

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: March 29, 2007

TO: Commission Clerk (Cole)

FROM: Division of Economic Regulation (Merta, Bruce, Edwards, Lingo, Rendell) *CRBB*
Office of the General Counsel (Jaeger) *SM* *AD* *HE* *PC* *12* *AD*

RE: Docket No. 060575-WS – Application for staff-assisted rate case in Lee County by Useppa Island Utility, Inc. *COMMISSION CLERK* *MAR 29 AM 11:18* *RECEIVED-FPSC*

AGENDA: 04/10/07 – Regular Agenda – Proposed Agency Action, Except for Issues 9, 10, 12 and 13 – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: McMurrian

CRITICAL DATES: 01/25/08 (15-Month Effective Date (SARC))

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECR\WP\060575.RCM.DOC

DOCUMENT NUMBER-DATE

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FPSC-COMMISSION CLERK

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Case Background

Useppa Island Utility, Inc. (Useppa or utility) is a Class C water and wastewater utility currently providing service to approximately 151 water and 145 wastewater customers on Useppa Island in Lee County off the coast of North Fort Myers. There is no bridge to the island which is accessible by air or sea only. Useppa is located in the South Florida Water Management District (SFWMD) in a critical use county on environmentally sensitive land. The utility's 2005 annual report shows combined operating revenues of \$250,040, operating expenses of \$270,613, and a net operating loss of \$20,573. The utility is a 100% owned subsidiary of the Useppa Inn and Dock Company.

The utility began operations in 1981. Rates were last established for Useppa in 1997 for water¹ and in 2000 for wastewater.² Rate base for water and wastewater was also established in the 2000 docket by Order No. PSC-00-2117-PAA-WS, supra. The utility received rate adjustments in 2006 through the application of a 2006 price index and pass through. On August 25, 2006, the utility filed an application for a staff-assisted rate case (SARC) and paid the appropriate filing fee on October 25, 2006.

Staff has audited the utility's records for compliance with the Commission rules and orders and determined the components necessary for rate setting. The staff engineer also conducted a field investigation of the utility's plant and service area. A review of the utility's operation expenses, maps, files, and rate application was also performed to obtain information about the physical plant operating cost. Staff has selected a historical test year ending June 30, 2006, for this rate case.

The Commission has jurisdiction to consider this rate case pursuant to Section 367.0814, Florida Statutes (F.S.).

¹ Order No. PSC-97-0930-FOF-WS, issued August 5, 1997, in Docket No. 960975-WS, In re: Application for staff-assisted rate case in Lee County by Useppa Island Utility, Inc.

²Order No. PSC-00-2117-PAA-SU, issued November 7, 2000, in Docket No. 000090-SU, In re: Application for limited proceeding rate increase in Lee County by Useppa Island Utility, Inc.

Discussion of Issues

QUALITY OF SERVICE

Issue 1: Is the quality of service provided by Useppa Island Utility, Inc., satisfactory?

Recommendation: Yes, Useppa Island Utility, Inc.'s overall quality of service should be considered satisfactory. (Edwards)

Staff Analysis: Pursuant to Rule 25-30.433(1), Florida Administrative Code (F.A.C.), in every water and wastewater rate case, the Commission shall determine the overall quality of service provided by a utility by evaluating three separate components of water operations. The components are: (1) the quality of the utility's product; (2) the operating conditions of the utility's plant and facilities; and, (3) the utility's attempt to address customers' satisfaction. The Rule further states that sanitary surveys, outstanding citations, violations, and consent orders on file with the Department of Environmental Protection (DEP) and the County Health Department over the preceding three-year period shall be considered, along with input from the DEP and health department officials and consideration of customer comments or complaints. Staff's analysis addresses each of these three components.

Useppa is located off the coast of North Fort Myers in the waters of Pine Island Sound which is about two miles south of Boca Grande Pass at marker 63 on the Intercoastal Waterway. The island is reported to be a shell mound created by Native Americans thousands of years ago and covers approximately 100 acres. The utility serves a selective membership of clients known as the Useppa Island Club. Members of the Useppa Island Club create a seasonal customer base that visits the island for vacations, holidays and special events. Only ten of the utility's customers are year-round residents.

Quality of the Utility's Product

In Lee County, the potable water program is regulated by the Environmental Engineering Division of the Lee County Public Health Unit (LCPH). According to the LCPH, the utility is currently up-to-date with all chemical analysis and all test results are satisfactory. On February 28, 2007, the utility's annual sanitation survey was performed by the LCPH inspector. The result of the survey indicates the water treatment facilities are in compliance with the regulatory requirements.

Jurisdiction over wastewater facilities in Lee County is directly under DEP. Currently, DEP has no violations or corrective orders pending against the utility, and the quality of the wastewater effluent should be considered satisfactory.

Operating Condition of the Plant

Based on inspections by LCPH, staff, and other investigations, the operating condition of the water treatment facility is not an issue as it complies with LCPH regulatory standards. With respect to the wastewater treatment plant, no violation or corrective orders are pending against the utility. Therefore, the condition of the utility's water and wastewater treatment facilities

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Operating Condition of the Plant

Based on inspections by LCPH, staff, and other investigations, the operating condition of the water treatment facility is not an issue as it complies with LCPH regulatory standards. With respect to the wastewater treatment plant, no violation or corrective orders are pending against

the utility. Therefore, the condition of the utility's water and wastewater treatment facilities should be considered satisfactory because they comply with both LCPH's and DEP's regulatory requirements.

The Utility's Attempt to Address Customer Satisfaction

On February 28, 2007, staff conducted a customer meeting on Useppa Island. Approximately ten customers attended the meeting, and three customers spoke. During the customer meeting, residents expressed their concerns regarding: lift stations, salaries, pressure, and water usage. Staff informed the customers that the utility requested that funds to refurbish all of its lift stations be included in this rate proceeding. Staff addressed the customers' issues regarding salaries and pressure.

Summary

Based on staff's review of the water and wastewater treatment, distribution, and collection systems, it appears that all systems are operating properly and are in compliance with DEP and LCPH standards. Staff believes the utility is attempting to address customers' concerns. Therefore, staff recommends the quality of service provided by Useppa be considered satisfactory.

Issue 2: What are the used and useful percentages for the utility's water treatment plant, wastewater treatment plant, water distribution system, and wastewater collection system?

Recommendation: Useppa's used and useful percentages (U&U) should be considered 100 percent for the water and wastewater treatment plants and for the water distribution and wastewater collection systems. (Edwards)

Staff Analysis: Staff performed an analysis of the utility's facilities and our analysis and recommendations are discussed below.

Water Treatment Plant – Used and Useful (U&U)

There has been one significant change made to this system since the last two rate cases, when the water treatment plant was determined to be 100% U&U. Since the last rate case, the utility added a 100,000 gallon storage tank which increased the chlorine contact time. When the U&U formula is applied, the addition of the new storage tank reduces the U&U percentage. According to the utility, the purpose of adding the storage tank was to allow the chlorine additional time to mix with the water before it is distributed to customers. During the last rate case it was determined that all available lots had been sold and metered. Hence, the service area is built out. Since the storage tank was added to allow additional chlorine contact time for the water provided to existing customers, and the service area is built out, staff recommends the water treatment plant still be considered 100% U&U.

Wastewater Treatment Plant-Used and Useful (U&U)

There has been no significant changes made to this system since the last rate case, when the wastewater treatment plant was determined to be 100% U&U. The logic used in the last rate case was the utility is located on a small island which is built out; therefore, the U&U percentage for the wastewater plant was considered 100% U&U in the last case. Based on this reasoning, staff recommends the U&U percentage again be considered 100%.

Water Distribution and Wastewater Collection Systems

As stated above, there has been no significant change to the water distribution and wastewater collection systems since the last two rate cases, when it was determined to be 100% U&U. By the same logic used in the last two rate cases, staff recommends that the water distribution and wastewater collection systems be considered 100% U&U.

RATE BASE

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 \$242,619 for water and \$275,978 for wastewater. The utility should be required to complete the pro forma upgrades to the lift stations within nine months of the issuance date of the Consummating Order. (Merta)

Staff Analysis: The utility's rate base was established by Order No. PSC-00-2117-PAA-WS, *supra*. Staff has selected an average test year ended June 30, 2006, for this rate case. Rate base components established in Order No. PSC-00-2117-PAA-WS have been updated through June 30, 2006, using information obtained from staff's audit and engineering reports. A summary of each component and the adjustments follow:

Utility Plant in Service (UPIS): The utility recorded UPIS of \$568,259 for water and \$462,500 for wastewater for the test year ending June 30, 2006. According to Audit Finding No. 3, the utility did not record retirements appropriately when it added plant to replace existing plant. Staff decreased UPIS for water by \$21,358 and wastewater by \$18,555 for retirements. In addition, Audit Finding No. 3 identified plant for which the utility was unable to provide supporting documentation. Staff decreased plant by \$1,065 for water and \$1,547 for wastewater for unsupported plant. Audit Finding No. 3 also identified plant additions which were not recorded by the utility. Staff increased wastewater plant by \$4,878 for unrecorded plant additions. The \$4,878 includes \$606 for a storage shed. The utility recorded \$606 in Account 620 and \$606 in Account 720, Materials and Supplies, to allocate the cost of a storage shed used by both water and wastewater operations. Audit Finding No. 6 identified the shed as a capital item and recommended reclassification to Accounts 304 and 354, Structures and Improvements. Staff increased Account 304 by \$606 and decreased Accounts 620 and 720 by \$606 to reclassify the shed.

