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# Public Service Commission

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COMMISSION  
CLERK

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

**DATE:** June 27, 2007

**TO:** Commission Clerk (Cole)

**FROM:** Division of Economic Regulation (Hudson, Edwards, Fletcher, Lingo, Rendell)  
Office of the General Counsel (Gervasi)

*SH* *BF* *[Signature]* *[Signature]* *[Signature]*

**RE:** Docket No. 050862-WU – Application for staff-assisted rate case in Marion County by County-Wide Utility Co., Inc.

**AGENDA:** 07/10/07 – Regular Agenda – Proposed Agency Action except for Issues 16 and 17 – Interested Persons May Participate

**COMMISSIONERS ASSIGNED:** All Commissioners

**PREHEARING OFFICER:** Skop

**CRITICAL DATES:** 06/06/07 (15-Month Effective Date (SARC))

**SPECIAL INSTRUCTIONS:** None

**FILE NAME AND LOCATION:** S:\PSC\ECR\WP\050862.RCM.DOC

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FPSC-COMMISSION CLERK

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### **Case Background**

County-Wide Utility Company, Inc. (County-Wide or utility) is a Class C water utility serving 482 water customers in Marion County. According to the utility's 2004 annual report, total gross revenue was \$109,074 and total operating expenses were \$108,127.

By Order No. PSC-93-0282-FOF-WU, issued February 23, 1993, in Docket No. 930084-WU, In Re: Investigation into potential overearnings of Countywide Utility Company in Marion County, the Commission initiated an investigation of possible overearnings. The utility president asked the Commission to reconsider Order No. PSC-93-0282-FOF-WU. The utility's petition for reconsideration was denied by Order No. PSC-93-0647-FOF-WU, issued April 27, 1993 and the docket to investigate possible overearnings remained open. On April 28, 1993, County-Wide applied for a staff-assisted rate case (SARC). Docket No. 930440-WU, In Re: Application for a staff-assisted rate case in Marion County by County-Wide Utility Company, was opened to process the utility's application. By Order No. PSC-93-1441-FOF-WU, issued October 4, 1993, in Docket Nos. 930084-WU and 930440-WU, based on a complete audit report, the Commission found that County-Wide was not overearning nor was it in an underearning position and the dockets were closed.

Subsequently, the utility indicated that due to a 1996 change in Marion County's Land Development Code to require fire flow in new developments, County-Wide hired an engineer to perform a capacity analysis and to look at alternatives to expand capacity and provide fire flow. After considering alternatives, County-Wide entered into an agreement with the City of Ocala for the interconnection of its system to receive bulk water and wastewater service. County-Wide has constructed an interconnection between its existing system and the City of Ocala and has begun purchasing water from the City.

On November 10, 2005, the Commission received County-Wide's application for a SARC. In this application, the utility requested interim rates. The utility's interim rates request was based on it being allowed to immediately earn a return on its interconnection investment. By Order No. PSC-06-0063-FOF-WU, issued January 24, 2006, in the instant docket, the Commission denied the utility's request for interim rates, based on Section 367.0814(4), Florida Statutes, which provides that:

[t]o establish interim relief, there must be a demonstration that the operation and maintenance expenses exceed the revenues of the regulated utility, and interim rates shall not exceed the level necessary to cover operation and maintenance expenses as defined by the Uniform System of Accounts for Class C Water and Wastewater Utilities (1996) of the National Association of Regulatory Utility Commissioners.

However, because the utility had to continue payment to the City of Ocala for the purchase of water, the Commission encouraged staff to continue to explore alternative avenues for expedited rate relief.

Immediately following the January 5, 2006 Agenda Conference, staff contacted the utility by telephone to discuss the Commission's decision and what information would be needed to

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consider emergency rates for the utility. The utility provided the information on February 28, 2006, by way of a formal petition for emergency rates.

By Order No. PSC-PSC-06-0336-PCO-WU, issued April 24, 2006, in this docket, the Commission approved a 127.60% emergency rate increase, subject to refund with interest, for County-Wide.

A recommendation on the merits of the SARC was previously filed in this docket on February 1, 2007, but was deferred from the Commission's February 13, 2007 agenda conference at the request of the utility. Subsequently, the utility requested a meeting with staff to provide additional information. On March 26, 2007, staff met with the utility and discussed the additional information. Based on staff's analysis of the additional information, staff determined that adjustments should be made to plant, testing expenses and service availability. The adjustments were incorporated into a revised recommendation. The revised recommendation was filed on May 10, 2007, but again it was deferred from its scheduled Commission agenda conference date of May 22, 2007 at the request of the utility. The utility requested the deferral due to a change in counsel. Subsequently, the utility and its new counsel requested a meeting with staff to discuss the merits of the SARC and to provide additional information. On May 25, 2007, the utility provided additional information related to plant items. Then, on June 4, 2007, staff met with the utility and its new counsel. Based on staff's analysis of the additional information, staff determined that adjustments should be made to plant and service availability. These adjustments have been incorporated into this revised recommendation.

The Commission has the authority to consider this SARC pursuant to Section 367.0814, Florida Statutes (F.S.).

### Discussion of Issues

**Issue 1:** Should the quality of service provided by County-Wide Utility be considered satisfactory?

**Recommendation:** Yes. The quality of service should be considered satisfactory. (Edwards)

**Staff Analysis:** Pursuant to Rule 25-30.433(1), 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 and wastewater operations. These components are the quality of the utility's product, the operating conditions of the utility's plant and facilities', and the utility's attempt to address customer 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 below addresses each of these three components.

#### Quality of Utility's Product

The County-Wide water treatment system is under the jurisdiction of the DEP located in the Tampa district office. The utility has retired its wells. Therefore it does not have a water treatment plant. Instead, it now purchases water from the City of Ocala and resells it to its customers. According to DEP's records, the water treatment plant was last inspected in January 2004. At the time of the inspection, the water treatment facility had only one deficiency. The inspector noticed spots of rust on the tank's exterior and the utility was instructed to "resurface/repaint tank as necessary." According to DEP, at that time and currently, the utility was and is in compliance with DEP rules and regulations. Based on the above, it appears the quality of the finished water product is satisfactory.

#### Operating Condition of the Water Facilities

On December 2004, DEP conducted a Compliance Evaluation Inspection at the County-Wide facility to determine compliance with water requirements and, overall, the facility was in compliance. Based on the above, the operating condition of the water facilities should be considered satisfactory.

#### The Utility's Attempt to Address Customer Satisfaction

The utility had three customer complaints on file, which it received during the test year. The complaints consisted of concerns about improper bills, outages, and quality of service. Staff reviewed the Commission's records and found the same complaints on file. Further, the utility had five complaints in its files during the last five years. All complaints were addressed by the utility and the files closed. Staff reviewed the DEP records and found no customer complaints on file.

On October 19, 2006, staff conducted a customer meeting in Ocala, Florida. There were approximately 50 customers that attended and 21 customers spoke. During the meeting, residents expressed numerous concerns, of which the majority dealt with the level of the rate increase, the discontinuation of the plant and subsidizing the cost of the new transmission main for future customers. In all customers' comments, they indicated the increase in rates was unfair, and would create undue hardship because they were elderly and living on a fixed income. Several customers were displeased with the utility because they were not consulted about the discontinuance of the water treatment plant. In addition, these customers felt the utility should have never taken the plant off line and they considered the previous water product to be the best in the state. In addition, many of the residents felt the purpose of the new transmission main was to provide service to future development. Most customers felt they should not be required to pay for the new transmission main because the only reason it was constructed was to enable the utility's owner to sell his property to developers for future development. Staff will address these concerns in Issue 2.

Immediately after the customer meeting, the Commission began receiving complaint letters from County-Wide's customers. The Commission received approximately 184 letters of complaints which generally reiterated the residents' concerns and beliefs expressed at the customer meeting. Staff believes the interconnection with the City of Ocala addresses many of the customers' concerns relating to quality of service. In fact, several customers indicated the water pressure after the interconnection has substantially increased. The utility indicated that it believed by adding fire protection for its customers, the homeowners' insurance would decrease. However, staff has no way of verifying this statement. Staff has been informed by customers that the utility has had subsequent meetings with individual customers with regards to their concerns. It appears the utility is attempting to address its customers' concerns.

### Summary

Based on staff's review of the water distribution system, it appears the system is operating properly and is in compliance with DEP standards. In addition, staff believes the utility is attempting to address the concerns of the customers. Therefore, staff recommends the quality of service provided by County-Wide should be considered satisfactory.

**Issue 2:** Was it prudent for the utility to interconnect to the City of Ocala to serve current customers?

**Recommendation:** No, it was not prudent for the utility to interconnect to the City of Ocala to serve current customers; however, it was prudent to interconnect to provide water service to future customers. (Edwards, Rendell, Lingo)

**Staff Analysis:** In its request for rate relief, the utility requested recovery of costs for an interconnection with the City of Ocala. County-Wide hired an engineer to perform a capacity analysis and to look at alternatives to expand capacity and provide fire flow. After considering alternatives, County-Wide entered into an agreement with the City of Ocala for the interconnection of its system to receive bulk water and wastewater. County-Wide has constructed an interconnection between its existing system and the City of Ocala and has begun purchasing water.

#### The Utility's Position

In its application and responses to staff's data requests, the utility stated the purpose for abandoning the water treatment plants are as follows:

1. The 1996 Marion County Land Development Code change required fire flow in new developments and the current customers did not have fire flow. Therefore, the utility had to upgrade its water service in order to comply with the changes.
2. The hydro pneumatic tank had deteriorated and the utility believed the continued use of the tank was not feasible from a safety and reliability standpoint.
3. A test sample from the wells indicated the coliform bacteria level exceeded the maximum contaminant level (MCL) allowed by the Federal Environmental Protection Agency.
4. The system was incapable of providing fire flow service to fire hydrants.

#### Utility's Engineering Report

Subsequent to the customer meeting, staff asked the utility whether a cost benefit analysis had been completed prior to the utility's decision to move forward with the interconnection and retire the well. Staff was informed that an analysis was completed. However, upon requesting a copy of such an analysis, it was discovered there was not one available. As a result of staff's request, the utility employed Kimley-Horn and Associates, Inc., an engineering firm, to do a Cost/Benefit Analysis report. The report dated October, 2006 provided several alternatives and discussed the activities that had transpired.

According to this Cost/Benefit Analysis, the water supply facility had almost reached its useful life in 1998 and was in need of substantial renewal, upgrade, and replacement. Therefore, the utility recognized it was time to begin planning for replacement of the existing water supply

equipment in order to maintain service to existing customers, as well as make provisions to meet its obligation to serve new customers within the service territory.

The executive summary of the analysis states:

At first blush it appeared keeping the existing wells was the most cost-effective but the results of the 1998 planning effort indicated that the most cost-effective and reliable means of providing continued service to existing customers, while also fulfilling its obligation of a water utility to provide service to all customers within its Service Territory, was to seek a bulk service agreement.

The utility decided the best option would be to interconnect with the City of Ocala, under a bulk water agreement. This decision was based on the following from the Engineering Report:

Regulation requires that replacement components or modifications to existing components must meet the current regulations and cannot be replaced or restored in a configuration which does not meet current regulations. Continued operation of the water plant would have required replacing the wells on a new well site, installing new storage tanks and treatment facilities, emergency generators, and security – in essence a brand new water plant. This would also invoke Marion County regulations requiring essentially a special exception and special zoning in order to construct the new plant. These Marion County regulations also require that new water treatment facilities be grandfathered out of existence at a future date.

Non-regulatory reasons such as the facilities exceeding the FPSC's useful life guidelines, deterioration of the hydro pneumatic tank, contamination of the water supply wells, lack of fire protection, system reliability, and future regulatory costs were also considered by CWU in its decision-making process.

This report concludes that all existing water production, treatment and storage facilities would have had to be retired and an entirely new facilities built had CWU chosen to implement one of the alternatives that maintained the existing facilities. This would have led to much higher costs for existing customers than those predicated in the alternatives examined in 1998 and updated in this report. These higher costs would have become the responsibility of all CWU customers.

