the huge tank and flushed those lines out like we had to flush them out.

Conversations between staff and Mr. Taggart concerning the fire-flow/irrigation system shows that once the utility installed fire hydrants on the irrigation system, a whole new responsibility of regulatory standards began. In order to meet insurance requirements and qualify as a fire protection system, the utility must meet code provisions in accordance with the NFPA code book. Currently, the utility does not meet those standards which are enforced by the Office of the Brevard County Fire Marshal, and the utility will remain under the moratorium until such time as the standards are met.

Staff recommends that the quality of service provided by Service Management Systems, Inc. should be considered not satisfactory until the utility upgrades the fire-flow/irrigation pumping plant, distribution system, hydrants, and associated record keeping in accordance with the "Code" requirements of the NFPA code book. The utility should be granted 180 days from the Consummating Order to meet the NFPA requirements, and to show a better attempt to address customer satisfaction. A newsletter should accompany each utility bill for the next six months with a copy mailed to

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staff that informs customers of progress made concerning complaints, repairs, upgrades, and if utility service will be impacted by new growth in the community. This newsletter should also include a correct address that will insure all correspondence will reach the utility manager's desk, along with a phone number that will guarantee a response by the utility.

**RATE BASE:**

**ISSUE 2:** What portions of Service Management Systems, Inc. are used and useful?

**RECOMMENDATION:** The Service Management Systems, Inc. water treatment plant is considered to be 29.7%, the water distribution system is considered 62.6%, the wastewater treatment plant is considered to be 55.9%, and the wastewater collection system is considered 65.4% used and useful. The non-potable water plant is considered 53.5% except for the high service pumps required by Brevard County which are considered 100% used and useful. The non-potable water distribution system is considered 100% used and useful. (DAVIS)

**STAFF ANALYSIS:** Since being in existence since 1984, the utility has grown steadily over the years. In a recent effort by the developer, approval has been obtained from Brevard County to develop seven additional community complexes. This will expand the utility's growth potential to a total of 600 ERCs which will require the construction of additional mains to serve. The existing water mains have the potential to serve 436 ERCs, and existing wastewater mains have the potential to serve 456 ERCs. Primarily a retirement community, the utility currently serves:

<u>Development Name</u>	<u>No. Units</u>	<u>ERC Water</u>	<u>ERC Wastewater</u>
Blue Heron	20	16	16
Egret Trace	18	15	15
Hammock	27	22	22
Marlin	15	12	12
Osprey Villas	19	19	19
Osprey Villas - East	30	24	24
River Oakes	30	30	30
St. Andrews Village			
Single Family	8	8	8
Duplexes	20	16	16
Condos	16	13	13
Sea Hawk Place	11	11	11
Spoonbill Villas	30	24	24
Sunnyland	20	-0-	20
Tidewater	24	20	20
	<u>288</u>	<u>224</u>	<u>244</u>

Water Treatment Plant

The water treatment plant is an open system, Reverse/Osmosis, operation that was determined to be 29% used and useful in the last rate case. This percentage was calculated prior to the 5% per year statutory growth limitation allowed in accordance with Section 367.081(2)(a)2.b., Florida Statutes. As noted previously, the plant is supplied raw water via one well with the capacity to pump 600 gpm. The ability of an R/O system is dependent on the capacity of the plant (in total) to filter and process drinking water that meets or exceeds all standards set by governing agencies. There are four membrane filters (rated at 20,000 gpd each) mounted on a skid that is capable of accepting six membranes. Each membrane is rated at 20,000 gpd capacity which indicates that the skid is designed to have a capacity of 120,000 gpd. The two high service pumps are rated at 175 gpm each and should be the basis for capacity calculations since they are the actual units that supplies water and exerts pressure on the system. In order to properly evaluate the utility's ability to provide service, the highest capacity pump is removed from the calculation. The firm reliable capacity would then be based on 175 gpm per twelve hour day (which equals 120,000 gpd and matches the design of the membrane skid) plus the storage capacity of 150,000 gallons minus any dead storage. In this case, the new ground storage tank was designed and constructed with a bottom drain that leaves no dead storage. The firm reliable capacity of the SMS water treatment plant is determined to be 270,000 gpd.

The membrane skid currently has the capacity to produce 80,000 gpd using the four 20,000 gpd unit modules. The maximum day use experienced by the plant (derived from the average of the five highest use days from the peak month) equaled 71,200 gpd. It is believed that no less than the existing four membranes can serve the present customer base during peak season, and, therefore should be considered 100% used and useful.

Growth has been steady over the last five years. The regression formula anticipates a customer growth of 16 ERCs which exceeds the 5% per year statutory cap pursuant to Section 367.081(2)(a)2.b., Florida Statutes. Therefore, the anticipated growth is adjusted to 12 ERCs which was calculated from the year end ERC count. Based on the 5% cap of 12 ERCs, the five-year statutory growth period calculates to be 8,858 gpd. The comparison of treated water leaving the plant with metered water sold to

customers indicates that unaccounted for water equals 5.84%. Therefore, staff believes there is no excessive unaccounted for water.

By the formula approach (See Attachment "A", Page 1 of 5) it is recommended that the utility plant is determined to be 29.7% used and useful with the exception of Account No. 303 (Land and Land Rights) and that portion of Account No. 320 (Water Treatment Equipment) that includes the membrane filters which should be considered 100% used and useful.

#### Water Distribution System

During the last rate case, the water distribution system was determined to be 51% used and useful which was prior to the 5% per year statutory growth limitation noted above, and the extension of mains to accommodate additional customers. It is determined that the existing distribution system can accommodate 436 ERCs without the construction of additional lines. Currently, the water system serves 213 ERCs (average for the test year). A regression analysis indicates an anticipated growth of 16 ERCs which exceeds the 5% per year statutory growth limitation, and the 5% is determined to be 12 ERCs. By formula (See Attachment "A", Page 2 of 5) it is recommended that the distribution system be considered 62.6% used and useful. The exception to this is Account 334 (Meter and Meter installations) which is supplied upon demand and should be considered 100% used and useful.

It is recommended that the water distribution system be considered 62.6% used and useful with the exception of Account 334 (Meter and Meter installations) which should be considered 100% used and useful.

#### Wastewater Treatment Plant

During the last rate case the wastewater treatment plant was determined to be 11% used and useful. The plant is permitted by the DEP as a 0.099 MGD (99,000 gallons per day) Annual Average Daily Flow (AADF) extended aeration process domestic wastewater facility. The annual average daily flows are calculated to be 43,823 gpd which includes the R/O reject water that the plant also processes. Next year's growth, as determined by regression analysis, is calculated at 16 ERCs which exceeds the statutory 5% cap allowable. The 5% per year allowable ERCs is determined to be

13 ERCs. When the 13 ERCs per year cap for considered growth is compared with the 248 ERC average test year customers, it indicates a five year growth to be 11,486 gpd. By the formula method, it is calculated that the used and useful portion of plant is 55.9% (See Attachment "A", Page 3 of 5). It is recommended that the wastewater treatment plant be considered 55.9% used and useful.

#### Wastewater Collection System

During the last rate case the wastewater collection system was determined to be 51% used and useful. Since the last rate case, the utility has constructed additional mains to accommodate new customers. Also, wastewater service has been extended to a development known as Sunnyland. This adds an additional 20 wastewater only customers to the system. It is determined that the collection system can accommodate 456 wastewater customers (the same 436 water and wastewater customers, plus an additional 20 wastewater only customers in Sunnyland) without the construction of additional lines. Currently, the collection system serves 233 ERCs (average for the test year). A regression analysis indicates an anticipated growth of 16 ERCs which exceeds the statutory 5% cap. Therefore, 13 ERCs have been used in the calculation to determine the 5 year growth factor. By the formula (See Attachment "A", Page 4 of 5) it is recommended that wastewater collection system be considered 65.4% used and useful.

#### Non-Potable Water Pumping Station

During the last rate case the fire flow/irrigation facility was considered to be 38% used and useful. The designed capacity of the non-potable fire flow/irrigation facility is 1,200,000 gpd. The average daily flow of the peak usage month was 521,554 gpd. Needed reserve for fire flow is 1,000 gpm for a minimum of two hours (120,000 gallons). Due to the nature of this service and the existing facilities available, a growth factor is not considered. All things taken into account, it is determined (See Attachment "A", Page 5 of 5) that the fire flow/irrigation pumping facility should be considered 53.5% used and useful. The exception to this would be the refurbishment of the pumping platform that has been submitted as a post test year expense. Since this refurbishment has been mandated by the Office of the Brevard County Fire Marshall (a governing agency), it should be considered 100% used and useful.

Non-Potable Water Distribution System

During the last rate case, the non-potable water distribution system was determined to be 51% used and useful which was based on the same calculation as the drinking water distribution system. This independent network of mains are designed to be, first and foremost, a fire protection system. Now that the utility has completed the construction of the inner loop within the Aquarina development, the number of fire hydrants necessary to provide fire protection to the service area has been accomplished. The lines are sized and constructed sufficiently to allow irrigation use in conjunction with adequate fire flow reserve. This allows the utility to provide irrigation service for the golf course and other common areas. It is believed that no less of a network of mains could provide this service. Therefore, it is recommended that the distribution system for fire flow/irrigation should be considered 100% used and useful.

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

**RECOMMENDATION:** The appropriate average test year rate base for this utility is \$456,364 for water and \$141,970 for wastewater. The utility should be required to complete the pro forma high service pump installation and common area irrigation meters installation within 180 days from the date of the Consummating Order. The utility should also be required to continue to maintain separate records associated with the non-potable system. (SARGENT, FITCH)

**STAFF ANALYSIS:** The utility's rate base was last established in Order No. PSC-95-1417-FOF-WS, issued November 21, 1995, in Docket No. 941234-WS. In the above referenced order, rate base was established for water, wastewater, and non-potable systems. For the purposes of this rate case, staff believes that while each rate base component has been individually calculated, the potable and non-potable water amounts should be combined for rate setting purposes. Because the non-potable system has the potential to be converted to a reuse system in the future, staff recommends that SMS continue to maintain its records utilizing the three separate system approach. In the event the non-potable system is eventually permitted by DEP as a reuse system, plant associated with the reuse system would be reclassified to the appropriate wastewater accounts. A discussion of each component of rate base follows:

Utility Plant in Service (UPIS): The utility recorded UPIS of \$1,801,526 for water and \$2,098,830 for wastewater. Staff has decreased UPIS for water by \$30,596 to remove pro forma plant incorrectly recorded by the utility in order to agree the utility's recorded plant totals to the amounts approved in Order No. PSC-95-1417-FOF-WS. Pursuant to Audit Exception No. 2, several adjustments have been made to UPIS. Descriptions of these adjustments are listed below:

Staff has decreased UPIS for wastewater by \$15,911 to correct the double booking of adjustments from Order No. PSC-97-09188-FOF-WS. (A.E. No. 2, Adj. 9)

UPIS was decreased by \$1,402 for water (Account No. 330) to remove unsupported capitalized interest. Water UPIS (Account No. 330) was also decreased by \$3,000 to remove the capitalized cost of removing an old storage tank, and



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by \$607 to remove non-utility expense. Staff decreased UPIS for wastewater by \$247 (Account No. 334) to remove unsupported plant additions recorded by the utility. (A.E. No. 2, Adj. 10, 11, 12, 16)

UPIS was increased by \$2,908 (Account No. 334) for water to reclassify and capitalize meters which were expensed by SMS. (A.E. No. 2, Adj. 23)

UPIS for wastewater was increased by \$1,039 (Account No. 363), \$2,567 (Account No. 380), and \$5,667 (Account No. 361), to reflect reclassifications from water UPIS (Accounts Nos. 309 and 331). (A.E. No. 2, Adj. 2, 6, 20)

Staff has reduced UPIS for water by \$2,100 (Account No. 330) to reflect an irreconcilable and unsupported difference between the December 31, 2001, and January 1, 2002, account balances. (A.E. No. 2, Adj. 21)

Staff has increased UPIS by \$15,130 for wastewater (Account No. 380) to capitalize the cost of rewiring the electrical system at the wastewater plant which was expensed by the utility prior to the test year.

SMS is being required by Brevard County to install new high service pumps to its fire protection system. SMS has provided staff with cost estimates for installing the new high service pumps totaling \$120,535. Upon review, staff finds this request reasonable and has increased UPIS for water by \$120,535 (Account No. 311) to reflect the pro forma cost of the high service pumps.

The utility will be replacing two existing pumps with the recommended high service pumps above. Therefore, staff has decreased UPIS by \$16,102 for water to retire the two pumps which will be replaced. Staff estimated the retirement cost by dividing the existing balance in the pumping equipment account by the existing five non-potable pumps to determine a per pump cost. A portion of the pumping equipment account is contributed. Staff has made an adjustment below to remove a pro rata share of pumping equipment retired from CIAC.

By Order No. PSC-03-0115-TRF-WS, issued January 21, 2003, in Docket No. 021087-WS, the Commission approved a monthly flat rate for common area irrigation. This rate was to cover one area of

SMS's service area for which meters had not been installed. The Commission approved this rate with the understanding that the cost to meter this area would be evaluated during this SARC. SMS has provided staff with a cost estimate of \$10,965 to install the seven meters (three 3" and four 4") necessary to meter all irrigation customers not currently metered. Staff has reviewed this estimate and finds it reasonable. Staff has increased UPIS for water by \$10,965 to reflect the pro forma cost of the meters and installation.

