

Anthony Tubolino
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August 6, 2003

Floralino Properties, Inc.
5147 Marine Pky.
New Port Richey, FL 34652

For your convenience, I have also enclosed a copy of Rule 25-22.407, Florida Administrative Code.

Should you have any questions about any of the matters contained herein, please do not hesitate to contact me at (850) 413-6218. In addition, you may contact Ryan Fitch at (850) 413-6928, with any questions.

Sincerely,



Katherine E. Fleming
Office of the General Counsel

Enclosures

KF:rf

cc: Division of Commission Clerk and Administrative Services (030250-WU)
Division of Economic Regulation (Rendell, Fitch)
Mr. Martin S. Friedman

Rule 25-22.0407(9), Florida Administrative Code

(9) When a utility applies for a staff-assisted rate case in accordance with Section 367.0814, Florida Statutes, and Rule 25-30.455, F.A.C., and staff-assistance is granted, the requirements of subsections (2), (3), (4), and (5) of this rule shall not apply.

(a) Upon receipt of the staff reports, the utility shall place two copies of its application for staff-assistance and the staff reports at any business offices it has in its service area. Such copies shall be available for public inspection during the utility's regular business hours. If the utility does not have a business office in its service area, the utility shall place two copies of its application and the staff reports at the main county library, the local community center or other appropriate location that is within or most convenient to the service area and that is willing to accept and provide public access to the copies.

(b) No less than 14 days and no more than 30 days prior to the date of a customer meeting conducted by the Commission staff, the utility shall provide, in writing, a customer meeting notice to all customers within its service area and to all persons in the same service areas who have filed a written request for service or who have been provided a written estimate for service within the 12 calendar months prior to the month the petition is filed.

(c) The customer meeting notice shall be approved by the Commission staff prior to distribution and shall include the following:

1. The date the notice was issued;
2. The time, date, location, and purpose of the customer meeting;
3. A statement that the utility has applied for a staff-assisted rate case and the general reasons for doing so;
4. A statement of the location where copies of the application and the staff reports are available for public inspection and the times during which inspection may be made;
5. A comparison of current rates and charges and the proposed new rates and charges;
6. The utility's address, telephone number, and business hours;
7. A statement that written comments regarding utility service or the proposed rates and charges should be addressed to the Director, Division of the Commission Clerk and Administrative Services, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0870, and that such comments should identify the docket number assigned to the proceeding;
8. A statement that complaints regarding service may be made to the Commission's Division of Consumer Affairs at the following toll-free number: 1(800)342-3552.
9. A statement that the Commission will be reviewing the utility's service availability charges in the pending case and that the Commission may adjust those charges.
10. The docket number assigned by the Commission's Division of the Commission Clerk and Administrative Services.

(d) The customer meeting notice shall be mailed to the out-of-town address of all customers who have provided the utility with an out-of-town address.

(e) If the proposed agency action order issued in the case is protested and any hearings are subsequently held, the utility shall give notice in accordance with subsections (6) and (7) above.

BEFORE THE PUBLIC SERVICE COMMISSION
NOTICE OF CUSTOMER MEETINGS TO THE CUSTOMERS OF
FLORALINO PROPERTIES, INC.

AND

ALL OTHER INTERESTED PERSONS

DOCKET NO. 030250-WU

APPLICATION OF FLORALINO PROPERTIES, INC.

FOR A STAFF-ASSISTED RATE CASE IN

PASCO COUNTY

Issued: _____

Notice is hereby given that the staff of the Florida Public Service Commission will conduct a customer meeting to discuss the application of Floralino Properties, Inc. (Floralino or Utility), for a staff-assisted rate case in Pasco County. The meeting will be held at the following time and place:

6:00 p.m., Wednesday, September 10, 2003
New Port Richey, Florida City Hall
5919 Main Street
New Port Richey, FL 34652

All persons who wish to comment are urged to be present at the beginning of the meeting, since the meeting may be adjourned early if no customers are present. One or more of the Commissioners of the Florida Public Service Commission may attend and participate in this meeting. The meeting will begin as scheduled and will continue until all the customers have been heard.

In addition, the Public Service Commission Staff is also attempting to meet with representatives of customer groups and homeowners associations on September 10, 2003, from 4:00 p.m. to 5:30 p.m. If you are a representative of a customer group or homeowners association and you have not been contacted by the Public Service Commission Staff, please contact Ryan Fitch at (850) 413-6928 at least five calendar days prior to September 10, 2003.

All persons who wish to participate in individual meetings are urged to make an appointment, since the individual meeting session may be canceled if no appointments are made.

Any person requiring some accommodation at the customer meeting(s) because of a physical impairment should call the Division of Commission Clerk and Administrative Services at (850) 413-6770 at least five calendar days prior to the meeting(s). Any person who is hearing or speech impaired should contact the Florida Public Service Commission by using the Florida Relay Service, which can be reached at 1-800-955-8771 (TDD).

PURPOSE

The purpose of this meeting is to give customers and other interested persons an opportunity to offer comments to the Public Service Commission Staff regarding the quality of service the utility provides, the proposed rate increase, and to ask questions and comment on Staff's preliminary rates included in this notice as well as other issues. Staff members will summarize the utility's filing, the preliminary work accomplished, and answer questions to the extent possible.

At the beginning of the meeting, procedures will be established for the order of comments. The Public Service Commission Staff will have sign-up sheets, and customers will be called to speak in the order that they sign-up. Public Service Commission Staff will be available to coordinate customers' comments and to assist members of the public.

Any person who wishes to comment or provide information to staff may do so at the meeting(s), orally or in writing. Written comments may also be sent to the Commission at the address given at the end of this notice. Your letter will be placed in the correspondence file of this docket. You may also submit comments through the Public Service Commission's toll-free facsimile line at 1-800-511-0809.

BACKGROUND

Floralino Properties, Inc. (Floralino or Utility), is a class C utility which is currently providing water service to approximately 708 customers in Pasco County. The utility received its operating certificate from the Commission by Order No. 5846, issued September 11, 1973. The utility last applied for staff

assistance on May 18, 1994, and the Commission approved a rate increase by Order No. PSC-95-0142-FOF-WU, issued January 31, 1995. The utility's adjusted revenues for the test period are \$136,075 with adjusted operating expenses of \$153,330 resulting in a net operating loss of \$17,255 for the test period. The test period for setting rates is the 12 month period ending December 31, 2002.

CURRENT AND PRELIMINARY RATES AND CHARGES

Staff has compiled the following rates and charges for the purpose of discussion at the customer meeting. These rates are preliminary and subject to change based on information gathered at the customer meeting, further staff review, and the final approval by the Commissioners. Because the utility has a bi-monthly rate and staff is preliminarily recommending a monthly rate, staff has converted the bi-monthly rate to a monthly rate for comparison purposes. The utility's current and staff's preliminary rates and charges are as follows:

MONTHLY RESIDENTIAL (RS) AND GENERAL (GS)
SERVICE RATES - WATER

<u>Base Facility Charge</u>	<u>Existing Rates</u>	<u>Staff's Preliminary Rates</u>
<u>Meter Sizes</u>		
5/8" x 3/4"	\$8.02	\$8.19
3/4"	\$12.00	\$12.28
1"	\$20.03	\$20.48
1 1/2"	\$40.07	\$40.95
2"	\$64.10	\$65.52
3"	\$128.20	\$131.04
4"	\$200.33	\$204.75
6"	\$391.09	\$409.50
<u>Residential Gallonage Charge (per 1,000 gallons)</u>		
0 - 10,000 gallons	\$1.61	\$2.23
Above 10,000 gallons	\$1.61	\$2.79
<u>General Service Gallonage Charge</u>		
Per 1,000 gallons	\$1.61	\$2.29

STAFF REPORTS AND UTILITY APPLICATION

The results of staff's preliminary investigation are contained in a staff report dated July 28, 2003. Copies of the report may be examined by interested members of the public during regular business hours, Monday, Tuesday, and Thursday, at the utility office:

5147 Marine Pky.
New Port Richey, FL 34652

PROCEDURES AFTER CUSTOMER MEETINGS

After the meetings, Public Service Commission Staff will prepare a recommendation which is scheduled to be submitted to the Commission on October 9, 2003. The Public Service Commission will then vote on staff's recommendation at its October 21, 2003, agenda conference. The Commission will thereafter issue a proposed agency action (PAA) order containing rates which may be different from those contained in staff's final recommendation. Substantially affected persons have 21 days from the date the PAA order is issued to protest the Commission's proposed agency action order. Five to ten customers or persons who attend the meeting and who wish to receive a copy of the recommendation and the order should so indicate at the meeting. Those individuals are expected to distribute the information in the recommendation and the order to customers. Anyone who is unable to attend and who wishes to obtain a copy of the recommendation or the order may do so in writing to the Commission at the address at the end of this notice.

HOW TO CONTACT THE COMMISSION

Written comments regarding the utility and the proposed rates, and requests to be placed on the mailing list for this case, may be directed to this address:

Director, Division of Commission Clerk
and Administrative Services
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

All correspondence should refer to "Docket No. 030250-WU, Floralino Properties, Inc."

If you wish to contact the Commission regarding complaints about service, you may call the Commission's Division of Consumer Affairs at the following toll-free number: 1-800-342-3552.