Useppa requested pro forma capital costs of \$81,512 to upgrade its lift stations in order to comply with DEP standards requiring two pumps in every pump station that serves more than one home site. Due to surface elevation (just above 35 feet at the highest point on the island), the utility requires 25 lift stations to move the wastewater influent to the plant for treatment. The utility submitted estimates for the following additions: 23 new pumps, new duplex and simplex control panels, replumbing all pump stations, electrical material and labor to install new control panels, three new lift station basins to replace three broken stations, three new lift station lids and float hangers to be compatible to new control panel floats. The lift station upgrades have not begun pending completion of the loan process to fund the project. However, the projected completion date for all upgrades is September 30, 2007. Staff reviewed the estimates and believes they are reasonable. Therefore, staff included \$81,512 in wastewater plant for lift station upgrades. The utility should be required to complete the pro forma upgrades within nine months of the issuance date of the Consummating Order.

Consistent with prior Commission practice where no original cost documentation was available, staff estimated the retirement of pro forma additions based on 75% of the replacement

cost.³ Staff decreased plant as follows: \$5,454 for the replacement of three lift station basins, \$1,746 to replace three lift station lids, and \$819 to replace float hangers. Therefore, staff recommends a total decrease of \$8,019 for pro forma retirements.

The utility expensed \$1,060 for a blower control panel in Account 720, Materials and Supplies. This item should be capitalized. Therefore, staff increased wastewater plant by \$1,060 and decreased Account 720 by \$1,060 to reclassify this item. Staff also decreased wastewater UPIS by \$795 to record the retirement of the blower control panel that was replaced.

Finally, staff decreased UPIS by \$303 for water and \$1,982 for wastewater for an averaging adjustment. Staff recommends a UPIS balance of \$546,139 for water and \$519,052 for wastewater.

Non-used and Useful Plant: As discussed in Issue 2, the utility's water and wastewater treatment plants and the water distribution and wastewater collection systems should be considered 100% used and useful. Therefore, no adjustments are necessary for non-used and useful plant.

Accumulated Depreciation: The utility recorded accumulated depreciation balances of \$264,226 for water and \$257,902 for wastewater for the test year. Staff calculated accumulated depreciation using the prescribed rates in Rule 25-30.140, F.A.C. Staff's calculated accumulated depreciation on June 30, 2006, is \$285,655 for water and \$254,609 for wastewater. Therefore, staff increased water accumulated depreciation by \$21,429 and decreased wastewater by \$3,293 to reflect depreciation calculated by staff. In addition, staff increased wastewater by \$1,508 to reflect accumulated depreciation on pro forma plant and decreased wastewater by \$8,019 for the retirement of plant replaced by pro forma additions. Further, staff decreased accumulated depreciation by \$12,559 for water and \$7,465 for wastewater for averaging adjustments. These adjustments result in accumulated depreciation balances of \$273,096 for water and \$240,633 for wastewater.

Accumulated Amortization of CIAC: The utility recorded accumulated amortization of CIAC balances of \$151,532 for water and \$210,616 for wastewater for the test year. Staff recalculated amortization of CIAC using rates prescribed in Rule 25-30.140, F.A.C., for the CIAC that can be specifically identified by account and composite rates for the remainder. Based on this recalculation, staff increased accumulated amortization of CIAC by \$22,747 to reflect a balance of \$174,279 for water and by \$3,733 to reflect a balance of \$214,349 for wastewater. In addition, staff decreased this account by \$4,217 for water and by \$3,603 for wastewater to reflect averaging adjustments. Staff recommends accumulated amortization of CIAC of \$170,062 for water and \$210,746 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), F.A.C., staff used the one-eighth of the O&M expense formula approach for calculating working capital allowance. Applying this formula, staff recommends a working capital allowance of \$14,721 for water (based on O&M of \$117,766) and \$13,513 for wastewater

³ Order No. PSC-01-2511-PAA-WS, issued December 24, 2001, in Docket No. 010396-WS, In re: Application for staff-assisted rate case in Brevard County by Burkim Enterprises, Inc.

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(based on O&M of \$108,102). Working capital has been increased by \$14,721 and \$13,513 to reflect one-eighth of staff's recommended O&M expenses.

Rate Base Summary: Based on the forgoing, staff recommends that the appropriate test year rate base is \$242,619 for water and \$275,978 for wastewater.

Staff's calculation of rate base is shown on Schedule Nos. 1-A and 1-B, with adjustments shown on Schedule 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 return on equity is 11.54%, with a range of 10.54% - 12.54%. The appropriate overall rate of return is 7.87%. (Merta)

Staff Analysis: According to staff's audit, the utility recorded the following items in capital structure: common stock of \$1,000; paid in capital of \$149,000; retained earnings of \$311,135; and long term debt of \$837,242. The long term debt consists of three debt instruments. The first is a promissory note with SouthTrust Bank for \$50,780 for water plant with an interest rate of 8.00%. The second is a promissory note with Wachovia Bank for \$79,768 for wastewater plant with an interest rate of 7.62%. The third is an interest only note payable to stockholders for \$706,694. Although there is no debt instrument for this note, the utility pays 5.50% interest annually. Therefore, staff believes the note payable is properly treated as long term debt.

The utility's capital structure has been reconciled with staff's recommended rate base. Using the leverage formula approved by Order No. PSC-06-0476-PAA-WS, issued June 5, 2006, in Docket No. 060006-WS, In Re: Water and Wastewater industry annual establishment of authorized range of return on common equity for water and wastewater utilities pursuant to Section 367.081(4)(f), F.S., the appropriate rate of return on equity is 11.54%.

Staff recommends a return on equity of 11.54% with a range of 10.54% - 12.54%, and an overall rate of return of 7.87%.

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 are \$186,867 for water and \$86,646 for wastewater. (Merta)

Staff Analysis: The utility recorded revenues of \$173,424 for water and \$92,014 for wastewater for the test year. Useppa received a rate increase through the operation of a 2006 price index and pass through adjustment effective August 1, 2006. Staff calculated annualized revenue for the test period using the current rates times the number of bills and consumption provided in the billing analysis. Test year revenues were increased by \$13,443 for water and decreased by \$5,368 for wastewater to reflect annualized revenue based on the existing rates. In addition, in Issue 11, staff is recommending an increase in miscellaneous service charges. Based on the utility's response to Data Request No. 3, the increase to revenues related to increased miscellaneous service charges is immaterial. Therefore, staff recommends test year revenues of \$186,867 for water and \$86,646 for wastewater.

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

Issue 6: What is the appropriate amount of pre-repression operating expenses?

Recommendation: The appropriate amount of pre-repression operating expense for the utility is \$150,333 for water and \$133,896 for wastewater. (Merta)

Staff Analysis: The utility recorded operating expenses of \$163,314 for water and \$148,938 for wastewater for the test year ending June 30, 2006. The test year O&M expenses have been reviewed, and invoices, canceled checks and other supporting documentation have been examined. Staff made several adjustments to the utility's operating expenses. A summary of adjustments to operating expenses is as follows:

Operation and Maintenance Expenses (O&M)

Salaries and Wages – Employees – (601/701) - The utility recorded \$67,784 for water and \$65,605 for wastewater in this account. In accordance with Audit Finding 6, staff decreased these accounts by \$3,340 for water and \$1,160 for wastewater and increased Account 636 and 736 by these amounts to reclassify contracted operator fees to Contractual Services - Other. The contracted operator is necessary to relieve Useppa's operator during his vacation and days off duty.

According to the Audit, there are five employees whose time is charged to the utility. The Utility Manager and Operator is the water and wastewater operator and is also responsible for record keeping, chemical analysis and monitoring, sampling, repairs and maintenance, Discharge Monitoring Reports, Monthly Operating Reports, PSC Annual Reports and reports to the South Florida Water Management District, ground water reports, chemical monitoring reports, ordering, expense control, pond maintenance, plant upkeep, etc. The Trainee/Operator Assistant is responsible for repairs and maintenance, chemical analysis, sampling, meter reading and plant up keep. The Secretary is responsible for answering telephones, expense tracking, filing, ordering, record keeping, accounts payable and receivable, etc. The President and the Accounting Supervisor allocate ten percent of their time to the utility.

Staff believes the salary expense for the utility is excessive. The utility serves 151 water and 145 wastewater customers. Salary expense is 46 percent of total O&M expenses for water and 49 percent for wastewater. The total O&M expense for the utility is far above the Commission-approved O&M expenses indexed to 2006 of like-size utilities. Useppa recorded O&M expense of \$139,377 for water and \$131,362 for wastewater. Like-size Class C utilities' indexed O&M expenses ranged from \$33,000 to \$71,800. Staff realizes that Useppa is not entirely comparable with other utilities because it is an island utility only accessible by ferry, and special arrangements must be made to deliver materials and supplies. However, staff believes adjustments are necessary to achieve a reasonable salary expense.

One hundred percent of the Utility Manager, the Secretary, and the Trainee's salaries are charged to the utility. Based on staff's observations, it appears that these employees spend a portion of their time on activities for the Useppa Inn and Dock Company. Staff believes that 90 percent is a more reasonable percentage to charge to the utility for the Utility Manager and the Trainee's salaries. In the past, the Commission has rarely approved a full time secretary for

utilities the size of Useppa.⁴ Staff believes 75 percent is a more reasonable amount for the Secretary's salary. The following schedule shows staff's recommended salary expense.