Staff disagrees with the conclusions in the Engineering Report that contained the Cost/Benefit Analysis. Staff has analyzed the Cost/Benefit report submitted by the utility and believes there are numerous errors as discussed below:

#### Marion County Fire Marshal

Staff spoke to Marion County Fire Marshal Chief Paul Nevels, and he stated that in the event of code revisions for an existing utility currently in compliance, the utility would not be required to modify or alter its current system. However, if the utility is proposing the construction of a new development, it would be required to make the necessary changes to



comply with the new codes. Although the new water system provides fire flow for hydrants, which he supports, the original system was not violating the current codes since it was grandfathered in. Specifically, in a letter to staff dated May 30, 2007, the Marion County Fire Marshall stated:

While a new residential development and/or commercial construction may be required to meet current codes and provide for fire protection; (sic) existing subdivisions such as Bahia Oaks are not required to meet the current code (place hydrants).

Department of Environmental Protection (DEP) – Tampa

DEP staff stated the facility was in compliance with DEP's rules and regulations before the plant was discontinued and were very surprised to hear the utility was discontinuing the plant. In addition, the plant inspector stated during the last inspection on January 23, 2004, that the utility had only one deficiency which was rust spots on the outside of the hydro pneumatic tank. DEP instructed the utility to "resurface/repaint tank as necessary."

PSC staff asked DEP about the utility's wells possibly being contaminated. DEP responded that on one occasion the well's test result indicated the coliform level exceeded the MCL. The utility followed DEP's procedure, which is to re-test and the second test showed the coliform level met standards. The inspector stated all of the utility's laboratory tests and chemical analyses met standards prior to the plant being taken off line.

Staff further spoke with Mr. Gerald Foster, one of DEP's Compliance and Enforcement inspectors, and Mr. Stephen King in DEP permitting, regarding its rules which were quoted in the utility's Cost/Benefit Analysis/ Engineer Report. Staff provided a copy of the report to DEP and asked them to review the contents regarding proper interpretation of its rules by the utility.

DEP staff's evaluation is as follows:

1. Rule 62-555.312(1), F.A.C., states, "Wells that are, or will be, supplying a public water system (PWS) serving premises with an estimated collective sewage flow greater than 2,000 gallons per day and that were, or will be connected to the PWS on or after December 13, 1983, shall be no closer than 200 feet from any onsite sewage treatment and disposal system (OSTDS), regardless of the location of the OSTDS."

DEP states the utility's use of this rule is not correct because existing wells would be grandfathered in and would not require being moved to a new location.

2. Rule 62-555.312(4), F.A.C., states, "For Wells connected to a community water system on or after August 28, 2003, except those connected under a construction permit for which the Department received a complete application before August 25, 2003, continuing protection of the well...."

DEP states the utility's use of this rule is not correct because this rule is not used for existing wells.

3. Rule 62-5320(19)(a)2, F.A.C., states “For small water systems with hydro pneumatic tanks that are installed under a construction permit for which the Department receives a complete application on or after August 28, 2003, the supplier of water or construction permit applicant also shall demonstrate that, in conjunction with the capacity of the water system’s source, treatment, and finished-water pumping facilities, the water system’s total useful finished water storage capacity (i.e., the water system’s total of active hydro pneumatic tank volume) is sufficient to meet the water system’s peak instantaneous water demand for at least 20 consecutive minutes.”

DEP states the rule is not applicable because it is used only for new tanks installed under a permit and if the capacity of the tank that is being installed is the same as the tank being removed (like for like), no permit is required.

4. In the “Summary of the Regulatory Considerations” of the report, it states: “the hydro pneumatic tank was urgently needed and could not be replaced without addressing the new regulations which would require a larger tank.”

DEP states this statement is incorrect because the utility could have replaced the old tank with a new tank with the same capacity.

#### Utility’s Plans for Future Development

In evaluating the interconnection of County-Wide with the City of Ocala, staff contacted the DEP. As a result, staff received numerous documents from DEP on September 19, 2006. This documentation related to the utility’s plans for future development including the interconnection and subsequent retirement of the potable water well.

On October 13, 2004, Ginn Engineering, Inc. (Ginn) prepared and submitted an initial permit application to DEP on behalf of County-Wide. County-Wide’s initial permit application reflected the utility’s intent to extend an existing line for purposes of serving a new 102-unit residential subdivision, known as Bahia Oaks Unit 5 (Unit 5). Based on statements contained in County-Wide’s application, an evaluation was performed to determine the impact of tying the proposed line to its existing water system served by the utility’s potable water well. According to Ginn’s analysis, County-Wide’s proposed system, as designed, would provide adequate flow and pressure to both existing and future customers. In evaluating County-Wide’s proposed extension, Ginn noted that the existing permitted maximum day capacity for the existing water system was .46 million gallons per day (MGD). The actual maximum day capacity experienced in 2004 was .24 MGD, which occurred in May 2004. The actual maximum day capacity of .24 MGD was less than 75 percent of the permitted maximum day capacity. Ginn projected the line extension would cause the maximum day capacity to increase to .36 MGD, resulting in a maximum day capacity of just over 75 percent of the permitted maximum capacity. Based on this minimal increase, Ginn did not believe the expansion should necessitate a change in County-Wide’s consumptive use permit of its well. Thus, the initial application submitted to DEP indicated this new distribution project would be connected to the Bahia Oaks existing water treatment plant. On November 17, 2004, DEP issued a permit for the construction of a water distribution system to serve Unit 5 in accordance with the plans prepared by Ginn.

However, subsequent to receiving the initial permit approval from DEP, County-Wide contracted with Ginn to perform hydraulic analyses, as well as, cost-benefit analyses of an interconnection with the City of Ocala. According to Ginn's Preliminary Engineering Report dated March 2005, County-Wide contracted with Ginn to evaluate several alternatives to extend its existing water and wastewater service from the City of Ocala to two areas targeted for development.

This new proposed extension would also connect the existing Bahia Oaks water distribution system, thus eliminating the need for the existing water treatment plant and associated pumping equipment currently used to supply the Bahia Oaks subdivision. This report indicates the existing Bahia Oaks consisted of small mobile home-type lots and had a relatively small water demand. However, the proposed new development of Bahia Oaks Unit 5 will consist of traditionally-sized lots, and will have a greater daily water demand than the older section. The scope of the March 2005 report included a determination of existing water demand on the existing Bahia Oaks subdivision and the new Unit 5. The report also developed several extension alternatives to provide water and wastewater service to the two areas of development. This included hydraulic analysis of each extension alternative to determine the effect on the existing distribution system, the new distribution system, and the available fire flow for each alternative.

The new Unit 5 will contain 102 residential lots. Ginn's March 2005 report indicated the older section of Bahia Oaks is made up of primarily low-flow users with annual average daily flow (AADF) of approximately 171 gpd per residence. In contrast, Unit 5 will be made up of primarily high-flow users with an AADF of approximately 371 gpd per residence. According to Ginn's report, the existing distribution system is adequate to serve the peak hour demand for the existing Bahia Oaks subdivision and concluded the distribution system would retain pressure greater than 35 psi during the peak hour demand. However, the report concluded that when the new development in Unit 5 is added, the pressure will drop. According to the report, when the growth is added, the pressure will drop below 20 psi at one portion of the system, while other portions will drop below 35 psi.

According to Ginn's report, considerable development is planned for another portion of land. As proposed, the development will provide developable land to an anchor tenant with smaller tenants adjacent to and within a retail center. This portion of the development would also include a 392-unit complex behind this anchor tenant and a 160-unit senior living complex adjacent to Unit 5. The report indicated the utility may remove the existing water treatment plant from service if the proposed extension is capable of supplying adequate water and pressure to all areas within the utility's service area.

Ginn's March 2005 report evaluated several alternative routes for County-Wide to interconnect with the City of Ocala. The report states that the purpose of Ginn's evaluation is to determine the most cost effective route to supply water from the City of Ocala to the primary area of new development. The City of Ocala had water service available in two directions from the general area of development.

The alternatives were lumped together based upon the location of the water line route. Alternatives 1A, 1B, and 1C generally utilized the SR 200 right-of-way or the right-of-way of the frontage road adjacent to SR 200 within the existing Bahia Oaks subdivision. Alternative 2 utilized an internal road through Bahia Oaks subdivision and is routed very near the water treatment plant facility. Alternative 3 utilized the connection at SW 52<sup>nd</sup> street and SW 60<sup>th</sup> Ave and utilized the west right-of-way on SW 60<sup>th</sup> Ave to bring the water to the planned area of development.

According to this report, the preliminary cost estimates obtained indicate the least alternative was Alternative 1A. However, the report indicated there were other factors to consider before choosing a route alternative. These included existing underground utilities on the major highways. Ginn's analyses indicated that while Alternative 1A shown to be the least expensive alternative, it uses the SR 200 corridor for much of its length and could, in the end, be more expensive if underground utilities conflict with the water line placement. The report further indicates since the utility essentially knows where the underground utilities are within the existing Bahia Oaks subdivision, it is likely that underground conflicts will be kept to a minimum when utilizing this route.

Subsequently, on March 31, 2005, Ginn submitted a second permit application to DEP on behalf of County-Wide for a potable water system expansion. This second request included an interconnection with the City of Ocala for potable water service and extension of water service from SR 200 to SW 60<sup>th</sup> Ave. In a letter dated May 20, 2005, Ginn resubmitted design drawings and other documents in response to a DEP request. Ginn indicated the owner of the utility was determining the feasibility of converting the existing water plant into a water source for landscape irrigation. This letter also indicated the existing water treatment plant would be physically isolated from the existing and proposed distribution system. This second permit application was approved on June 7, 2005.

Staff's review of the Marion county property records indicate at the time of the line extension and interconnection with the City of Ocala, Unit 5 was owned by Bahia Oaks, Inc. This corporation lists James Leeward as its president. James Leeward is also the owner of County-Wide. Subsequent to the interconnection, Unit 5 of Bahia Oaks was sold to D.R. Horton, a major home builder. Additionally, county property records indicate the remaining sections of developable land, which is a substantially larger land area, is still currently owned by Bahia Oaks, Inc. As indicated in the March, 2005 report by Ginn, development of this area will consist of mixed use, including retail office space, grocery stores, restaurants, a large apartment complex, and a senior living complex. Based on staff's review of the documents, the owners of County-Wide were planning for water supply for development of property which they owned.

### Conclusion

Staff does not believe it was necessary or prudent for County-Wide to retire its two wells from service in order to serve its existing customers. Staff believes the owners of County-Wide interconnected with the City of Ocala in order to obtain a water supply for new development. This new development will occur on land which either was owned (in the case of Unit 5) or is owned by the utility's owners. The documents submitted to DEP as part of the County-Wide's

original permit application, as well as the information obtained from the Southwest Florida Water Management District (SWFWMD), show the water treatment plant was adequate to provide service to the existing customers. As shown in Table 1, during the years 2000 through 2005, the utility consistently had more than adequate capacity to serve its customers.

**TABLE 1**

<b>COUNTY-WIDE UTILITY COMPANY: PERMITTED vs. ACTUAL WITHDRAWALS FOR THE YEARS 2000 – 2005</b>				
			<b>Remaining Permitted Withdrawal Capacity (kgal)</b>	
<b>Year</b>	<b>Average Monthly SWFWMD Permitted Withdrawal (kgal)</b>	<b>Average Actual Monthly Withdrawal (kgal)</b>	<b>Amount</b>	<b>Percent</b>
2000	6,000	3,116	2,884	48.1%
2001	6,000	3,031	2,969	49.5%
2002	6,000	2,852	3,148	52.5%
2003	6,000	3,365	2,635	43.9%
2004	6,000	3,178	2,822	47.0%
2005 (1)	3,834	2,592	1,242	32.4%
(1) In November 2005, the SWFWMD reduced the permitted capacity of each of the utility's two wells from 3,000 kgal per month to 1,917 kgal per month (3,834 kgal revised combined permitted monthly total).				
<b>Source:</b>	<b>Southwest Florida Water Management District, permitted withdrawal and pumpage database.</b>			

As the table above illustrates, it was not necessary for the utility to retire its wells from service. Furthermore, staff believes keeping its wells on-line to serve the current customers would have been a prudent decision, as producing its own water would have been less costly than purchasing water from the City of Ocala. In its petition for emergency rates submitted on February 29, 2006, the utility submitted a Water Production versus Purchased Cost Comparison. This comparison indicated the purchased water cost is \$1.09 per thousand gallons, while the cost of water produced by the water treatment plant was \$0.50 per thousand gallons. This was based on the utility's preliminary calculations at that time.