This notice was prepared by Commission Staff for distribution by the utility to its customers.

COMMISSIONERS:
LILA A. JABER, CHAIRMAN
J. TERRY DEASON
BRAULIO L. BAEZ
RUDOLPH "RUDY" BRADLEY
CHARLES M. DAVIDSON

STATE OF FLORIDA



TIMOTHY DEVLIN, DIRECTOR
DIVISION OF ECONOMIC REGULATION
(850) 413-6900

Public Service Commission

August 5, 2003

Mr. Anthony Tubolino, President
Floralino Properties, Inc.
P.O. Box 5017
Largo, FL 33779

Re: Docket No. 030250-WU, Staff Assisted Rate Case for Floralino Properties, Inc., in Pasco County

Dear Mr. Tubolino:

During the completion of the staff report, staff has identified several items which require further investigation on our part in order to determine just, fair, and reasonable cost. Staff requests that the utility provide the following information within 10 days following the customer meeting:

- Written estimate and/or actual invoices for the requested tank refurbishment
- Statement that the utility did not receive an insurance reimbursement for the stolen lawn mower or the amount of the insurance reimbursement
- Copy of the lease or documentation of ownership cost from ITM investments of the 1999 Ford F250, leased to the related party utility
- Detail of actual rate case expense incurred to date and detail of estimated rate case expense for completion

The above items have been estimated and included in the calculation of the staff report. However, if the utility does not provide this information to staff within 10 days following the customer meeting, these costs will not be included in staff's recommendation to the Commission. If you have any questions regarding this matter please contact Mr. Ryan Fitch at (850) 413-6928.

Sincerely,

A handwritten signature in black ink, appearing to read "Troy Rendell".

Troy Rendell
Public Utilities Supervisor

TR:rf

cc: Division of Commission Clerk and Administrative Services (030250-WU)
Division of Economic Regulation (Fitch, Davis)
Office of General Counsel
Mr. Martin S. Friedman

State of Florida



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

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

DATE: JULY 28, 2003

TO: MARSHALL WILLIS, BUREAU CHIEF

FROM: RYAN FITCH, REGULATORY ANALYST III *RF*
TED DAVIS, ENGINEER *TD*
SHANNON HUDSON, REGULATORY ANALYST III *SH* *FHL*

RE: DOCKET NO. 030250-WU APPLICATION FOR STAFF-ASSISTED RATE
CASE BY FLORALINO PROPERTIES, INC.
COUNTY: POLK

- STAFF REPORT -

This Staff Report is preliminary in nature. The Commission staff's final recommendation will not be filed until after the customer meeting.

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CASE BACKGROUND

This Staff Report is a preliminary analysis of the utility prepared by the Florida Public Service Commission (PSC) staff to give utility customers and the utility an advanced look at what staff may be proposing. The final recommendation to the Commission (currently scheduled to be filed October 9, 2003, for the October 21, 2003, Agenda Conference) will be revised as necessary using updated information and results of customer quality of service or other relevant comments received at the customer meeting.

Floralino Properties, Inc. is a Class C water utility, located in Pasco County. Pasco County became jurisdictional on July 11, 1972. The Commission granted the utility its operating certificate No. 153-W by Order No. 5846, issued September 11, 1973.

The Commission has granted the utility rate increases through the application of three prior rate cases, the last of which was approved by Order No. PSC-95-0142-FOF-WU, issued January 31, 1995, in Docket No. 940558-WU. Since the utility's last rate case, the utility has applied for and has been granted rate adjustments through the price index applications (annual adjustment for inflation).

On March 13, 2003, Floralino Properties, Inc. applied for this staff-assisted rate case. Staff has audited the utility's records for compliance with Commission rules and orders and determined those components necessary for setting rates. The staff engineer has also conducted a field investigation, which included an inspection of the water treatment facilities and certificated territory. Staff has selected a historical test year ended December 31, 2002. Water use in the utility's service area is under the jurisdiction of the Southwest Water Management District and is located in a water usage caution area.

The utility's service area consists of three subdivisions, Colonial Manor, Colonial Manor Annex, and Eastwood Acres. The utility has a contract with Pasco County for back up water service. Based on the staff audit, the utility provides service to approximately 701 residential customers and 7 general service customers for a total of 708 customers. The utility is built out and there appears to have been no customer growth since 1987.

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Based on the staff's adjustments, the utility's adjusted test year revenues were \$136,075; its adjusted test year expenses were \$153,330 which resulted in a test year operating loss of \$17,255.

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

COMPANY AND PARTY NAMES

- DEP Department of Environmental Protection
- FPSC Florida Public Service Commission
- NARUC National Association of Regulatory Utility Commissioners
- OPC Office of Public Counsel
- SWFMD Southwest Florida 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 Floralino Properties, Inc. considered satisfactory?

PRELIMINARY RECOMMENDATION: The determination for quality of service provided by Floralino Properties, Inc., will be deferred until after the customer meeting scheduled for September 10, 2003. (T.DAVIS)

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

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

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

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

Floralino Properties, Inc. is a Class C utility providing water service to 701 residential customers (estimated to be 701 ERCs), and seven general service customers (estimated to be 25 ERCs) in Pasco County. Those customers are located within and along the boundary of three neighborhoods known as; Colonial Manor, Eastwood Acres, and Colonial Manor Annex. All three developments have been "built-out" for several years. The general service

customers are small businesses dispersed along highway frontage of Moog Road and U.S. Highway 19. The Holiday Mall (a customer during the last rate case) represented nine general service customers that are no longer a part of Floralino's service area.

QUALITY OF UTILITY'S PRODUCT

The potable water program is regulated by the Southwest District Office of the DEP. According to DEP records for the last three years, the utility has had some minor deficiencies that were satisfied during the check sampling process. The utility is currently up-to-date with all testing requirements for safe drinking water standards and the analysis results are satisfactory.

Consumptive use in Pasco County is permitted by the Southwest Florida Water Management District. The utility obtained its Consumptive Use Permit (CUP) on January 7, 1999. This permit (Permit Number 203677.04) expires on January 7, 2009, allows a "Peak Monthly Average" not to exceed 293,000 gallons per day (gpd), and limits average daily flow to 195,000. In 2002, the utility's peak monthly average was 142,326 gpd with an average daily flow of 115,407 gpd. These flows were well within the permit limits for water resource extraction.

OPERATIONAL CONDITIONS AT THE PLANT

Floralino has five separate plants that are interconnected via distribution mains at various locations within the service territory. The quality of the utility's plant-in-service is determined by DEP inspections which have noted deficiencies over the last three years. Each deficiency was resolved within a reasonable deadline. The utility was last inspected by the DEP on April, 9, 2002. There were two plant in service deficiencies noted during that inspection. The utility was required to provide (1) smooth nosed test taps in accordance with Rule 62-555.315, Florida Administrative Code, and (2) an updated cross-connection control program. At this writing, the utility still has to submit to the DEP a revised Cross-Connection Control Program.

UTILITY'S ATTEMPT TO ADDRESS CUSTOMER SATISFACTION

An informal customer hearing is scheduled to be held on September 10, 2003. That meeting will give the customers of Floralino Properties, Inc. an opportunity to make staff aware of specific concerns they have about the utility's attitude and

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responsiveness to quality of service issues. All valid quality of service complaints will be investigated and will be taken into consideration during the preparation of staff's final recommendation. That recommendation is scheduled to go before the Commissioners on the October 21, 2003, Agenda Conference. The engineer will reserve a final quality of service determination until after the information obtained at the customer meeting has been thoroughly reviewed.

ISSUE 2: What portions of Floralino Properties, Inc., are used and useful?

PRELIMINARY RECOMMENDATION: The water treatment plant at Floralino Properties, Inc., should be considered 100% used and useful. The water distribution system should be 100% used and useful. (T. DAVIS)

STAFF ANALYSIS:

Water Treatment Plant

During the last two rate cases, the water treatment plants were found to be 100% used and useful. Each of the five plants are closed water systems which accesses the groundwater from a single well at each plant-site. The water treatment plants serve as pumping stations along various locations within the distribution system. Well numbers one (1) through four (4) are eight inch cased wells and are drilled to approximately 120 feet. Well number five is a twelve inch cased well that is drilled to approximately 180 feet. Each of the five wells are rated to yield 300 gallons per minute. In accordance with American Waterworks Association Manual of Water Supply Practices, one or more of the highest capacity well(s) are removed from consideration to determine the plant's reliability. Therefore, with one of the well capacities withdrawn, the reliable capacity is 1,200 gpm.

The utility alternates pumping times at each plant in random cycles for different days of the week/month to promote groundwater recovery time. The maximum day is 179,800 gpd (179,800/1440 min X 2 = 249 gpm) which is a composite of all plants active during the peak day of the peak month (May, 2002). The service area has been "built-out" since the late 1970's. Any customer count that falls below the potential capacity of the system is due to vacant houses that are up for sale. Potential growth for this system is zero.

Metered water sold to customers (40,432,000 gallons for the test year) was totaled along with estimated losses (1,349,400 gallons reported in the 2002 Annual Report) due to line breaks/flushing/etc., and was compared to treated water leaving the plants (42,123,400 gallons). This comparison indicated that the utility was within its allowable 10% for unaccounted for water. Therefore, no adjustment is recommended for excessive unaccounted for water.