Title	Hourly Rate	Hours Per Week	Percent Utility Related	Utility		
				Salary	Water	Wastewater
Manager/Operator	\$24.71	40	90%	\$46,257	\$23,128	\$23,128
Trainee	\$13.00	40	90%	\$24,336	\$12,168	\$12,168
Secretary	\$13.00	40	75%	\$20,280	\$10,140	\$10,140
Accounting Supervisor	\$27.70	4	100%	\$ 5,762	\$ 2,881	\$ 2,881
President	\$40.61	4	100%	\$ 8,447	\$ 4,223	\$ 4,223
Total Salaries				\$105,082	\$52,541	\$52,541

Based on the above, staff decreased this account by \$11,903 for water (\$67,784 - \$3,340 - \$52,541) and \$11,904 for wastewater (\$65,605 - \$1,160 - \$52,541). Staff's recommended salaries and wages expense is \$52,541 for water and \$52,541 for wastewater.

Employee Pensions and Benefits – (604/704) – The utility recorded \$10,563 for water and \$10,905 for wastewater in these accounts. These amounts included \$2,937 each for health insurance, \$1,801 each for workers comp insurance and \$5,825 for water and \$6,167 for wastewater for payroll taxes. Staff decreased this account by \$1,801 for both water and wastewater to reclassify workers comp insurance to Account 655/755, Insurance Expense. Staff further decreased this account by \$5,825 for water and by \$6,167 for wastewater to reclassify payroll taxes to Account 408, Taxes Other Than Income. Staff's recommended employee pensions and benefits expense is \$2,937 for both water and wastewater.

Purchased Power – (615/715) – The utility recorded \$26,491 for water and \$14,236 for wastewater in this account for the test year. In accordance with Audit Finding 6, staff increased this account by \$1,970 for water to include a power bill for the test year that was not recorded by the utility. Therefore, staff recommends purchased power of \$28,461 for water and \$14,236 for wastewater.

Chemicals – (618/718) – The utility recorded \$4,514 in this account for water and \$4,440 for wastewater for the test year. Audit Finding 6 identified \$448, recorded in Account 620, Materials and Supplies, as an expenditure for water chemicals. Therefore, staff increased this account and decreased Account 620 by \$448 to reclassify chemical expense. In addition, staff decreased this account by \$856 to remove an unsupported wastewater expense. The resulting expense was \$4,962 for water and \$3,584 for wastewater.

Materials and Supplies – (620/720) – The utility recorded \$8,370 for water and \$7,762 for wastewater in this account for the test year. Staff reclassified the following items as identified by Audit Finding 6: decreased both water and wastewater by \$606 to reclassify costs for a storage shed to Structures (304/354); decreased water by \$448 to reclassify costs for chemicals to

⁴ Order No. PSC-03-1342-PAA-WS, issued November 24, 2003, in Docket No. 021228-WS, In re: Application for staff-assisted rate case in Brevard County by Service Management Systems, Inc.

Chemicals (618), decreased both water and wastewater by \$876 to reclassify van lease payments to Transportation (650/750), and increased wastewater by \$4,882 to reclassify the cost of materials and supplies from Contractual Services – Other (736). In addition, staff decreased this account by \$1,731 for water to remove unsupported expenses. Finally, staff decreased wastewater by \$1,060 to reclassify a blower control panel, that was expensed in error, to Account 380, Treatment Disposal Equipment. Staff recommends materials and supplies expense of \$4,709 for water and \$10,102 for wastewater.

Contractual Services – Testing – (635/735) – The utility recorded \$0 for water and \$0 for wastewater in this account for the test year. Staff increased this account by \$3,342 for water to include invoice amounts for testing that were not recorded by the utility. Staff also increased wastewater by \$5,528 to reclassify testing expenses from Account 736, Contractual Services - Other. Further, staff increased water by \$252 and decreased wastewater by \$200 to include the appropriate DEP-required amounts as reflected in the chart below.

State and local authorities require that several analyses be submitted in accordance with Rule 62-550, F.A.C. The list below includes monthly monitoring and other less frequent tests required by FDEP and the Lee County Health Department.

Description	Water	
	Frequency	Cost per year
Total Coliform	5/month	\$720
TDS	2/ month	\$336
Chloride	2/quarter	\$112
Spec. Cond.	2/year	\$24
Ph	2/year	\$24
TDS	2/year	\$28
Turbidity	2/year	\$28
Sulfate	2/year	\$28
Chloride	2/year	\$28
Sodium	2/year	\$36
Gross Alpha	1/quarter	\$220
Radium 226/228	1/quarter	\$864
Uranium	1/quarter	\$300
Nitrate	1/year	\$18
Nitrite	1/year	\$18
TDS	1/year	\$18
Lead/Copper	Every 3 years	\$120
HAA3	1/year	\$150
TTHM	1/year	\$95
Primary Inorganics	Every 3 years	\$70
Secondary Inorganics	Every 3 years	\$62
SOC	Every 3 years	\$250
VOC	Every 3 years	\$45
Total		\$3,594

Wastewater

Description	Frequency	Cost per year
TSS	3/week	\$2,184
Fecal	3/week	\$1,872
Nitrite	1/month	\$216
CBOD	2/month	\$432
Ph	4/year	\$48
TDS	4/year	\$56
Nitrate	4/year	\$72
Sulfate	4/year	\$56
Chloride	4/year	\$56
Fecal	4/year	\$48
Arsenic	4/year	\$72
Cadmium	4/year	\$72
Chromium	4/year	\$72
Lead	4/year	\$72
Total		\$5,328

Staff recommends contractual services – testing expense of \$3,594 for water and \$5,328 for wastewater.

Contractual Services – Other (636/736) – The utility recorded \$6,236 for water and \$11,958 for wastewater in these accounts for the test year. Staff increased these accounts by \$3,340 for water and by \$1,160 for wastewater to reclassify contracted operator fees from Salaries and Wages (601/701) as recommended in Audit Finding 6. In addition, staff decreased wastewater by \$4,882, in accordance with Audit Finding 6, to reclassify materials and supplies to Account 720. Water and wastewater were further decreased by \$4,202 and by \$393, respectively, for unsupported expenses. Finally, wastewater was decreased by \$5,528 to reclassify testing expenses to Account 735. In summary, staff recommends \$5,374 for water and \$2,315 for wastewater for contractual services – other expense.

Rents – (640/740) – Useppa recorded \$7,800 in both water and wastewater accounts for the test year. The island management company shares its office building, which encompasses 2,880 square feet, with the utility. In its 1999 rate case, the utility was allowed rent expense of \$300 per month, or \$1,800 for water and \$1,800 for wastewater. In its response to Data Request No. 1, the utility stated that the rent increase was a result of increases in the office space, property taxes, insurance, electricity, etc. The utility leases 264 square feet at \$1,300 per month. Based on the annual rent, this equates to \$59.00 per square foot (\$15,600/ 264 square feet). In the 1999 rate case, the rate per square foot was \$9.23 (\$3,600 annually/an estimated 390 square feet). Staff believes a more reasonable rent expense is \$800 per month or \$9,600 annually. Thus, staff decreased these accounts by \$3,000 each (\$7,800 - \$4,800). Staff recommends \$4,800 for both water and for wastewater for rent expense.

Transportation Expense – (650/750) – The utility recorded \$2,120 for water and \$3,172 for wastewater for these accounts for the test year. Consistent with Audit Finding 6, staff made the following adjustments: increased both water and wastewater by \$876 to reclassify van lease payments from Materials and Supplies (620/720), decreased water by \$70 for an unsupported item, and increased wastewater by \$764 for transportation expense the utility failed to record. Therefore, staff recommends \$2,926 for water and \$4,812 for wastewater for transportation expense.

Insurance Expense – (655/755) – The utility recorded \$1,204 in this account for both water and wastewater. Staff increased this account by \$1,801 for both water and wastewater to reclassify workers comp insurance from Accounts 604/704.

Regulatory Commission Expense – 665/765 - The utility recorded \$0 for water and \$0 for wastewater in these accounts for the test year. The utility paid a \$1,000 filing fee in this rate case. Pursuant to Section 367.0816, F.S., rate case expense is amortized over a four-year period. Therefore, staff has increased this account by \$125 for water and \$125 for wastewater (\$1,000/4/2).

Further, the utility is required by Rule 25-22.0407(9)(b), F.A.C., to mail notices of the customer meeting to its customers, and by Rule 25-30.475(1)(a), F.A.C., to mail notices of any rate increase to its customers. Staff believes that \$299 is a reasonable amount to be recovered, based on the number of customers, for additional mailing and copying expenses associated with this rate case (151 customers x \$0.39 postage + 6 pages x 151 customers x \$0.10 paper and envelopes = \$149.49 x 2 mailings = \$299). Staff increased this account by \$37 for water and \$37 for wastewater to amortize the notice expenses over four years. Staff recommends that total rate case expense is \$1,299 (\$1,000 + \$299), which amortized over four years is \$325, allocating \$162 each for water and wastewater.

Operation and Maintenance Expense (O&M) Summary – The total O&M adjustment is a decrease of \$21,611 for water and \$23,260 for wastewater. Staff recommends O&M expenses of \$117,766 for water and \$108,102 for wastewater. O&M expenses are shown on Schedules 3-D and 3-E.

Depreciation Expense (Net of Amortization of CIAC) – The utility recorded depreciation expense of \$21,838 for water and \$18,859 for wastewater and CIAC amortization of \$9,037 for water and \$8,998 for wastewater for the test year. Amortization of CIAC has a negative impact on depreciation expense. Therefore, the utility recorded net depreciation expense of \$12,801 for water and \$9,861 for wastewater.