Staff has made averaging adjustments of \$51,659 for water and \$52,529 for wastewater. Accordingly, staff finds the appropriate UPIS to be \$1,821,195 for water and \$2,054,546 for wastewater.

Non-used and Useful Plant: Staff has determined the used and useful percentages for each plant account in Issue No. 2. As previously discussed, the potable water treatment plant is considered (with noted exceptions) to be 29.7%, the water distribution system is considered (with noted exceptions) to be 62.6%, the wastewater treatment plant is considered to be 55.9%, and the wastewater collection system is considered 65.4% used and useful. The non-potable water plant is considered 53.5% except for the high service pumps required by Brevard County which are considered 100% used and useful. The non-potable water distribution system is considered 100% used and useful.

The utility's rate base includes several items of contributed plant. The purpose of the used and useful adjustment is to remove from rate base the cost of UPIS not used by current customers. The purpose of CIAC is to remove from rate base that portion of UPIS that was not invested by the utility. Applying a used and useful adjustment to fully contributed plant would result in a double reduction to rate base. Therefore, a used and useful adjustment should not be made to the contributed portions of utility plant in service. Further, staff believes the cost associated with the pro forma high service pumps needed in order to meet the requirements of Brevard County fire code is a necessary expenditure; therefore, pursuant to Section 367.081 (2)(a)2.c., Florida Statutes, the high service pumps should be considered 100% used and useful.

The non-used and useful percentages times the appropriate accounts reflect average non-used and useful plant of \$725,384 for water and \$751,569 for wastewater. Non used and useful accumulated depreciation is \$471,124 for water and \$620,019 for wastewater.

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This results in net non-used and useful plant adjustment of \$254,260 for water and \$131,550 for wastewater.

Contributions in Aid of Construction (CIAC): The utility recorded CIAC of \$447,067 for water and \$567,330 for wastewater as of December 31, 2002. CIAC was decreased by \$27,830 for water and \$21,275 for wastewater to remove margin reserve adjustments from Order No. PSC-95-1417-FOF-WS, incorrectly recorded by the utility.

Pursuant to Audit Exception No. 10, the utility recorded CIAC collected during the test year as revenue. Therefore, CIAC was increased by \$26,450 for water and \$37,000 for wastewater to reclassify fees which were recorded as revenues by SMS. Staff has decreased this account by \$7,538 for water to remove the contributed portion of the pump retirements discussed above. Staff also made averaging adjustments of \$13,225 for water and \$56,434 for wastewater. Accordingly, staff finds the appropriate CIAC to be \$424,924 for water and \$526,621 for wastewater.

Accumulated Depreciation: The utility recorded accumulated depreciation in the amount of \$947,253 for water and \$1,585,569 for wastewater as of December 31, 2002. Staff recalculated accumulated depreciation pursuant to Rule 25-30.140, Florida Administrative Code, from December 31, 1994, through December 31, 2002. The utility requested in its response to the transfer audit (Docket No. 020091, Audit Control No. 02-067-3-1) that "Small Utility Function Composite" depreciation rates be used for some plant accounts. Staff believes that using these lower rates will not adversely affect the customers of SMS. Further, these rates resemble those required of Class B utilities, which SMS will likely qualify as in the near future. Therefore, staff has used the function composite depreciation rates as requested by the utility.

Staff calculated accumulated depreciation for the test year ending December 31, 2002, as \$971,660 for water and \$1,571,230 for wastewater. Therefore, accumulated depreciation was increased by \$24,407 for water and decreased by \$14,339 for wastewater to reconcile the utility's balances to staff's recalculated amounts. Staff also increased this account by \$3,335 to reflect depreciation on the pro forma high service pumps and irrigation meters and decreased this account by \$16,102 for water to reflect the pro forma pump retirements.

Staff calculated averaging adjustments of \$31,775 for water and \$44,666 for wastewater. Accordingly, staff finds the appropriate balance for accumulated depreciation to be \$927,118 for water and \$1,526,564 for wastewater.

Amortization of CIAC: The utility recorded amortization of CIAC of \$164,140 for water and \$219,520 for wastewater. Staff has recalculated amortization using composite depreciation rates and specifically identified depreciation rates related to contributed property discussed above.

Staff calculated amortization of CIAC for the test year ending December 31, 2002, as \$178,020 for water and \$240,091 for wastewater. Therefore, amortization of CIAC was increased by \$13,880 for water and by \$20,571 for wastewater to reflect amortization calculated per staff. Staff has decreased this account by \$7,538 for water to remove the contributed portion of the pump retirements discussed above.

Staff made averaging adjustments of \$8,231 for water and \$10,082 for wastewater. Accordingly, staff finds the appropriate balance for amortization of CIAC to be \$162,251 for water and \$230,009 for wastewater.

Working Capital Allowance: Working Capital is defined as the investor-supplied funds necessary to meet operating expenses or going-concern requirements of the utility. Consistent with Rule 25-30.433(2), Florida Administrative Code, staff has calculated working capital using the one-eighth of operation and maintenance (O&M) expense formula approach. Based on that formula, staff recommends a working capital allowance of \$17,140 (based on O&M of \$137,119) for water and \$8,470 (based on O&M of \$67,760) for wastewater.

Rate Base Summary: Based on the foregoing, staff recommends the appropriate average test year rate base to be \$456,364 for water and \$141,970 for wastewater.

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

**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 9.94% with a range of 8.94% - 10.94%. The appropriate overall rate of return for the utility is 8.94%. (SARGENT, FITCH)

**STAFF ANALYSIS:** The utility recorded the following items in capital structure for the test year: common stock of \$10,000, negative retained earnings of \$681,401, paid-in-capital of \$1,614,482, and long-term debt of \$158,488. Equity represents 85.2% of the utility's capital structure.

According to Audit Exception No. 16, the long-term debt balance recorded by the utility was incorrectly reduced during the test year by deducting the entire semi-annual payment amounts. Staff increased long term debt by \$5,313 to reclassify the interest portions of the payments and arrive at the correct long term debt balance of \$163,801. The long term debt represents 14.8% of the utility's capital structure.

Using the current leverage formula approved by Order No. PSC-03-0707-PAA-WS, issued June 16, 2003, in Docket No. 030006-WS, the appropriate rate of return on equity is 9.94%.

The utility's capital structure has been reconciled with staff's recommended rate base. Staff's recommended return on equity is 9.94% with a range of 8.94% - 10.94% and an overall rate of return of 8.94%. The return on equity and overall rate of return are shown on Schedule No. 2.

**NET OPERATING INCOME:**

**ISSUE 5:** What are the appropriate test year revenues?

**RECOMMENDATION:** The appropriate test year revenues for this utility are \$195,470 for water and \$95,937 for wastewater. (SARGENT, FITCH)

**STAFF ANALYSIS:** The utility booked revenues during the test year of \$201,238 for water and \$118,482 for wastewater.

Pursuant to Audit Exception No. 6, revenues were decreased by \$5,086 for water to remove non-utility interest income. Pursuant to Audit Exception No. 10, revenues were decreased by \$26,450 for water and \$37,000 for wastewater to reclassify service availability charges recorded as revenue to CIAC.

Staff has calculated annualized revenue for the historical test period using the current rates times the number of bills and consumption provided in the billing analysis. By Order No. PSC-03-0115-TRF-WS, issued January 21, 2003, in Docket No. 021087-WS, the Commission approved a flat irrigation rate for unmetered common areas in the service area of SMS. Because this service was provided during the test year, staff included the approved rate of \$661.35 per month in the revenue calculation.

Test year revenues have been increased by \$25,768 for water and \$14,455 for wastewater to reflect annualized revenue based on the existing rates. Accordingly, staff finds that the correct test year revenues are \$195,470 for water and \$95,937 for wastewater.

At the June 18, 2003, customer meeting, several customers voiced concerns that the related party golf course was not paying its fair share for non-potable irrigation. Staff assured customers that revenues had been imputed for the golf course based on consumption. The following is a breakdown of non-potable revenues associated with the golf course:

<u>Total Test Year Non-potable revenue</u>	<u>Test Year Golf Course Non-Potable Revenue</u>	<u>% of Total Test Year Non-Potable Revenue</u>
\$89,797	\$59,604	66%

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Test year revenues are shown on Schedule Nos. 3-A and 3-B and the related adjustments are shown on Schedule No. 3-C.

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

**RECOMMENDATION:** The appropriate amount of operating expense for this utility is \$182,534 for water and \$91,336 for wastewater. (SARGENT, FITCH, JAEGER)

**STAFF ANALYSIS:** 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. 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):**

The utility has allocated common costs equally among water, non-potable, and wastewater systems. Staff has reviewed this allocation method with consideration to number of customers served per system and agrees with the allocation. While the number of bills in the non-potable system is substantially lower than those of potable or wastewater, these bills are to master homeowner associations and distributed to individual customers via their homeowner's dues. Additionally, the primary purpose and cause of expense of the non-potable system is for fire protection. Because fire protection benefits all customers in the service area, staff believes that allocating common costs equally among the three systems fairly distributes these costs. For purposes of this rate case, these allocations are combined for potable and non-potable water systems and will be allocated for rate setting purposes as discussed later in this recommendation. Therefore, common costs are allocated 67% to water (33 1/3% potable plus 33 1/3% non-potable) and 33% TO wastewater.

Further, while reviewing the journals and records of SMS, it appears that in several accounts the utility inadvertently removed one or more month's costs from its books performing opening reversing entries at the beginning of the test year. In order to arrive at the correct per utility balances in these cases, staff had to first "undo" these reversing entries. While this "undo-ing" appears as a substantial increase to the account and is described as annualizing, staff is attempting only to capture the actual costs recorded by the utility for a twelve-month period.



Salaries and Wages - Employees (601/701) - The utility recorded Salaries and Wages expense of \$37,522 for water and \$18,607 for wastewater during the test year. Staff has decreased this account by \$8,826 for water and \$4,413 for wastewater to reclassify payroll taxes to Taxes Other Than Income.

During the test year, the utility's employees consisted of: a general utility manager; part time operator; full time maintenance person; a part time degreed accountant; and a part time bookkeeper. In addition, SMS has stated it will also require the aid of a part time secretary.

The part time operator had been the full time maintenance person and operator for the utility and currently works part time training his full time maintenance replacement. The full time maintenance person earns \$13.91 per hour, and in the near future will be the sole maintenance person. For this reason, staff has only included a single maintenance person's salary ( $\$13.91/\text{hr} \times 40 \text{ hours} \times 52 \text{ weeks} = \$28,933$ ). It was staffs understanding while preparing its preliminary report dated April 28, 2003, that the maintenance person would take over all duties as the part time operator was phased out. However, as a result of discussions following the customer meeting, staff was informed that this person would remain with the utility part time in order to fulfill approximately 4 hours a week of the required operator duties. Therefore, staff has included 4 hours per week for the part time operator at his current rate ( $14.23/\text{hr} \times 4 \text{ hours} \times 52 \text{ weeks} = \$2,960$ ).

The degreed accountant works part time on an as-needed basis and was compensated \$12,000 during the test year, which staff believes is reasonable. The part time bookkeeper is paid \$9.10 per hour for 11 hours per week. The utility has also requested an additional 11 hours per week at \$9.10 per hour for secretarial duties. Staff believes this amount to be reasonable for a part time bookkeeper and secretary. Therefore, total annual salaries for the bookkeeper and secretary will be \$10,410 ( $\$9.10/\text{hr} \times 22 \text{ hours} \times 52 \text{ weeks}$ ).

The utility also requested the utility president and general manager, be paid based on 15 hours per week at \$80 per hour. While staff understands the variety of responsibilities and skills required of this position, it finds the amount of \$80 per hour to

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be unreasonable. After reviewing prior rate cases and a history of salary amounts approved for utility managers in its preliminary Staff Report, staff recommended a rate of \$28.63 per hour for the services of a general manager of a utility of this size and complexity. Staff determined this amount by evaluating the American Water Works Association 1998 Water Utility Compensation Survey. Staff took the highest average salary of the management function with the most responsibilities and adjusted for inflation. (See: Order No. PSC-03-0008-PAA-WU and Order No. PSC-01-2511-PAA-WS)

Based on the customer meeting, staff has recommended the quality of service of the utility to be unsatisfactory. When this is taken into consideration with the fact that the utility has several employees to perform different duties, staff has revised its preliminary rate for the general manager and recommends the rate of \$22.83 per hour for a total annual cost of \$17,807 (\$22.83/hr x 15 hours x 52 weeks). This revised rate represents the average of the AWWA compensation range for all types of managers. The following is a table of recommended salaries and their appropriate allocation:

<u>Employee</u>	<u>Total</u>	<u>Water (67%)</u>	<u>Wastewater (33%)</u>
Part time Oper.	\$ 2,960	\$0	\$ 2,960
Maint. Person	28,933	19,288	9,644
Degreed Accountant	12,000	8,000	4,000
Bookkeeper/ secretary	10,410	6,940	3,470
General Manager	<u>17,807</u>	<u>11,872</u>	<u>5,936</u>
Total per staff	72,110	46,100	26,010
Total per utility	<u>42,890</u>	<u>28,696</u>	<u>14,194</u>
Staff adjustment	\$29,220	\$17,404	\$11,816

Based on the above recommended salaries, staff has increased this account by \$17,404 for water and \$11,816 for wastewater. Accordingly, staff recommends Salaries and Wages expense of \$46,100 for water and \$26,010 for wastewater.