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By the formula used as an indicator of useful plant, and found on sheet 1 of Attachment A, the utility appears to be 62.42% used and useful. However, after consideration that the service area is "built-out", and this Commission ordered a reduction of service territory pursuant to Order No. PSC-01-1302-FOF-WU; it is recommended that the water treatment plants be considered 100% used and useful.

Water Distribution System

During the last two rate cases the water distribution system was found to be 100% used and useful. The distribution system has the potential of serving 708 customers (estimated to be 726 ERCs), and is "land-locked" which prevents the construction of additional distribution mains. The utility is "built-out" with the number of customers remaining consistent throughout the test year. Growth over the past five years has been stationary with no average growth rate. By the formula approach which is used as an indicator of useful plant, See Attachment "C", Page 2 of 2), the distribution system is considered to be 100% used and useful. It is recommended that the water distribution system be considered 100% used and useful.

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

PRELIMINARY RECOMMENDATION: The appropriate average test year rate base for the utility is \$103,299. (FITCH)

STAFF ANALYSIS: Order No. PSC-95-0142-FOF-WU, issued January 31, 1995, issued in Docket No. 940558-WU, established rate base at April 30, 1994, for this utility. Staff has selected a historical test year ended December 30, 2002, for this rate case.

An audit of the utility's books shows that the utility did not reconcile its books to agree with balances approved by Order No. PSC-95-0142-FOF-WU. Adjustments have been made to agree the utility's balances to those approved in the above order. In addition, all rate base components have been updated from April 30, 1994, through December 31, 2002. A discussion of each component follows:

Utility Plant-in-Service (UPIS) - The utility recorded UPIS of \$326,635. UPIS has been decreased by \$3,253 to agree to utility's balance to the amount approved by Order No. PSC-95-0142-FOF-WU.

Since the prior rate case, the utility has replaced a number of its meters. However, it failed to capitalize the costs associated with the meters. The utility provided staff with documents to support \$5,473 in meter costs. Staff has increased Account No. 334 by \$5,473. The total costs by year are listed below:

Year of Replacement	Annual Cost
1996	\$1,439
1997	\$1,869
1999	\$1,377
2001	<u>\$788</u>
Total	<u>\$5,473</u>

Based on the above, staff has increased UPIS by \$5,473 for the meters (Account No. 334). Because these meters were installed to replace existing meters, the replaced meters should be retired.

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Staff was unable to identify the original cost of the meters retired. In Order No. PSC-01-1574-PAA-WS, issued July 30, 2001, in Docket No. 000584-WS, the Commission found, where original cost is not available for a retirement, that 75% of the replacement cost is a reasonable estimate of original cost. Therefore, staff has decreased UPIS by \$4,105 ($\$5,473 \times 75\%$) to retire the old meters.

Staff has also increased UPIS by \$5,442. This amount includes the following adjustments for items invoiced items provided to staff which were not recorded by the utility:

Year	<u>Account No.</u>	<u>Description</u>	<u>Amount</u>
1996	320	Chemical Feeder	\$561
1997	311	Pump	\$744
1999	320	Pump	\$721
2001	320	Chemical Feeder	\$384
2002	320	Pump	<u>\$3,032</u>
Total			<u>\$5,442</u>

According to the Audit Exception No. 2, the utility could not provide supporting documentation for some of its plant additions. However, after the completion of the audit, the utility provided staff with support for a number of its plant additions that were disallowed in the audit report. After reviewing the information provided by the utility, staff determined that the utility provided support for all but \$1,494 which was recorded in Office Furniture and Equipment (Account No. 341). Therefore, staff has decreased Account No. 341 by \$1,494 to remove the unsupported plant additions.

The utility installed a new pump during 2000, but did not retire the old pump. According to Audit Exception No. 2, the old pump should be retired at a cost equal to 75% of the new pump, since the original cost of the old pump could not be determined. Therefore, staff has removed \$1,991 ($\$2,655 \times 75\%$) from Account No. 311 for the retirement of the old pump.

Staff has reduced UPIS by \$1,516 to reflect an averaging adjustment. The total adjustment for UPIS is a decrease of \$1,444.

Accumulated Depreciation - The utility recorded an accumulated depreciation balance of \$287,992 for the test year. Staff has recalculated accumulated depreciation, beginning with the balance approved in Order No. PSC-95-0142-FOF-WU, using the prescribed rates in Rule 25-30.140, Florida Administrative Code. Staff's calculated accumulated depreciation on December 31, 2002, is \$260,995. Staff has decreased this account by \$26,997 to reflect staff calculated accumulated depreciation. Staff has decreased this account by \$6,135 to reflect an averaging adjustment. The total accumulated depreciation adjustment is a decrease of \$33,132.

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, Florida Administrative Code, staff recommends that the one-eighth of operation and maintenance (O&M) expense formula approach be used for calculating working capital allowance. Applying that formula, staff recommends a working capital allowance of \$16,696 (based on O&M of \$133,564). Working capital has been increased by \$16,696 to reflect one-eighth of staff's recommended O&M expenses.

Rate Base Summary - Based on the foregoing, staff recommends that the appropriate average test year rate base is \$103,299 for this utility.

Rate Base is shown on Schedule No. 1-A and the adjustments to rate base are shown on Schedule No. 1-B.

COST OF CAPITAL

ISSUE 4: What is the appropriate rate of return on equity and the appropriate overall rate of return for this utility?

PRELIMINARY RECOMMENDATION: The appropriate rate of return on equity is 11.96% with a range of 10.96% - 12.96%. The appropriate overall rate of return for the utility is 6.64%. (FITCH)

STAFF ANALYSIS: The utility recorded the following items in capital structure for the test year: common stock of \$600, retained earnings of \$8,668, paid-in-capital of \$12,400, treasury stock of \$15,996, long-term debt of \$29,232, and customer deposits of \$15,777. Equity represents 11.19% of the utility's capital structure.

The long term debt is made up of two loans with an interest rate of 6.0% and 5.9%. The long term debt represents 57.68% of the utility's capital structure. The interest cost of customer deposits is a minimum of 6.0% pursuant to Rule 25-30.311(4)(a), Florida Administrative Code. Customer deposits represent 31.13% of the utility's capital structure.

Using the current leverage formula approved by Order No. PSC-03-0707-PAA-WS, issued June 13, 2003, in Docket No. 030006-WS, the appropriate rate of return on equity for utilities with an equity ratio of 40% or less is 11.96%.

The utility's capital structure has been reconciled with staff's recommended rate base. Staff's recommended return on equity is 11.96% with a range of 10.96% - 12.96% and an overall rate of return of 6.64%. The return on equity and overall rate of return are shown on Schedule No. 2.

NET OPERATING INCOME

ISSUE 5: What is the appropriate test year revenue?

PRELIMINARY RECOMMENDATION: The appropriate test year revenue for this utility is \$136,075. (FITCH)

STAFF ANALYSIS: The utility booked revenues during the test year of \$133,873, of which \$1,483 is related to miscellaneous service charges.

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. Staff calculated total test year revenues (including the \$1,483 of miscellaneous service charges) to be \$136,075. Therefore, test year revenues have been increased by \$2,202 to reflect annualized revenues. Accordingly, staff's recommended test year revenue is \$136,075.

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

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

PRELIMINARY RECOMMENDATION: The appropriate amount for operating expense for this utility is \$154,466. The utility should be required to complete the tank refurbishments, as discussed in the staff analysis, within nine months of the effective date of the Commission Order. (FITCH)

STAFF ANALYSIS: The utility recorded \$129,935 of operating expenses during the test year. The utility provided the auditor with access to all invoices, canceled checks, and other utility records to verify its O&M and taxes other than income expense for the twelve month period ending December 31, 2002. Using documents provided by the utility, the staff auditor determined the appropriate operating expenses for the test year and a breakdown of expenses by account. The utility recorded several expenses in accounts which are not defined by the NARUC USOA. Staff identified the types of expenses in these accounts and reclassified these amounts to the appropriate NARUC accounts as follows: Utility account No. 870 and 895 to Account No. 620 Materials and Supplies, Utility Account No. 892 to Account No. 615 Purchased Power, Utility Account No. 863 to Account No. 631 Contractual Services Professional, Utility Account No. 878 to Account No. 636 Contractual Services Other, Utility Account No. 845 to Account No. 655 Insurance Expense, Utility Account Nos. 680, 810, 815, 825, 835, 855, and 872 to Account No. 675 Miscellaneous Expense, and Utility Account Nos. 872, 885, and 886 to Taxes Other than Income. Adjustments have been made to reflect the appropriate annual operating expenses that are required for utility operations on a going forward basis.

Operations and Maintenance Expenses (O&M)

Salaries and Wages-Officers (603)- The utility recorded \$6,836 in this account for the test year. This amount is associated with an employee who no longer works for the utility. Therefore, pursuant to Audit Exception No.5, Adjustment No. 1, staff has decreased this account by \$6,836 to remove the salary associated with the former utility employee. The new employee is contracted; therefore, contracted employees will be discussed further in the Contractual Services-Other account.