Depreciation was calculated by staff using the prescribed rates in Rule 25-30.140, F.A.C. Staff increased water by \$3,291 and decreased wastewater by \$3,053 to reflect staff's calculated depreciation of \$25,129 for water and \$15,806 for wastewater. In addition, staff increased this account by \$1,360, net of a decrease for retirements, to reflect wastewater depreciation expense on pro forma plant. Staff calculated amortization of CIAC based on rates prescribed in Rule 25-30.140, F.A.C. Staff further decreased these accounts by \$604 for water and \$1,792 for wastewater to reflect staff's calculated amortization of CIAC of \$8,433 for water and \$7,206 for wastewater. Amortization of CIAC has a negative impact on depreciation expense. Therefore,

staff recommends annual net depreciation expense of \$16,696 for water and \$9,960 for wastewater.

Taxes Other Than Income – The utility recorded taxes other than income of \$11,136 for water and \$7,715 for wastewater for the test year. These amounts include property taxes of \$3,716 and state annual report filing fees of \$79 for both water and wastewater, and regulatory assessment fees (RAFs) of \$7,341 for water and \$3,920 for wastewater. Staff increased this account by \$605 for water and decreased this account by \$242 for wastewater to include the appropriate RAFs on staff's annualized revenue adjustment. In addition, staff increased this account by \$5,825 for water and \$6,167 for wastewater to reclassify payroll taxes from Accounts 604/704. Further, staff decreased this account by \$911 for both water and wastewater to reflect the taxes on staff's adjustment decreasing Salaries and Wages discussed above.

Income Tax – The utility is a part of Useppa Inn and Dock Company which is an 1120 corporation. Because of continuing net operating losses on a consolidated company basis, no income taxes have been paid by the utility and no income tax liability is anticipated in the future. Therefore, no income taxes have been included.

Operating Revenues – Revenues have been decreased by \$17,432 for water and increased by \$68,979 for wastewater to reflect the change in revenue required to cover expenses and allow the recommended return on investment.

Taxes Other Than Income – Taxes other than income has been decreased by \$784 for water and increased by \$3,104 for wastewater to reflect RAF of 4.5% on the change in revenues.

Operating Expenses Summary – The application of staff's recommended adjustments to the audit test year operating expenses results in staff's calculated pre-repression operating expenses of \$150,333 for water and \$133,896 for wastewater.

Operating expenses are shown on Schedules 3-A through 3E.

REVENUE REQUIREMENT

Issue 7: What is the appropriate pre-repression revenue requirement?

Recommendation: The appropriate pre-repression revenue requirement is \$169,435 for water and \$155,624 for wastewater. (Merta)

Staff Analysis: Based on staff's calculated revenue requirement below, the utility earned in excess of the recommended rate of return on its water system. The utility was overearning by \$17,432 (9.33%) on its water system and a revenue decrease and/or an offset to the wastewater increase is normally the appropriate action under these circumstances. According to staff's calculations, the appropriate annual revenue decrease is \$17,432 (-9.33%) for water and an annual increase of \$68,979 (79.61%) for wastewater. This would allow the utility the opportunity to recover its expenses and earn a 7.87 percent return on its investment. The calculations are as follows:

	<u>Water</u>	<u>Wastewater</u>
Adjusted Rate Base	\$242,619	\$275,978
Rate of Return	x .0787	x .0787
Return on Rate Base	\$19,102	\$21,728
Adjusted O & M expense	\$117,766	\$108,102
Depreciation expense (Net)	\$16,696	\$9,960
Amortization	\$0	\$0
Taxes Other Than Income	\$15,871	\$15,834
Income Taxes	\$0	\$0
Revenue Requirement	<u>\$169,435</u>	<u>\$155,624</u>
Adjusted Test Year Revenues	<u>\$186,867</u>	<u>\$86,646</u>
Percent Increase/(Decrease)	<u>-9.33%</u>	<u>79.61%</u>

Based on the foregoing, staff recommends that the appropriate revenue requirement is \$169,435 for water and \$155,624 for wastewater. Revenue requirements are shown on Schedule Nos. 3-A and 3-B.

RATES AND CHARGES

Issue 8: What are the appropriate rate structures for the water and wastewater systems?

Recommendation: The appropriate rate structure for the water system is a continuation of the current base facility charge (BFC)/uniform gallonage charge rate structure. The water system's BFC should be set to recover 47% of the cost to provide service. The traditional BFC/gallonage charge rate structure should be continued for the wastewater customers. The wastewater system's BFC should be set to recover 55% of the cost to provide service, and the general service gallonage charge be set at 1.2 times the corresponding residential charge. The monthly usage charge on residential wastewater bills should be capped at 6 kgal. (Lingo)

Staff Analysis: The current rate structures for the utility's respective water and wastewater systems were approved in the utility's last rate case. The utility's current water rates are a BFC of \$39.26 for a 5/8" x 3/4" meter, with a uniform gallonage charge of \$7.05. The current wastewater rates are a \$28.96 for a 5/8" x 3/4" meter. The residential gallonage charge is \$7.39 per thousand gallons (kgal) of usage, capped at 6 kgal per month. The general service gallonage charge is \$8.87 for all kgal sold.

Staff performed a detailed analysis of the utility's billing data in order to evaluate various BFC cost recovery percentages, usage blocks, and usage block rate factors for the residential rate class. The goals of the evaluation was to select the rate design parameters that: 1) allow the utility to recover its revenue requirement; 2) equitably distribute cost recovery among the utility's customers; and 3) implement, where appropriate, water conserving rate structures consistent with the Commission's Memorandum of Understanding with the state's five Water Management Districts.

Based on staff's analysis, the average monthly residential water consumption is 5.9 kgal. This figure is misleading, however, as the utility's customer base is very seasonal – over half of the bills represent consumption at 1 kgal or less, and approximately two-thirds of the bills are for consumption of 3 kgal or less. When customers are in residence, the average monthly consumption figures are dramatically different: for those customers using greater than 3 kgal per month, the average usage is 16.3 kgal, and for the 10% of the bills captured at monthly consumption of 17 kgal or greater, average monthly usage more than doubles to 33.4 kgal.

The utility is located in the South Florida Water Management District (SFWMD or District). Typically, when a Water Management District (WMD) is aware of high average consumption per customer, that WMD will require the implementation of, at a minimum, an inclining-block rate structure. However, the issues and concerns regarding water conservation of utilities located on barrier islands are, at times, different compared to those of utilities located on the mainland. Based on staff's review of the utility's water use permit and discussions with officials at the SFWMD, the utility does not draw from the Floridan Aquifer. Instead, it draws from the Mid-Hawthorn aquifer, whose water quality is not considered fresh but saline. As a result, despite the high average monthly consumption while customers are in residence, the District does not require an inclining-block rate structure. Therefore, staff recommends that the current BFC/uniform gallonage charge rate structure be continued for the water system.

As discussed in Issue 7, staff recommends a 9.33% decrease to the water system's revenue requirement. Ordinarily, based on the consumption patterns discussed above, staff would recommend that all of the decrease be applied to the BFC. However, as discussed above, the utility's customer base is quite seasonal. Therefore, staff believes it is appropriate that all customers receive equal percentage decreases to their water bills. This results in reductions to the current BFC of \$4.02, and the current gallonage charge by \$0.72.

As also discussed in Issue 7, staff recommends a 79.61% increase to the wastewater system's revenue requirement. The Commission typically sets BFC cost recovery at 50% or greater to recognize the capital intensive nature of wastewater systems. Based on staff's initial accounting allocations, the BFC would recover 55% of the fixed costs of service; therefore, staff believes this percentage is appropriate. The residential wastewater usage charge is currently capped at 6 kgal per month. Because the vast majority of water consumption by the customers of this utility represents outdoor usage, staff believes it is appropriate to maintain the 6 kgal cap. Finally, consistent with how the Commission typically sets general service and residential service wastewater gallonage charges, staff recommends that the current general service to residential service wastewater gallonage charge differential of 1.2 be maintained.

Based on the foregoing, the appropriate rate structure for the water system is a continuation of the current base facility charge (BFC)/uniform gallonage charge rate structure. The water system's BFC should be set to recover 47% of the cost to provide service. The traditional BFC/gallonage charge rate structure should be continued for the wastewater customers. The BFC should be set to recover 55% of the cost to provide service, and the general service gallonage charge be set at 1.2 times the corresponding residential charge. The monthly usage charge on residential wastewater bills should be capped at 6 kgal.

Issue 9: Is a repression adjustment appropriate in this case?

Recommendation: No. However, in order to monitor the effects of the changes in revenues, the utility should prepare monthly reports for the water and wastewater systems, detailing the number of bills rendered, the consumption billed, and the revenues billed. These reports should be provided to staff. In addition, these reports should be prepared, by customer class and meter size, on a quarterly basis for a period of two years, beginning the first billing period after the approved rates go into effect. (Lingo)

Staff Analysis: As discussed in Issue 7, staff recommends a decrease to the water system revenue requirement, resulting in price decreases at all levels of consumption. Consistent with Commission decisions in similar prior cases,⁵ staff recommends that monthly reports be prepared to monitor the effects of the changes in revenues to both the water and wastewater systems. These reports should reflect the number of bills rendered, the consumption billed, and the revenues billed. These reports should be provided to staff. In addition, these reports should be prepared, by customer class and meter size, on a quarterly basis for a period of two years, beginning the first billing period after the approved rates go into effect.