Employees Pension and Benefits (604/704) - The utility recorded Employees Pension and Benefits expense of \$1,728 for water during the test period. Staff has increased this account by \$1,190 for water and \$1,459 for wastewater to annualize this expense. Staff recommends pension and benefits expense to be \$2,918 for water and \$1,459 for wastewater.

Sludge Removal Expense (711) - The utility did not record an amount in this account during the test period. Staff increased this account by \$1,890 to reclassify sludge removal expense recorded in Contractual Services - Other (Account No. 736). Staff believes that \$1,890 per year is reasonable for sludge hauling expenses; therefore, no additional adjustments were made to this account.

Purchased Power (615/715) - The utility recorded Purchased Power of \$19,702 for water and \$9,921 for wastewater during the test period. Staff was able to verify eleven power bills and calculate an annualized amount of \$35,947. This amount was allocated 75% to water and 25% to wastewater based on staff's engineering evaluation of power usage. Additionally, SMS became responsible for powering a lift station in its service territory late in the test year. Staff was able to verify the only power bill paid by SMS in the test year for the lift station and calculate annualized purchased power of \$842 for the lift station. The total cost of purchased power for the lift station was allocated to wastewater. These allocations resulted in an increase to purchased power of \$7,258 for water and a decrease of \$92 for wastewater. Therefore, staff recommends Purchased Power expense of \$26,960 for water and \$9,829 for wastewater.

Fuel for Power Production (616) - The utility recorded fuel for power production amounts of \$250 for water and \$125 for wastewater. Staff increased this account by \$55 for water to reclassify fuel recorded in Chemicals (Account No. 618). Staff also increased this account by \$18 for water and decreased it by \$18 for wastewater to reflect proper allocation based on power usage of 75% to water and 25% to wastewater as discussed above. Therefore, staff recommends fuel expense of \$323 for water and \$107 for wastewater.

Chemicals (618/718) - The utility recorded Chemicals expense of \$6,730 for water and \$2,747 for wastewater during the test period. Staff has decreased this account by \$803 for water to reclassify transportation cost of \$160 to the Transportation expense account, repair expenses of \$588 to Contractual Services - Other, and fuel

expense of \$55 to Fuel for Power Production. Staff has also decreased this account by \$625 for wastewater to reclassify testing expenses of \$375 to Contractual Services - Testing, and consumer confidence report expense of \$250 to Contractual Services - Other.

Based on an analysis of invoices obtained from the utility, staff has determined that the average monthly cost for all chemicals used in the treatment of potable water is \$588, resulting in an annual expense of \$7,061. Annual cleaning and disinfecting of the non-potable water storage tank costs the utility \$834. Therefore, staff has increased the Chemicals expense account by \$1,968 for water to annualize the chemical expense for the test year.

Staff has also determined the monthly expense for disinfection of the wastewater contact chamber to be \$152, resulting in an annual expense of \$1,828. Therefore, staff has decreased the Chemicals expense account by \$294 for wastewater to annualize the chemical expense for the test year. Staff recommends Chemicals expense of \$7,895 for water and \$1,828 for wastewater.

Materials and Supplies (620/720) - The utility recorded Materials and Supplies of \$4,937 for water and \$2,580 for wastewater. In staff's preliminary report dated April 28, 2003, adjustments were made to this account to reclassify and capitalize amounts that staff believed to be non-recurring. The utility expressed concern over these adjustments, asking that staff review these repairs and how they were treated. Upon further review, staff has determined that some previous adjustments were not necessary and did not require capitalization. However, pursuant to Audit Exception No. 2, staff has decreased this account by \$2,908 for water to reclassify and capitalize meters that were expensed by the utility (water Account No. 334 - \$2,908). Staff recommends Materials and Supplies expense of \$2,029 for water and \$2,580 for wastewater.

Contractual Services - Professional (631/731) - The utility recorded Contractual Services - Professional of \$20,933 for water and \$3,692 for wastewater during the test period. Pursuant to Audit Exception No. 13, staff decreased this account by \$4,572 for water and by \$2,286 for wastewater to remove legal costs associated with transfer Docket No. 020091-WS. The utility believes that these costs should be capitalized and amortized over a 3 - 4 year period. The utility also believes that since staff is using information from the transfer audit that the cost associated with

reviewing that audit should be included. The transfer audit was required as part of the transfer proceedings. The fact that staff has relied on findings from that audit in this SARC does not make the utility's cost associated with responding to this audit a rate case expense. It is part of the cost of acquisition. Acquisition costs would be considered as part of a potential acquisition adjustment. However, the transfer was subsequently determined to be a transfer of majority of organizational control (TMOC) and an acquisition adjustment is not applicable.

As a practice matter, staff does not believe that rates should be impacted negatively simply because ownership has changed hands. If the utility could demonstrate savings to customers as a result of the transfer, staff may consider recommending a portion of the acquisition costs as an incentive based adjustment. However, staff does not find, and the utility has not provided, an explanation of a material benefit to customers solely as a result of the transfer.

This account was increased by \$836 for water and \$418 for wastewater to reclassify the cost of payroll services from Miscellaneous Expense (Account Nos. 675/775). Staff increased this account by \$1,901 for water to reclassify attorney's fees recorded in Contractual Services - Other (Account No. 636).

The utility incurred \$7,664 of expense associated with obtaining an operating permit for its wastewater plant. This operating permit is a 5-year permit, therefore, staff has increased this account by \$1,533 for wastewater to reflect test period amortization of the cost associated with renewing SMS's operating permit over 5 years.

In Issue No. 3 staff is recommending inclusion of a pro forma high service pump system. The utility included a portion of this plant addition during the test year and has included it in this account. Staff has decreased this account by \$13,500 for water to remove capitalized engineering costs associated with the pro forma high service pumps already included in staff's recommended pro forma.

The above adjustments result in a net reduction of Contractual Services - Professional of \$15,335 for water and \$335 for wastewater. Staff recommends Contractual Services - Professional

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expense in the amount of \$5,598 for water and \$3,357 for wastewater.

Contractual Services - Testing (635/735) - The utility did not record amounts for this account during the test period. Staff increased this account by \$200 for water and \$378 for wastewater to reclassify testing expense from Contractual Services - Other (Account No. 636/736). Staff increased this account by \$375 for wastewater to reclassify testing costs recorded in Chemicals (Account No. 718).

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

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POTABLE WATER - DEP REQUIRED TESTING

<u>Test</u>	<u>Frequency</u>	<u>Annual Amount</u>
Microbiological	4/Monthly	\$960
Primary Inorganics	3 Years	\$128
Secondary Inorganics	3 Years	\$70
Asbestos	1/9 Years	\$35
Nitrate & Nitrite	Annual	\$55
Volatile Organics	Qrtly/1st yr/36 mos. Subsequent/Annual	\$300
Pesticides & PCB	3 Years	\$312
Radionuclides Group I	3 Years	\$42
Radionuclides Group II	3 Years	\$250
Unregulated Organics Group I	Qrtly/1st yr./9yr.	\$275
Unregulated Organics Group II	3 Years	\$50
Unregulated Organics Group III	3 Years	\$83
Lead & Copper	Biannual	<u>\$225</u>
Total		<u>\$2,785</u>

WASTEWATER - DEP REQUIRED TESTING

<u>Test</u>	<u>Frequency</u>	<u>Annual Amount</u>
CBOD/TSS	Monthly	\$600
Fecal Coliform	Monthly	\$360
Nitrate	Monthly	\$360
Sludge Analysis	Annual	<u>\$350</u>
Total		<u>\$1,670</u>

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In addition to the DEP required testing above, the St. Johns River Water Management District (SJRWMD) requires non-potable water testing in the amount of \$520 per year. Staff has increased this account by \$3,105 (\$2,785 + \$520 - \$200) for water and by \$917 (\$1,670 - \$378 - \$375) for wastewater to annualize DEP required testing. Staff recommends Contractual Services - Testing expense of \$3,305 for water and \$1,670 for wastewater.

Contractual Services - Other (636/736) - The utility recorded Contractual Services - Other of \$34,119 for water and a negative \$1,118 for wastewater during the test period. As discussed above, the utility made several reversing entries at the beginning of the test year. Several of these adjustments were made more than once which effectively removed the expense from the utility's books twice. This is the case in this account and is the reason the utility has a negative balance for wastewater. In order to correct the utility's wastewater balance staff increased this account by \$18,818 to eliminate the double reduction.

Staff has identified the annual operator cost of \$16,760 for water and \$1,392 for wastewater. The utility recorded \$15,171 for water and \$1,680 for wastewater for operator services. This account has been increased by \$1,589 for water and decreased by \$289 for wastewater to annualize and allocate operator expense contracted by Accurate Utilities, Inc.

Similar to the Materials and Supplies account, staff amortized repairs it believed were non-recurring pursuant to Rule 25-30.433(8), Florida Administrative Code. After reviewing these repairs at the utility's request, staff now believes that only one such repair requires amortization. The utility recorded \$3,303 for generator repairs during the test year. Staff has reduced this account by \$1,707 for water and \$936 for wastewater to allocate based on power usage (75% to water and 25% to wastewater) and amortize generator repairs performed during the test year. Staff believes that this repair is non-recurring due to the relative infrequent use of the generator.

Staff has also decreased this account by \$1,890 for wastewater to reclassify sludge hauling cost to Sludge Removal expense (Account No. 711). Staff increased this account by \$250 for water to reclassify preparation of annual confidence report from Chemicals (Account No. 718). Staff reclassified \$200 for water and \$378 for wastewater to Contractual Services - Testing (Account Nos.



635/735). This account was increased by \$588 for water to reclassify repairs from Chemicals (Account No. 618). Staff increased this account by \$634 for water and \$317 for wastewater to reclassify groundskeeping costs from Miscellaneous Expense (Account Nos. 675/775). Attorney's fees of \$1,901 for water were reclassified to Contractual Services - Professional (Account No. 631).

Staff's net adjustments to this account is a decrease of \$747 for water and an increase of \$15,642 for wastewater. Staff recommends Contractual Services - Other of \$33,372 for water and \$14,524 for wastewater.

Rents (640/740) - The utility did not record an amount for this account during the test period. Prior to staff's preliminary report, SMS had communicated to staff that due to a pending zoning complaint, the utility may have to rent additional office space. The utility had requested \$350 per month and an initial delivery/set-up charge of \$2,000 for a portable office building. SMS was to provide staff with a written estimate and/or contract for said portable building within 10 days of the customer meeting in order for these amounts to remain in Rents expense.

In a letter dated June 20, 2003, staff reminded SMS that this information had not been received, and if it weren't received by June 30, 2003, it would not be included in staff's final recommendation. The utility's counsel responded in a letter dated July 1, 2003, stating that the utility would instead utilize a 120 square foot office located in the community clubhouse for its office needs. Enclosed in this letter was an estimate of average per square foot rental rate of \$15 to \$18 (\$16.50 average) for the Melbourne Beach area. SMS submitted a request of Rents expense of \$23,760 annually (120 sq. ft. x \$16.50 x 12 months). Staff contacted area real estate offices to inquire whether the per square foot rate was generally quoted monthly or annually in order to determine the reasonableness of the request. According to two separate real estate offices, the general practice in rental rates is to quote per square foot rates on an annual basis. For example, the \$15 to \$18 per square foot represents the total annual cost of each square foot (120 x \$15 = \$1,800 to 120 x \$18 = \$2,160). In addition to clarifying this issue, staff was also informed that \$15/sq. ft. represented the high average for Melbourne Beach. Staff has calculated Rents expense based on an annual cost of \$15 per square foot, or \$1,800 (120 sq. ft. x \$15 = \$1,800).

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For these reasons, staff has increased this account by \$1,200 (120 X \$15 X 67%) for water, and \$600 (120 X \$15 X 33%) for wastewater. Staff recommends Rents expense in the amount of \$1,200 for water and \$600 for wastewater.

Transportation Expense (650/750) - The utility recorded Transportation expense of \$1,119 for water and \$550 for wastewater. Staff increased this account by \$160 for water to reclassify Transportation expense recorded in Chemicals (Account No. 650).

Staff decreased this account by \$60 for water and increased this account by \$60 for wastewater to properly allocate Transportation expense between water and wastewater. Staff recommends Transportation expense in the amount of \$1,219 for water and \$610 for wastewater.

Insurance Expense (655/755) - The utility recorded Insurance expense of \$6,240 for water and \$3,120 for wastewater. These amounts represented the premiums on two policies, one of which was for property damage, the other general liability. As noted in Audit Exception No. 12, the utility was unable to present one of the insurance policies for staff's verification. Because ownership of SMS changed hands during the test year, staff requested copies of both insurance policies in order to verify that the new parent company still has these or similar policies active and up to date. SMS was to provide staff with the insurance policies for verification within 10 days of the customer meeting.