Purchased Water-(610) - The utility recorded \$2,949 in this account for the test year. The utility is interconnected with the Pasco Water Authority as an emergency water source. The charges in this account represent base facility charges as the emergency source was

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not utilized during the test year. Staff decreased this account by \$455 to remove an out of period bill pursuant to Audit Exception No. 5, Adjustment No. 2. Staff recommends a purchased water expense of \$2,494.

Purchased Power-(615) - The utility recorded \$5,950 in this account for the test year. Staff has not made an adjustment to this account for repression; however, staff will make a repression adjustment in the final recommendation.

Chemicals-(618) - The utility recorded \$1,660 in this account for the test year. Pursuant to Audit Exception No. 5, Adjustment No. 4, staff has increased this account by \$672 to reclassify chemical expense from Account No. 636, Contractual Services-Other. Staff recommends chemical expense of \$2,332. Staff has not made an adjustment to this account for repression; however, staff will make a repression adjustment in the final recommendation.

Materials and Supplies-(620) - The utility recorded \$9,541 in this account for the test year. Pursuant to Audit Exception No. 5, Adjustment No. 5, staff has decreased this account by \$716 to remove unsupported expenses. This account has further been decreased by \$1,059 to remove the cost associated with meters. The purchase of meters is not an expense, rather it is an asset which is recovered through depreciation once it is installed. Staff recommends materials and supplies expense of \$7,766.

Contractual Services-Billing-(630)- The utility recorded \$24,553 in this account for the test year. This amount consists of payments for management fees during the test year. Staff has decreased this account by \$24,553 to reclassify management fees to the Contractual Services-Other account.

Contractual Services-Professional-(631)- The utility recorded \$4,649 in this account for the test year. Staff has increased this account by \$2,453 to annualize the amount for the contracted operator during the test year of \$464.10 per month. Pursuant to Audit Exception No. 5, Adjustment No. 11, staff has decreased this account by \$150 to reclassify taxes to Taxes Other than Income. Pursuant to Audit Exception No. 5, Adjustment No. 6, staff has also decreased this account by \$678 to amortize a nonrecurring legal expense associated with a former utility customer over five years. Staff has increased this account by \$3,052 to reclassify repairs made by the operator that were recorded in the contractual

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services-testing account. Staff recommends contractual services-other expense of \$9,326.

Contractual Service-Testing - (635)- The utility recorded \$10,915 in this account for the test year. Staff has decreased this account by \$3,052 to reclassify repairs made by the operator to the Contractual Services-Professional account.

Each utility must adhere to specific testing conditions prescribed within its operating permit. These testing requirements are tailored to each utility as required by Rules 62-550 and 551, Florida Administrative Code, which are enforced by the DEP. The tests and the frequency at which those tests must be repeated for this utility are:

WATER-DEP REQUIRED TESTING

<u>Test</u>	<u>Frequency</u>	<u>Annual Amount</u>
Microbiological (Coliforms)	6/Monthly	\$1,152
Chloride, Sulfate & TDS	2/Monthly	\$1,584
Primary Inorganics	36 mos. x 5	\$610
Secondary Inorganics	36 mos. x 5	\$350
Asbestos	1/9 Years x 5	\$160
Volatile Organics	qtrly year 1 36 mos. x 5 after	\$1,750
Pesticides & PCB	36 mos. x 5	\$1,325
Nitrates & Nitrites	12 mos. x 5	\$520
Radionuclides I	36 mos. x 5	\$190
Radionuclides II	36 mos. x 5	\$850
Unregulated Organics I	qty 1 st yr 9 yrs. x 5	\$1,275
Unregulated Organics II	36 mos. x 5	\$250
Unregulated Organics III	36 mos. x 5	\$383
Lead & Copper	Biannual x 5	<u>\$910</u>
Total		<u>\$11,309</u>

Staff has increased this account by \$3,446 (\$11,309 - \$10,915 - \$3,052) to reflect the DEP required testing.

Contractual Services Other-(636) - The utility recorded \$17,895 in this account for the test year. Staff has increased this account by \$24,553 to reclassify management payments recorded in the Contractual Services-Billing account. Staff has decreased this account by \$672 to reclassify chemicals to the Chemical expense account pursuant to Audit Exception No. 5, Adjustment No. 4. Staff has decreased this account by \$1,468 to remove undocumented expenses and testing included above pursuant to Audit Exception No. 5, Adjustment No. 7 and 8.

In Order No. PSC-95-0142-FOF-WU, issued January 31, 1995, in Docket No. 940558-WU, the Commission approved annual management expense of \$52,000 (40 hrs. a week at \$25 an hour). In that order, management services were defined to include administrative duties, billing and collection, groundskeeping service, meter reading, repairs and maintenance, and accounting. The utility believes that this amount, adjusted for inflation, is no longer sufficient to perform the management duties described in the above referenced order. Staff evaluated the expenses incurred during the year and requested by the utility as follows:

Test Year Repairs (Including day labor)	\$13,209
Less Meter Installations (Capitalize)	(\$1,246)
Test Year meter reading	\$2,002
Estimated increase for monthly meter reading (bi-monthly to monthly)	\$2,160
Requested Secretary (30 hrs. week x \$9 an hour)	\$14,040
Maintenance Person (\$275 a week)	\$14,300
Staff estimated management (20 hrs. a week x \$25 an hour)	<u>\$26,000</u>
Total	\$70,545

Staff believes that the above test year and pro forma expenses are reasonable. Staff adjusted the test year figures to reflect monthly meter reading which would be required for monthly metered rates. Currently, the utility bills residential customers bi-monthly. Staff also included an allowance for management duties of 20 hours a week. In the prior rate case, the Commission approved 40 hours a week for these services; however, since that time the utility has hired additional employees to perform the management duties as defined in that case. The secretary is responsible for answering phone calls, filing, bookkeeping, billing, and collections and the maintenance person is responsible for general repairs and maintenance of the plant. Therefore, the duties the utility manager performs are reduced. Staff believes that 20 hours a week is reasonable for a utility of this size based on past Commission practice.

Staff does acknowledge that this expense is approximately \$11,000 more a year than the amount approved in the last rate case

adjusted for inflation. However, staff believes the reason for this is the increased maintenance and repairs required of an aging plant. Based on the above analysis, staff has increased this account by \$30,237 to reflect a total Contractual Services-Other expense of \$70,545 annually.

The utility is being required by the DEP to refurbish two of its five tanks. The utility has requested expenses to refurbish all five tanks at an approximate cost of \$5,000 per tank. The utility plans on completing all five tank refurbishment within the next six to nine months. Staff believes that it is prudent to complete the requested repair. Staff also believes that this repair is non-recurring and that allowing the full unamortized amount of the requested repair in test year rates may cause the utility to overearn in future periods. Therefore, staff believes the total repair cost should be amortized over 5 years pursuant to Rule 25-30.433(8), Florida Administrative Code. Therefore staff has increased this account by \$5,000 to reflect one fifth of the repair cost of the five tanks. Staff recommends a total Contractual Services-Other expense of \$75,545.

Transportation Expense-(650) - The utility recorded \$10,374 in this account for the test year. Staff has decreased this account by \$198 to remove unsupported and out of period expenses pursuant to Audit Exception No. 5, Adjustment No. 9. Adjustment No. 9, also included a reduction to this account to reclassify \$233 to Insurance expense and that adjustment has been made. Included in the total amount above is a truck lease for \$6,000 annually with ITM Investments, a related part company.

In Order No. PSC-02-0593-WU, issued April 30, 2002, in Docket No. 010503-WU, the Commission found that:

By their very nature, related-party transactions require closer scrutiny. Although a transaction between related parties is not per se unreasonable, it is the utility's burden to prove that its costs are reasonable. Florida Power Corp. v. Cresse, 413 So. 2d 1187, 1191 (Fla. 1982). This burden is even greater when the transaction is between related parties. In GTE Florida, Inc. v. Deason, 642 So. 2d 545 (Fla. 1994), the Florida Supreme Court established that the standard to use in evaluating affiliate transactions is whether those transactions exceed the going market rate or are otherwise inherently unfair.

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Because this lease is with a related party, the utility should provide staff with a copy of the related party lease or ownership cost so that staff can make a determination whether this related party transaction exceeds the going market rate or is otherwise inherently unfair. If the utility does not provide this information to staff within ten days following the customer meeting, then this cost will not be considered in staff's final recommendation. Staff recommends transportation expense of \$9,943.

Insurance Expense (655) - The utility recorded \$4,656 in this account for the test year. Staff has increased this account by \$233 to reclassify insurance expense from the Transportation expense account (Audit Exception No. 5, Exception No. 9). Staff has also decreased this account by \$2,610 to remove health insurance cost associated with a contracted employee (Audit Exception No. 5, Adjustment No. 10). Because the employee is contracted and there is no exception in the contract for health insurance, this expense should not be included. Staff recommends Insurance expense of \$2,279.

Regulatory Commission Expense (665) - The utility did not record an amount in this account. The utility paid a rate case filing fee of \$1,000. Therefore, staff increased this account by \$1,000.

The utility has hired an attorney for assistance in this case. The main purpose of the staff assisted rate case is to help minimize rate case expense and its effect on ratepayers. However, Rule 25-30.455(1), Florida Administrative Code, allows reasonable and prudent expense associated with reviewing and compiling information from staff. Therefore, staff has included an estimate of \$10,000 for rate case expense.