⁵ Order No. PSC-99-0513-FOF-WS, issued March 12, 1999 in Docket No. 980214-WS, In re: Application for rate increase in Duval, St. Johns and Nassau Counties by United Water Florida Inc., pp. 58-59; Order No. PSC-03-1250-PAA-WU, issued November 6, 2003 in Docket No. 030250-WU, In re: Application for staff-assisted rate case in Pasco County, by Floralino Properties, Inc., p. 31; Order No. PSC-04-0356-PAA-WU, issued April 5, 2004 in Docket No. 030423-WU, In re: Investigation into 2002 earnings of Residential Water Systems, Inc., in Marion County, p. 34; Order No. PSC-06-0170-PAA-WS, issued March 1, 2006 in Docket No. 050281-WS, In re: Application for increase in water and wastewater rates in Volusia County by Plantation Bay Utility Company, p. 50; Order No. PSC-06-0378-PAA-WU, issued May 8, 2006 in Docket No. 050449-WU, In re: Application for staff-assisted rate case in Pasco County by Dixie Groves Utility Company, p. 13.

Issue 10: What are the appropriate rates for monthly service for the water and wastewater systems?

Recommendation: The appropriate water and wastewater monthly rates are shown on Schedule Nos. 4-A and 4-B, respectively. The recommended rates should be designed to produce revenue of \$169,435 for water and \$155,624 for wastewater, excluding miscellaneous service charges. 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 on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved 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 ten days after the date of the notice. (Merta, Lingo)

Staff Analysis: As discussed in Issue 7, staff recommends that the appropriate revenue requirements are \$169,435 for the water system and \$155,624 for the wastewater system. Excluding miscellaneous service revenues of \$1,747 for the water system and \$342 for the wastewater system, the resulting revenues from monthly service \$167,689 for the water system and \$155,283 for the wastewater system.

As discussed in Issue 8, staff recommends that the appropriate rate structure for the water system is a continuation of the current base facility charge (BFC)/uniform gallonage charge rate structure. The traditional BFC/gallonage charge rate structure should be continued for the wastewater customers. The general service gallonage charge should be 1.2 times greater than the corresponding residential charge, and residential monthly wastewater charges should be capped at usage of 6 kgal.

Currently, Useppa does not have a private fire protection rate or tariff. The utility has two private fire protection customers. In accordance with Rule 25-30.465, F.A.C., private fire protection tariffed rates should be calculated and set equivalent to one-twelfth of the tariffed general service base facility charge for the meter size. The private fire protection rates are reflected on Schedule No. 4-A.

Approximately 46.9% of the monthly service revenues for the water system (or \$78,695) and 54.9% of the corresponding wastewater system revenues (or \$85,205) are recovered through the base facility charges. Approximately 53.1% of the monthly service revenues for the water system (or \$88,994) and 45.1% of the corresponding wastewater system revenues (or \$70,078) represents revenue recovery through the consumption charges.

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 on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved 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 ten 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 shall be prorated based on the number of days in

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

Based on the foregoing, the appropriate rates for monthly service for the water and wastewater systems are shown on Schedule Nos. 4-A and 4-B.

Issue 11: Should the recommended rates be approved for the utility on a temporary basis, subject to refund, in the event of a protest by a party other than the utility?

Recommendation: Yes. Pursuant to Section 367.0814(7), F.S., 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), F.A.C., 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. (Merta)

Staff Analysis: This recommendation proposes a decrease in water rates and an increase in wastewater rates. A timely protest might delay what may be a justified rate increase resulting in an unrecoverable loss of revenue to the utility. Therefore, pursuant to Section 367.0814(7), F.S., 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 \$47,598. 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.
- 9) 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 a 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), F.A.C.

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), F.A.C., 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.

The utility should file revised tariff sheets which are consistent with the Commission's vote. Staff should be given administrative authority to approve the revised tariff sheets upon staff's verification the tariffs are consistent with the Commission's decision. If revised tariff sheets are filed and approved, the customer deposit should become effective for connections made on or after the stamped approval date of the revised tariff sheets.

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, F.S.?

Recommendation: The water and wastewater rates should be reduced as shown on Schedule Nos. 4-A and 4-B, 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, F.S. 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. (Merta)

Staff Analysis: Section 367.0816, F.S. 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 \$170 annually for water and \$170 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 Schedule Nos. 4-A and 4-B.

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. At the same time, 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 utility be authorized to revise its miscellaneous service charges, and, if so, what are the appropriate charges?

Recommendation: Yes. The utility should be authorized to revise its miscellaneous service charges. The appropriate charges are reflected below. The utility should file a proposed customer notice to reflect the Commission-approved charges. The approved charges should be effective for service rendered on or after the stamped approval date of the tariff, pursuant to Rule 25-30.475(1), F.A.C., provided the notice has been approved by staff. Within ten days of the date the order is final, the utility should be required to provide notice of the tariff changes to all customers. The utility should provide proof the customers have received notice within ten days after the date that the notice was sent. (Merta)

Staff Analysis: The miscellaneous service charges were approved for Useppa on July 19, 1993, and have not changed since that date. The approved charges have been the standard charge since at least 1990 – a period of 17 years. Staff believes these charges should be updated to reflect current costs. The utility agrees with this update. Staff recommends that Useppa be allowed to increase its water and wastewater miscellaneous service charges from \$15 to \$22 and to \$44 for after hours, and to modify its Premises Visit (in lieu of disconnection) charge. If both water and wastewater services are provided, a single charge is appropriate unless circumstances beyond the control of the utility requires multiple actions. The current and recommended charges are shown below.

Water Miscellaneous Service Charges

	<u>Current Charges</u>		<u>Staff Recommended</u>	
	<u>Normal Hrs</u>	<u>After Hrs</u>	<u>Normal Hrs</u>	<u>After Hrs</u>
Initial Connection	\$15	N/A	\$22	N/A
Normal Reconnection	\$15	N/A	\$22	\$44
Violation Reconnection	\$15	N/A	\$22	\$44
Premises Visit (in lieu of disconnection)	\$10	N/A	N/A	N/A
Premises Visit	N/A	N/A	\$22	\$44

Wastewater Miscellaneous Service Charges

	<u>Current Charges</u>		<u>Staff Recommended</u>	
	<u>Normal Hrs</u>	<u>After Hrs</u>	<u>Normal Hrs</u>	<u>After Hrs</u>
Initial Connection	\$15	N/A	\$22	N/A
Normal Reconnection	\$15	N/A	\$22	\$44
Violation Reconnection	Actual Cost	N/A	Actual Cost	Actual Cost
Premises Visit (in lieu of disconnection)	\$10	N/A	N/A	N/A
Premises Visit	N/A	N/A	\$22	\$44

Miscellaneous service charges have not been updated in over 17 years and costs for fuel and labor have risen substantially since that time. Further, the Commission's price index has

increased approximately 60% in that period of time. By Order No. PSC-96-1320-FOF-WS, issued October 30, 1996, involving Southern States Utilities Inc.,⁶ the Commission expressed “concern that the rates [miscellaneous service charges] are eight years old and cannot possibly cover current costs” and directed staff to “examine whether miscellaneous service charges should be indexed in the future and included in index applications.” Currently, miscellaneous service charges may be indexed if requested in price index applications pursuant to Rule 25-30.420, F.A.C. However, few utilities request their miscellaneous service charges be indexed. Staff applied the approved price indices from 1990 through 2007 to Useppa’s \$15 miscellaneous service charge and the result was a charge of \$22.00. Therefore, staff believes a \$22 charge is reasonable and is cost based. By Order No. PSC-06-0684-PAA-WS, issued August 8, 2006,⁷ and by Order No. PSC-05-0776-TRF-WS, issued July 26, 2005,⁸ the Commission approved a \$20 charge for connection and reconnections during normal hours and a \$40 after hours charge for MSM Utilities, LLC, and for Mad Hatter Utilities, Inc.

Useppa’s current tariff includes a Premises Visit (in lieu of disconnection) charge. This charge is levied when a service representative visits a premises for the purpose of discontinuing service for non-payment of a due and collectible bill and does not discontinue service, because the customer pays the service representative or otherwise makes satisfactory arrangements to pay the bill. Staff recommends the “Premises Visit In Lieu of Disconnection” charge should be replaced with what will be called a “Premises Visit.” In addition to those situations described in the definition of the current Premises Visit In Lieu of Disconnection, the new Premises Visit charge will also be levied when a service representative visits a premises at a customer’s request for a complaint resolution or for other purposes and the problem is found to be the customer’s responsibility. This charge is consistent with Rule 25-30.460(1)(d), F.A.C. In addition, by Order No. PSC-05-0397-TRF-WS, issued April 18, 2005,⁹ the Commission approved a Premises Visit Charge to be levied when a service representative visits a premises at the customer’s request for complaint and the problem is found to be the customer’s responsibility. Based on the foregoing, staff recommends the Premises Visit (in lieu of disconnection) be eliminated and the Premises Visit charge is reasonable and should be approved.

In summary, staff recommends the utility’s miscellaneous service charges of \$22 and after hours charges of \$44, should be approved because the increased charges are cost-based, reasonable, and consistent with fees the Commission has approved for other utilities. The utility should file a proposed customer notice to reflect the Commission-approved charges. The approved charges should be effective for service rendered on or after the stamped approval date of the tariff, pursuant to Rule 25-30.475(1), F.A.C., provided the notice has been approved by staff. Within ten days of the date the order is final, the utility should be required to provide

⁶ Docket No. 950495-WS, In Re: Application for rate increase and increase in service availability charges by Southern States Utilities, Inc. for Orange-Osceola Utilities, Inc. in Osceola County, and in Bradford, Brevard, Charlotte, Citrus, Clay, Collier, Duval, Highlands, Lake, Lee, Marion, Martin, Nassau, Orange, Osceola, Pasco, Putnam, Seminole, St. Johns, St. Lucie, Volusia, and Washington Counties.