Staff reviewed the utility's staff assisted rate case application and discussed the retirement of the existing well with both the Marion County Fire Marshal and DEP. After thorough examination and based on the above, staff concludes that the utility was not required by Marion County's codes or DEP's rules to discontinue its water treatment plant, which was adequately meeting the needs of its existing customers. It appears that prior to discontinuing its water treatment plant, the only plant repairs that would have been needed to insure safe drinking water for its existing customers would have been to purchase a new hydro pneumatic tank at a

cost of approximately \$30,000. All of the information examined indicates the utility's owners would not have been able to acquire permitting for the new land development, which is now taking place, without making major modifications to the plant and distribution system. Therefore, staff believes the sole reason the utility retired its wells and interconnected with the City of Ocala was to provide water service to accommodate growth to future customers.

Staff believes the only reason the utility pursued this interconnection with the city of Ocala was to ensure a water supply for future growth. Based on our analysis, staff believes that it was not prudent for the utility to retire its wells and interconnect with the city to supply water to its existing customers. However, staff believes it was a prudent decision to pursue the interconnection for future supply to its future customers. Staff will address the recovery of these costs in Issues 18 and 19.

**Issue 3:** What are the used and useful percentages for the utility's water distribution system?

**Recommendation:** The water distribution system should be considered 100% used and useful. (Edwards)

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

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

As previously stated, County-Wide does not have a water treatment plant. The water system is a consecutive system, a reseller of bulk water.

#### Water Distribution System

The utility has recently installed a transmission main that interconnects with the City of Ocala's water distribution system. Currently, the utility water distribution system has the capacity to serve 470 lots/connections. However, the future development of sections 4 and 5 will increase the lots/connections capacity to 972 lots.

The utility's as-built maps indicate the new 16-inch water transmission main was designed to cover most of its service territory. The utility stated the construction of this new water main was required so that it would comply with the current Marion County Codes which states the fire flow requirement is 2,500 gallons per minute for four hours. This system, for the first time, has eight new fire hydrants within the service territory. This was discussed in Issue 2.

The staff engineers reviewed the utility's records and calculated the percentage of U&U for the current water distribution system by taking the number of 2005 test year residential connections of 470 plus the growth factor of 90 connections, and then divide it by the number of total connections (470). The result is 100% percent U&U.

Staff recommends the U&U percentages for the water distribution system should be considered 100%. (See Attachment A)

**Issue 4:** What is the appropriate test year rate base for the utility?

**Recommendation:** The appropriate test year rate base for the utility is \$44,768. (Hudson)

**Staff Analysis:** The utility's rate base was last audited in Docket No. 930084-WU, In Re: Investigation into potential overearnings of Countywide Utility Company in Marion County.

Staff selected a test year ending December 31, 2005 for this rate case. Rate base components, established in Audit No. 93-061-3-1, have been updated through December 31, 2005 using information obtained from staff's audit and engineering reports. A summary of each component and the adjustments follows:

**Utility Plant in Service (UPIS):** The utility recorded \$913,359 for water UPIS for the test year ending December 31, 2005.

Pursuant to Audit Disclosure No. 3, the utility recorded two plant additions for water lines to Acct. No. 331 in the amounts of \$23,683 and \$21,199. The utility stated that the items were installed in the 1980's and 1990's but were not recorded. At the time of the audit, the invoices for the plant additions were not available. By letter dated August 24, 2006, the utility provided an invoice for one of the plant additions. The invoice indicated that the plant addition was \$22,624. Therefore, an adjustment has been made to remove \$1,049 (\$23,683 - \$22,624) for the difference in the plant addition and \$21,199 for the unsupported plant addition. The utility recorded \$4,301 of plant additions to Acct. No. 331 in 2003. A review of the invoice indicated the additions were \$6,026. Staff made an adjustment of \$1,725 (\$6,026 - \$4,301) to increase the amount of plant addition. The utility retired replaced meters at the cost of new meters. Commission practice is to retire plant at 75% of the new cost when original cost records are unavailable.<sup>1</sup> Staff's calculated difference is an increase of \$3,308 to Acct No. 334.

As discussed in Issue 2, staff is recommending that the interconnection be deemed imprudent for service to current customers. The utility recorded \$700,620 for the cost of the interconnection with the City of Ocala. However, the cost recorded for the interconnection also included lines that allow the utility to serve a commercial customer (Walgreens). From documentation provided by the utility, staff has determined that the plant related to the service to Walgreens is \$15,927. Therefore, staff has decreased UPIS by \$684,693 (\$700,620 - \$15,927) to remove the imprudent interconnection cost. Staff notes that the utility's amounts for accumulated depreciation and depreciation expense do not reflect an amount associated with the interconnection. Therefore, no adjustment to these accounts is necessary. In removing these costs to reflect they were made for future connections and not for existing customers, staff would normally adjust this amount to recognize there would have been plant still in service for the existing customers. In other words, staff would have ensured the utility remained in the same position, revenue wise, as before the interconnection occurred. However, as noted previously, these wells were fully depreciated, so no such adjustment is necessary in this case.

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<sup>1</sup> See Order No. PSC-05-0624-PAA-WS, issued June 7, 2005, in Docket No. 040450-WS, In Re: Application for rate increase in Martin County by Indiantown Company, Inc.(consummated by Order No. PSC-05-0708-CO-WS, issued June 29, 2005).



During the test year, the utility recorded in the UPIS accounts a 15% project management fee charged by Leeward Properties, LLC (LPL), a related company. The utility agreed to pay LPL a fee of 15% of the total project cost of the interconnect project. By Order No. PSC-98-0763-FOF-SU, issued June 3, 1998, in Docket No. 971182-SU, In Re: Application for staff-assisted rate case in Marion County by BFF Corp., the Commission disallowed a 10% related party construction management fee. The Commission stated that:

[t]he traditional role of utility management is to control costs while providing service. This arrangement, with the manager's company having a straight percentage interest in construction costs, gives the appearance of a disincentive to perform the cost control function.

The president/general manager of the utility is also the owner of LPL. Staff believes this relationship gives the appearance of a disincentive to perform the cost control function. The utility recorded \$104,387 to its UPIS accounts. These costs are not associated with the actual plant cost or installation cost. Therefore, staff believes the costs should not be allowed. Staff decreased UPIS by \$104,387.

By letter dated April 11, 2006, the utility requested the recognition of additional costs related to distribution lines, plant abandonment, valve replacement, Geographic Information System (GIS) and an electronic wire locator. For the installation of distribution lines, the utility indicated that it would incur costs of \$120,000 for 102 lots in Unit 5, \$200,000 for 400 multi-family units and \$200,000 for the development of commercial and office space. This request is considered to be for future growth and should be recovered through service availability. This request will be addressed in Issue 18. The utility requested that \$10,000 be recognized for the abandonment of the water plant. As discussed in Issue 2, staff believes that the interconnection was imprudent. Therefore, the staff believes the utility should not be allowed to recover any cost related to the abandonment of its water plant. The utility has indicated that it would incur a cost of \$23,000 to replace 20 to 35 year old valves that will not shut off. The utility has stated that it plans to purchase a GIS to: 1.) increase its level of customer service by decreasing the response time to outages; 2.) implement its meter replacement program; 3.) make more efficient service calls; and 4.) make utility locates more accurate. The utility anticipates the cost to range from \$10,000 – \$15,000. Finally, the utility plans to purchase an electronic wire locator for \$2,000 since its new lines have locator wire.

For the cost of the valves and electronic wire locator, the utility has provided support documentation to justify these costs. The documentation indicated the valve replacement will cost \$22,500 and the utility has spent \$2,287 for the electronic wire locator. Staff believes these costs are reasonable. Therefore, UPIS has been increased by \$22,500 and \$2,287 for the valve replacement and electronic wire locator, respectively. The utility has not provided any support documentation for the GIS. In reviewing the contract between the utility and Enviro-Masters, staff has determined that the utility already pays Enviro-Masters a monthly fee for the performance of the very duties that the utility is seeking to enhance. Staff is recommending management fee expense in Issue No. 7 for Enviro-Masters. Therefore, staff believes there is no need for the utility to purchase the GIS at this time. Thus, the utility should not be allowed a pro forma adjustment for the GIS.

By letter dated July 27, 2006 to the utility, staff inquired about the age of the meters in the Bahia Oaks Park and whether or not the utility has a meter replacement program. The utility responded that it did not have a meter replacement program. However, it would be pleased to implement one due to the aging of its metering system. Over the next 6 years, the utility has plans to replace meters that have reached their useful lives. Staff is recommending that the meter replacement cost of \$5,000 be capitalized.

Staff increased UPIS by \$4,001 for an averaging adjustment. Staff's net adjustment to UPIS is a decrease of \$772,507. Staff's recommended UPIS balance is \$140,852.

**Contribution in Aid of Construction (CIAC):** The utility recorded CIAC of \$56,191 for the test year ended December 31, 2005. Per Audit Disclosure No. 5, the utility retired plant for the interconnection as well as CIAC and Amortization of CIAC. The utility retired 43.04% (\$42,459) of CIAC. This amount is based on the percentage of retired plant to total plant. Staff does not believe that the methodology used by the utility is appropriate. The balance of CIAC cannot be directly related to a plant asset. Therefore, staff believes it is appropriate to retire CIAC equal to only the amount of the retired plant of \$23,790. Staff increased CIAC by \$18,669 (\$42,459 - \$23,790). Staff also increased this account by \$11,370 to reflect an averaging adjustment. Staff calculated CIAC to be \$86,230.

**Accumulated Depreciation:** The utility recorded a balance for accumulated depreciation of \$9,317 for the test year. Staff has calculated accumulated depreciation using the rates prescribed in Rule 25-30.140, F.A.C. As a result, staff has increased this account by \$34,338 to reflect the depreciation calculated per rule. Staff increased this account by \$12,173 to reflect an averaging adjustment. Also, staff has increased this account by \$500 to reflect pro forma accumulated depreciation. These adjustments result in accumulated depreciation of \$56,328.

**Amortization of CIAC:** The utility recorded a negative \$12,909 for amortization of CIAC. As discussed above, the utility retired a percentage of amortization of CIAC. It has been recalculated by staff using composite depreciation rates. This account has been increased by \$53,585 to reflect the amortization of CIAC as calculated by staff. Staff decreased this account by \$23,790 to retire amortization of CIAC related to retired plant. Staff increased this account by \$10,030 to reflect an averaging adjustment. Staff's net adjustments to this account results in Amortization of CIAC of \$26,916.

**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 recommends that the one-eighth of the O&M expense formula approach be used for calculating working capital allowance. Applying this formula, staff recommends a working capital allowance of \$16,743 (based on O&M of \$133,946). Working capital has been increased by \$16,743 to reflect one-eighth of staff's recommended O&M expenses.

**Rate Base Summary:** Based on the forgoing, staff recommends the appropriate test year rate base is \$44,768.

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Date: June 27, 2007

Rate base is shown on Schedule No. 1 and the recommended adjustments are shown on Schedule No. 1-A.

**Issue 5:** 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 12.01% with a range of 11.01% - 13.01%. The appropriate overall rate of return is 8.06%. (Hudson)

**Staff Analysis:** The utility recorded the following items in its capital structure for the test year: common stock of \$1,000, retained earnings of \$34,445, paid-in-capital of \$63,482; and long term debt of \$829,840. Equity represents 12.15% of the utility's capital structure.

The long term debt is made up of three loans: \$114,387 to LPL; \$139,266 to JKL; and \$576,187 to Compass Bank. The notes payable to LPL consists of a \$104,387 project management fee and \$10,000 for contract negotiation for bulk service with the City of Ocala. As discussed in Issue No. 3, LPL is a related company and staff is recommending that the project management fee be removed from UPIS. Staff believes the \$10,000 fee for the negotiation of a bulk service agreement with the City of Ocala is inappropriate. Staff believes the negotiation of the bulk water contract is the salaried duty of the utility manager. The job description of the utility manager, provided by the utility, included the preparation of contracts and easements. Staff is recommending a salary for the utility manager in Issue 6. Based on the above, staff has made an adjustment of \$114,387 to remove the loan payable to LPL.

Staff recommends the appropriate return on equity is 12.01% based on the most recent Commission-approved leverage.<sup>2</sup> Applying a return on equity of 12.01% results in an overall rate of return of 8.06%.