It is the utility's burden to justify to staff and the Commission the necessity of any rate case expense and the reasonableness of its cost. In order to justify any rate case expense, the utility is to provide staff with the cost incurred to date along with estimated amounts to be incurred by the utility until and including the staff assisted rate case being presented at agenda. The utility is to provide staff with calculations of rate case expense and copies of all source documents supporting this expense, including a cost breakdown by hourly rate as well as description of the type of service provided for each firm providing service. These costs, calculations, and supporting documentation should be received by staff no later than 10 days following the customer meeting.

Staff has decreased regulatory commission expense by \$8,250 (\$11,000 -\$11,000/4 years) to amortize rate case expense over four years pursuant to Section 367.0816, Florida Statutes. Staff recommends regulatory commission expense of \$2,750.

Miscellaneous Expense (675) - The utility recorded \$8,402 in this account for the test year. Pursuant to Audit Exception No. 5, Adjustment No. 5, staff has decreased this account by \$1,004 to remove personal use of the utility cell phone. The utility paid a related party company \$3,096 for reimbursement of electrical expense for street lights. This expense was disallowed in Order No. PSC-95-0142-FOF-WU, issued January 31, 1995, in Docket No. 940558-WU. Therefore, pursuant to Audit Exception No. 5, Adjustment No. 11, and consistent with the utility's prior rate case order, staff has decreased this account by \$3,096 to remove the non-utility street light reimbursement. Staff has further reduced this account by \$150 to remove a \$100 donation pursuant to Audit Exception No. 5, Adjustment No. 12 and a \$50 customer deposit refund pursuant to Audit Exception No. 5, Adjustment No. 14.

Pursuant to Audit Exception No. 5, Adjustment No. 14, staff has decreased this account by \$3,007 to reclassified interest expense to Account No. 237. Staff recommends test year Miscellaneous expense of \$1,145.

Operation and Maintenance Expense (O&M Summary) - The total O&M adjustment is an increase of \$22,459. Staff's recommended O&M expense is \$133,564. O&M expenses are shown on Schedule 3-B.

Depreciation Expense - The utility recorded depreciation expense of \$10,367 during the test year. Depreciation expense has been recalculated using the prescribed rates in Rule 25-30.140, Florida Administrative Code. Staff's calculated depreciation is \$11,167; therefore, staff has increased this account by \$800 to reflect staff's calculated depreciation expense. CIAC amortization and non-used and useful depreciation have a negative impact on depreciation expense; however, since the water treatment and distribution system are considered 100% used and useful and the utility's CIAC balance is fully amortized, an adjustment has not been made for non-used and useful or CIAC amortization. Staff's net depreciation expense is \$11,167.

Amortization - The utility has requested that a lawnmower that was purchased and stolen in 1999 be recovered through amortization of an early retirement loss. The original cost of the lawnmower was

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\$9,063, applying one half year of depreciation expense to the original cost of the lawnmower results in a net loss of \$8,836. Staff calculated the amortization period of the early retirement loss pursuant to the formula in Rule 25-30.433(9), Florida Administrative Code, which results in an amortization period of 8.5 years. Therefore, staff has increased operating expenses by \$1,040 to reflect the annual amortization of the loss. Staff is still investigating whether or not the lawnmower was covered by insurance. If the utility was reimbursed by its insurance company, then staff will adjust the loss calculation for the final recommendation to reflect the reimbursement.

Taxes Other Than Income - The utility recorded taxes other than income of \$8,463. Staff has decreased this account by \$557 to remove payroll taxes associated with the former salaried employee (Audit Exception No. 6). Staff has increased this account by \$99 to reflect RAFs based on annualized revenues. Pursuant to Audit Exception No. 6, staff has decreased this account by \$981 to remove out of period real estate tax and has increased this account by \$535 to recognize unrecorded property tax. Staff recommends test year taxes other than income expense of \$7,559.

Income Tax - Floralino is a Sub-chapter S corporation; therefore, consistent with Rule 25-30.433(7) Florida Administrative Code, an allowance for income tax has not been made.

Operating Revenues - Revenues have been increased by \$25,250 to reflect the increase in revenue required to cover expenses and allow the recommended return on investment.

Taxes Other Than Income - This expense has been increased by \$1,136 to reflect RAFs of 4.5% on the increase in revenues.

Operating Expenses Summary - The application of staff's recommended adjustments to the audited test year operating expenses results in a \$154,466 operating expenses.

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

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ISSUE 7: What is the appropriate revenue requirement?

PRELIMINARY RECOMMENDATION: The appropriate revenue requirement is \$161,325. (FITCH)

STAFF ANALYSIS: The utility should be allowed an annual increase of \$25,250 (18.56%). This will allow the utility the opportunity to recover its expenses and earn a 6.64% return on its investment. The calculations are as follows:

	<u>Water</u>
Adjusted rate base	\$103,299
Rate of Return	x .0664
Return on investment	<u>\$6,859</u>
Adjusted O & M expense	\$133,564
Depreciation expense (Net)	\$11,167
Amortization	\$1,040
Taxes Other Than Income	<u>\$8,695</u>
Revenue Requirement	<u><u>\$161,325</u></u>
Adjusted Test Year Revenues	<u>\$136,075</u>
Percent Increase/(Decrease)	<u><u>18.56%</u></u>

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

ISSUE 8: Is a continuation of the utility's current rate structure for its water system appropriate in this case, and, if not, what is the appropriate rate structure?

PRELIMINARY RECOMMENDATION: No, a continuation of the utility's current rate structure for its water system is not appropriate in this case. A conservation adjustment of 10% should be implemented. In addition, the rate structure should be changed to a two-tier inclining-block rate structure with recommended usage blocks of 0-10,000 gallons (10 kgal) and over 10 kgal. The recommended usage block rate factor for the second block is 1.25. (HUDSON)

STAFF ANALYSIS: The utility's current water system rate structure consists of a bi-monthly base facility charge (BFC)/gallage charge rate structure, in which the BFC is \$16.02, and all gallons used are charged \$1.61 per kgal. The BFC/gallage charge rate structure is the Commission's preferred rate structure, because it is a usage sensitive rate structure which allows customers to reduce their total bill by reducing their water consumption.

Floralino is located in Pasco County, within the South Florida Water Management District (SFWMD or District) in a water use caution area. The District has asked that, whenever possible, the Commission implement inclining-block rate structures for water utilities located within the District. The goal of the inclining-block rate structure is to reduce average demand. Under this rate structure, it is anticipated that demand in the higher usage block(s) will be more elastic (responsive to price) than demand in the first block. Water users with low monthly usage will benefit, while water users with higher monthly use will pay increasingly higher rates, thereby creating a greater incentive to conserve. Several factors to consider when designing inclining-block rates include, but are not limited to, the selection of the appropriate: a) conservation adjustment; b) usage blocks; and c) usage block rate factors.

Conservation Adjustment

Staff believes an important rate design goal is to minimize, to the extent possible, the price increases at monthly consumption levels of 5 kgal or less. This goal is consistent with Commission practice. We believe this is an appropriate goal because a high percentage of consumption at or below 5 kgal represents nondiscretionary, essential consumption. We believe another rate design goal, also consistent with Commission practice, is to

recover no more than 40% of the overall revenue requirement through the BFC. This rate structure guideline was developed by the Southwest Florida Water Management District (SWFWMD) and has been generally adopted by the remaining four Water Management Districts (WMDs).

Based upon initial accounting allocations, the utility recovers approximately 49% of the revenue requirement from the BFC, and the remaining 51% from the gallonage charge. Staff ran several iterations of the conservation adjustment calculation and determined that a 10% conservation adjustment is appropriate for the utility. The 10% conservation adjustment results in a BFC recovery rate of 44%. This recovery rate is 4% above the 40% guideline for the BFC. The 20% conservation adjustment results in a BFC recovery rate of 40%. However, staff is recommending two changes to the utility's rate structure. One is a change from bi-monthly (See Issue No. 9) to monthly billing. The other is a change from a BFC/uniform gallonage charge rate structure (UGC) to a BFC/inclining block rate structure. The 20% conservation adjustment results in price decreases for lower levels of consumption. Therefore, staff is recommending a 10% conservation adjustment, to be more conservative in regards to revenue stability, because of the customers potential responsiveness to the two recommended changes to the rate structure.

**Usage Blocks and
Usage Block Rate Factors**

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

Although staff's analysis of customers' consumption patterns revealed that approximately 65 percent of customers have bills at monthly usage of 5 kgal or below, staff believes that a usage block capped at 10 kgal is more appropriate. Approximately 90% of customers' bills and consumption is captured in this block, with the corresponding average consumption per customer a low 3.5 kgal per month. These usage patterns indicate very little excessive use. When considering whether additional usage blocks are

necessary, staff considered the following consumption patterns of the utility's customers:

<u>Kgal per Month</u>	<u>% Cum Bills</u>	<u>% Consol Factor</u>
10	90%	87%
15	97%	93%
20	99%	98%

Because so few bills and gallons (approximately 10%) are captured at usage above 10 kgal, we believe it is unnecessary to create additional usage blocks. Therefore, we recommend that the first usage block be for monthly usage of 0-10 kgal, and the second block be for monthly usage in excess of 10 kgal. Since the utility has a small percentage of gallons over 10 kal and a low system-wide average consumption per customer, staff is recommending that a nominal usage block rate factor for the second usage block of 1.25. As stated previously, the utility's overall system-wide average consumption is approximately 5 kgal. The current traditional BFC/uniform gallonage charge rate structure achieves the rate design goals. However, in comparison, the inclining block rate structure with usage blocks of 0 - 10 kgal and excess of 10 kgal and usage block rate factors of 1/1.25 achieves better results.