In a letter dated June 20, 2003, staff reminded the utility that this requested information had not been received and would not be included in staff's final recommendation if not received by June 30, 2003. In a letter dated July 1, 2003, utility's counsel enclosed a copy of SMS' liability policy at an annual cost of \$2,183, but no information on any other insurance policies held by the utility.

Staff recognizes that in a rate proceeding, it is the utility's burden to prove that its expenses are prudent and reasonable. Florida Power Corporation v. Cresse, 413 So. 2d 1187, 1191 (Fla. 1982). See also Rolling Oaks Utilities Inc. v. Florida Public Service Commission, 533 So. 2d 770, 773 (Fla. 1<sup>st</sup> DCA 1988) and South Florida Natural Gas Co. v. Public Service Commission, 534 So. 2d 695, 697 (Fla. 1988). Because only one insurance policy was provided for verification by staff, only this policy should be

allowed to be recovered through rates. Therefore, staff has decreased this account by \$4,784 for water and \$2,392 for wastewater to reflect the cost of the liability policy. Staff recommends Insurance expense of \$1,456 for water and \$728 for wastewater.

Regulatory Commission Expense (665/765) - The utility did not record amounts for this account during the test period. The utility paid a rate case filing fee of \$1,000 for water and wastewater each. Therefore, staff increased the Regulatory Commission Expense account by \$1,000 each for water and wastewater.

The utility has requested rate case expense of \$18,858 for outside accounting and legal consultation. This total includes expenses billed to date as well as an estimate for rate case expense through the agenda and rate implementation. The main purpose of the staff assisted rate case (SARC) is to help minimize rate case expense and its effect on ratepayers by assisting small utilities that do not have the technical ability in house to complete the minimum filing requirements of a file and suspend rate case. However, Rule 25-30.455(1), Florida Administrative Code, allows reasonable and prudent expense associated with reviewing and compiling information from staff.

In order to be consistent with the intent of the SARC process, staff believes that Rule 25-30.455(1), Florida Administrative Code, should be followed conservatively and should be applied in light of the assistance staff provides in a SARC. Staff believes that rate case expense should be strictly viewed and items should not be allowed for which either staff or the utility can readily produce without the use of consultants. It is the utility's burden to justify its requested costs to the Commission. Florida Power Corp. v. Cresse, 413 So. 2d 1187, 1191 (Fla. 1982).

The utility has provided staff with documentation to justify its requested rate case expense. However, it would constitute an abuse of discretion to automatically award rate case expense without reference to the prudence of the costs incurred in the rate case proceedings. Meadowbrook Util. Sys., Inc. v. FPSC, 518 So. 2d 326, 327 (Fla. 1<sup>st</sup> DCA 1987), rehearing denied, 529 So. 2d 694 (Fla. 1988). Despite this fact, the Commission has a broad discretion with respect to allowance of rate case expense. Florida Crown Util. Servs., Inc. v. Utility Regulatory Bd. Of Jacksonville, 274

So. 2d 597, 598 (Fla. 1<sup>st</sup> DCA 1973). Therefore, staff recommends the following adjustments be made to rate case expense.

Staff has decreased the requested rate case expense by \$660 to remove accounting expenses associated with reviewing the PAA order and consulting with utility counsel after the agenda. Because the utility cannot protest a PAA Order in a SARC where an increase is granted (see Section 367.0814(6), Florida Statutes), staff believes that it would not be appropriate to allow built-in costs for review of such an order. Further, if the customers protest this case, the utility could recover additional rate case expense in the final disposition of the SARC.

Staff decreased this account by \$675 to remove the cost associated with preparing the customer notice and tariffs. This is a service that is performed by staff in a SARC. Staff however did not remove the cost of copying and distributing the customer notice since staff believes this is a legitimate business expense.

The utility requested four hours each for its legal and accounting consultants to review staff's recommendation. Although staff believes that allowing the consultants a cost to review the recommendation is reasonable, staff believes that the hours should be adjusted to two hours each. Staff believes this is reasonable since the actual invoiced cost for reviewing the staff report (similar in length and format to the recommendation) was two hours for each consultant. Therefore, staff has decreased requested rate case expense by \$780.

Staff decreased the requested rate case expense by \$1,236 to remove the cost associated with documentation provided to staff by the utility's legal consultant. Staff requested the utility to provide a written estimate for the cost of a new rental building and copies of the utility's existing insurance policies. This information was requested in the body of the staff report dated April 28, 2003. Staff believes that this is information the utility could have supplied to staff. However, the utility chose to have its attorney provide the copies. Staff does not believe it is reasonable or prudent to pass on the attorney's cost of providing this information, which is consistent with Order No. PSC-03-0699-PAA-SU, issued June 9, 2003, in Docket No. 020331-SU.

Staff decreased the requested rate case expense by \$684 to remove the cost of letters associated with providing staff with

information that was previously obtained through the utility. Specifically, this reduction is related to two letters discussing estimated rate case expense for this utility. The first letter was drafted on March 4, 2003. Staff responded in a letter dated March 10, 2003, advising that rate case expense should be kept at a minimum in a SARC. The legal consultant responded with a letter dated March 13, 2003, acknowledging receipt of staff's response. However, by letter dated January 29, 2003, the utility already informed staff that it would be employing consultants and provided staff with an estimated cost. Staff believes that the March letters informing staff of the estimated cost are duplicate information and should not be included.

Staff decreased the requested rate case expense by \$6,672 to remove expenses associated with review of the transfer audit. The utility has argued that since the transfer ultimately became a transfer of majority organizational control rather than a purchase and since staff relied on findings in the transfer audit, that the expense associated with reviewing this audit should be included in rate case expense. Staff does not believe these are rate case expenses. These expenses were incurred in association with Docket No. 020867-WS (transfer docket). As such, these expenses should be included as part of the acquisition cost of the utility, not rate case expense. The fact that the type of acquisition changed from a purchase to a transfer of majority organizational control, does not change the fact that the audit was associated with the transfer docket not this SARC. Staff often relies on prior transfer audits and transfer orders to establish rate base, the cost incurred by the utility in evaluating these transfer audits and transfer orders are not rate case expense, they are expenses associated with the transfer. Therefore, staff believes expenses associated with the transfer audit should not be included as rate case expense.

Based on the above adjustments, staff believes that \$10,149 is the appropriate amount for rate case expense. The rate case filing fee portion of this amount should be allocated \$1,000 to water and \$1,000 to wastewater. The remaining \$8,149 of rate case expense should be allocated 2/3 to water and 1/3 to wastewater (\$5,433 for water and \$2,716 for wastewater)

Staff has decreased regulatory commission expense by \$4,825 (\$6,433 - \$6,433/4 years) for water and \$2,787 (\$3,716 - \$3,716/4 years) for wastewater to amortize rate case expense over four years pursuant to Section 367.0816, Florida Statutes. Staff recommends

regulatory commission expense of \$1,608 for water and \$929 for wastewater.

Miscellaneous Expense (675/775) - The utility recorded Miscellaneous expense of \$42,576 for water and \$21,719 for wastewater for the test period. Staff has reduced this account by \$750 for both water and wastewater to remove the SARC filing fee recorded above.

This account was decreased by \$6,084 for water and \$3,042 for wastewater to remove legal costs associated with transfer Docket No. 020091-WS. Staff decreased this account by \$29,612 for water and \$14,806 for wastewater to remove the recording of forgiven debt and associated interest to SMS's former parent company.

Staff reclassified payroll service costs of \$836 for water and \$418 for wastewater to Contractual Services - Professional (Account Nos. 631/731). Groundskeeping costs of \$634 for water and \$317 for wastewater were reclassified to Contractual Services - Other (Account Nos. 636/736). This account was decreased by \$178 for water and \$89 for wastewater to remove penalties paid to Brevard County. Staff also removed the cost of a temporary meter reader as this duty is the responsibility of the maintenance person. Therefore, \$180 for water and \$90 for wastewater has been removed.

SMS recorded \$1,046 for water and \$523 for wastewater the cost of running help wanted ads. Because staff believes this expense is non-recurring, this account was decreased by \$836 for water and \$418 for wastewater to reflect amortizing the expense of help wanted ads placed during the test year over five years pursuant to Rule 25-30.433(8), Florida Administrative Code. The utility also recorded \$412 for water and \$206 for wastewater for new billing software. Staff believes this cost should also be amortized over 5 years and has decreased this account by \$330 for water and \$165 for wastewater to reflect the amortization of the new billing software purchased during the test year.

The above adjustments result in a decrease to this account of \$39,440 for water and \$20,095 for wastewater. Accordingly, staff recommends Miscellaneous expense of \$3,136 for water and \$1,624 for wastewater.

Operation and Maintenance Expense (O&M Summary) - The total O&M adjustment is a decrease of \$38,737 for water and an increase of

\$5,802 for wastewater. Staff's recommended O&M expenses are \$137,119 for water and \$67,760 for wastewater. O&M expenses are shown on Schedules 3-D and 3-E.

Depreciation Expense - The utility recorded net Depreciation expense of \$38,180 (\$49,302 Depreciation and \$11,122 CIAC) for water and \$73,350 (\$85,082 Depreciation and \$11,732 CIAC) for wastewater. Staff has calculated depreciation expense using the prescribed rates in Rule 25-30.140, Florida Administrative Code, including the composite rates requested by the utility. Staff calculated depreciation expense of \$70,878 for water and \$28,505 for wastewater. Staff has increased this account by \$21,576 for water and decreased this account by \$56,577 for wastewater to reflect staff's calculated depreciation amounts. Staff has decreased depreciation expense by \$29,369 for water and \$6,811 for wastewater to reflect non-used and useful depreciation.

The utility raised concern with the large reduction in wastewater depreciation expense and asked staff to review its calculations. Staff has attributed the reduction to Account No. 380, Treatment Equipment. This account became fully depreciated during the test year at \$1,216,825. Because this account is fully depreciated, the approximate \$67,000 of annual depreciation expense associated with this account should not be included in rates on a going forward basis.

Staff has calculated test year amortization of CIAC, using specifically identified and composite depreciation rates. Staff calculated amortization of CIAC of \$16,489 for water and \$12,224 for wastewater. This account was decreased by \$5,367 for water and \$492 for wastewater to reflect staff's calculation of amortization of CIAC. Non-used and useful depreciation and amortization of CIAC has a negative impact on depreciation expense. Staff's calculated net depreciation expense is \$25,020 for water and \$9,470 for wastewater.

Taxes Other Than Income - The utility recorded Taxes Other Than Income of \$16,923 for water and \$8,445 for wastewater reflecting only property taxes paid during the test year. Staff has decreased this account by \$10,608 for water and \$1,342 for wastewater to allocate the property taxes based on plant value and to remove the non-used and useful portions of property taxes.

Staff increased this account by \$8,796 for water and \$4,317 for wastewater to reflect RAFs on staff's annualized revenues. This account was increased by \$8,826 for water and \$4,413 for wastewater to reclassify payroll taxes from Salaries (Account Nos. 601/701). Staff decreased the account by \$4,796 for water and \$2,091 for wastewater to annualize payroll taxes based on the salaries recommended above. Staff recommends test year Taxes Other Than Income of \$19,141 for water and \$13,742 for wastewater.

Income Tax - The utility is a Florida Corporation and therefore a tax paying entity. However, review of the utility's tax records show a loss carry-forward of approximately \$433,000. For this reason, staff believes no Income Tax should be shown as this carry-forward should cover any income taxes due in the foreseeable future.

Operating Revenues - An adjustment to increase operating revenues by \$27,863 for water and \$8,091 for wastewater has been made to reflect the change in revenue required to cover expenses and allow the recommended return on investment.

Taxes Other Than Income - An adjustment to increase taxes other than income by \$1,254 for water and \$364 for wastewater has been made to reflect regulatory assessment fees of 4.5% on the change in operating revenues.

Operating Expenses Summary - The application of staff's recommended adjustments to the audited test year operating expenses results in staff's calculated operating expenses of \$182,534 for water and \$91,336 for wastewater.

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



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**REVENUE REQUIREMENT:****ISSUE 7:** What are the appropriate revenue requirements?**RECOMMENDATION:** The appropriate revenue requirements for water and wastewater are \$223,333 and \$104,028, respectively. (SARGENT, FITCH)**STAFF ANALYSIS:** The utility should be allowed an annual increase of \$27,863 (14.25%) for water and \$8,091 (8.43%) for wastewater. This will allow the utility the opportunity to recover its expenses and earn a 8.94% return on its investment. The calculations are as follows:

	<u>Water</u>	<u>Wastewater</u>
Adjusted rate base	\$456,364	\$141,970
Rate of Return	x .0894	x .0894
Return on investment	<u>\$40,799</u>	<u>\$12,692</u>
Adjusted O & M expense	\$137,119	\$67,760
Depreciation expense (Net)	\$25,020	\$9,470
Taxes Other Than Income	<u>\$20,395</u>	<u>\$14,106</u>
Revenue Requirement	<u>\$223,333</u>	<u>\$104,028</u>
Adjusted Test Year Revenues	<u>\$195,470</u>	<u>\$95,937</u>
Percent Increase/(Decrease)	<u>14.25%</u>	<u>8.43%</u>

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

**ISSUE 8:** What are the appropriate amounts of common water system revenue requirement line items (cost of service) allocable to the potable and nonpotable water systems, respectively?