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

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<sup>2</sup> See Order No. PSC-07-0472-PAA-WS, issued June 1, 2007, in Docket No. 070006-WS, In Re: Water and Wastewater Industry Annual Reestablishment of Authorized Range of Return on Common Equity for Water and Wastewater Utilities Pursuant to Section 367.081(4)(f), Florida Statutes.

**Issue 6:** What are the appropriate test year revenues?

**Recommendation:** The appropriate test year revenue for this utility is \$112,099 for water. (Hudson)

**Staff Analysis:** During the test year, the utility had a rate change. The utility added a general service customer as well as fire protection service. Test year revenues were annualized to account for those changes. Based on staff's calculation, test year revenues should be \$112,099. Therefore, staff made an adjustment to increase test year revenues by \$5,898.

Staff recommends test year revenue of \$112,099 for water.

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

**Issue 7:** What is the appropriate amount of operating expenses?

**Recommendation:** The appropriate amount of operating expenses for the utility is \$146,051 for water. (Hudson, Lingo)

**Staff Analysis:** The utility recorded operating expenses of \$117,618 during the test year ending December 31, 2005. 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:

**Salaries and Wages – Employees – (601)** – The utility recorded \$6,006 in this account during the test year. The utility requested a \$34,715 salary for its office manager, Rebecca Chauncy. Staff believes the salary is appropriate. However, staff disagrees with the amount allocated to the utility. The utility requested an allocation of 63% (\$21,870) of the office manager salary to the utility. The utility requested 110 hours per month which includes hours for vacation, holiday, sick leave and community involvement. The utility provided a detailed list of duties and responsibilities for the office manager. As a result of the interconnection, staff believes the duties and responsibilities of the officer manager will be reduced. Further, staff believes that some of the duties and responsibilities are a duplication of those performed by Enviro-Masters Water and Wastewater Service, Inc., the management company. Enviro-Masters provides the following services for the utility: billing and revenue accounting, management and customer service, meter reading, meter installation, meter testing, repairs and maintenance, reports to the utility on customer accounts, usage reports for annual report, billing information for index application and completion of the regulatory assessment fee return. Due to the services provided by the management company, staff believes 17.5 hours per week (70 hours per month) is reasonable for the office manager. This equates to 40% (70/173.33) of her time being spent on utility business. The office manager's salary should be \$13,886 (\$34,715 x 40%). Therefore, staff made an adjustment to increase this account by \$7,880 (\$13,886 - \$6,006).

**Salaries and Wages – Officers – (603)** – The utility recorded \$25,826 in this account during the test year. The utility requested the salary of the utility president/general manager, Dirk Leeward be based on \$150,000 with 66% (or \$99,000) being allocated to the utility for his time spent on utility business. The utility requested 115 hours per month (66%) which includes hours for vacation, holiday, sick leave and community involvement. The utility provided a detailed list of duties and responsibilities for the president/general manager. Staff understands the variety of responsibilities and skills required for this position. However, staff believes a \$150,000 salary for a president/general manager for a utility of this size is unreasonable. As discussed above, the utility pays Enviro-Masters for numerous utility functions which reduces some of his responsibilities to merely reviewing a report once a month. Staff believes the number of hours is unreasonable due to the utility being a reseller. In the past, the Commission has approved a wastewater reseller president's salary of \$22.43 an hour for 15 hours per week.<sup>3</sup> The salary was determined by evaluating the American Water Works Association 1998 Utility Compensation

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<sup>3</sup> See Order No. PSC-03-1119-PAA-SU, issued October 7, 2003, in Docket No. 030106-SU, In Re: Application for staff-assisted rate case in Lee County by Environmental Protection System of Pine Island, Inc. (consummated by Order No. PSC-03-1266-CO-SU, issued November 10, 2003).

Survey, taking the average salary of the management function with the most responsibilities, and adjusting for inflation. In staff's preliminary analysis, the same methodology was used to determine an appropriate salary for the president/general manager. Staff used the 2003 Utility Compensation Survey and determined a reasonable salary for the president/general manager should be \$26.84 per hour. Also, staff believes 15 hours per week (60 per month) is more reasonable for a president/general manager of a reseller utility. This equates to 35% (60/173.33) of his time being spent on utility business.

In a response dated August 24, 2006, the utility disagreed with staff's preliminary president/manager's salary. The utility provided additional information in support of the salary being \$68,914 with a compromise of 50% of his time being spent on utility business for an annual salary of \$36,555. The utility used the salaries of a top Executive/Utilities Director, with the Marion County Utilities Department, at the top of the pay scale (\$92,040) and the bottom of the pay scale (\$55,944), and averaged it with the median salary (\$94,179) for this same position contained in the American Water Works Association 2004 Utility Compensation Survey. This resulted in an average salary of \$80,721. Then, the utility used the same methodology as described above for the Water Operations Manager. For this position, the top of the pay scale salary is \$67,537, the bottom of pay scale salary is \$42,411 and the median salary in the American Water Works Association 2004 Compensation Survey is \$61,373. This resulted in an average salary of \$57,107. Then, the utility averaged the \$80,721 and \$57,107 which resulted in a salary of \$68,914. The utility indicated that Mr. Dirk Leeward holds a bachelor's degree and has been operating the utility for over 20 years. The utility indicated that Mr. Leeward's credentials and experience would place him in the top end of the Marion County pay grade. However, the utility indicated it was being conservative and used the middle of the County pay scale and the median of the American Water Work Association's salary range.

Staff does not believe it was appropriate for the utility to use the Top Executive/Utilities Director salary from the Marion County Utilities Department nor the American Water Work Association salary for that same position. In the information provided by the utility, the Executive/Utilities Director position is charged with directing the activities of Marion County's comprehensive water and wastewater treatment operations, including operation and maintenance of the water distribution and sewer collection system, water and wastewater treatment facilities, all sewerage lift stations, and the water metering systems. The position is also responsible for the acquisition and construction of new water distribution and wastewater collection and treatment facilities and systems. The American Water Work Association's job responsibilities for this same position include the managing, planning, coordinating, and administering all activities of the Water Department and/or water company under the general direction of the city, managing Board of Directors, mayor or Board of Water Commissioners. In essence, the duties and responsibilities are for a municipality which governs thousands of customers which is much more complex than those of a small utility with approximately 500 customers. Staff is not disputing whether or not Mr. Leeward is qualified to perform the duties of this position. Staff believes that his credentials are an asset to the utility but this does not warrant imposing a large salary on such a small customer base.

Staff believes the appropriate comparative position for the utility to use is the Water Operations Manager. While the position description for this position is that performed for a

municipality as well, as stated above, the Commission has used the Wastewater Operations Manager position from the American Water Works Association Compensation Survey in the past for a wastewater reseller. The utility is a water reseller. Therefore, staff believes that the Water Operations Manager salary is appropriate to use in determining a salary for Mr. Leeward. In the utility's own analysis, it calculated an average salary of \$57,107 for the Water Operations Manager which is comparable to staff's calculated salary of \$55,827.

For staff's preliminary analysis, the utility had indicated that 66% of Mr. Leeward's time is spent on utility business. Staff reviewed the utility's detailed listing of duties and responsibilities and determined that 35% of his time is spent on utility business. The utility strongly disagreed with staff's position. The utility is interconnected with the City of Ocala and is now a reseller. Therefore, some of Mr. Leeward's duties and responsibilities will be reduced. Also, the utility uses the management services of Enviro-masters for the majority of the duties. Staff is recommending over \$30,000 for the management services. This accounts for the staff's reduction of the time the president/general manager spends on utility business.

Based on the above, the president/general manager's salary should be \$19,539 ( $\$55,827 \times 35\%$ ). Therefore, staff made an adjustment to decrease this account by \$6,286 ( $\$25,826 - \$19,539$ ).

Employee Pensions and Benefits – (604) – The utility recorded \$4,783 in this account during the test year. The utility indicated that it contributes 4% of the employee's wages under a Salary Reduction Simplified Employee Pension Plan (SAR-SEP) to each employee's IRA. Based on staff's recommended salary for the employees, the contribution should be \$782 ( $\$19,539 \times 4\%$ ) and \$555 ( $\$13,886 \times 4\%$ ) for the utility manager and office manager, respectively. The utility indicated that the employees started receiving paid health insurance in 2005. The amount allocated to the utility is based on hours spent on utility business. Staff allocated the health insurance based on the percentages discussed under salaries and wages. Therefore, the health insurance allocations should be \$2,180 ( $\$519 \times 35\% \times 12$ ) and \$2,708 ( $\$564 \times 40\% \times 12$ ) for the utility manager and office manager, respectively. Based on the above, staff's recommended employee pensions and benefits is \$6,225. Staff made an adjustment to increase this account by \$1,442 ( $\$6,225 - \$4,783$ ).

Purchased Water – (610) – The utility recorded \$5,154 in this account during the test year. The utility has interconnected with the City of Ocala and began receiving bulk water service in November of the test year. The utility pays \$.66 per 1000 gallons for bulk water. Staff annualized the purchased water expense using the annualized gallons. The gallonage purchased water expense should be \$23,571 ( $35,713,000/1000 \times \$.66$ ). The utility also is billed a reserve water capacity charge of \$1,015. Staff annualized the reserve water capacity charge and calculated it to be \$12,180 ( $\$1,015 \times 12$ ). Based on the above, staff's recommended purchase water expense is \$35,781. Therefore, staff made an adjustment to increase purchase water expense by \$30,596 ( $\$35,781 - \$5,154$ ).

Purchased Power – (615) – The utility recorded \$5,263 in this account during the test year. The utility will no longer have a water treatment plant; therefore, purchased power expense will not be required. Staff decreased this account by \$5,263 to remove purchased power expense.



Fuel For Power Production – (618) – The utility recorded \$51 in this account during the test year. The utility will no longer have a water treatment plant; therefore, fuel for power production expense will not be required. Staff decreased this account by \$51 to remove fuel for power production power expense.

Chemicals – (618) – The utility recorded \$588 in this account during the test year. The utility will no longer have a water treatment plant; therefore, chemicals expense will not be required. Staff decreased this account by \$588 to remove chemicals expense.

Materials and Supplies – (620) – The utility recorded \$2,478 in this account during the test year. Staff made the following adjustments: decrease of \$1,110 to reclassify expenses for telephone to Acct. No. 675 and increase \$19 to reflect the appropriate material supplies expense per the audit. Staff's recommended materials and supplies for the test year is \$1,387.

Contractual Services – Billing – (630) – The utility recorded \$40,652 in this account during the test year. Staff made the following adjustments: decrease of \$34,859 to reclassify expenses for management fees to Acct No. 636, decrease of \$793 to reclassify expenses for accounting to Acct No. 631, decrease of \$405 to reclassify testing expenses to Acct. No. 635 and a decrease of \$3,078 to reclassify computer and accounting expenses to Acct No. 675. The utility was billed by a related party for plant site maintenance. Since the utility plant is no longer operational, staff made an adjustment to decrease this account by \$1,517. Staff's recommended contractual services-billing for the test year is \$0.

Contractual Services – Professional – (631) – The utility recorded \$0 in this account during the test year. Staff has made an adjustment to increase this account for accounting expenses reclassified from Acct. No. 630. Staff has made an adjustment to increase this account by \$30 to reflect the appropriate professional expenses per the audit. The utility requested a salary of three hours per week at \$60 per hour for the utility owner, Mr. Jim Leeward. The utility indicated his work is non-routine such as consulting on matters such as financing, contracts, capital improvements, planning and budgeting. Staff believes the services provided by Mr. Jim Leeward do not warrant being a salaried employee. Staff is recommending his services be classified as a consultant. In the president/manager's detailed duties and responsibilities, he indicated that five hours a year are spent with the utility consultant. Therefore, staff increased this account by \$300 (\$60 x 5 hours) for consulting services. In the near future, the utility will have to file a Class B annual report. The utility requested \$3,000 for its annual report preparation and an additional \$1,000 to set up the first year. Staff believes this is reasonable. Therefore, staff increased this account by \$3,000. The set up fee of \$1,000 is non-recurring. Therefore, staff increased this account by \$250 (\$1,000) for a five year amortization of this expense.

Contractual Services Testing – (635) – The utility recorded \$0 in this account during the test year. Staff made an adjustment to increase this account by \$405 to reflect testing expenses reclassified from Acct. No. 630. Each utility must adhere to specific testing conditions prescribed within its operating permit. These testing requirements are tailored to each utility as required by the Florida Administrative Code and enforced by DEP. This utility's testing requirements total \$2,230. Therefore, staff made an adjustment to increase this account by \$1,825 (\$2,230 - \$405). On March 26, 2007, the utility indicated that it is now required by DEP

to perform regular chlorine residual testing as a consecutive system. The utility indicated that \$210 per month (\$2,520 annually) is the cost of the additional testing. Therefore, staff has increased this account by \$2,250.