⁷ Docket No. 050587-WS, In re: Application for staff-assisted rate case in Charlotte County by MSM Utilities, LLC.

⁸ Docket No. 050369-TRF-WS, In re: Request for approval of change in meter installation fees and proposed changes in miscellaneous services charges in Pasco County by Mad Hatter Utility, Inc.

⁹ Docket No. 050096-WS, In re: Request for revision of Tariff Sheets 14.0 and 15.1 to change request for meter test by customer and premise visit charge, by Marion Utilities, Inc.

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notice of the tariff changes to all customers. The utility should provide proof the customers have received notice within ten days after the date the notice was sent.

OTHER ISSUES

Issue 14: Should the utility be required to show cause, in writing within 21 days, why it should not be fined for its apparent failure to comply with requirements of Rule 25-30.115, F.A.C., to maintain its accounts and records in conformance with the National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts (USOA), and to adjust its books to reflect the adjustments to all the applicable primary accounts as required by Order No. PSC-00-2117-PAA-SU?

Recommendation: Yes. Useppa Island Utility, Inc. should be ordered to show cause in writing, within 21 days, why it should not be fined \$1,000 for its apparent failure to maintain its accounts and records in conformance with the NARUC USOA as required by Rule 25-30.115, F.A.C., and to adjust its books to reflect the adjustments to all the applicable primary accounts as required by Order No. PSC-00-2117-PAA-SU. The order to show cause should incorporate the conditions stated below in the staff analysis. (Jaeger)

Staff Analysis: In Order No. PSC-97-0930-FOF-WS, issued August 5, 1997, in Docket No. 960975-WS,¹⁰ Useppa was warned to maintain its accounts and records in conformance with the NARUC USOA. Moreover, in Order No. PSC-00-2117-PAA-SU, issued November 7, 2000,¹¹ the Commission discussed whether Useppa should be made to show cause for its failure to maintain its books in accordance with the NARUC USOA, as required by Rule 25-30.115, F.A.C. The Commission noted that the utility had not posted adjustments from prior Commission orders and was using its own account numbers in apparent violation of Rule 25-30.115, F.A.C. However, the Commission further noted that there were mitigating circumstances in that the auditors could still complete their audit. Under the above-noted circumstances, the Commission determined that the apparent violations did not rise to the level warranting the initiation of a show cause proceeding. Therefore, no show cause proceeding was initiated, but the Commission did order the utility to maintain its accounts and records in conformance with the 1996 NARUC USOA.

Now, staff has again determined that Useppa has not kept its books and records in compliance with Rule 25-30.115, F.A.C., and has not made timely adjustments to its books and records in accordance with adjustments made in Order No. PSC-00-2117-PAA-SU, the Order issued in the utility's last rate case. Because the utility has previously been warned about the need to post adjustments from prior Commission orders and was ordered to maintain its records in conformance with the NARUC USOA, staff believes that more than a warning is warranted.

Utilities are charged with the knowledge of the Commission's rules and statutes. Additionally, "[i]t is a common maxim, familiar to all minds, that 'ignorance of the law' will not excuse any person, either civilly or criminally." Barlow v. United States, 32 U.S. 404, 411 (1833). Section 367.161(1), F.S., authorizes the Commission to assess a penalty of not more than \$5,000 for each offense if a utility is found to have knowingly refused to comply with, or to have willfully violated, any provision of Chapter 367, F.S., or any lawful order of the Commission. By failing to comply with the above-noted requirements of the above-noted Orders

¹⁰ In re: Application for staff-assisted rate case in Lee County by Useppa Island Utility, Inc.

¹¹ Order issued in Docket No. 000090-SU, In re: Application for limited proceeding rate increase in Lee County by Useppa Island Utility, Inc.

in a timely manner and Rule 25-30.115, F.A.C., the utility's acts were "willful" in the sense intended by Section 367.161, F.S. In Commission Order No. 24306, issued April 1, 1991, in Docket No. 890216-TL, entitled In Re: Investigation Into The Proper Application of Rule 25-14.003, F.A.C., Relating To Tax Savings Refund for 1988 and 1989 For GTE Florida, Inc., the Commission, having found that the company had not intended to violate the rule, nevertheless found it appropriate to order it to show cause why it should not be fined, stating that "willful" implies an intent to do an act, and this is distinct from an intent to violate a statute or rule. Id. at 6.

Staff believes that the circumstances in this case are such that show cause proceedings are warranted. Staff notes that in Order No. PSC-07-0129-SC-WS, issued February 14, 2007, in Docket No. 060262-WS, In re: Application for increase in water and wastewater rates in Pasco County by Labrador Utilities, Inc., and Order No. PSC-07-0130-SC-SU, issued February 15, 2007, in Docket No. 060256-SU, In re: Application for increase in wastewater rates in Seminole County by Alafaya Utilities, Inc., the Commission required two Utilities, Inc. subsidiaries to show cause why they should not be fined \$3,000 each for failure to properly adjust their books and records as required by Rule 25-30.115, F.A.C. However, staff believes that because of the size of this utility (a Class C bordering on a Class B), the proposed fine should not be as high. In addition, the utility stated in response to Staff's First Data Request that as of January 1, 2007, it is maintaining its accounts and records in accordance with the NARUC USOA. Therefore, staff recommends that Useppa be made to show cause in writing, within 21 days, why it should not be fined \$1,000 for its apparent failure to comply with the requirements of Rule 25-30.115, F.A.C., and to adjust its books to conform with the NARUC USOA, and to adjust its books to reflect the adjustments to all the applicable primary accounts as required by Order No. PSC-00-2117-PAA-SU. Staff recommends that the show cause order incorporate the following conditions:

1. The utility's response to the show cause order should contain specific allegations of fact and law;
2. Should Useppa file a timely written response that raises material questions of fact and makes a request for a hearing pursuant to Sections 120.569 and 120.57(1), F.S., a further proceeding will be scheduled before a final determination of this matter is made;
3. A failure to file a timely written response to the show cause order should constitute an admission of the facts herein alleged and a waiver of the right to a hearing on this issue;
4. In the event that Useppa fails to file a timely response to the show cause order, the fine should be deemed assessed with no further action required by the Commission;
5. If the utility responds timely but does not request a hearing, a recommendation should be presented to the Commission regarding the disposition of the show cause order; and
6. If the utility responds to the show cause order by remitting the fine, this show cause matter should be considered resolved.

Docket No. 060575-WS

Date: March 29, 2007

Further, the utility should be put on notice that failure to comply with Commission orders, rules, or statutes will again subject the utility to show cause proceedings and fines of up to \$5,000 per day per violation for each day the violation continues as set forth in Section 367.161, F.S.

Issue 15: Should the utility be required to provide proof, within 90 days of an effective order finalizing this docket, that it has adjusted its books for all the applicable NARUC USOA primary accounts associated with the Commission Approved adjustments?

Recommendation: Yes. To ensure that the utility adjusts its books in accordance with the Commission's decision, Useppa should provide proof, within 90 days of the final order issued in this docket, that the adjustments for all the applicable NARUC USOA primary accounts have been made. (Merta)

Staff Analysis: To ensure that the utility adjusts its books in accordance with the Commission's decision, Useppa should provide proof, within 90 days of the final order issued in this docket, that the adjustments for all the applicable NARUC USOA primary accounts have been made.

Issue 16: Should this docket be closed?

Recommendation: No. If no person whose substantial interests are affected by the proposed agency action files a protest within twenty-one days of the issuance of the order, a consummating order will be issued. The docket should remain open for nine months after the consummating order for staff's verification that the revised tariff sheets and customer notice have been filed by the utility and approved by staff, and the pro forma lift station upgrades have been completed. If the utility timely responds to the Order to show cause, the docket should remain open to allow for the appropriate processing of the response. If Useppa pays the \$1,000 fine, the docket may be closed administratively upon verification the pro forma items have been completed. (Jaeger, Merta)

Staff Analysis: If no person whose substantial interests are affected by the proposed agency action files a protest within twenty-one days of the issuance of the order, a consummating order will be issued. The docket should remain open for nine months after the consummating order for staff's verification that the revised tariff sheets and customer notice have been filed by the utility and approved by staff, and the pro forma lift station upgrades have been completed. If the utility timely responds to the Order to show cause, the docket should remain open to allow for the appropriate processing of the response. If Useppa pays the \$1,000 fine, the docket may be closed administratively upon verification the pro forma items have been completed.