**RECOMMENDATION:** The appropriate amount of common water system cost of service elements allocable to the potable system is \$45,735, and the corresponding amount allocable to the nonpotable system is \$19,021. (LINGO, FITCH)

**STAFF ANALYSIS:** Staff analyzed the cost of service elements associated with both the water and wastewater systems, and developed preliminary allocations of fixed and variable cost recovery to apply to each cost of service line item. In addition, staff determined that certain portions of the overall water system cost of service were common costs between the potable and nonpotable water systems. The challenge in this case was to design a methodology that appropriately allocates these common water system cost of service elements between the potable and nonpotable systems.

Staff believes an appropriate methodology of allocating the common fixed cost of service elements associated with the water system is based on the total number of ERCs of the combined potable and nonpotable systems. For example, the number of ERCs associated with the potable system relative to the total number of ERCs for the combined water systems is approximately 95%. The 95% figure is then multiplied by each preliminary fixed cost allocation for the overall water system, resulting in the portion of common fixed costs that were allocated to the potable system. Correspondingly, the number of ERCs associated with the nonpotable system relative to the total number of ERCs for the combined water systems is approximately 5%. The 5% figure is then multiplied by each preliminary fixed cost allocation for the overall water system, resulting in the portion of common fixed costs that were allocated to the nonpotable system.

Similarly, staff believes an appropriate methodology of allocating the common variable cost of service elements associated with the water system is based on the total number of gallons sold by the combined potable and nonpotable systems. The number of gallons sold by the potable system relative to the total number of gallons sold by the combined water systems is approximately 4%. The 4% figure is then multiplied by each preliminary variable cost allocation for the overall water system, resulting in the portion

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of common variable costs that were allocated to the potable system. Correspondingly, the number of gallons sold by the nonpotable system relative to the total number of gallons sold by the combined water systems is approximately 96%. The 96% figure is then multiplied by each preliminary variable cost allocation for the overall water system, resulting in the portion of common variable costs that were allocated to the nonpotable system.

Based on the analysis discussed above, the appropriate amount of common water system cost of service elements allocable to the potable system is \$45,735, and the corresponding amount allocable to the nonpotable system is \$19,021. This analysis is included on the following page.

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ANALYSIS OF COMMON COSTS ASSOCIATED WITH POTABLE AND NONPOTABLE SERVICE							
(a)	(b)	(c)	(d)	(e) = (b) x (c) x 95%	(f) = (b) x (c) x 5%	(g) = (b) x (d) x 4%	(h) = (b) x (d) x 96%
		Cost Recovery Allocs		Fixed Allocations		Variable Allocations	
Line Items	Common Costs	Fixed	Variable	Potable	Nonpotable	Potable	Nonpotable
Salaries & Wages - Employees	\$46,100	75%	25%	\$32,828	\$1,747	\$725	\$10,800
Salaries & Wages - Officers	0	75%	25%	0	0	0	0
Employee Pensions & Benefits	2,918	75%	25%	2,078	111	46	684
Purchased Water	0	0%	100%	0	0	0	0
Purchased Power	0	0%	100%	0	0	0	0
Fuel for Power Production	1	0%	100%	0	0	0	1
Chemicals	0	0%	100%	0	0	0	0
Materials & Supplies	0	50%	50%	0	0	0	0
Contract Services - Billing	0	50%	50%	0	0	0	0
Contract Services - Professional	0	50%	50%	0	0	0	0
Contract Services - Testing	0	50%	50%	0	0	0	0
Contract Services - Other	5,258	50%	50%	2,496	133	165	2,464
Rents	1,200	100%	0%	1,139	61	0	0
Transportation Expense	1,219	50%	50%	579	31	38	571
Insurance Expense	1,456	100%	0%	1,382	74	0	0
Regulatory Commission Expense	1,608	50%	50%	763	41	51	753
Bad Debt Expense	0	50%	50%	0	0	0	0
Miscellaneous Expense	0	50%	50%	0	0	0	0
Depreciation	0	100%	0%	0	0	0	0
TOFIT Excl RAFs	1,414	100%	0%	1,343	71	0	0
Return on Rate Base	668	0%	100%	0	0	42	626
Additional Revs Assoc w/RAFs	2,914	47%	53%	2,008	107	50	749
<b>TOTAL COMMON COST OF SERVICE</b>	<b>\$64,756</b>			<b>\$44,617</b>	<b>\$2,374</b>	<b>\$1,118</b>	<b>\$16,647</b>

**ISSUE 9:** Is a continuation of the utility's current base facility charge (BFC)/gallonge charge rate structure appropriate for this utility?

**RECOMMENDATION:** Yes, a continuation of the utility's current BFC/gallonge charge rate structure is appropriate for this utility. A conservation adjustment of 26.76% should be made such that the final BFC remains at the current rate of \$16.88, with the entire water system revenue requirement increase allocated to the gallonge charge. (LINGO)

**STAFF ANALYSIS:** The utility's current rate structure consists of a base facility charge and uniform gallonge charge rate structure. This has traditionally been the Commission's preferred rate structure. This rate structure is considered usage sensitive because customers may reduce their total bill by reducing their water consumption.

Over the past several years, the Water Management Districts (WMDs) have requested that an inclining block rate structure be implemented whenever possible to encourage conservation. However, due to the low average monthly consumption of the potable water customers and the seasonality of the residential customer base, staff does not recommend implementing an inclining block rate structure for this utility.

Although implementation of an inclining-block rate structure is not recommended at this time, one method of making rates more conservation-oriented is to shift more of the revenue recovery to the gallonge charge. Based on staff's initial analysis of fixed versus variable revenue recovery, the utility would recover 60% (\$67,197) from the BFC and the remaining 40% (\$45,164) from the gallonge charge. The initial BFC revenue recovery allocation of 60% is outside the St. Johns River Water Management District's preference of no more than 40% being recovered through the BFC. In addition, a BFC revenue recovery of 60% is at a level much greater than the Commission's practice of recovering no more than 40% through the BFC.

Staff ran several iterations of the conservation adjustment calculation to determine our recommended adjustment, an analysis of which is contained in the table on the following page.

PRICE INCREASES AT VARIOUS CONSERVATION ADJUSTMENTS					
	Conservation Adjustment (CA) Percentages with Resulting BFC Allocation Percentages				
Monthly Consumption	CA=0% BFC=60%	CA=10% BFC=54%	CA=20% BFC=48%	CA=26.75% BFC=44%	CA=33% BFC=40%
0 kgal	36.6%	22.9%	9.2%	0.0%	-8.5%
1 kgal	23.1%	15.6%	8.0%	2.8%	-1.9%
2 kgal	14.9%	11.0%	7.2%	4.5%	2.1%
3 kgal	9.3%	7.9%	6.6%	5.7%	4.9%
5 kgal	2.1%	4.0%	5.9%	<b>7.2%</b>	8.4%
10 kgal	-6.3%	-0.6%	5.1%	8.9%	12.5%
15 kgal	-10.0%	-2.7%	4.8%	9.7%	14.4%
20 kgal	-12.2%	-3.9%	4.6%	10.2%	15.4%

As shown above, a conservation adjustment less than 26.76% results in price increases that reflect the opposite of conservation pricing goals and Commission practice: the greatest percentage price increases are found at the lesser, nondiscretionary levels of consumption, while greater, more discretionary consumption levels would enjoy lesser percentage increases. At a conservation adjustment of 26.76%, the current BFC of \$16.88 would remain unchanged, with the entire revenue requirement allocated to the gallonage charge. Under this rate structure, the percentage price increases result in a pattern consistent with conservation pricing goals and Commission practice, because the percentage price increase grows as consumption increases.

Staff also calculated preliminary rates based on a 33% conservation adjustment, which would result in a BFC of 40%. However, this conservation adjustment, while resulting in a BFC allocation percentage consistent with SJRWMD preference and Commission practice, would result in price decreases at consumption levels of 1 kgal or less. As mentioned earlier, SMS has a seasonal customer base. An analysis of the utility's residential billing data reveals that approximately 31% of the utility's bills have been captured at a consumption level of 1 kgal or less. In addition, staff's recommended revenue requirement increase is approximately 14%. Further analysis of the utility's residential

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billing data reveals that approximately 85% of the bills would receive price changes ranging from only -8.5% to 4.9%. In this case, staff believes that lowering the BFC to 40% would jeopardize the utility's ability to meet its ongoing obligations during certain months of the year.

Therefore, staff recommends that a continuation of the utility's current BFC/gallage charge rate structure is appropriate for this utility. A conservation adjustment of 26.76% should be made such that the final BFC remains at the current rate of \$16.88, with the entire water system revenue requirement increase allocated to the gallage charge.

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**ISSUE 10:** Is an adjustment to reflect repression of consumption due to the price changes appropriate in this case, and, if so, what is the appropriate repression adjustment?

**RECOMMENDATION:** No, a repression adjustment is not appropriate in this case. (LINGO)

**STAFF ANALYSIS:** At the overall average monthly water consumption level of 2,821 gallons per month, the preliminary monthly price increase to a typical potable residential water customer, before any repression adjustment, is approximately 6%. Based on the relatively low average monthly consumption per customer, coupled with the nominal percentage increase at average consumption, staff believes that a repression adjustment is not appropriate in this case.



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**ISSUE 11:** What is the appropriate rate structure and rate for nonpotable water service?

**RECOMMENDATION:** The appropriate rate structure for nonpotable water service is a continuation of the gallonage-charge only rate structure, and the appropriate rate is \$0.69 per one thousand gallons (kgal). (LINGO, FITCH)

**STAFF ANALYSIS:** As discussed in Order No. PSC-95-1417-FOF-WS, issued on November 21, 1995, and subsequently made final by Order No. PSC-96-0591-FOF-WS, issued on May 16, 1996 in Docket No. 941234-WS, Aquarina provides irrigation and fire protection through a totally isolated non-potable system. The groundwater is pumped from a dedicated well and piped, without treatment, throughout the irrigation system. Due to the configuration of the irrigation system, both the number of meters and the size of the meters varies from neighborhood to neighborhood and, therefore, from HOA to HOA. Because of the meter size and location variations, the Commission found that a base facility/gallonage charge rate structure would not be an equitable method of cost recovery. Alternatively, the Commission found it appropriate to implement a gallonage charge-only rate structure. Staff believes it appropriate to continue the gallonage-charge only rate structure.

As discussed in Issue No. 8, staff determined that the common costs allocable to nonpotable water service are \$19,021. Additional analysis revealed that costs totaling \$91,952 were directly allocable to the nonpotable system, yielding a total revenue requirement for the nonpotable water system of \$110,973. When this revenue requirement is divided by the 160,358 kgal of nonpotable gallons sold during the test year, the resulting rate for nonpotable service is \$0.69 per kgal.

Based on the foregoing, staff recommends that the appropriate rate structure for nonpotable water service is a continuation of the gallonage-charge only rate structure, and the appropriate rate is \$0.69 per one thousand gallons (kgal).

**ISSUE 12:** What are the appropriate rates for each system?

**RECOMMENDATION:** The rates should be designed to produce revenue of \$223,333 for water and \$104,028 for wastewater excluding miscellaneous service charges, 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 sheets, pursuant to Rule 25-30.475(1), Florida Administrative Code. The rates should not be implemented until staff has approved the proposed customer notice, the notice has been received by the customers, and staff has verified that the tariffs are consistent with the Commission's decision. The utility should provide proof of the date notice was given no less than 10 days after the date of the notice. (SARGENT, FITCH, LINGO, HUDSON)

**STAFF ANALYSIS:** As discussed in Issue No. 7, the appropriate revenue requirement is \$223,333 for the water system and \$104,028 for the wastewater system.