Contractual Services – Other – (636) – The utility recorded \$0 in this account during the test year. Staff made an adjustment to increase this account by \$34,859 for management and related party fees reclassified from Acct. No. 630. Staff made an adjustment to decrease this account by \$17.00 to remove 2004 expenses included in the management fees. The amount reclassified to this account included \$31,859 paid to Enviro-Masters for management services which include the following: billing and revenue accounting, management and customer service, meter reading, meter installation, meter testing, repairs and maintenance, reports to the utility on customer accounts, usage reports for annual report, billing information for index application, and completion of the regulatory assessment fee return. Staff believes this management fee is reasonable for the services which are provided. However, the amount included \$2,980 for operator services. When the utility interconnected with the City of Ocala, some of the duties for operator services were reduced. Therefore, staff made an adjustment to decrease this account by \$1,320.

In staff's previously filed recommendation on February 1, 2007, staff failed to address the utility's request for an additional \$400 per quarter to pay for the monthly reports regarding repression as recommended in Issue 18. Specifically, in a letter to the Commission's Director of Commission Clerk and Administrative Services dated August 24, 2006, the company stated:

We propose a proforma adjustment of \$400 per quarter to comply with the reporting requirements of staff's recommendation which are above and beyond current staffing time allowed. (p. 5)

In staff's audit workpapers, the utility provided a copy of its management agreement with Enviro-Masters. On page 8 of the contract, various reports are described which Enviro-Masters is to provide the utility on a periodic basis. One of these reports is a monthly report which includes "the number of customers billed and gallons billed by rate tier and amount billed...." Because this report provides the utility with the same information that staff requests in Issue 18, there will be no additional work or staff time required of Enviro-Masters for the utility to comply with our recommendation. Therefore, no adjustment for additional monies have been recommended.

Rents – (640) – The utility recorded \$14,774 in this account during the test year. The water plant land was leased to the utility by a related party. The lease was terminated when the utility interconnected with the City of Ocala. Therefore, staff has made an adjustment to decrease this account by \$2,250 to remove the land rent. The utility was also charged by a related party for the use of a compressor at the water plant. The compressor is no longer needed. Thus, staff has made an adjustment to decrease this account by \$2,391 for compressor rental. The utility is allocated 50% of the office rent and 100% of other rent expense shared by the utility and its related party. Staff believes the utility's allocation should be based on the percentage of time the employees spend on utility business. As discussed above, staff is recommending that the office manager's percentage of time worked is 40%. Therefore, the utility's rental allocation should be

\$6,146 (\$15,365 x 40%). Staff made an adjustment to decrease this account by \$3,987 to reflect the utility's appropriate rent expense.

Regulatory Commission Expense – (665) – The utility recorded \$0 in this account during the test year. Pursuant to Section 367.0816, Florida Statutes, rate case expense is amortized over a four-year period. The utility paid a \$1,000 rate case filing fee for water. Staff increased this account by \$250 (\$1,000/4). The utility is required by Rule 25-22.0407(9)(b), F.A.C., to mail notices of the customer meeting to its customers. Staff estimated noticing expense for wastewater of \$388 postage expense, \$99 printing expense, and \$50 for envelopes. The above results in a total rate case expense for noticing of \$537. Staff increased this account by \$134 (\$537/4) to reflect rate case expense for noticing.

Rule 25-30.455(1), Florida Administrative Code, specifies:

If a utility chooses to utilize the staff assistance option employs outside experts to assist in developing information for staff or to assist in evaluating staff's schedules and conclusions, the reasonable and prudent expense will be recovered through rates developed by staff.

For accounting and legal rate case expense, staff requested the utility provide an update of the actual rate case expense incurred, with supporting documentation, as well as the estimated amount to complete the case. On August 24, 2006, the utility submitted its rate case expense documentation. The utility provided invoices indicating it has incurred \$4,483 for accounting expenses. Staff reviewed these invoices and determined that the expenses were unnecessary. The majority of the expense incurred relates to work completed on a rate case feasibility and service availability cases. These expenses were incurred by the utility prior to filing its rate case. The utility filed for a staff-assisted rate case. This allows the utility to receive assistance from staff in a rate proceeding, thereby eliminating the need to incur rate case expense that would be passed on to the customers through rates. Also, staff believes that the rate case feasibility and service availability cases relate to the utility's interconnection with the City of Ocala. As discussed in Issue 2, staff believes that the interconnection was not prudent for current customers. Therefore, staff is recommending that the \$4,483 be disallowed for rate case expense. Staff is recommending accounting rate case expense of \$0.

The utility indicated it incurred \$11,523 in legal expenses and estimated that it would incur an additional \$6,180 to complete the case. This results in total legal expenses of \$17,703. Staff has reviewed the invoices that the utility provided and determined that the expenses were unnecessary. One invoice was in the amount of \$4,475 which related to the utility filing a request for emergency rate relief. As discussed above, the utility could have sought staff's assistance with this request. Also, the emergency rate relief related to the utility's interconnection with the City of Ocala. Again, in Issue 2, staff is recommending that the interconnection was not prudent for current customers. Therefore, staff is recommending that the \$4,475 be disallowed.

The utility filed a request for the confidential treatment of some of its documentation, including various audit workpapers and supporting schedules contained within the audit

showing, among other things, salary information. It was ultimately suggested by staff that the request for confidential treatment did not comport with Sections 367.156(1) and 367.156(3)(f), Florida Statutes. The utility withdrew its request for confidential treatment. Staff is recommending that the utility not receive rate case expense related to the request for confidential treatment. Therefore, staff is recommending that legal rate case expense be decreased by \$2,873.

The utility included \$832 in its schedule of rate case cost incurred. However, the invoice was in the amount of \$494. Therefore, staff is decreasing rate case expense by \$338. The utility indicated that it would incur an additional \$6,180. In reviewing the cost to complete detail, staff determined that description of work was duplicative. Therefore, staff has decreased rate case expense by \$1,300. The utility also included \$1,040 for the review of the final order, preparation of the final customer notice and tariffs. The utility filed for a staff-assisted rate case which pursuant to Section 367.0814(6), Florida Statutes, cannot be protested by the utility if it receives an increase. The utility receives assistance from staff with the preparation of final notice and tariffs. Therefore, staff has decreased rate case expense by \$1,040. Staff's total reduction to legal rate case expense is \$10,026 (\$4,475 + \$2,873 + \$338 + \$1,300 + \$1,040). Staff is recommending legal rate case expense of \$7,677 (\$17,703 - \$10,026). Staff notes this amount is greater than an amount allowed in a recent SARC, where the Commission allowed \$2,000 as an appropriate amount of attorney's fees.<sup>4</sup> In that case, the utility did not justify its legal expenses; however, the Commission determined that \$2,000 was reasonable for that staff assisted rate case. Staff acknowledges its recommended amount is significantly greater than the amount allowed for that case; however, staff believes this case is more complex. Therefore, staff increased this account by \$1,919 (\$7,677/4) to reflect legal rate case expense amortized over a four-year period. Staff recommends a net increase to this account of \$2,303.

Miscellaneous Expense – (675) – The utility recorded \$150 in this account during the test year. Staff has made an adjustment to increase this account by \$1,110 for telephone expenses reclassified from Acct No. 620. Staff made an adjustment to increase this account by \$3,078 for computer and accounting expense reclassified from Acct No. 630. Staff also made an adjustment to decrease this account by \$35 for a related party telephone charge per the audit.

Operation and Maintenance Expense (O&M Summary) – The total O&M adjustment is an increase of \$26,459. Staff's recommended O&M expenses are \$133,946. O&M expenses are shown on Schedule 3-B.

Depreciation Expense (Net of Amortization of CIAC) – The utility recorded \$2,104 in this account during the test year. Staff calculated test year depreciation using the rates prescribed in Rule 25-30.140, F.A.C. The utility's test year depreciation should be \$5,702. In addition, amortization of CIAC has a negative impact on depreciation expense. The utility did not record any amortization of CIAC. Staff calculated amortization of CIAC based on composite rates. The utility's test year amortization of CIAC should be \$3,491. Staff recommends net

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<sup>4</sup> See Order No. PSC-02-1168-PAA-WS, issued August 26, 2002, in Docket No. 010869-WS, In re: Application for staff-assisted rate in Marion County by East Marion Sanitary Systems, Inc. (consummated by Order No. PSC-02-1273-CO-WS, issued September 18, 2002).

depreciation expense of \$2,211. Therefore, staff made adjustments to increase this account by \$107 (\$2,211 - \$2,104).

Taxes Other Than Income – The utility recorded taxes other than income of \$8,027 during the test year. The utility included in this account \$2,643 for payroll taxes. Staff decreased this account by \$88 to reflect payroll taxes associated with staff's recommended salaries. As discussed in Issue 6, staff increased test year revenue by \$5,898. Therefore, staff increased this account by \$265 (\$5,898 x 4.5%) to reflect test year RAFs.

Staff's total adjustment to this account is an increase of \$177.

Income Tax – The utility recorded income tax of \$0 for water. The utility is a subchapter 1120 S corporation. The tax liability is passed on to the owner's personal tax returns. Therefore, staff did not make an adjustment to this account.

Operating Revenues – Revenues have been increased by \$37,560 to reflect the change in revenue required to cover expenses and allow the recommended return on investment.

Taxes Other Than Income – The expense was increased by \$1,690 to reflect RAFs of 4.5% on the change in revenues.

Operating Expenses Summary – The application of staff's recommended adjustments to the audited test year operating expenses results in staff's calculated operating expenses of \$146,051.

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

**Issue 8:** What is the appropriate revenue requirement?

**Recommendation:** The appropriate revenue requirement is \$149,659 for water. (Hudson)

**Staff Analysis:** The utility should be allowed an annual increase of \$37,560 (33.51%) for water. This will allow the utility the opportunity to recover its expenses and earn an 8.01% return on its investment. The calculations are as follows:

	<u>Water</u>
Adjusted Rate Base	\$44,768
Rate of Return	X .0806
Return on Rate Base	<u>\$3,608</u>
Adjusted O & M Expense	\$133,946
Depreciation expense (Net)	\$2,211
Taxes Other Than Income	\$9,895
Income Taxes	<u>\$0</u>
Revenue Requirement	<u><u>\$149,659</u></u>
Adjusted Test Year Revenues	<u>\$112,099</u>
Percent Increase/(Decrease)	<u><u>33.51%</u></u>

Revenue requirement is shown on Schedule No. 3.

**Issue 9:** Is a continuation of the utility’s current rate structure for its water system appropriate, and, if not, what is the appropriate rate structure?