The results of staff's analysis in regards to the appropriate conservation adjustment and rate structure is shown in the following table:

PRICE INCREASES AT VARIOUS CONSERVATION ADJUSTMENTS								
Cons. per Month	Conservation Adjustment Percentages (CA) and Resulting Base Facility Charge (BFC) Allocation							
	CA=0% BFC=49%		CA=10% BFC=44%		CA=20% BFC=40%		CA=30% BFC=35%	
	UGC	0-10/ 1.25	UGC	0-10/ 1.25	UGC	0-10/ 1.25	UGC	0-10/ 1.25
0 kgal	13.6%	13.6%	2.2%	2.2%	-9.1%	-9.1%	-20.5%	-20.5%
1 kgal	15.4%	13.8%	8.0%	6.2%	0.5%	-1.4%	-6.9%	-9.0%
2 kgal	16.6%	14.0%	12.1%	9.1%	7.4%	4.2%	2.8%	-0.7%
3 kgal	17.6%	14.1%	15.2%	11.2%	12.5%	8.3%	10.1%	5.4%
4 kgal	18.3%	14.2%	17.6%	12.9%	16.5%	11.5%	15.8%	10.2%
5 kgal	18.9%	14.2%	19.5%	14.2%	19.7%	14.1%	20.3%	14.1%
10 kgal	20.7%	14.5%	25.2%	18.2%	29.3%	21.8%	33.8%	25.5%
15 kgal	21.6%	21.8%	28.1%	28.0%	34.1%	34.3%	40.6%	40.6%
20 kgal	22.1%	26.1%	29.8%	34.0%	37.0%	41.8%	44.7%	49.6%
25 kgal	22.5%	29.1%	30.9%	37.9%	28.9%	46.7%	47.4%	55.6%

As shown above, the 10% conservation adjustment accomplishes several rate design goals: a) it minimizes the price increases for monthly consumption at less than 5 kgal; b) the first usage block cap is approximately equal to the overall revenue requirement percentage increase; and c) it maximizes the price increases for monthly usage at levels greater than the system-wide average monthly consumption level.

Therefore, a continuation of the utility's current rate structure is not appropriate in this case. A conservation adjustment of 10% should be implemented. In addition, the rate structure should be changed to a two-tier inclining-block rate structure, with recommended usage blocks of 0-10,000 gallons (10 kgal) and over 10 kgal. The recommended usage block rate factor for the second block is 1.25.

ISSUE 9: Is a continuation of the utility's current bi-monthly billing appropriate?

PRELIMINARY RECOMMENDATION: No. The utility's billing should be change to monthly billing. (HUDSON)

STAFF ANALYSIS: The utility currently bills its customers on a bi-monthly basis. Pursuant to Audit Exception No. 4, the audit staff reviewed the billing records and found numerous inconsistencies. The audit staff noticed that there are some meter readings that are not billed for a month or more. With a bi-monthly billing practice, some customers may not be billed for three or four months after consumption begins. This practice does not promote conservation. Monthly billing sends customers water usage signals in a more timely manner. As discussed previously, the estimated cost for additional meter reading is approximately \$2,000. Based on the number of monthly bills, the increase cost is approximately \$0.24 per bill. Thus, the additional cost for monthly billing would allow a customer to save at a minimum \$2.23 per kgal.

Therefore, the utility's current billing is not appropriate. The utility's billing should be changed to monthly.

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ISSUE 10: Is an adjustment to reflect repression of residential consumption appropriate due to the change in rate structure and price increase in this case, and, if so, what is the appropriate repression adjustment?

PRELIMINARY RECOMMENDATION: Yes, a repression adjustment of 1,166 kgal is appropriate. In order to monitor the effects of both the change in rate structure and the recommended revenue increase, the utility should be ordered to prepare monthly reports detailing the number of bills rendered, the consumption billed and the revenue billed. These reports should be provided, by customer class and meter size, on a quarterly basis for a period of two years, beginning with the first billing period after the increased rates go into effect. (LINGO)

STAFF ANALYSIS: Typically, staff's repression analysis involves an examination of our database of utilities receiving rate increases and decreases. We look for utilities with comparable parameters to the utility being examined, and ultimately base our recommended repression adjustment on the past behavior of these like utilities. These parameters include, but are not limited to, utilities within plus or minus 30% of the current utility's: 1) average monthly consumption; 2) average monthly price; and 3) percentage price increases. In addition, we attempt to match utilities with similar rate structure changes. However, on an overall basis, an examination of our database revealed no sufficiently similar utilities upon which staff could base a recommended repression adjustment. Therefore, staff has extrapolated from available information to develop our recommended repression adjustment. The Commission has found this methodology to be an acceptable alternative in numerous prior water cases.

We believe it is appropriate to examine the range of preliminary percentage increases within each usage block to determine an overall recommended repression adjustment. Our analysis of the anticipated repression in each of the two recommended usage blocks follows.

0 - 10 kgal

In staff's recommended usage block of 0-10 kgal, average monthly usage is 3.4 kgal, with preliminary percentage increases in price ranging from 2 percent to 18 percent. Other factors being equal, we would not make a consumption adjustment in this block because of the relatively low average consumption and percentage

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price increases. However, due to the change in billing cycles from bi-monthly to monthly, customers will receive their consumption information in a more timely manner, allowing for quicker changes in customers' consumption patterns. Therefore, we believe some reduction in this block is warranted.

Staff has found that for utilities that did not experience a rate structure change, a price increase of approximately 33% (in cases which involve the utility's water system only) has led to a corresponding 7% reduction in consumption (demand or consumption repression). We have used this overall price/repression relationship as a starting point in cases where there are no comparable utilities in the database. That analysis in this case would yield the following proportional relationship:

$$\frac{33\% \text{ price increase}}{7\% \text{ consumption reduction}} = \frac{\text{Pre-repression avg price incr of } 12.0\%}{X\% \text{ consumption reduction}}$$

Solving for X, the anticipated consumption reduction would be approximately 2.5%. We believe the consumption level in this usage block is sufficient to sustain a 2.5% reduction.

10.001+ kgal per Month

For customers whose usage was billed at 10 kgal or greater, the average monthly consumption was 16.5 kgal, with an anticipated pre-repression average price increase of 30.1%. The proportional price/repression relationship yielded the following:

$$\frac{\text{Avg } 33\% \text{ price increase}}{7\% \text{ consumption reduction}} = \frac{\text{New avg price increase of } 30.1\%}{X\% \text{ consumption reduction}}$$

Solving for X, the anticipated consumption reduction would be approximately 6.3% for monthly usage above 10 kgal. We believe it is possible for these customers to sustain a 6.3% reduction in consumption, which would decrease average consumption in this usage block to 15.4 kgal.

Summary

The above-referenced repression adjustments results in an overall water repression adjustment of 3.0%, with an anticipated 1,166 kgal reduction in water consumption. In order to monitor the effects of both the change in rate structure and the recommended revenue increase, the utility should be ordered to prepare monthly reports detailing the number of bills rendered, the consumption billed and the revenue billed. These reports should be provided,

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by customer class and meter size, on a quarterly basis for a period of two years, beginning with the first billing period after the increased rates go into effect.

ISSUE 11: What are the appropriate monthly rates for service?

PRELIMINARY RECOMMENDATION: The appropriate monthly rates should be designed to produce revenues of \$159,842, excluding miscellaneous service charge revenues. The utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(1), Florida Administrative Code. The rates should not be implemented until staff has approved the proposed customer notice, and the notice has been received by the customers. The utility should provide proof of the date notice was given no less than 10 days after the date of the notice. (HUDSON, FITCH)

STAFF ANALYSIS: As discussed in Issue No. 7, the appropriate revenue requirement is \$161,325. The utility had other revenues totaling \$1,483 during the test year. Other revenues should be used to reduce the revenue requirement recovered through rates. Therefore, staff has designed rates to produce revenues of \$159,842 (\$161,325 - \$1,483).

As discussed previously, the water system rate structure shall be changed to a two-tier inclining-block rate structure, with monthly usage blocks of 0-10 kgal and over 10 kgal. Also discussed previously, the rate factor for the second usage block shall be 1.25, and a 10% conservation adjustment shall be implemented. The appropriate repression adjustment for the water system is 3% (1,166 kgal). Therefore, the resulting monthly rates for service are those shown below. The rates below reflect monthly rates, staff has converted the utility's bi-monthly rate to a monthly rate for comparison purposes.