USEPPA ISLAND UTILITY, INC. TEST YEAR ENDING 6/30/06 SCHEDULE OF WATER RATE BASE		SCHEDULE NO. 1-A DOCKET NO. 060575-WS		
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF	
1. UTILITY PLANT IN SERVICE	\$568,259	(\$22,120)	\$546,139	
2. LAND & LAND RIGHTS	10,463	0	\$10,463	
3. NON-USED AND USEFUL COMPONENTS	0	0	\$0	
4. CIAC	(225,670)	0	(\$225,670)	
5. ACQUISITION ADJUSTMENT	0	0	\$0	
6. ACCUMULATED DEPRECIATION	(264,226)	(8,870)	(\$273,096)	
7. AMORTIZATION OF CIAC	151,532	18,530	\$170,062	
8. AMORTIZATION OF ACQUISITION ADJ.	0	0	\$0	
9. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>14,721</u>	<u>\$14,721</u>	
10. WATER RATE BASE	\$240,358	\$2,261	\$242,619	

USEPPA ISLAND UTILITY, INC. TEST YEAR ENDING 6/30/06 SCHEDULE OF WASTEWATER RATE BASE		SCHEDULE NO. 1-B DOCKET NO. 060575-WS	
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	\$462,500	\$56,552	\$519,052
2. LAND & LAND RIGHTS	3,487	0	\$3,487
3. NON-USED AND USEFUL COMPONENTS	0	0	\$0
4. CIAC	(230,187)	0	(\$230,187)
5. ACQUISITION ADJUSTMENT	0	0	\$0
6. ACCUMULATED DEPRECIATION	(257,902)	17,269	(\$240,633)
7. AMORTIZATION OF CIAC	210,616	130	\$210,746
8. AMORTIZATION OF ACQUISITION ADJ.	0	0	\$0
9. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>13,513</u>	<u>\$13,513</u>
10. WASTEWATER RATE BASE	\$188,514	\$87,464	\$275,978

USEPPA ISLAND UTILITY, INC. TEST YEAR ENDING 6/30/06 ADJUSTMENTS TO RATE BASE		SCHEDULE 1-C DOCKET NO. 060575-WS	
		<u>WATER</u>	<u>WASTEWATER</u>
UTILITY PLANT IN SERVICE			
1	Decrease to record retirements (AF-3)	(\$21,358)	(\$18,555)
2	Decrease for unsupported plant (AF-3)	(1,065)	(1,547)
3	Increase for unrecorded plant (AF-3) and Reclass \$606 from M&S 720 (AF-6)		4,878
4	Reclassify storage building from M&S, 620 (AF-6)	606	
5	Increase for pro forma plant (upgrade lift stations)		81,512
6	Decrease for pro forma retirements		(8,019)
7	Increase to reclassify blower control panel from M&S, 720		1,060
8	Decrease to record retirement on blower control panel		(795)
9	Averaging adjustment	(303)	(1,982)
	Total	<u>(\$22,120)</u>	<u>\$56,552</u>
LAND AND LAND RIGHTS			
		<u>\$0</u>	<u>\$0</u>
NON-USED AND USEFUL PLANT			
		<u>\$0</u>	<u>\$0</u>
CIAC			
		<u>\$0</u>	<u>\$0</u>
ACCUMULATED DEPRECIATION			
1	Accumulated depreciation per Rule 25-30.140, FAC	(\$21,429)	\$3,293
2	Increase for accumulated depreciation on pro forma plant		(1,508)
3	Decrease for accumulated depreciation on pro forma retirements		8,019
4	Averaging adjustment	12,559	7,465
	Total	<u>(\$8,870)</u>	<u>\$17,269</u>
AMORTIZATION OF CIAC			
1	To adjust Amortization of CIAC based on staff's calculation	\$22,747	\$3,733
2	Averaging adjustment	(4,217)	(3,603)
	Total	<u>\$18,530</u>	<u>\$130</u>
WORKING CAPITAL ALLOWANCE			
1	To reflect 1/8 of test year O & M expenses	<u>\$14,721</u>	<u>\$13,513</u>

USEPPA ISLAND UTILITY, INC.
 TEST YEAR ENDING 6/30/06
 SCHEDULE OF CAPITAL STRUCTURE

CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUSTMENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUSTMENTS	BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST
1. COMMON STOCK	\$1,000	\$0	\$1,000	(601)	399			
2. RETAINED EARNINGS	311,135		311,135	(186,862)	124,273			
3. PAID IN CAPITAL	149,000	0	149,000	(89,486)	59,514			
4. OTHER COMMON EQUITY	<u>0</u>	<u>0</u>	<u>0</u>	0	0			
TOTAL COMMON EQUITY	\$461,135	\$0	\$461,135	(276,949)	184,186	35.52%	11.54%	4.10%
LONG TERM DEBT								
5. Southtrust - W Plant	50,780		50,780	(30,497)	20,283	3.91%	8.00%	0.31%
6. Wachovia - WW Plant	79,768		79,768	(47,907)	31,861	6.14%	7.62%	0.47%
7. Stockholders-Useppa Inn	<u>706,694</u>		<u>706,694</u>	<u>(424,426)</u>	<u>282,268</u>	<u>54.43%</u>	5.50%	2.99%
TOTAL LONG TERM DEBT	837,242	0	837,242	(502,831)	334,411	64.48%		
8. CUSTOMER DEPOSITS	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	0	<u>0.00%</u>	6.00%	<u>0.00%</u>
9. TOTAL	<u>\$1,298,377</u>	<u>\$0</u>	<u>\$1,298,377</u>	<u>(\$779,780)</u>	<u>\$518,597</u>	100.00%		<u>7.87%</u>
RANGE OF REASONABLENESS						<u>LOW</u>	<u>HIGH</u>	
RETURN ON EQUITY						10.54%	12.54%	
OVERALL RATE OF RETURN						7.52%	8.23%	

USEPPA ISLAND UTILITY, INC.
 TEST YEAR ENDING 6/30/06
 SCHEDULE OF WATER OPERATING INCOME

SCHEDULE 3-A
 DOCKET NO. 060575-WS

	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$173,424</u>	<u>\$13,443</u>	<u>\$186,867</u>	<u>(\$17,432)</u> -9.33%	<u>\$169,435</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	139,377	(21,611)	117,766	0	117,766
3. DEPRECIATION (NET)	12,801	3,895	16,696	0	16,696
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	11,136	5,519	16,655	(784)	15,871
6. INCOME TAXES	0	0	0	0	0
7. TOTAL OPERATING EXPENSES	<u>\$163,314</u>	<u>(\$12,197)</u>	<u>\$151,117</u>	<u>(\$784)</u>	<u>\$150,333</u>
8. OPERATING INCOME/(LOSS)	<u>\$10,110</u>		<u>\$35,750</u>		<u>\$19,102</u>
9. WATER RATE BASE	<u>\$240,358</u>		<u>\$242,619</u>		<u>\$242,619</u>
10. RATE OF RETURN	<u>4.21%</u>		<u>14.73%</u>		<u>7.87%</u>

USEPPA ISLAND UTILITY, INC.
 TEST YEAR ENDING 6/30/06
 SCHEDULE OF WASTEWATER OPERATING INCOME

SCHEDULE 3-B
 DOCKET NO. 060575-WS

	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$92,014</u>	<u>(\$5,368)</u>	<u>\$86,646</u>	<u>\$68,979</u> 79.61%	<u>\$155,624</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	131,362	(23,260)	108,102	0	108,102
3. DEPRECIATION (NET)	9,861	99	9,960	0	9,960
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	7,715	5,015	12,730	3,104	15,834
6. INCOME TAXES	0	0	0	0	0
7. TOTAL OPERATING EXPENSES	<u>\$148,938</u>	<u>(\$18,146)</u>	<u>\$130,792</u>	<u>\$3,104</u>	<u>\$133,896</u>
8. OPERATING INCOME/(LOSS)	<u>(\$56,924)</u>		<u>(\$44,146)</u>		<u>\$21,728</u>
9. WASTEWATER RATE BASE	<u>\$188,514</u>		<u>\$275,978</u>		<u>\$275,978</u>
10. RATE OF RETURN	<u>-30.20%</u>		<u>-16.00%</u>		<u>7.87%</u>

USEPPA ISLAND UTILITY, INC.
TEST YEAR ENDING 6/30/06
ADJUSTMENTS TO OPERATING INCOME

Schedule No. 3-C
 DOCKET NO. 060575-WS
 Page 1 of 2

	<u>WATER</u>	<u>WASTEWATER</u>
OPERATING REVENUES		
1. To adjust utility revenues to staff's annualized test year amount.	<u>\$13,443</u>	<u>(\$5,368)</u>
OPERATION AND MAINTENANCE EXPENSES		
1. Salaries and Wages - Employees (601/701)		
Decrease to reclassify contracted operator fees to Acct. No. 636/736 (AF-6)	(\$3,340)	(\$1,160)
Decrease salaries to staff recommendation	<u>(11,903)</u>	<u>(11,904)</u>
Subtotal	<u>(\$15,243)</u>	<u>(\$13,064)</u>
2. Employee Pensions and Benefits (604/704)		
Decrease to reclassify workers comp insurance to Insurance (655/755)	(\$1,801)	(\$1,801)
Decrease to reclassify payroll taxes to Taxes Other (408)	<u>(5,825)</u>	<u>(6,167)</u>
Subtotal	<u>(\$7,626)</u>	<u>(\$7,968)</u>
3. Purchased Power (615/ 715)		
Increase for unrecorded power bill (AF-6)	<u>\$1,970</u>	<u>\$0</u>
4. Chemicals (618/718)		
Increase to reclassify from M&S 620 (AF-6)	\$448	\$0
Decrease for unsupported items		(856)
Subtotal	<u>\$448</u>	<u>(\$856)</u>
5. Materials and Supplies (620/720)		
Decrease to reclassify to Structures 304 (AF-6)	(\$606)	(\$606)
Decrease to reclassify to chemicals 618 (AF-6)	(448)	
Decrease to reclassify to Transportation 650/750 (AF-6)	(876)	(876)
Reclassify from Contractual Services-Other 736 (AF-6)		4,882
Decrease for unsupported items	(1,731)	
Decrease to reclassify blower control panel to Acct. 380		<u>(1,060)</u>
Subtotal	<u>(\$3,661)</u>	<u>\$2,340</u>
6. Contractual Services - Billing (630/ 730)	<u>\$0</u>	<u>\$0</u>
7. Contractual Services - Professional (631/ 731)	<u>\$0</u>	<u>\$0</u>
8. Contractual Services - Testing (635/ 735)		
Increase for unrecorded invoices	3,342	0
Increase to reclassify from 736		5,528
Increase/(decrease) to DEP required amounts	<u>252</u>	<u>(200)</u>
Subtotal	<u>\$3,594</u>	<u>\$5,328</u>
9. Contractual Services - Other (636/ 736)		
Increase to reclassify contracted operator fees from Acct. No. 601/701 (AF-6)	\$3,340	\$1,160
Decrease to reclassify materials & supplies to 720 (AF-6)		(4,882)
Decrease for unsupported items (AF-6)	(4,202)	(393)
Decrease to reclassify testing expenses to 735	<u>0</u>	<u>(5,528)</u>
Subtotal	<u>(\$862)</u>	<u>(\$9,643)</u>