**Recommendation:** No, a continuation of the utility’s current rate structure is not appropriate. Specifically, the utility’s current gallonage allotments should be removed from both the residential and general service base facility charges (BFCs), and the declining block rate structure should be eliminated. The residential rate structure should be replaced with a three-tier inclining block rate structure, with usage blocks of: 1) 0 – 10 kgals; 2) 10.001 – 20 kgals; and 3) in excess of 20 kgals. The usage block rate factors should be 1.0, 1.25 and 1.5, respectively. The general service rate structure should be replaced with a BFC/uniform gallonage charge. The appropriate post-repression BFC cost recovery should be set at 40%. The utility’s standby class of service should be eliminated. (Lingo)

**Staff Analysis:** The utility’s water system rate structure consists of a two-tier declining block rate structure, in which the BFC includes an allotment of 3.75 to 18.8 kgals, depending on the customer’s meter size. The most recent time the utility’s rates were adjusted was as a result of the utility’s request for emergency rates in the instant proceeding.<sup>5</sup> The utility’s rates, both at the time of filing the instant case and the current emergency rates, are shown below:

	<u>Rates at Filing</u>	<u>Emergency Rates</u>
<b><u>Residential</u></b>		
<u>5/8" meter</u>		
BFC with 3.75 kgals allotment	\$13.23	\$30.11
Each kgal 3.75 kgals - 22.5 kgals	\$1.89	\$4.30
Each kgal 22.5 + kgals	\$1.02	\$2.32
<b><u>General Service</u></b>		
<u>5/8" meter</u>		
BFC with 3.75 kgals allotment	\$13.23	\$30.11
Each kgal 3.75 kgals - 22.5 kgals	\$1.89	\$4.30
Each kgal 22.5 + kgals	\$1.02	\$2.32
<u>1" meter</u>		
BFC with 9.4 kgals allotment	\$33.05	\$75.22
Each kgal 9.4 kgals – 46.8 kgals	\$1.89	\$4.30
Each kgal 46.8 + kgals	\$1.02	\$2.32
<u>1 1/2" meter</u>		
BFC with 18.8 kgals allotment	\$66.10	\$150.44
Each kgal 18.8 kgals – 93.6 kgals	\$1.89	\$4.30
Each kgal 93.6 + kgals	\$1.02	\$2.32

The utility is located in the Southwest Florida Water Management District. On January 9, 2007, a public hearing was held at the headquarters of the Southwest Florida Water Management District (SWFWMD or District). Specific data presented at the hearing included but was not limited to: 1) rainfall data indicating that several counties, including Marion County,

<sup>5</sup> See Order No. PSC-06-0336-PCO-WU, issued April 24, 2006, in Docket No. 050862-WU, In re: Application for staff-assisted rate case in Marion County by County-Wide Utility Co., Inc., p. 7.

were categorized as critically abnormal; 2) the Standard Precipitation Index indicating that Marion County is experiencing critically abnormal conditions (the most pronounced level of abnormality defined in the District's Water Shortage Plan); and 3) both the U.S. Drought Monitor and the Long Term Palmer Index indicating that Marion County was experiencing severely abnormal conditions. Based upon the testimony, data, District staff recommendations and public comments, the Executive Director of the SWFWMD ordered that a Phase II Severe Water Shortage be declared for all ground and surface waters within the District's 16 county area.

The Commission has a Memorandum of Understanding (MOU) with the five Water Management Districts (WMDs or Districts). A guideline of the five Districts is to set the BFC charges such that no more than 40% of the water revenues are generated from the monthly service rates. This guideline also represents a specific recommendation in the final report of the Water Conservation Initiative. The Commission follows these guidelines whenever possible.<sup>6</sup>

Due to the kgal allotments in the BFC, coupled with the declining-block nature of the kgal charges, the utility's current rate structure is considered nonconservation-oriented. Based on the Commission's desire to eliminate nonconservation-oriented rate structures whenever possible, staff recommends that the current rate structure be eliminated. Based on the above-referenced MOU, coupled with the SWFWMD water shortage declaration, staff recommends that the utility's current residential rate structure be discontinued and replaced with an inclining-block rate structure. The goal of an inclining-block rate structure is to reduce average demand. Under this rate structure, it is anticipated that demand in the higher usage blocks will be more elastic (responsive to price) than demand in the first usage block. Staff believes the inclining-block rate structure, rather than a less aggressive BFC/uniform gallonage charge rate structure, will best address the water shortage situation currently plaguing the SWFWMD.

Staff performed a detailed analysis of the utility's billing data in order to select the recommended rate structure. Based on this analysis, the appropriate usage blocks should be set for monthly usage of: 1) 0 – 10 kgals; 2) 10.001 – 20 kgals; and 3) for usage in excess of 20 kgals. The appropriate rate factors are 1.0, 1.25 and 1.5, respectively, while the appropriate base facility charge cost recovery percentage should be set at 40%. The current general service rate structure should be replaced with a BFC/uniform gallonage charge.

The BFC represents the monthly minimum each customer must pay the utility. The BFC is designed to recognize that the utility: 1) has fixed costs that must be met; and 2) the utility is required to provide each customer service on demand. Because the BFC is payable each month, regardless of whether a customer is in residence, staff recommends that the standby class of service be eliminated.

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<sup>6</sup> 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.



**Issue 10:** Is a repression adjustment appropriate in this case, and, if so, what is the appropriate adjustment to make for this utility?

**Recommendation:** Yes, a repression adjustment is appropriate. Residential consumption should be reduced by 7.8%, resulting in a consumption reduction of approximately 2,570 kgal. The resulting total water consumption for ratesetting is 34,373 kgal, which represents a 7.0% reduction in overall consumption, a reduction in purchased water expense of \$2,487, and a reduction in regulatory assessment fees (RAFs) of \$117. The post-repression revenue requirement is \$144,846. In order to monitor the effects of both the changes in revenue and rate structure, the utility should be ordered to file monthly reports detailing the number of bills rendered, the consumption billed and the revenues billed. In addition, the reports should be prepared, by customer class, usage block and meter size. The reports should be filed with staff, on a quarterly basis, for a period of two years beginning the first billing period after the approved rates go into effect. To the extent the utility makes adjustments to consumption in any month during the reporting period, the utility should be ordered to file a revised monthly report for that month within 30 days of any revision. (Lingo)

**Staff Analysis:** Staff conducted a detailed analysis of the consumption patterns of the utility's residential customers that occurred during the 2005 test year. These consumption patterns were based on usage before the emergency rates went into effect in 2006. This analysis showed that approximately 15 percent of the residential bills rendered during the 2005 test year were for consumption levels below 1 kgal per month. This indicates a moderate degree of seasonality for the utility's customer base. This analysis also showed that average residential consumption per customer, after excluding those bills below 1 kgal per month, was 6.5 kgals per month. This level of consumption indicates that there is a moderate amount of discretionary, or non-essential, consumption of approximately 3.9 kgals per month per customer while the utility's customers are in residence. Discretionary usage, such as outdoor irrigation, is relatively responsive to changes in price, and is therefore subject to the effects of repression.

Using our database of utilities that have previously had repression adjustments made, staff calculated a repression adjustment for this utility based upon the recommended increase in revenue requirements from the 2005 test year, and the historically observed response rates of consumption to changes in price. This is the same methodology for calculating repression adjustments that the Commission has approved in prior cases. Based on this methodology, staff calculated that test year residential water sold should be reduced by 2,570 kgal, purchased water expense should be reduced by \$2,487, and regulatory assessment fees (RAFs) should be reduced by \$117. The final post-repression revenue requirement for the water system should be \$144,846.

Staff notes that during 2006, the utility's emergency rates discussed above were significantly higher than the rates in effect during the 2005 test year. The average monthly residential bill during this period increased 127 percent from \$16.60 to \$37.77. Although detailed billing data is not available for the period the emergency rates have been in effect, staff estimates that residential consumption would have fallen by nearly 12,000 kgals from its 2005 level because of the dramatic increase in customers' bills. The repression adjustment being

recommended here is based upon a much smaller increase in the average customer bill of only 37.2 percent from the rates in effect during 2005. This relatively modest increase in rates results in a smaller reduction in consumption compared to that seen while the emergency rates were in effect. Therefore, while a repression adjustment is appropriate to reflect the impact of an increase in rates from 2005, staff recognizes that, because of the expiration of the higher emergency rates, consumption may increase from their 2006 levels.

The utility has requested an additional \$400 in O&M expenses to pay for the monthly reports recommended in this issue. Specifically, in a letter to the Commission's Director of Commission Clerk and Administrative Services dated August 24, 2006, the utility stated:

We propose a proforma adjustment of \$400 per quarter to comply with the reporting requirements of staff's recommendation which are above and beyond current staffing time allowed. (p. 5)

In staff's audit workpapers from the utility's case in Docket No. 930084, the utility provided a copy of their management agreement with Enviro-Masters Water and Wastewater Service, Inc. (Enviro-Masters). On page 8 of the contract, various reports are described which Enviro-Masters is to provide the utility on a periodic basis. One of these reports is described as a monthly report which includes the "number of customers billed and gallons billed by rate tier and amount billed ...." In the utility's April 11, 2006 response to a staff data request, the utility stated that "No changes have been made to the agreement between the utility and Enviro-Masters except for the amount charged for services." Because the monthly report prepared by Enviro-Masters provides the utility with the very information that staff requests in this issue, no additional work or utility time is required to comply with staff's recommendation. Therefore, no adjustment for additional monies has been recommended.

Based on the foregoing, a repression adjustment is appropriate. Residential consumption should be reduced by 7.8%, resulting in a consumption reduction of approximately 2,570 kgal. The resulting total water consumption for ratesetting is 34,373 kgals, which represents a 7.0% reduction in overall consumption, and reductions in purchased water expense of \$2,487 and in RAFs of \$117. The post-repression revenue requirement is \$144,846. In order to monitor the effects of both the changes in revenue and rate structure, the utility should be ordered to file monthly reports detailing the number of bills rendered, the consumption billed and the revenues billed. In addition, the reports should be prepared, by customer class, usage block and meter size. The reports should be filed with staff, on a quarterly basis, for a period of two years beginning the first billing period after the approved rates go into effect. To the extent the utility makes adjustments to consumption in any month during the reporting period, the utility should be ordered to file a revised monthly report for that month within 30 days of any revision.

**Issue 11:** What are the appropriate rates for this utility?

**Recommendation:** The appropriate monthly water rates are shown on Schedule 4. Excluding miscellaneous service revenues, the recommended water rates are designed to produce revenues of \$144,846. 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), F.A.C. In addition, the rates should not be implemented until staff has approved the proposed customer notice. The utility should provide proof of the date the notice was given no less than 10 days after the date of the notice. (Lingo, Hudson)

**Staff Analysis:** The appropriate revenue requirement, excluding miscellaneous service charges, is \$144,846. As discussed in Issue 9, staff recommends that the appropriate rate structure for the residential class is a three-tier inclining block rate structure, with usage blocks: 1) of 0 – 10 kgal; 2) 10.001 – 20 kgal; and 3) in excess of 20 kgal. The usage block rate factors should be 1.0, 1.25 and 1.5, respectively. The general service rate structure should be replaced with a BFC/uniform gallonage charge rate structure. The appropriate post-repression BFC cost recovery should be set at 40%. As discussed in Issue 10, staff recommends that the appropriate repression adjustment is 2,487 kgal. The resulting monthly rates are contained on Schedule 4.

Approximately 40% (or \$57,938) of the monthly service revenues is recovered through the base facility charges, while approximately 60% (or \$86,908) 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 of the revised tariff sheets pursuant to Rule 25-40.475(1), F.A.C. The rates should not be implemented until staff has approved the proposed customer notice. The utility should provide proof of the date notice was given no less than 10 days after the date of the notice.

Based on the foregoing, the appropriate water monthly rates are shown on Schedule 4. Excluding miscellaneous service revenues, the recommended water rates are designed to produce revenues of \$144,846. 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), F.A.C. In addition, the rates should not be implemented until staff has approved the proposed customer notice. The utility should provide proof of the date the notice was given no less than 10 days after the date of the notice.

**Issue 12:** 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 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 10 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 10 days after the date that the notice was sent. (Hudson)

**Staff Analysis:** The utility requested to increase its miscellaneous service charges. County-Wide's approved charges have been the standard charge since at least 1990 – a period of 16 years. Staff believes these charges should be updated to reflect current costs. The Commission recently approved updated miscellaneous service charges of \$21 and after hours charges of \$42 to reflect current costs and modified the Premises Visit (in lieu of disconnection) charge.<sup>7</sup> Staff believes these updated charges and modifications to the charges are appropriate for County-Wide as well. 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	\$21	N/A
Normal Reconnection	\$15	N/A	\$21	\$42
Violation Reconnection	\$15	N/A	\$21	\$42
Premises Visit (in lieu of disconnection)	\$10	N/A	N/A	N/A
Premises Visit	N/A	N/A	\$21	\$42

In summary, staff recommends the utility's miscellaneous service charges of \$21 and after hours charges of \$42, 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 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.

<sup>7</sup> See Docket No. 060255-SU, In re: Application for increase in wastewater rates in Pinellas County by Tierra Verde Utilities, Inc.; and Docket No. 060261-WS, In re: Application for increase in water and wastewater rates in Lake County by Utilities, Inc. of Pennbrooke.