MONTHLY RESIDENTIAL (RS) AND GENERAL (GS)
SERVICE RATES - WATER

<u>Base Facility Charge</u>	<u>Existing Rates</u>	<u>Staff's Preliminary Rates</u>
<u>Meter Sizes</u>		
5/8" x 3/4"	\$8.02	\$8.19
3/4"	\$12.00	\$12.28
1"	\$20.03	\$20.48
1 1/2"	\$40.07	\$40.95
2"	\$64.10	\$65.52
3"	\$128.20	\$131.04
4"	\$200.33	\$204.75
6"	\$391.09	\$409.50
<u>Residential Gallonage Charge (per 1,000 gallons)</u>		
0 - 10,000 gallons	\$1.61	\$2.23
Above 10,000 gallons	\$1.61	\$2.79
<u>General Service Gallonage Charge</u>		
Per 1,000 gallons	\$1.61	\$2.29

Staff's recommended increase in rates is \$25,250 or approximately 18.56%. The rates approved for the utility should be designed to produce revenues of \$159,842.

Approximately 44% (\$71,031) of the service revenues are 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% (\$88,812) of the service revenues represents revenues collected through the consumption charge based on the number of gallons. The following is a comparison of bills at 3,000, 5,000, and 10,000 gallons:

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<u>GALLONS</u>	<u>EXISTING RATE</u>	<u>PRELIMINARY RATE</u>
3,000	\$12.85	\$14.88
5,000	\$16.07	\$19.34
10,000	\$24.12	\$30.49

The utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(1), Florida Administrative Code. The rates should not be implemented until staff has approved the proposed customer notice, and the notice has been received by the customers. The utility should provide proof of the date notice was given no less than 10 days after the date of the notice.

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ISSUE 12: 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?

PRELIMINARY RECOMMENDATION: The water 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. (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 \$2,879 annually. Using the utility's current revenues, expenses, capital structure and customer base the reduction in revenues will result in the rate decreases as shown on Schedule No. 4.

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

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

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

PRELIMINARY RECOMMENDATION: Yes. Pursuant to Section 367.0814(7), Florida Statutes, the recommended rates should be approved for the utility on a temporary basis, subject to refund, in the event of a protest filed by a party other than the utility. Prior to implementation of any temporary rates, the utility should provide appropriate security. If the recommended rates are approved on a temporary basis, the rates collected by the utility shall 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(6), Florida Administrative Code, the utility should file reports with the Commission's Division of Economic Regulation no later than the 20th of each month indicating the monthly and total amount of money subject to refund at the end of the preceding month. The report filed should also indicate the status of the security being used to guarantee repayment of any potential refund. (FLEMING, FITCH)

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

The utility should be authorized to collect the temporary rates upon the staff's approval of appropriate security for the potential refund and the proposed customer notice. Security should be in the form of a bond or letter of credit in the amount of \$16,946. Alternatively, the utility could establish an escrow agreement with an independent financial institution.

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

- 1) The Commission approves the rate increase; or

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

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

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

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

- 1) No refunds in the escrow account may be withdrawn by the utility without the express approval of the Commission.
- 2) The escrow account shall be an interest bearing account.
- 3) If a refund to the customers is required, all interest earned by the escrow account shall be distributed to the customers.
- 4) If a refund to the customers is not required, the interest earned by the escrow account shall revert to the utility.
- 5) All information on the escrow account shall be available from the holder of the escrow account to a Commission representative at all times.
- 6) The amount of revenue subject to refund shall be deposited in the escrow account within seven days of receipt.
- 7) This escrow account is established by the direction of the Florida Public Service Commission for the purpose(s) set forth in its order requiring such account. Pursuant to

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

- 8) The Director of 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(6), Florida Administrative Code, the utility should file reports with the Commission Division of Economic Regulation no later than the 20th of each month indicating the monthly and total amount of money subject to refund at the end of the preceding month. The report filed should also indicate the status of the security being used to guarantee repayment of any potential refund.

WATER TREATMENT PLANT - USED AND USEFUL DATA

Docket No. 030250-WU - Floralino Properties, Inc.

- | | | |
|--|---------|--------------------|
| 1) Capacity of Plant | 1,200 | gallons per minute |
| 2) Maximum Day (179,800gal/1440*2) | 249 | gallons per minute |
| 3) Fire Flow Capacity | 500 | gallons per minute |
| a) Required Fire Flow: 500 gallons per minute for 4 hours | | |
| 4) Growth | 0 | gallons per minute |
| a) Test year Customers in ERCs: | | |
| | Begin | 726 |
| | End | 726 |
| | Average | 726 |
| (Use average number of customers) | | |
| b) Customer Growth in ERCs using Regression Analysis for most recent 5 years including Test Year | 0 | ERC |
| c) Statutory Growth Period | 5 | Years |
| (b)x(c)x(2/a) = 0 gallons per minute for growth | | |
| 5) Excessive Unaccounted for Water | 0 | gallons per minute |
| a) Total Unaccounted for Water | | |
| Percent of Average Daily Flow | 7 | gallons per minute |
| | 0.008% | |
| b) Reasonable Amount | | |
| (10% of average Daily Flow) | 7 | gallons per minute |
| c) Excessive Amount | | |
| | 0 | gallons per minute |

USED AND USEFUL FORMULA

$$[(2)+(3)+(4)-(5)]/(1) = **62.42\% \text{ Used and Useful}$$

** The utility is "built-out" and should be considered 100% used and useful.

WATER DISTRIBUTION SYSTEM - USED AND USEFUL DATA

Docket No. 030250-WU - Floralino Properties, Inc.

1) Capacity of System (Number of ERCs)	726	ERCs
2) Test year connections		
a) Beginning of Test Year	726	ERCs
b) End of Test Year	726	ERCs
c) Average Test Year	726	ERCs
3) Growth	0	ERCs
a) customer growth in connections for	0	ERCs

last 5 years including Test Year using

Regression Analysis

b) Statutory Growth Period	5	Years
(a)x(b) = 0 connections allowed for growth		

USED AND USEFUL FORMULA

$$[2+3]/(1) = 100\% \text{ Used and Useful}$$

FLORALINO PROPERTIES, INC. TEST YEAR ENDING 12/31/02 SCHEDULE OF WATER RATE BASE		SCHEDULE NO. 1-A DOCKET NO. 030250-WU	
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	\$326,635	(\$1,444)	\$325,191
2. LAND & LAND RIGHTS	16,272	\$0	\$16,272
3. NON-USED AND USEFUL COMPONENTS	0	\$0	\$0
4. CIAC	(173,559)	\$0	(\$173,559)
5. ACCUMULATED DEPRECIATION	(287,992)	\$33,132	(\$254,860)
6. AMORTIZATION OF CIAC	173,559	\$0	\$173,559
7. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>\$16,696</u>	<u>\$16,696</u>
8. WATER RATE BASE	<u>\$54,915</u>	<u>\$48,384</u>	<u>\$103,299</u>

FLORALINO PROPERTIES, INC.
TEST YEAR ENDING 12/31/02
ADJUSTMENTS TO RATE BASE

SCHEDULE NO. 1-B
DOCKET NO. 030250-WU

WATER

UTILITY PLANT IN SERVICE

1. Adjust utility balance pursuant to Order No. PSC-95-0142-FOF-WU	(\$3,253)
2. Capitalize Meter costs per company support (Acct 334)	5,473
3. Retire Old Meters (Acct 334)	(4,105)
4. Remove unsupported costs for Office Furniture (Acct 341 AE 2) 2002	(1,494)
5. Retire old pump (Acct 311 AE 2) 2000	(1,991)
6. Capitalize Costs for Chemical Feeder Pump(Acct 320) (AE 2)1996	561
7. Capitalize Costs for Pump per company support(Acct 311) 1997	744
8. Capitalize Costs related to new pump(Acct 320) (AE 2)1999	721
9. Capitalize Costs for Chemical Feeder Pump(Acct 320) 2001	384
10. Capitalize Costs related to new pump(Acct 320) (AE 2) 2002	3,032
11. Averaging Adjustment	(1,516)
Total	<u>(\$1,444)</u>

ACCUMULATED DEPRECIATION

1. Depreciation adjustment per Rule 25-30.140 FAC	\$26,997
2. Averaging Adjustment	<u>6,135</u>
Total	<u>\$33,132</u>

WORKING CAPITAL ALLOWANCE

1. To reflect 1/8 of test year O & M expenses.	<u>\$16,696</u>
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FLORALINO PROPERTIES, INC.
 TEST YEAR ENDING 12/31/02
 SCHEDULE OF CAPITAL STRUCTURE

SCHEDULE NO. 2
 DOCKET NO. 030250-WU

CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUST-MENTS	BALANCE		PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST
			BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUST-MENTS				
1. COMMON STOCK	\$600	\$0	\$600					
2. RETAINED EARNINGS	8,668	0	\$8,668					
3. PAID IN CAPITAL	12,400	0	\$12,400					
4. TREASURY STOCK	<u>(15,996)</u>	<u>0</u>	<u>(\$15,996)</u>					
5. TOTAL COMMON EQUITY	\$5,672	\$0	5,672	5,889	11,561	11.19%	11.96%	1.34%
6. LONG TERM DEBT		0	0	0	0	0.00%	0.00%	0.00%
LTD	13,740	0	13,740	14,265	28,005	27.11%	6.00%	1.63%
LTD (Truck)	<u>15,492</u>	<u>0</u>	<u>15,492</u>	<u>16,084</u>	<u>31,576</u>	<u>30.57%</u>	5.90%	1.80%
TOTAL LONG TERM DEBT	29,232	0	29,232	30,349	59,581	57.68%		
7. CUSTOMER DEPOSITS	<u>15,777</u>	<u>0</u>	<u>15,777</u>	<u>16,380</u>	<u>32,157</u>	<u>31.13%</u>	6.00%	1.87%
8. TOTAL	<u>\$50,681</u>	<u>\$0</u>	<u>\$50,681</u>	<u>\$52,618</u>	<u>\$103,299</u>	<u>100.00%</u>		<u>6.64%</u>
RANGE OF REASONABLENESS						<u>LOW</u>	<u>HIGH</u>	
RETURN ON EQUITY						<u>10.96%</u>	<u>12.96%</u>	
OVERALL RATE OF RETURN						<u>6.52%</u>	<u>6.75%</u>	