(O & M EXPENSES CONTINUED ON NEXT PAGE)

USEPPA ISLAND UTILITY, INC.
TEST YEAR ENDING 6/30/06
ADJUSTMENTS TO OPERATING INCOME

(O & M EXPENSES CONTINUED)	<u>WATER</u>	<u>WASTEWATER</u>
10 Rents (640/740) Decrease to \$800 per month	<u>(\$3,000)</u>	<u>(\$3,000)</u>
11 Transportation Expense (650/750) Increase to reclassify from M&S 620/720 (AF-6) Decrease for unsupported item (AF-6) Increase for item not recorded (AF-6) Subtotal	876 (70) 0 <u>\$806</u>	876 0 <u>764</u> <u>\$1,640</u>
12 Insurance Expenses (655/ 755) Increase to reclassify workers comp insurance from Pensions (604/704)	<u>\$1,801</u>	<u>\$1,801</u>
13 Regulatory Expense (665/ 765) Amortize Rate Case expense over 4 years (\$1,000/4/2) Amortize notice expenses over 4 years (\$299/4/2) Subtotal	\$125 37 <u>\$162</u>	\$125 37 <u>\$162</u>
14 Miscellaneous Expense (675/ 775)	<u>\$0</u>	<u>\$0</u>
TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	<u>(\$21,611)</u>	<u>(\$23,260)</u>
 DEPRECIATION EXPENSE		
1. To reflect test year depreciation calculated per 25-30.140, F.A.C.	\$3,291	(\$3,053)
2. Depreciation expense on pro forma plant		1,360
3. To reflect test year CIAC amortization calculated by staff Total	604 <u>\$3,895</u>	<u>1,792</u> <u>\$99</u>
 TAXES OTHER THAN INCOME		
1. To include RAFs on Annualized Revenue	\$605	(\$242)
2. Increase to reclassify payroll taxes from Pensions (604/704)	5,825	6,167
3. Decrease for salary adjustment Total	<u>(911)</u> <u>\$5,519</u>	<u>(911)</u> <u>\$5,015</u>
 INCOME TAX	 <u>\$0</u>	 <u>\$0</u>

USEPPA ISLAND UTILITY, INC.
 TEST YEAR ENDING 6/30/06
 ANALYSIS OF WATER OPERATION
 AND MAINTENANCE EXPENSE

SCHEDULE NO. 3-D
 DOCKET NO. 060575-WS

	TOTAL PER UTILITY	STAFF ADJUST- MENT	TOTAL PER STAFF
(601) SALARIES AND WAGES - EMPLOYEES	\$67,784	(\$15,243)	\$52,541
(603) SALARIES AND WAGES - OFFICERS	0	0	0
(604) EMPLOYEE PENSIONS AND BENEFITS	10,563	(7,626)	2,937
(610) PURCHASED WATER	0	0	0
(615) PURCHASED POWER	26,491	1,970	28,461
(616) FUEL FOR POWER PRODUCTION	0	0	0
(618) CHEMICALS	4,514	448	4,962
(620) MATERIALS AND SUPPLIES	8,370	(3,661)	4,709
(630) CONTRACTUAL SERVICES - BILLING	0	0	0
(631) CONTRACTUAL SERVICES - PROFESSIONAL	1,638	0	1,638
(635) CONTRACTUAL SERVICES - TESTING	0	3,594	3,594
(636) CONTRACTUAL SERVICES - OTHER	6,236	(862)	5,374
(640) RENTS	7,800	(3,000)	4,800
(650) TRANSPORTATION EXPENSE	2,120	806	2,926
(655) INSURANCE EXPENSE	1,204	1,801	3,005
(665) REGULATORY COMMISSION EXPENSES	0	162	162
(670) BAD DEBT EXPENSE	0	0	0
(675) MISCELLANEOUS EXPENSES	<u>2,657</u>	<u>0</u>	<u>2,657</u>
	<u>\$139,377</u>	<u>(\$21,611)</u>	<u>\$117,766</u>

**USEPPA ISLAND UTILITY, INC.
TEST YEAR ENDING 6/30/06
ANALYSIS OF WASTEWATER OPERATION
AND MAINTENANCE EXPENSE**

**SCHEDULE NO. 3-E
DOCKET NO. 060575-WS**

	TOTAL PER UTILITY	STAFF ADJUST- MENT	TOTAL PER STAFF
(701) SALARIES AND WAGES - EMPLOYEES	\$65,605	(\$13,064)	\$52,541
(703) SALARIES AND WAGES - OFFICERS	0	0	0
(704) EMPLOYEE PENSIONS AND BENEFITS	10,905	(7,968)	2,937
(710) PURCHASED WASTEWATER TREATMENT	0	0	0
(711) SLUDGE REMOVAL EXPENSE	0	0	0
(715) PURCHASED POWER	14,236	0	14,236
(716) FUEL FOR POWER PRODUCTION	0	0	0
(718) CHEMICALS	4,440	(856)	3,584
(720) MATERIALS AND SUPPLIES	7,762	2,340	10,102
(730) CONTRACTUAL SERVICES - BILLING	0	0	0
(731) CONTRACTUAL SERVICES - PROFESSIONAL	1,638	0	1,638
(735) CONTRACTUAL SERVICES - TESTING	0	5,328	5,328
(736) CONTRACTUAL SERVICES - OTHER	11,958	(9,643)	2,315
(740) RENTS	7,800	(3,000)	4,800
(750) TRANSPORTATION EXPENSE	3,172	1,640	4,812
(755) INSURANCE EXPENSE	1,204	1,801	3,005
(765) REGULATORY COMMISSION EXPENSES	0	162	162
(770) BAD DEBT EXPENSE	0	0	0
(775) MISCELLANEOUS EXPENSES	<u>2,642</u>	<u>0</u>	2,642
	<u>\$131,362</u>	<u>(\$23,260)</u>	<u>\$108,102</u>

USEPPA ISLAND UTILITY, INC. TEST YEAR ENDING 6/30/06 MONTHLY WATER RATES		SCHEDULE NO. 4-A DOCKET NO. 050587-WS	
	<u>UTILITY'S EXISTING RATES</u>	<u>STAFF RECOMMENDED RATES</u>	<u>MONTHLY RATE REDUCTION</u>
<u>RESIDENTIAL AND GENERAL SERVICE</u>			
<u>Base Facility Charge by Meter</u>			
<u>Size*</u>			
5/8"X3/4"	\$39.26	\$35.24	\$0.04
3/4"	\$58.89	\$52.86	\$0.05
1"	\$98.15	\$88.10	\$0.09
1-1/2"	\$196.29	\$176.20	\$0.18
2"	\$314.06	\$281.92	\$0.28
3"	\$628.15	\$563.84	\$0.57
4"	\$981.49	\$881.00	\$0.88
6"	\$1,962.96	\$1,762.00	\$1.77
8"	N/A	\$2,819.20	\$2.83
<u>GALLONAGE CHARGE (per 1,000 Gallons)</u>			
Residential and General Service (all gallons)	\$7.05	\$6.33	\$0.01
<u>FIRE PROTECTION SERVICE</u>			
<u>Base Facility Charge</u>			
2"	N/A	\$23.49	\$0.02
3"	N/A	\$46.99	\$0.05
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
0 Gallons	\$39.26	\$35.24	
3,000 Gallons	\$60.41	\$54.23	
5,000 Gallons	\$74.51	\$66.89	
10,000 Gallons	\$109.76	\$98.54	

USEPPA ISLAND UTILITY, INC. TEST YEAR ENDING 6/30/06 MONTHLY WASTEWATER RATES		SCHEDULE NO. 4-B DOCKET NO. 050587-WS	
	UTILITY'S EXISTING RATES	STAFF RECOMMENDED RATES	MONTHLY RATE REDUCTION
<u>RESIDENTIAL SERVICE</u>			
Base Facility Charge All Meter Sizes	\$28.96	\$45.13	\$0.05
Gallonge Charge Per 1,000 Gallons (6,000 Gallon Cap) 1 - 6,000 Gallons	\$7.39	\$11.81	\$0.01
<u>GENERAL SERVICE</u>			
Base Facility Charge by Meter Size:			
5/8"x3/4"	28.96	\$45.13	\$0.05
3/4"	43.44	\$67.69	\$0.07
1"	72.40	\$112.82	\$0.12
1-1/2"	144.80	\$225.65	\$0.25
2"	231.68	\$361.04	\$0.39
3"	463.36	\$722.08	\$0.79
4"	723.99	\$1,128.24	\$1.23
6"	1,447.97	\$2,256.49	\$2.47
8"	N/A	\$3,610.40	\$3.94
Gallonge Charge Per 1,000 Gallons	8.87	\$14.17	\$0.02
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>			
0 Gallons	\$28.96	\$45.13	
3,000 Gallons	\$51.13	\$80.56	
5,000 Gallons	\$65.91	\$104.18	
10,000 Gallons	\$73.30	\$115.99	