**Issue 13:** Should the utility be authorized to collect a \$5.00 late payment fee?

**Recommendation:** Yes. The utility should be authorized to collect a \$5.00 late payment fee. The utility should file revised tariff sheets that are consistent with the Commission's decision within one month of the Commission's vote. The tariff sheet should be implemented on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(2), Florida Administrative Code, provided the customers have received notice. (Hudson)

**Staff Analysis:** Staff believes that the purpose of a late payment charge is not only to provide an incentive for customers to make timely payments, thereby reducing the number of delinquent accounts, but also to place the cost burden of processing such delinquencies solely upon those who are the cost causers. In the past, late payment fee requests have been handled on a case-by-case basis. The Commission has approved late fees in the amount of \$5.00.<sup>8</sup>

Presently, Commission rules provide that late payers may be required by the utility to provide an additional deposit. However, the Commission has found that there is no further incentive for either delinquent or late paying customers to pay their bills on time after the additional deposit.<sup>9</sup> In that same Order, the Commission also found that the cost causer should pay the additional cost incurred to the utility by late payments, rather than the general body of the utility's rate payers. Staff believes that the goal of allowing late fees to be charged by a utility is two-fold: first, to encourage current and future customers to pay their bills on time; and second, if payment is not made on time, to insure that the cost associated with the late payments is not passed on to the customers who do pay on time.

It appears that the majority of utilities who have Commission-approved late fees charge \$5.00. The utility requested that the late fee be the greater of \$5.00 or 5% of the bill for commercial customers. The utilities that have higher charges have provided adequate documentation in support of those higher fees. County-Wide did not provide any support documentation for a charge greater than \$5.00 for commercial customers. Based on the above, staff believes that \$5.00 is a reasonable fee for County-Wide.

Therefore, staff recommends that, consistent with the orders referenced below, a \$5.00 late payment should be approved. The utility should file revised tariff sheets that are consistent with the Commission's decision within one month of the Commission's vote. The tariff sheet should be implemented on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(2), Florida Administrative Code, provided the customers have received notice.

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<sup>8</sup> See Order Nos. PSC-98-1585-FOF-WU, issued November 25, 1998, in Docket No. 980445-WU, In re: Application for Staff Assisted Rate Case in Osceola County by Morningside Utility, Inc.; Order No. PSC-01-2093-TRF-WS, issued October 22, 2001, in Docket No. 011034-WS, In re: Request for Approval of a Late Payment Charge by WP Utilities, Inc. in Palm Beach County; and Order No. PSC-01-2468-TRF-WU, issued December 18, 2001, in Docket No. 011482-WU, In re: Request to Establish Late Fee in Columbia County by Consolidated Water Works, Inc.

<sup>9</sup> See Order No. PSC-96-1409-FOF-WU, issued November 20, 1996, in Docket No. 960716-WU, In re: Application for transfer of Certificate No. 123-W in Lake County from Theodore S. Jansen d/b/a Ravenswood Water System to Crystal River Utilities, Inc.

Docket No. 050862-WU

Date: June 27, 2007

**Issue 14:** Should the utility's meter test fees be changed to allow the actual cost to the utility?

**Recommendation:** No. The utility's meter test fees should not be changed. The utility's meter test fees should be allowed as prescribed in Rule 25-30.266, F.A.C. (Hudson)

**Staff Analysis:** The utility has requested its meter test fees for all meter sizes be allowed at the actual costs to the utility. The meter test fees are governed by Rule 25-30.266, F.A.C. which allows for \$20 for a 5/8" x 3/4" meter, \$25 for 1" and 1 1/2" and actual cost for 2" meter and over. The utility's current meter fees are in accordance with the rule. Therefore, the utility's meter test fees should not be changed.

**Issue 15:** In determining whether any portion of the emergency increase granted should be refunded, how should the refund be calculated, and what is the amount of the refund, if any?

**Recommendation:** The proper refund amount should be calculated by using the revised revenue requirement for the emergency rate collection period and comparing it to the amount of emergency revenues granted. Based on this calculation, the utility should be required to refund 41% of water revenues collected under emergency rates. The refund should be made with interest in accordance with Rule 25-30.360(4) F.A.C. The utility should be required to submit proper reports pursuant to Rule 25-30.360(7), F.A.C. The utility should treat any unclaimed refunds as CIAC pursuant to Rule 25-30.360(8), F.A.C. (Hudson)

**Staff Analysis:** In Order No. PSC-PSC-06-0336-PCO-WU, issued April 24, 2006, the Commission authorized the collection of emergency rates, subject to refund, pursuant to Section 367.082, F.S. The approved emergency revenue requirement is shown below:

	<u>Revenue Requirement</u>	<u>Revenue Increase</u>	<u>Percentage Increase</u>
Water	\$248,452	\$139,291	127.60%

In this proceeding, the test period for establishment of emergency and final rates was the twelve months ended December 31, 2005. The approved emergency rates did not include any provisions for consideration of staff proposed adjustments in operating expenses or plant. The emergency increase was designed to allow recovery of increased cost related to the interconnection.

The emergency rates revenue requirement allowed the utility to earn a return on its new investment, and to collect revenues for increased O & M and depreciation expenses. To establish the proper refund amount, staff has calculated a revised emergency revenue requirement by updating the emergency rates components with those used to establish final rates. The calculation is as follows:

<u>Emergency Rates Revenue Requirement</u>		<u>Revised Emergency Rates Revenue Requirement</u>	
Water Interconnect	\$807,823	Used and Useful Water Interconnect	\$0
Weighted Cost of Capital	9.37%	Weighted Cost of Capital	8.01%
Purchased Water Cost	\$36,537	Purchased Water Cost	\$35,781
Less Water Production Costs	(\$16,784)	Less Water Production Costs	(\$16,784)
Return on New Required Investment	\$75,693	Return on New Required Investment	
Increased O & M		Increased O & M	
Tangible Taxes	\$13,495	Used and Useful Tangible Taxes	
Testing	\$1,355	Testing	\$4,345
Depreciation	\$22,727	Used and Useful Depreciation	
Total	\$133,023	Total	\$23,342
Divide Reg. Assess. Fee Factor	0.955	Divide Reg. Assess. Fee Factor	0.955
Required Increase in Revenue	\$139,291	Required Increase in Revenue	\$24,442
Divide by 2005 Annualized Revenues	\$109,161	Divide by 2005 Annualized Revenues	\$112,099
Percentage Increase in rates	<b>127.60%</b>	Percentage Increase in rates	<b>21.80%</b>
Rev. Req	\$248,452	Rev. Req.	\$147,224
	Refund -41%		

Using the principles discussed above, staff has calculated the emergency revenue requirement for the emergency collection period to be \$147,224 for water. This revenue level is less than the emergency revenue which was granted in Order No. PSC-06-0336-PCO-WU. Therefore, staff recommends a refund of 41% of the emergency rates.

The utility should be required to refund 41% of water revenues collected under emergency rates. The refund should be made with interest in accordance with Rule 25-30.360(4), F.A.C. The utility should be required to submit proper refund reports pursuant to Rule 25-30.360(7), F.A.C. The utility should treat any unclaimed refunds as CIAC pursuant to Rule 25-30.360(8), F.A.C.



**Issue 16:** What is the appropriate amount by which rates should be reduced four years after the established effective date to reflect the removal of the amortized rate case expense as required by Section 367.0816, Florida Statutes?

**Recommendation:** The water rates should be reduced as shown on Schedule No. 4, to remove rate case expense grossed-up for regulatory assessment fees and amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, 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. (Hudson)

**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 RAFs which is \$2,412 annually for water. 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 17:** Should the recommended rates be approved for the utility on a temporary basis, subject to refund, in the event of protest filed 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 should be subject to the refund provisions discussed below in the staff analysis. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(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. (Hudson)

**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), 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 should be subject to the refund provisions discussed below.

The utility should be authorized to collect the temporary rates upon the staff's approval of 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 \$25,918. 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, and.
- 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; and
- 8) The Commission Clerk 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 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 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.

**Issue 18:** What are the appropriate service availability charges?

**Recommendation:** The appropriate service availability charge for the utility is a main extension charge of \$1,540. The utility's system capacity charge should be discontinued. If the Commission approves these charges, the utility should file revised tariff sheets which are consistent with the Commission's vote. Staff recommends that it be given administrative authority to approve the revised tariff sheets upon staff's verification that the tariffs are consistent with the Commission's decision. If revised tariff sheets are filed and approved, the revised service availability charges should become effective for connections made on or after the stamped approval date of the revised tariff sheets. (Hudson)

**Staff Analysis:** The utility's water tariff provides for a water system capacity charge of \$350 per equivalent residential connection (ERC). Since the utility interconnected to the City of Ocala for purchased water, the system capacity charge is no longer applicable.

As discussed in Issue 2, staff believes the utility's interconnection with the City of Ocala was primarily for servicing future customers. In Issue 4, other than the portion related to Walgreens, staff has not included any plant related to the interconnection. However, staff believes the interconnection cost should be included for the purpose of determining the appropriate service availability charges. The utility has requested that staff include cost for distribution lines for 102 lots in Unit 5 and 400 multi-family units at \$120,000 and \$200,000 respectively. The utility updated its request indicating that the distribution lines for the 105 lots in Unit 5 were \$102,391. For the purpose of calculating service availability charges, the utility's plant should be \$1,123,934 (\$136,850 staff's recommended plant before averaging adjustment + \$684,693 the remaining interconnection cost + \$200,000 distribution lines for multi-family units + \$102,391 distribution lines for lots in Unit 5). Also, the utility's transmission and distribution lines should be \$1,030,142.

As a result of the interconnection and the retirement of the water treatment plant and related CIAC, the utility's level of CIAC would be lower than what is prescribed in Rule 25-30.580(1)(b), F.A.C. Pursuant to Rule 25-30.580(1)(b), F.A.C., the minimum amount of CIAC should not be less than the percentage of such facilities and plant that is represented by the water transmission and distribution and sewage collection systems. Since the utility's CIAC level would be lower than the minimum, as prescribed by rule, staff is recommending a \$1,540 main extension charge. Staff believes that the \$1,540 main extension charge would allow the utility to increase its CIAC level and would help to ensure that future customers would pay their pro-rata share of the cost of the interconnection.

Staff is recommending that a main extension charge of \$1,540 be approved. If revised tariff sheets are filed and approved, the service availability charges should become effective for connections made on or after the stamped approval date of the revised tariff sheets. Staff should be given administrative authority to approve the revised tariff, sheets upon staff's verification that the tariffs are consistent with the Commission's decision.

**Issue 19:** Should County-Wide be authorized to collect Allowance for Funds Prudently Invested (AFPI) charges, and if so, what are the appropriate charges?

**Recommendation:** Yes, County-Wide should be authorized to collect water AFPI charges. The beginning date of the AFPI charges should be January 1, 2006. After December 31, 2010, the utility should be allowed to collect the constant charge until all projected 422 water ERCs in the calculation have been added, at which time the charge should be discontinued. The utility should file revised tariff sheets which are consistent with the Commission's vote within 30 days of the issuance of the Consummating Order. The revised tariff sheets should be approved upon staff's verification that the tariffs are consistent with the Commission's decision and provided future customers have been noticed pursuant to Rule 25-30.475(2), F.A.C. In no event should the rates be effective for services rendered prior to the stamped approval date. (Fletcher)

**Staff Analysis:** An AFPI charge is a mechanism designed to allow a utility the opportunity to earn a fair rate of return on prudently constructed plant held for future use from the future customers that will be served by that plant, in the form of a charge paid by those customers. This charge allows the recovery of carrying cost on the non-used and useful plant. By providing this type of charge, the existing customers do not pay for plant expansion used to serve future customers. Future customers bear their equitable share of the carrying costs related to the facilities being constructed to provide service to them.

This one-time charge is based on the number of ERCs and is generally applicable to all future customers who have not already prepaid the connection fees, CIAC charge, or customer advances. The charge should be assessed based on the date the future customers make some form of "prepayment" (connection charge, CIAC, or advance) or on the date the customer connects to the system, whichever comes first.

As stated in Issue 2, staff believes it was a prudent decision for County-Wide to pursue the interconnection to serve its future customers. As such, staff believes that an AFPI charge is appropriate for this utility. The AFPI charge should be based upon the number of ERCs required by a particular customer. The AFPI charge is intended to recover the carrying costs associated with the interconnection facilities to supply water to its future customers. Therefore, the charge will vary based upon the date a future customer makes a prepayment on such connection, or on the date the customer actually connects to the system.

The test year used in this case for establishing the amount of non-used and useful plant is the year ending December 31, 2005. Pursuant to Rule 25-30.434(4), F.A.C., the beginning date for accruing the AFPI charge should agree with the month following the end of the test year that was used to establish the amount of non-used and useful plant. Therefore, the beginning date for accruing the AFPI in this case was January 1, 2006. Further, in accordance with Rule 25-30.434(4), F.A.C., no charge may be collected for any connections made between the beginning dates and the effective date of the AFPI charges.