FLORALINO PROPERTIES, INC. TEST YEAR ENDING 12/31/02 SCHEDULE OF WATER OPERATING INCOME			SCHEDULE NO. 3-A DOCKET NO. 030250-WU		
	TEST YEAR PER UTILITY	STAFF ADJ. PER UTILITY	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$133,873</u>	<u>\$2,202</u>	<u>\$136,075</u>	<u>\$25,250</u> 18.56%	<u>\$161,325</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	111,105	22,459	133,564	0	133,564
3. DEPRECIATION (NET)	10,367	800	11,167	0	11,167
4. AMORTIZATION	0	1,040	1,040	0	1,040
5. TAXES OTHER THAN INCOME	8,463	(904)	7,559	1,136	8,695
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$129,935</u>	<u>\$23,395</u>	<u>\$153,330</u>	<u>\$1,136</u>	<u>\$154,466</u>
8. OPERATING INCOME/(LOSS)	<u>\$3,938</u>		<u>(\$17,255)</u>		<u>\$6,859</u>
9. WATER RATE BASE	<u>\$54,915</u>		<u>\$103,299</u>		<u>\$103,299</u>
10. RATE OF RETURN	<u>7.17%</u>		<u>-16.70%</u>		<u>6.64%</u>

FLORALINO PROPERTIES, INC.
 TEST YEAR ENDING 12/31/02
 ADJUSTMENTS TO OPERATING INCOME

SCHEDULE NO. 3-B
 DOCKET NO. 030250-WU
 Page 1 of 2

WATER

OPERATING REVENUES

To adjust utility revenues to audited test year amount. \$2,202

OPERATION AND MAINTENANCE EXPENSES

1. Salaries and Wages - Employees (601)	
a. To remove employees included in CSO (AE5 adj1)	<u>(\$6,836)</u>
2. Purchased Water (610)	
a. To remove out of period bill (AE5 adj2)	<u>(\$455)</u>
3. Purchased Power (615)	
a. Repression Adjustment	<u>\$0</u>
4. Chemicals (618)	
a. Reclassify from CSO (AE5 adj4)	\$672
b. Repression Adjustment	0
Sub Total	<u>\$672</u>
5. Materials and Supplies (620)	
a. Remove Unsupported Expense (AE5 adj5)	(\$716)
b. Remove meters which should be capitalized	<u>(1,059)</u>
Sub Total	<u>(\$1,775)</u>
6. Contractual Services - Billing (630)	
a. Reclassify Management Fees to CSO	<u>(\$24,553)</u>
7. Contractual Services - Professional (631)	
a. Annualize Operator Expense	\$2,453
b. Reclassify to TOTI (AE5 adj 11)	(150)
c. Amortize non-recurring legal fees over 5 years (AE5 adj6)	(678)
d. Reclassify repairs made by operator	<u>3,052</u>
Sub Total	<u>\$4,677</u>
8. Contractual Services - Testing (635)	
d. Reclassify repairs made by operator	<u>(\$3,052)</u>
b. Annualize DEP required testing	<u>3,446</u>
Sub Total	<u>\$394</u>
9. Contractual Services - Other (636)	
a. Reclassify Management Contract Payments from CSB	\$24,553
b. Reclassify Chemicals (AE5 adj4)	(672)
c. Adjust Prior Contract Amount for Inflation \$70,545	30,237
d. Amortize Tank Refurbishment over 5 years	5,000
e. Remove undocumented expense/testing included above (AE5 adj7/8)	<u>(1,468)</u>
Total	<u>\$57,650</u>

FLORALINO PROPERTIES, INC.
 TEST YEAR ENDING 12/31/02
 ADJUSTMENTS TO OPERATING INCOME

SCHEDULE NO. 3-B
 DOCKET NO. 030250-WU
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WATER

10. Transportation Expense (650)	
a. Remove expenses pursuant to (AE5 adj9)	(\$198)
b. Reclassify to insurance (AE5 adj9)	(233)
Sub Total	<u>(\$431)</u>
11. Insurance Expenses (655)	
a. Reclassify auto insurance from above (AE5 adj9)	\$233
b. Remove Health Insurance for contracted employee (AE5 adj10)	(2,610)
Sub Total	<u>(\$2,377)</u>
12. Regulatory Commission Expense (665)	
a. Include SARC filing fee	\$1,000
b. Include estimated allowance for Rate Case Expense	10,000
c. Amortize Rate Case Expense over 5 years	(8,250)
Sub Total	<u>\$2,750</u>
13. Miscellaneous Expense (675)	
a. Remove Personal use of cell phone (AE5 adj5)	(\$1,004)
b. Remove reimbursement cost for street lights (AE5 adj11)	(3,096)
c. Remove Denotation (AE5 adj12)	(100)
d. Remove a customer deposit refund recorded as an expense (AE5 adj14)	(50)
e. Reclassify accrued interest to Acct#237 (AE5 adj14)	(3,007)
Total	<u>(\$7,257)</u>
 TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	 <u>\$22,459</u>
 DEPRECIATION EXPENSE	
1. To reflect test year depreciation calculated per 25-30.140, F.A.C.	<u>\$800</u>
 AMORTIZATION	
1. Amortize early loss on lawn mower	<u>\$1,040</u>
 TAXES OTHER THAN INCOME	
1. Remove Payroll Taxes included in contract amount (AE6)	(\$557)
2. Adjust RAFs to reflect annualized revenue	99
3. Remove out of period real estate tax (AE6)	(981)
4. Include unrecorded tangible property tax	535
Total	<u>(\$904)</u>

FLORALINO PROPERTIES, INC. TEST YEAR ENDING 12/31/02 ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE		SCHEDULE NO. 3-C DOCKET NO. 030250-WU		
	TOTAL PER UTILITY	STAFF PER ADJUST.		TOTAL PER PER STAFF
(601) SALARIES AND WAGES - EMPLOYEES	6,836	(6,836)	[1]	0
(603) SALARIES AND WAGES - OFFICERS	0	0		0
(604) EMPLOYEE PENSION & BENEFITS	0	0		0
(610) PURCHASED WATER	2,949	(455)	[2]	2,494
(615) PURCHASED POWER	5,950	0	[3]	5,950
(616) FUEL FOR POWER PRODUCTION	0	0		0
(618) CHEMICALS	1,660	672	[4]	2,332
(620) MATERIALS AND SUPPLIES	9,541	(1,775)	[5]	7,766
(630) CONTRACTUAL SERVICES - BILLING	24,553	(24,553)	[6]	0
(631) CONTRACTUAL SERVICES - PROFESSIONAL	4,649	4,677	[7]	9,326
(635) CONTRACTUAL SERVICES - TESTING	10,915	394	[8]	11,309
(636) CONTRACTUAL SERVICES - OTHER	17,895	57,650	[9]	75,545
(640) RENTS	2,725	0		2,725
(650) TRANSPORTATION EXPENSE	10,374	(431)	[10]	9,943
(655) INSURANCE EXPENSE	4,656	(2,377)	[11]	2,279
(665) REGULATORY COMMISSION EXPENSE	0	2,750	[12]	2,750
(670) BAD DEBT EXPENSE	0	0		0
(675) MISCELLANEOUS EXPENSES	<u>8,402</u>	<u>(7,257)</u>	[13]	<u>1,145</u>
	111,105	22,459		133,564

RECOMMENDED RATE REDUCTION SCHEDULE

FLORALINO PROPERTIES, INC.
 TEST YEAR ENDING 12/31/02

SCHEDULE NO. 4
 DOCKET NO. 030250-WU

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

MONTHLY WATER RATES

<u>RESIDENTIAL, MULTI-RESIDENTIAL, AND GENERAL SERVICE BASE FACILITY CHARGE:</u>		<u>MONTHLY RECOMMENDED RATES</u>	<u>MONTHLY RATE REDUCTION</u>
Meter Size:			
5/8"X3/4"	\$	8.19	0.15
3/4"		12.28	0.22
1"		20.48	0.37
1-1/2"		40.95	0.73
2"		65.52	1.17
3"		131.04	2.34
4"		204.75	3.65
6"		409.50	7.31
RESIDENTIAL GALLONAGE CHARGE (Per 1,000 gallons)			
0 - 10,000 gallons	\$	2.23	0.04
Above 10,000 gallons		2.79	0.05
GENERAL SERVICE GALLONAGE CHARGE			
Per 1,000 gallons		2.29	0.04