Staff has calculated rates using test year number of customers and consumption. Staff has calculated a flat rate for wastewater only customers based on average residential consumption. Schedules of the utility's current rates and rate structure and staff's recommended rates and rate structure are as follows:

MONTHLY RATES - POTABLE WATER  
RESIDENTIAL, MULTI-RESIDENTIAL, AND GENERAL SERVICE

<u>Meter Size</u>	<u>Test Year Rates</u>	<u>Staff's Recommended Rates</u>
5/8" x 3/4"	\$16.88	\$16.88
3/4"	\$25.31	\$25.31
1"	\$42.21	\$42.21
1 1/2"	\$84.41	\$84.41
2"	\$135.05	\$135.05
3"	\$270.09	\$270.09
4"	\$422.02	\$422.02
6"	\$844.04	\$844.04
<u>Gallonge Charge</u>		
per 1,000 gallons	\$5.24	\$5.86

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MONTHLY RATES - NON-POTABLE IRRIGATION

<u>All Customers</u>	<u>Test Year Rates</u>	<u>Staff's Recommended Rates</u>
Charge per 1,000 gallons	\$0.56	\$0.69

MONTHLY RATES - WASTEWATER

RESIDENTIAL SERVICE

<u>Meter Sizes</u>	<u>Test Year Rates</u>	<u>Staff's Recommended Rates</u>
All Meter Sizes	\$14.87	\$19.28
<u>Gallonage Charge</u> per 1,000 gallons (10,000 gallon maximum)	\$4.62	\$4.34
<u>Flat Rate</u> (Wastewater Only)	\$37.06	\$30.65

MONTHLY RATES - WASTEWATER

GENERAL SERVICE

<u>Meter Sizes</u>	<u>Test Year Rates</u>	<u>Staff's Recommended Rates</u>
5/8" x 3/4"	\$14.87	\$19.28
3/4"	\$22.30	\$28.93
1"	\$37.17	\$48.21
1 1/2"	\$74.33	\$96.42
2"	\$118.95	\$154.27
3"	\$237.88	\$308.53
4"	\$371.68	\$482.09
6"	\$743.38	\$964.17
<u>Gallonage Charge</u> per 1,000 gallons	\$4.62	\$5.21

Approximately 50% (\$112,361) of the water revenue requirement is recovered through the recommended potable water rates. The

remaining 50% (\$110,973) of the water revenue requirement is recovered through the recommended non-potable water rates. Approximately 44% (\$49,215) of the potable water and 54% (\$55,999) of the wastewater system revenue requirement is recovered through the recommended base facility charge. The fixed costs are recovered through the BFC based on the number of factored ERCs. The remaining 56% (\$63,145) for potable water and 46% (\$48,029) for wastewater of the revenue requirement represents revenues collected through the consumption charge based on the number of factored gallons. Based on staff's analysis, the average residential potable water consumption is 2,821 gallons and the capped average wastewater consumption is 2,619 gallons. Applying the existing and recommended rates to the average consumption results in the following charges:

	<u>EXISTING AVG. BILL</u>	<u>RECOMMENDED AVG. BILL</u>
POTABLE WATER	\$31.66	\$33.41
WASTEWATER	\$26.97	\$30.65

If the Commission approves staff's recommendation, the approved rates should 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 rates should not be implemented until staff has approved the proposed customer notice, the notice has been received by the customers, and staff has verified that the tariffs are consistent with the Commission's decision. The utility should provide proof of the date notice was given no less than 10 days after the date of the notice.

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 should be prorated based on the number of days in the billing cycle before the effective date of the new rates. The new charge should 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 should the rates be effective for service rendered prior to the stamped approval date.

**ISSUE 13:** What is the appropriate amount by which rates should be reduced four years after the established effective date to reflect the removal of the amortized rate case expense as required by Section 367.0816, Florida Statutes?

**RECOMMENDATION:** The water and wastewater rates should be reduced as shown on Schedule 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 and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense. (SARGENT, 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 \$1,684 annually for water and \$973 annually for wastewater. Using the utility's current revenues, expenses, capital structure, and customer base the reduction in revenues will result in the rate decreases as shown on Schedules No. 4.

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

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

**ISSUE 14:** 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 and proposed notice, which are consistent with the Commission's vote. 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 and provided customers have been noticed. (SARGENT, 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. The utility's existing tariff does not authorize the utility to collect a customer deposit for water nor wastewater. Staff has calculated deposit amounts that will provide an average bill for a 2-month period based on staff's recommended rates in Issue No. 12. A schedule of the utility's existing and staff's recommended deposits follows:

POTABLE WATER

RESIDENTIAL AND GENERAL SERVICE

<u>Customer</u>	<u>Existing Deposit</u>	<u>Recommended Deposit</u>
Residential/ General Service	N/A	\$67.00
All Others	N/A	2 x Avg. Bill

WASTEWATER

RESIDENTIAL AND GENERAL SERVICE

<u>Customer</u>	<u>Existing Deposit</u>	<u>Recommended Deposit</u>
Residential/General Service	N/A	\$62.00
All Others	N/A	2 x Avg. Bill

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The utility should file revised tariff sheets which are consistent with the Commission's vote. 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 and provided customers have been noticed.

**ISSUE 15:** Should the utility's service availability charges be revised?

**RECOMMENDATION:** Yes, the utility's existing system capacity charge should be discontinued and the utility's service availability charges should be revised to reflect a plant capacity charge of \$780 for water and a main extension charge of \$500 for water and \$635 for wastewater. The utility should file revised tariff sheets and proposed notice which are consistent with the Commission's vote. The service availability charges should become effective for connections made on or after the stamped approval date of the revised tariff sheets, if no protest is filed and provided that customers have been noticed. (SARGENT, FITCH)

**STAFF ANALYSIS:** The utility's existing tariff authorizes a system capacity charge of \$75 for water and \$365 for wastewater and a plant capacity charge of \$835 for water and \$560 for wastewater. SMS's existing tariff also authorizes a main extension charge of \$50 for non-potable and a plant capacity charge of \$250 for non-potable. The utility's current contribution level is 34% for water and 64% for wastewater. The utility's water and wastewater facilities can accommodate additional connections.

In order to evaluate the utility's service availability charges, staff relied on Rule 25-30.580, Florida Administrative Code, which states in part that:

- (1) 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
- (2) 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.

SMS provided staff with growth projections and plant additions expected over the next five years. Staff has designed service availability charges such that the utility's contribution level will approach the maximum level prescribed in Rule 25-30.580, Florida Administrative Code, at the end of the five-year period ending December 31, 2007. A schedule of the utility's existing charges and staff's recommended charges are as follows:



<u>Water</u>		
<u>System Capacity Charge</u>	<u>Existing Charge</u>	<u>Recommended Charge</u>
Water	\$75.00	N/A
<u>Main Extension Charge</u>		
Residential-Per ERC (350 GPD)	N/A	\$500.00
Non-potable	\$50.00	N/A
All Others-Per Gallon	N/A	\$1.43
<u>Plant Capacity Charge</u>		
Residential-Per ERC (350 GPD)	\$835.00	\$780.00
Non-potable	\$250.00	N/A
All Others-Per Gallon	N/A	\$2.23

<u>Wastewater</u>		
<u>System Capacity Charge</u>	<u>Existing Charge</u>	<u>Recommended Charge</u>
Wastewater	\$365.00	N/A
<u>Main Extension Charge</u>		
Residential-Per ERC (280 GPD)	N/A	\$635.00
All Others-Per Gallon	N/A	\$2.27
<u>Plant Capacity Charge</u>		
Residential-Per ERC (280 GPD)	\$560.00	\$0.00
All Others-Per Gallon	N/A	\$0.00

Because the utility's wastewater treatment plant is fully depreciated, staff does not believe continuing the plant capacity charge is appropriate at this time, since the utility has recovered the cost of the treatment plant through depreciation and prior plant capacity charges. The service availability charges should become effective for connections made on or after the stamped approval date of the revised tariff sheets, if no protest is filed and provided customers have been noticed.

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**ISSUE 16:** 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 the appropriate security as described in the staff analysis. 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. (SARGENT, FITCH, JAEGER)

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

The utility should be authorized to collect the temporary rates upon the staff's approval of 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 \$24,146. 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 should 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 should be an interest bearing account.
- 3) If a refund to the customers is required, all interest earned by the escrow account should be distributed to the customers.
- 4) If a refund to the customers is not required, the interest earned by the escrow account should revert to the utility.
- 5) All information on the escrow account should be available from the holder of the escrow account to a Commission representative at all times.
- 6) The amount of revenue subject to refund should be deposited in the escrow account within seven days of receipt.
- 7) This escrow account is established by the direction of the Florida Public Service Commission for the purpose(s) set forth in its order requiring such account. Pursuant to Cosentino v. Elson, 263 So. 2d 253 (Fla. 3d DCA 1972) escrow accounts are not subject to garnishments.

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- 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.

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**ISSUE 17:** Should the 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 180 days after the Consummating Order to allow staff time to verify the utility has completed the pro forma fire service pump replacement and common area irrigation meter installations. Upon verification of the above by staff, the docket may be administratively closed. (SARGENT, FITCH, JAEGER)

**STAFF ANALYSIS:** 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. This docket should remain open for an additional 180 days after the Consummating Order to allow staff time to verify the utility has completed the pro forma fire service pump replacement and common area irrigation meter installations. Upon verification of the above by staff, the docket may be administratively closed.

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

**Docket No. 021228-WS - Service Management Systems, Inc.**

- |    |   |         |                 |
|----|---|---------|-----------------|
| 1) | Capacity of Plant   | 270,000 | gallons per day |
| 2) | Maximum Day (5 peak days/peak mo.)  | 71,200  | gallons per day |
| 3) | Average Daily Flow  | 33,660  | gallons per day |
| 4) | Fire Flow Capacity  | N/A     | gallons per day |
|    | a) Required Fire Flow: 1,000 gallons per minute for 2 hours is supplied by the separate fire flow/irrigation system (See Sheet 5 of 5). |         |                 |
| 5) | Growth  | 8,858   | gallons per day |
|    | a) Test year Customers in ERCs:   |         |                 |
|    |   | Begin   | 216             |
|    |   | End     | 227             |
|    |   | Average | 222             |
|    | (Use average number of customers)   |         |                 |
|    | b) Customer Growth in ERCs using Regression Analysis for most recent 5 years including Test Year  | 12      | ERCs            |
|    | c) Statutory Growth Period  | 5       | Years           |
|    | (b)x(c)x [3\ (a)] = 8,858 gallons per day for growth  |         |                 |
| 6) | Excessive Unaccounted for Water   | 0       | gallons per day |
|    | a) Total Unaccounted for Water  | 1,965   | gallons per day |
|    | Percent of Average Daily Flow   | 6%      |                 |
|    | b) Reasonable Amount  | 3,366   | gallons per day |
|    | (10% of average Daily Flow)   |         |                 |
|    | c) Excessive Amount   | 0       | gallons per day |

**USED AND USEFUL FORMULA**

$$[(2)+(4)+(5)-(6)] / (1) = 29.7\% \text{ Used and Useful}$$

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

**Docket No. 021228-WS - Service Management Systems, Inc.**

1) Capacity of System (Number of ERCs)	436	ERCs
2) Test year connections		
a) Beginning of Test Year	201	ERCs
b) End of Test Year	224	ERCs
c) Average Test Year	213	ERCs
3) Growth	60	ERCs
a) customer growth in connections for last 5 years including Test Year using Regression Analysis	12	ERCs
b) Statutory Growth Period	5	Years
(a)x(b) = 60 connections allowed for growth		

**USED AND USEFUL FORMULA**

$[2+3]/(1) = 62.6\%$  Used and Useful

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

**Docket No. 021228-WS - Service Management Systems, Inc.**

1)	Permitted Capacity of Plant (AADF)	99,000	gallons per day
2)	Average Daily Flow (AADF)	43,823	gallons per day
3)	Growth	11,486	gallons per day
	a) Test year Customers in ERCs:		
		Beginning	236
		Ending	259
		Average	248
	b) Customer Growth in ERCs using the statutory 5% cap.	13	ERCs
	c) Statutory Growth Period	5	Years
	(b x c) x [2/(a)] = 11,486 gallons per day for growth		
4)	Excessive Infiltration or Inflow (I&I)	N/A	gallons per day
	a) Total I&I:	N/A	gallons per day
	Percent of Average Daily Flow	N/A	
	b) Reasonable Amount	N/A	gallons per day
	(500 gpd per inch dia pipe per mile)		
	c) Excessive Amount	N/A	gallons per day

**USED AND USEFUL FORMULA**

$$[(2)+(3)-(4)]/(1) = 55.9\% \text{ Used and Useful}$$



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**WASTEWATER COLLECTION SYSTEM - USED AND USEFUL DATA**

**Docket No. 021228-WS - Service Management Systems, Inc.**

1) Capacity of System (Number of potential ERCs)	456	ERCs
2) Test year connections		
a) Beginning of Test Year	221	ERCs
b) End of Test Year	244	ERCs
c) Average Test Year	233	ERCs
3) Growth	65	ERCs
a) customer growth in connections for last 5 years including Test Year using Regression Analysis	13	ERCs
b) Statutory Growth Period	5	Years
(a)x(b) = 65 ERCs allowed for growth		

**USED AND USEFUL FORMULA**

$$[(2)+(3)]/(1) = 65.4\% \text{ Used and Useful}$$

**NON-POTABLE WATER PUMPING STATION - USED AND USEFUL DATA**

**Docket No. 021228-WS - Service Management Systems, Inc.**

- |  |           |                    |     |
|--|-----------|--------------------|-----|
| 1) Capacity of Plant   | 1,200,000 | gallons per day    |     |
| 2) Maximum Day (avg per peak mo.)  | 521,554   | gallons per day    |     |
| 3) Average Daily Flow  | 39,786    | gallons per day    |     |
| 4) Fire Flow Capacity  | 120,000   | gallons per day    |     |
| a) Required Fire Flow: 1,000 gallons per minute for 2 hours.                                     |           |                    |     |
| 5) Growth  | N/A       | gallons per day    |     |
| a) Test year Customers in ERCs:  |           |                    |     |
|  | Begin     |                    | N/A |
|  | End       |                    | N/A |
|  | Average   |                    | N/A |
| (Use average number of customers)  |           |                    |     |
| b) Customer Growth in ERCs using Regression Analysis for most recent 5 years including Test Year | N/A       | ERC                |     |
| c) Statutory Growth Period   | N/A       | Years              |     |
| (b)x(c)x [3\ (a)] = N/A  |           |                    |     |
| 6) Excessive Unaccounted for Water   | N/A       | gallons per day    |     |
| a) Total Unaccounted for Water   |           |                    |     |
|  | N/A       | gallons per day    |     |
| Percent of Average Daily Flow  |           |                    |     |
|  | N/A       |                    |     |
| b) Reasonable Amount   |           |                    |     |
|  | N/A       | gallons per minute |     |
| (10% of average Daily Flow)  |           |                    |     |
| c) Excessive Amount  |           |                    |     |
|  | N/A       | gallons per minute |     |

**USED AND USEFUL FORMULA**

$$[(2)+(4)+(5)-(6)]/(1) = 53.5\% \text{ Used and Useful}$$

<b>SERVICE MANAGEMENT SYSTEMS, INC.</b> <b>TEST YEAR ENDING 12/31/02</b> <b>SCHEDULE OF WATER RATE BASE</b>		<b>SCHEDULE NO. 1-A</b> <b>DOCKET NO. 021228-WS</b>	
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	\$1,801,526	\$19,669	\$1,821,195
2. LAND & LAND RIGHTS	62,080	0	\$62,080
3. NON-USED AND USEFUL COMPONENTS	0	(254,260)	(\$254,260)
4. CIAC	(447,067)	22,143	(\$424,924)
5. ACCUMULATED DEPRECIATION	(947,253)	20,135	(\$927,118)
6. AMORTIZATION OF CIAC	164,140	(1,889)	\$162,251
7. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>17,140</u>	<u>\$17,140</u>
8. WATER RATE BASE	\$633,426	(\$177,062)	\$456,364

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<b>SERVICE MANAGEMENT SYSTEMS, INC.</b>		<b>SCHEDULE NO. 1-B</b>	
<b>TEST YEAR ENDING 12/31/02</b>		<b>DOCKET NO. 021228-WS</b>	
<b>SCHEDULE OF WASTEWATER RATE BASE</b>			
<b>DESCRIPTION</b>	<b>BALANCE PER UTILITY</b>	<b>STAFF ADJUST. TO UTIL. BAL.</b>	<b>BALANCE PER STAFF</b>
<b>1. UTILITY PLANT IN SERVICE</b>	<b>\$2,098,830</b>	<b>(\$44,284)</b>	<b>\$2,054,546</b>
<b>2. LAND &amp; LAND RIGHTS</b>	<b>33,680</b>	<b>0</b>	<b>\$33,680</b>
<b>3. NON-USED AND USEFUL COMPONENTS</b>	<b>0</b>	<b>(131,550)</b>	<b>(\$131,550)</b>
<b>4. CIAC</b>	<b>(567,330)</b>	<b>40,709</b>	<b>(\$526,621)</b>
<b>5. ACCUMULATED DEPRECIATION</b>	<b>(1,585,569)</b>	<b>59,005</b>	<b>(\$1,526,564)</b>
<b>6. AMORTIZATION OF CIAC</b>	<b>219,520</b>	<b>10,489</b>	<b>\$230,009</b>
<b>7. WORKING CAPITAL ALLOWANCE</b>	<b><u>0</u></b>	<b><u>8,470</u></b>	<b><u>\$8,470</u></b>
<b>8. WASTEWATER RATE BASE</b>	<b>\$199,131</b>	<b>(\$57,161)</b>	<b>\$141,970</b>

**SERVICE MANAGEMENT SYSTEMS, INC.**  
**TEST YEAR ENDING 12/31/02**  
**ADJUSTMENTS TO RATE BASE**

**SCHEDULE NO. 1-C**  
**DOCKET NO. 021228-WS**  
**PAGE 1 OF 2**

	<u>WATER</u>	<u>WASTEWATER</u>
<b><u>UTILITY PLANT IN SERVICE</u></b>		
1. Remove pro-forma plant from Order No. PSC-95-1417-FOF-WS	(30,596)	0
2. Remove double booking assoc. w/ 1996 transfer - A.E. 2, adj. 9	0	(15,911)
3. Remove non-supported capitalized interest from #330-A.E. 2, adj. 11	(1,402)	0
4. Remove capitalized removal cost of storage tank #330-A.E. 2, adj. 12	(3,000)	0
5. Remove non-utility expense from #330 - A.E. 2, adj. 10	(607)	0
6. Remove undocumented plant from #334 - A.E. 2, adj. 16	0	(247)
7. Capitalize plant that was expensed by utility #334-A.E. 2, adj. 23	2,908	0
8. Reclassify sewer lines to acct. (309)/363 - A.E. 2, adj. 2	(1,039)	1,039
9. Reclassify drain field replacement to (331)/380-A.E. 2, adj. 6	(2,567)	2,567
10. Reclassify plant additions per invoice from (331)/361	(5,667)	5,667
11. Adj. diff. between 12/01 and 1/02 bal. in #330-A.E. 2, adj. 21	(2,100)	0
12. Capitalize re-wiring of WW plant #380	0	15,130
13. Pro-forma fire protection system - N.P.	120,535	0
14. Pro-forma meters	10,965	0
15. Pro-forma pump retirement	(16,102)	0
16. Averaging Adjustment	<u>(51,659)</u>	<u>(52,529)</u>
<b>Total</b>	<b><u>\$19,669</u></b>	<b><u>(\$44,284)</u></b>
<b><u>NON-USED AND USEFUL PLANT</u></b>		
1. To reflect non-used and useful plant.	(\$725,384)	(\$751,569)
2. To reflect non-used and useful accumulated depreciation.	471,124	620,019
<b>Total</b>	<b><u>(\$254,260)</u></b>	<b><u>(\$131,550)</u></b>
<b><u>CIAC</u></b>		
1. Remove margin reserve from 1995 SARC order	\$27,830	\$21,275
2. Adj. for 2002 fees recorded as revenue	(26,450)	(37,000)
3. Pro-forma pump retirement	7,538	0
4. Averaging Adjustment	13,225	56,434
<b>Total</b>	<b><u>\$22,143</u></b>	<b><u>\$40,709</u></b>

**SERVICE MANAGEMENT SYSTEMS, INC.**  
**TEST YEAR ENDING 12/31/02**  
**ADJUSTMENTS TO RATE BASE**

**SCHEDULE NO. 1-C**  
**DOCKET NO. 021228-WS**  
**PAGE 2 OF 2**

	<u>WATER</u>	<u>WASTEWATER</u>
<b><u>ACCUMULATED DEPRECIATION</u></b>		
1. Recalc. Depreciation from previous order	(\$24,407)	\$14,339
2. Depr. on pro forma - fire protection system	(3,335)	0
3. Pro-forma pump retirement	16,102	0
4. Averaging Adjustment	<u>31,775</u>	<u>44,666</u>
Total	<u>\$20,135</u>	<u>\$59,005</u>
<b><u>AMORTIZATION OF CIAC</u></b>		
1. Recalc. Amortization from previous order	\$13,880	\$20,571
2. Pro-forma pump retirement	(7,538)	
3. Averaging Adjustment	<u>(8,231)</u>	<u>(10,082)</u>
Total	<u>(\$1,889)</u>	<u>\$10,489</u>
<b><u>WORKING CAPITAL ALLOWANCE</u></b>		
1. To reflect 1/8 of test year O & M expenses.	<u>\$17,140</u>	<u>\$8,470</u>

DOCKET NO. 021228-WS

DATE: July 24, 2003

SERVICE MANAGEMENT SYSTEMS, INC. TEST YEAR ENDING 12/31/02 SCHEDULE OF CAPITAL STRUCTURE				SCHEDULE NO. 2 DOCKET NO. 021228-WS				
CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUST-MENTS	BALANCE		PRO RATA BALANCE PER STAFF	PERCENT OF TOTAL	WEIGHTED COST	WEIGHTED COST
			BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUST-MENTS				
1. COMMON STOCK	\$10,000	\$0	\$10,000					
2. RETAINED EARNINGS	(681,401)	0	(681,401)					
3. PAID IN CAPITAL	1,614,482	0	1,614,482					
4. TREASURY STOCK	<u>0</u>	<u>0</u>	<u>0</u>					
5. TOTAL COMMON EQUITY	\$943,081	\$0	943,081	(433,291)	509,790	85.20%	9.94%	8.47%
6. LONG TERM DEBT -	149,849	4,985	154,834	(71,137)	83,697	13.99%	3.12%	0.44%
7. LONG TERM DEBT	<u>8,639</u>	<u>328</u>	<u>8,967</u>	<u>(4,120)</u>	<u>4,847</u>	<u>0.81%</u>	3.55%	0.03%
TOTAL LONG TERM DEBT	158,488	5,313	163,801	(75,257)	38,544	14.80%		
8. CUSTOMER DEPOSITS	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	6.00%	<u>0.00%</u>
9. TOTAL	<u>\$1,101,569</u>	<u>\$5,313</u>	<u>\$1,106,882</u>	<u>(\$508,548)</u>	<u>\$598,334</u>	<u>100.00%</u>		<u>8.94%</u>
RANGE OF REASONABLENESS RETURN ON EQUITY						<u>LOW</u>	<u>HIGH</u>	
OVERALL RATE OF RETURN						<u>8.94%</u>	<u>10.94%</u>	
						<u>8.08%</u>	<u>9.79%</u>	

SERVICE MANAGEMENT SYSTEMS, INC. TEST YEAR ENDING 12/31/02 SCHEDULE OF WATER OPERATING INCOME			SCHEDULE NO. 3-A DOCKET NO. 021228-WS		
	TEST YEAR PER UTILITY	STAFF ADJUSTMENT S	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$201,238</u>	<u>(\$5,768)</u>	<u>\$195,470</u>	<u>\$27,863</u> 14.25%	<u>\$223,333</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	175,856	(38,737)	137,119	0	137,119
3. DEPRECIATION (NET)	38,180	(13,160)	25,020	0	25,020
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	16,923	2,218	19,141	1,254	20,395
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$230,959</u>	<u>(\$49,679)</u>	<u>\$181,280</u>	<u>\$1,254</u>	<u>\$182,534</u>
8. OPERATING INCOME/(LOSS)	<u>(\$29,721)</u>		<u>\$14,190</u>		<u>\$40,799</u>
9. WATER RATE BASE	<u>\$633,426</u>		<u>\$456,364</u>		<u>\$456,364</u>
10. RATE OF RETURN	<u>-4.69%</u>		<u>3.11%</u>		<u>8.94%</u>



DOCKET NO. 021228-WS

DATE: July 24, 2003

SERVICE MANAGEMENT SYSTEMS, INC. TEST YEAR ENDING 12/31/02 SCHEDULE OF WASTEWATER OPERATING INCOME			SCHEDULE NO. 3-B DOCKET NO. 021228-WS		
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$118,482</u>	<u>(\$22,545)</u>	<u>\$95,937</u>	<u>\$8,091</u> 8.43%	<u>\$104,028</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	61,958	5,802	67,760	0	67,760
3. DEPRECIATION (NET)	73,350	(63,880)	9,470	0	9,470
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	8,445	5,297	13,742	364	14,106
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$143,753</u>	<u>(\$52,781)</u>	<u>\$90,972</u>	<u>\$364</u>	<u>\$91,336</u>
8. OPERATING INCOME/(LOSS)	<u>(\$25,271)</u>		<u>\$4,965</u>		<u>\$12,692</u>
9. WASTEWATER RATE BASE	<u>\$199,131</u>		<u>\$141,970</u>		<u>\$141,970</u>
10. RATE OF RETURN	<u>-12.69%</u>		<u>3.50%</u>		<u>8.94%</u>

**SERVICE MANAGEMENT SYSTEMS, INC.**  
**TEST YEAR ENDING 12/31/02**  
**ADJUSTMENTS TO OPERATING INCOME**

**SCHEDULE NO. 3-C**  
**DOCKET NO. 021228-WS**  
**PAGE 1 OF 3**

	<u>WATER</u>	<u>WASTEWATER</u>
<b>OPERATING REVENUES</b>		
1. To remove non-utility interest income per - A.E. 6	(\$5,086)	\$0
2. Reclassify CIAC recorded as revenue - A.E. 10	(\$26,450)	(\$37,000)
3. Annualize/adjust revenue based on bills and current rates	<u>25,768</u>	<u>14,455</u>
Subtotal	<u>(\$5,768)</u>	<u>(\$22,545)</u>
<b>OPERATION AND MAINTENANCE EXPENSES</b>		
1. Salaries and Wages Employees (601/ 701)		
a. Reclassify payroll taxes to T.O.T.I	(\$8,826)	(\$4,413)
b. Annualize/reallocate wages	<u>17,404</u>	<u>11,816</u>
Subtotal	<u>\$8,578</u>	<u>\$7,403</u>
2. Employees Pension and Benefits (604/ 704)		
a. Annualize/reallocate benefits	<u>\$1,190</u>	<u>\$1,459</u>
3. Sludge Removal Expense (711)		
a. Reclassify from Cont. Svcs - Other (736)	<u>\$0</u>	<u>\$1,890</u>
4. Purchased Power (615/ 715)		
a. Annualize Purchased Power Expense by usage %	<u>\$7,258</u>	<u>(\$92)</u>
5. Fuel for Power Production (616/617)		
a. Reclassify fuel from Chemicals (618)	\$55	\$0
b. Reallocate based on usage %	<u>18</u>	<u>(18)</u>
Subtotal	<u>\$73</u>	<u>(\$18)</u>
6. Chemicals (618/ 718)		
a. Reclassify Trans. exp. to #650	(\$160)	\$0
b. Reclassify repairs to #636	(588)	0
c. Reclassify fuel to #616	(55)	0
d. Reclassify to Cont. Svcs - Testing (733)	0	(375)
e. Reclassify consumer report to water (636)	0	(250)
f. Annualize chemicals	<u>1,968</u>	<u>(294)</u>
Subtotal	<u>\$1,165</u>	<u>(\$919)</u>
7. Materials & Supplies (620/ 720)		
a. Reclassify plant that was expensed by utility to #334	<u>(\$2,908)</u>	<u>\$0</u>

(O & M EXPENSES CONTINUED ON NEXT PAGE)

**SERVICE MANAGEMENT SYSTEMS, INC.  
TEST YEAR ENDING 12/31/02  
ADJUSTMENTS TO OPERATING INCOME**

**SCHEDULE NO. 3-C  
DOCKET NO. 021228-WS  
PAGE 2 OF 3**

(O & M EXPENSES CONTINUED)	<u>WATER</u>	<u>WASTEWATER</u>
<b>8. Contractual Services - Professional (631/731)</b>		
a. Remove Legal costs associated with T.M.O.C.	(\$4,572)	(\$2,286)
b. Reclassify payroll services from Misc. Exp. (675/775)	836	418
c. Reclassify attorney's fees from Cont. Svcs - Other	1,901	0
d. Include 1/5 permit cost of \$7664	0	1,533
e. Remove capitalize portion of eng. costs of pro forma plant	<u>(13,500)</u>	<u>0</u>
Subtotal	<u>(\$15,335)</u>	<u>(\$335)</u>
<b>9. Contractual Services - Testing (635/ 735)</b>		
a. Reclassify from Cont. Svcs - Other (636)	\$200	\$378
b. Reclassify from Chemicals	<u>0</u>	375
c. DEP & SJRWMD required testing	<u>3,105</u>	<u>917</u>
Subtotal	<u>\$3,305</u>	<u>\$1,670</u>
<b>10. Contractual Services - Other (636/ 736)</b>		
a. Eliminate double booking of accrual	0	18,818
b. Annualize Operator amount	1,589	(289)
c. Amotize and reallocate generator repairs (Alloc. #2)	(1,707)	(936)
d. Reclassify to sludge removal (711)	0	(1,890)
e. Reclassify from WW #718 (confidence report)	\$250	\$0
f. Reclassify to Cont. Svcs - Testing (635)	(200)	(378)
g. Reclassify repairs from Chemicals	588	0
h. Reclassify groundskeeping from Misc. Exp. (675/775)	634	317
i. Reclassify attorney fees to Cont. Svcs - Other	<u>(1,901)</u>	<u>0</u>
Subtotal	<u>(\$747)</u>	<u>\$15,642</u>
<b>11. Rents (640/ 740)</b>		
a. To reflect 120 sq. ft. @ \$15/sq. ft. per year, by cust. %	<u>\$1,200</u>	<u>\$600</u>
<b>12. Transportation Expense (650/ 750)</b>		
a. Reclassify from Chemicals (618)	\$160	\$0
b. Reallocate based on customer %	<u>(60)</u>	<u>60</u>
Subtotal	<u>\$100</u>	<u>\$60</u>

(O & M EXPENSES CONTINUED ON NEXT PAGE)

**SERVICE MANAGEMENT SYSTEMS, INC.  
TEST YEAR ENDING 12/31/02  
ADJUSTMENTS TO OPERATING INCOME**

**SCHEDULE NO. 3-C  
DOCKET NO. 021228-WS  
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<b>(O &amp; M EXPENSES CONTINUED)</b>	<b><u>WATER</u></b>	<b><u>WASTEWATER</u></b>
<b>13. Insurance Expenses (655/ 755)</b>		
a. to reflect current liability policy	<u>(\$4,784)</u>	<u>(\$2,392)</u>
<b>14. Regulatory Expense (665/ 765)</b>		
a. Adjust to include SARC filing fee	\$1,000	\$1,000
b. Allocate estimated rate case expense	5,433	2,716
c. Remove amortized portion	<u>(4,825)</u>	<u>(2,787)</u>
Subtotal	<u>\$1,608</u>	<u>\$929</u>
<b>15. Miscellaneous Expense (675/ 775)</b>		
a. Remove SARC filing fee included above	(\$750)	(\$750)
b. Remove legal cost assoc. w/ T.M.O.C.	(6,084)	(3,042)
c. Remove J.E. recording prior owner debt/revenue pmt.	(29,612)	(14,806)
d. Reclassify payroll services to Cont. Svcs. - Prof. (631)	(836)	(418)
e. Reclassify groundskeeping to Cont. Svcs. - Other (636)	(634)	(317)
f. Remove penalty - Brevard County	(178)	(89)
g. Remove meter reader expense	(180)	(90)
h. Amortize and reallocate help wanted ad	(836)	(418)
i. Amortize and reallocate billing software	<u>(330)</u>	<u>(165)</u>
Subtotal	<u>(\$39,440)</u>	<u>(\$20,095)</u>
<b>TOTAL OPERATION &amp; MAINTENANCE ADJUSTMENTS</b>	<u>(\$38,737)</u>	<u>\$5,802</u>
<b>DEPRECIATION EXPENSE</b>		
1. To reflect test year depreciation calculated per 25-30.140, FAC	\$21,576	(\$56,577)
3. Non-used and useful depreciation	(29,369)	(6,811)
4. To reflect test year CIAC amortization calculated by staff	<u>(5,367)</u>	<u>(492)</u>
Total	<u>(\$13,160)</u>	<u>(\$63,880)</u>
<b>TAXES OTHER THAN INCOME</b>		
1. Adjust property taxes per value and used/useful amounts	(10,608)	(1,342)
2. Adjust RAF's to Annualized Revenue	8,796	\$4,317
3. Reclassify payroll taxes from Salaries (601)	8,826	4,413
4. Adjust to payroll taxes calculated per Staff	<u>(4,796)</u>	<u>(2,091)</u>
Total	<u>\$2,218</u>	<u>\$5,297</u>

SERVICE MANAGEMENT SYSTEMS, INC. TEST YEAR ENDING 12/31/02 ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE		SCHEDULE NO. 3-D DOCKET NO. 021228-WS	
	TOTAL PER PER UTILITY	STAFF PER ADJUST.	TOTAL PER STAFF
(601) SALARIES AND WAGES - EMPLOYEES	\$37,522	\$8,578 [1]	\$46,100
(603) SALARIES AND WAGES - OFFICERS	0	0	\$0
(604) EMPLOYEE PENSIONS AND BENEFITS	1,728	1,190 [2]	\$2,918
(610) PURCHASED WATER	0	0	\$0
(615) PURCHASED POWER	19,702	7,258 [4]	\$26,960
(616) FUEL FOR POWER PRODUCTION	250	73 [5]	\$323
(618) CHEMICALS	6,730	1,165 [6]	\$7,895
(620) MATERIALS AND SUPPLIES	4,937	(2,908) [7]	\$2,029
(630) CONTRACTUAL SERVICES - BILLING	0	0	\$0
(631) CONTRACTUAL SERVICES - PROFESSIONAL	20,933	(15,335) [8]	\$5,598
(635) CONTRACTUAL SERVICES - TESTING	0	3,305 [9]	\$3,305
(636) CONTRACTUAL SERVICES - OTHER	34,119	(747) [10]	\$33,372
(640) RENTS	0	1,200 [11]	\$1,200
(650) TRANSPORTATION EXPENSE	1,119	100 [12]	\$1,219
(655) INSURANCE EXPENSE	6,240	(4,784) [13]	\$1,456
(665) REGULATORY COMMISSION EXPENSE	0	1,608 [14]	\$1,608
(670) BAD DEBT EXPENSE	0	0	\$0
(675) MISCELLANEOUS EXPENSES	<u>42,576</u>	<u>(39,440) [15]</u>	<u>\$3,136</u>
	175,856	(38,737)	137,119

SERVICE MANAGEMENT SYSTEMS, INC. TEST YEAR ENDING 12/31/02 ANALYSIS OF WASTEWATER OPERATION AND MAINTENANCE EXPENSE		SCHEDULE NO. 3-E DOCKET NO. 021228-WS	
	TOTAL PER UTILITY	STAFF ADJUST- MENT	TOTAL PER STAFF
(701) SALARIES AND WAGES - EMPLOYEES	\$18,607	\$7,403 [1]	\$26,010
(703) SALARIES AND WAGES - OFFICERS	0	0	\$0
(704) EMPLOYEE PENSIONS AND BENEFITS	0	1,459 [2]	\$1,459
(710) PURCHASED SEWAGE TREATMENT	0	0	\$0
(711) SLUDGE REMOVAL EXPENSE	0	1,890 [3]	\$1,890
(715) PURCHASED POWER	9,921	(92) [4]	\$9,829
(716) FUEL FOR POWER PRODUCTION	125	(18) [5]	\$107
(718) CHEMICALS	2,747	(919) [6]	\$1,828
(720) MATERIALS AND SUPPLIES	2,580	0 [7]	\$2,580
(730) CONTRACTUAL SERVICES - BILLING	0	0	\$0
(731) CONTRACTUAL SERVICES - PROFESSIONAL	3,692	(335) [8]	\$3,357
(735) CONTRACTUAL SERVICES - TESTING	0	1,670 [9]	\$1,670
(736) CONTRACTUAL SERVICES - OTHER	(1,118)	15,642 [10]	\$14,524
(740) RENTS	0	600 [11]	\$600
(750) TRANSPORTATION EXPENSE	550	60 [12]	\$610
(755) INSURANCE EXPENSE	3,120	(2,392) [13]	\$728
(765) REGULATORY COMMISSION EXPENSES	0	929 [14]	\$929
(770) BAD DEBT EXPENSE	15	0	\$15
(775) MISCELLANEOUS EXPENSES	<u>21,719</u>	<u>(20,095) [15]</u>	<u>\$1,624</u>
	<u>61,958</u>	<u>5,802</u>	<u>67,760</u>

RECOMMENDED RATE REDUCTION SCHEDULE

SERVICE MANAGEMENT SYSTEMS, INC.  
 TEST YEAR ENDING 12/31/02

SCHEDULE NO. 4  
 DOCKET NO. 021228-WS

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

MONTHLY WATER RATES

<u>RESIDENTIAL AND GENERAL SERVICE</u>	<u>MONTHLY RECOMMENDED RATES</u>	<u>MONTHLY RATE REDUCTION</u>
<b>BASE FACILITY CHARGE:</b>		
<b>Meter Size:</b>		
5/8"X3/4"	\$ 16.88	0.13
3/4"	25.31	0.19
1"	42.21	0.32
1-1/2"	84.41	0.64
2"	135.05	1.02
3"	270.09	2.04
4"	422.02	3.18
6"	844.04	6.36
<b>GALLONAGE CHARGE</b> (per 1,000 Gallons)	\$ 5.86	0.04
<b>NON-POTABLE IRRIGATION CHARGE</b> PER 1,000 GALLONS (NO B.F.C.)	\$ 0.69	0.01

RECOMMENDED RATE REDUCTION SCHEDULE

SERVICE MANAGEMENT SYSTEMS, INC.  
TEST YEAR ENDING 12/31/02

SCHEDULE NO. 4-A  
DOCKET NO. 021228-WS

CALCULATION OF RATE REDUCTION AMOUNT

AFTER RECOVERY OF RATE CASE EXPENSE AMORTIZATION PERIOD OF FOUR YEARS

MONTHLY WASTEWATER RATES

	<u>MONTHLY RECOMMENDED RATES</u>	<u>MONTHLY RATE REDUCTION</u>
<b><u>RESIDENTIAL</u></b>		
<b>BASE FACILITY CHARGE:</b>		
Meter Size: All Meter Sizes	\$ 19.28	0.18
<b>GALLONAGE CHARGE:</b>		
PER 1,000 GALLONS (6,000 gallon cap)	\$ 4.34	0.04
<b><u>RESIDENTIAL</u></b>		
FLAT RATE - Wastewater Service Only	\$ 37.06	30.65
<b><u>GENERAL SERVICE</u></b>		
<b>BASE FACILITY CHARGE:</b>		
Meter Size:		
5/8"X3/4"	\$ 19.28	0.18
3/4"	28.93	0.27
1"	48.21	0.45
1-1/2"	96.42	0.90
2"	154.27	1.44
3"	308.53	2.89
4"	482.09	4.51
6"	964.17	9.02
<b>GALLONAGE CHARGE:</b>		
PER 1,000 GALLONS	\$ 5.21	0.05