Staff has prepared the following schedule which represents the recommended water AFPI charges based upon the time of the initial connection or prepayment. These charges represent one (1) ERC, and if a future customer requires more than one ERC, the connection fee should be

multiplied by the number of connections or ERCs which are required to provide service to the customer. Using the supported cost figures of the interconnection facilities, staff recommends the following water AFPI charges:

**Allowance for Funds Prudently Invested  
Calculation of Carrying Cost Per ERC Per Month:**

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
January	\$28	\$360	\$718	\$1,103	\$1,518
February	\$55	\$389	\$750	\$1,137	\$1,555
March	\$83	\$419	\$781	\$1,172	\$1,593
April	\$110	\$449	\$813	\$1,206	\$1,630
May	\$138	\$478	\$845	\$1,241	\$1,667
June	\$165	\$508	\$877	\$1,275	\$1,704
July	\$193	\$538	\$909	\$1,309	\$1,741
August	\$220	\$567	\$941	\$1,344	\$1,778
September	\$248	\$597	\$973	\$1,378	\$1,815
October	\$275	\$626	\$1,005	\$1,413	\$1,852
November	\$303	\$656	\$1,037	\$1,447	\$1,889
December	\$330	\$686	\$1,069	\$1,481	\$1,926

As discussed in Issue 3, the utility water distribution system currently has the capacity to serve 470 lots/connections, but the future development of sections 4 and 5 will increase the lots/connections capacity to 972 lots. The total remaining lots are 502 (972 lots less 470 lots). Of the 502 lots, there are 400 multi-residential lots which equal .80 ERC for each lot. Thus, the total remaining ERCs are 422 [(400 lots multiplied by .80) plus 102 lots].

Rule 25-30.434(5), F.A.C., states “unless the utility demonstrates that the 5-year period is inappropriate, it is prudent for a utility to have an investment in future use plant for a period of no longer than 5 years beyond the test year.” It is Commission practice in establishing AFPI charges to calculate the charge for a five year period, unless the utility states extraordinary or unusual circumstances to justify an AFPI charge for a longer period. Staff believes the utility should be allowed recovery beyond the five-year period in this case, as this will enable the utility to collect for all 422 ERCs, although the AFPI charge should remain constant after the five-year accrual period has expired. The utility should be allowed to collect the constant charge until all projected 422 water ERCs in the calculation have been added, at which time the charge should be discontinued.

The appropriate AFPI charges should be those recommended in the staff analysis. The utility should file revised tariff sheets which are consistent with the Commission’s vote within 30 days of the issuance of the Consummating Order. The revised tariff sheets should be approved upon staff’s verification that the tariffs are consistent with the Commission’s decision and

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provided future customers have been noticed pursuant to Rule 25-30.475(2), F.A.C. In no event should the rates be effective for services rendered prior to the stamped approval date.

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**Issue 20:** 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 staff's verification that the revised tariff sheets and customer notice have been filed by the utility and approved by staff and that the appropriate refund of a portion of the emergency rates has been completed and verified by staff. Once these actions are complete, this docket should be closed administratively. (Gervasi)

**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 staff's verification that the revised tariff sheets and customer notice have been filed by the utility and approved by staff and that the appropriate refund of a portion of the emergency rates has been completed and verified by staff. Once these actions are complete, this docket should be closed administratively.



<b>Attachment A</b>			
<b>WATER DISTRIBUTION SYSTEMS AND USEFUL DATA</b>			
<b>Docket No.050892-WU County-Wide Utility Company</b>			
1)	<b>Capacity of System</b> (Number of potential ERCs without expansion)	470	ERCs
2)	<b>Test year connections</b>	470	
	A)Beginning of Test Year	470	ERCs
	B)End of Test Year	470	ERCs
	C)Average Test Year	470	ERCs
3)	<b>Growth (A x B)</b>	90	ERCS
	A) Customer growth based on average fluctuations in the peak month for rented units.	18	ERCS
	B)Statutory Growth Period	5	Years
<b>USED AND USEFUL FORMULA</b>			
$[2 + 3] / 1 = 100\%$ Used and Useful			

COUNTY-WIDE UTILITY COMPANY, INC. TEST YEAR ENDING 12/31/2005 SCHEDULE OF WATER RATE BASE		SCHEDULE NO. 1-A DOCKET NO. 050862-WU	
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	\$913,359	(\$772,507)	\$140,852
2. LAND & LAND RIGHTS	\$2,815	\$0	\$2,815
3. PLANT HELD FOR FUTURE USE	\$0	\$0	\$0
4. CIAC	(\$56,191)	(\$30,039)	(\$86,230)
5. ACCUMULATED DEPRECIATION	(\$9,317)	(\$47,011)	(\$56,328)
6. AMORTIZATION OF CIAC	(\$12,909)	\$39,825	\$26,916
7. WORKING CAPITAL ALLOWANCE	<u>\$0</u>	<u>\$16,743</u>	<u>\$16,743</u>
8. WATER RATE BASE	<u>\$837,757</u>	<u>(\$792,989)</u>	<u>\$44,768</u>

<b>COUNTY-WIDE UTILITY COMPANY, INC.</b> <b>TEST YEAR ENDING 12/31/2005</b> <b>ADJUSTMENTS TO RATE BASE</b>		<b>SCHEDULE NO. 1-B</b> <b>DOCKET NO. 050862-WU</b>
		<b><u>WATER</u></b>
<b><u>UTILITY PLANT IN SERVICE</u></b>		
1.	To reflect the appropriate plant addition	(\$1,049)
2.	To remove unsupported plant addition per AD No. 3 (Acct. 331)	(\$21,199)
3.	To reflect the appropriate plant addition in 2003 for (Acct. 331)	\$1,725
4.	To reflect the appropriate balance for Acct. No. 334	\$3,308
5.	To remove interconnection costs	(\$684,693)
6.	To remove a 15% project management fee	(\$104,387)
7.	To include pro forma for meter replacement (Acct. 334)	\$5,000
8.	To include pro forma for valve replacement (Acct. 331)	\$22,500
9.	To include pro forma for electronic wire locator (Acct. 339)	\$2,287
10.	Averaging adjustment	<u>\$4,001</u>
	Total	<u>(\$772,507)</u>
<b><u>Non-Used and Useful</u></b>		
1.	To reflect non used and useful plant	\$0
2.	To reflect non used and useful accumulated depreciation	<u>\$0</u>
<b><u>CIAC</u></b>		
1.	To reflect the appropriate CIAC balance	(\$18,669)
2.	Averaging adjustment	(\$11,370)
	Total	<u>(\$30,039)</u>
<b><u>ACCUMULATED DEPRECIATION</u></b>		
1.	To reflect accumulated depreciation per Rule 25-30.0140	(\$34,338)
2.	To reflect pro forma accumulated depreciation	(\$500)
2.	Averaging adjustment	<u>(\$12,173)</u>
	Total	<u>(\$47,011)</u>
<b><u>AMORTIZATION OF CIAC</u></b>		
1.	To reflect the appropriate test year CIAC	\$53,585
2.	To retire Acc. Amort. of CIAC related to retired plant in 2005	(\$23,790)
3.	Averaging adjustment	<u>\$10,030</u>
	Total	<u>\$39,825</u>
<b><u>WORKING CAPITAL ALLOWANCE</u></b>		
1.	To reflect 1/8 of test year O & M expenses.	\$16,743

COUNTY-WIDE UTILITY COMPANY, INC.						SCHEDULE NO. 2		
TEST YEAR ENDING 12/31/2005						DOCKET NO. 050862-WU		
SCHEDULE OF CAPITAL STRUCTURE								
CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUST-MENTS	BALANCE		BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST
			BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUST-MENTS				
1. COMMON STOCK	\$1,000	\$0	\$1,000					
2. RETAINED EARNINGS	34,445	0	\$34,445					
3. PAID IN CAPITAL	63,482	0	\$63,482					
4. OTHER COMMON EQUITY	<u>0</u>	<u>0</u>	<u>\$0</u>					
5. TOTAL COMMON EQUITY	\$98,927	\$0	98,927	-93,489	5,438	12.15%	12.01%	1.46%
6. NOTES PAYABLE - LPL	114,387	-114,387	0	0	0	0.00%	0.00%	0.00%
CREDITLINE JKL	139,266	0	139,266	-131,610	7,656	17.10%	9.00%	1.54%
COMPASS BANK	<u>576,187</u>	<u>0</u>	<u>576,187</u>	<u>-544,513</u>	<u>31,674</u>	<u>70.75%</u>	<u>7.16%</u>	<u>5.07%</u>
TOTAL LONG TERM DEBT	829,840	-114,387	715,453	-676,123	39,330	87.85%		
7. CUSTOMER DEPOSITS	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>
8. TOTAL	<u>\$928,767</u>	<u>-\$114,387</u>	<u>\$814,380</u>	<u>-\$769,612</u>	<u>\$44,768</u>	<u>100.00%</u>		<u>8.06%</u>
<b>RANGE OF REASONABLENESS</b>						<b>LOW</b>	<b>HIGH</b>	
RETURN ON EQUITY						<u>11.01%</u>	<u>13.01%</u>	
OVERALL RATE OF RETURN						<u>7.94%</u>	<u>8.19%</u>	

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COUNTY-WIDE UTILITY COMPANY, INC.		SCHEDULE NO. 3			
TEST YEAR ENDING 12/31/2005		DOCKET NO. 050862-WU			
SCHEDULE OF WATER OPERATING INCOME					
	TEST YEAR PER UTILITY	STAFF ADJ. PER UTILITY	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	\$106,201	\$5,898	\$112,099	\$37,560 33.51%	\$149,659
<b>OPERATING EXPENSES:</b>					
2. OPERATION & MAINTENANCE	107,487	26,439	133,946	0	133,946
3. DEPRECIATION (NET)	2,104	107	2,211	0	2,211
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	8,027	177	8,204	1,690	9,895
6. INCOME TAXES	0	0	0	0	0
7. TOTAL OPERATING EXPENSES	\$117,618	\$26,743	\$144,361	\$1,690	\$146,051
8. OPERATING INCOME/(LOSS)	-\$11,417		-\$22,262		\$3,608
9. WATER RATE BASE	\$837,757		\$44,768		\$44,768
10. RATE OF RETURN	-1.36%		-72.06%		8.06%

COUNTY-WIDE UTILITY COMPANY, INC.		SCHEDULE NO. 3-A
TEST YEAR ENDING 12/31/2005		Page 1 of 3
ADJUSTMENTS TO OPERATING INCOME		
		<u>WATER</u>
OPERATING REVENUES		
1.)	To annualize test year revenue	\$5,898
		<u>\$5,898</u>
OPERATION AND MAINTENANCE EXPENSES		
1.	Salaries and Wages - Employees (601)	
a.)	To reflect the appropriate salary for the office manager	\$7,880
		<u>\$7,880</u>
2.	Salaries and Wages - Officers (603)	
a.)	To reflect the appropriate salary for the president	(\$6,286)
		<u>(\$6,286)</u>
3.	Employee Pensions and Benefits (604)	
a.)	To reflect the appropriate pensions and benefit	\$1,442
		<u>\$1,442</u>
4.	Purchased Water (610)	
a.)	To reflect appropriate purchase water expense	\$30,596
		<u>\$30,596</u>
5.	Purchased Power (615)	
a.)	To remove purchased power expenses	(\$5,263)
		<u>(\$5,263)</u>
6.	Fuel for Production	
a.)	To remove fuel for production	(\$51)
		<u>(\$51)</u>
7.	Chemicals (618)	
a.)	To remove chemical expense	(\$588)
		<u>(\$588)</u>
8.	Materials and Supplies (620)	
a.)	To reclassify expenses for telephone to Acct. No. 675	(\$1,110)
b.)	To reflect appropriate material and supplies per audit	\$19
		<u>(\$1,092)</u>

COUNTY-WIDE UTILITY COMPANY, INC.	SCHEDULE NO. 3-A
TEST YEAR ENDING 12/31/2005	Page 2 of 3
ADJUSTMENTS TO OPERATING INCOME	
9. Contractual Services - Billing (630)	
a.) To reclassify management fees to Acct. No. 636	(\$34,859)
b.) To reclassify accounting expenses to Acct. No. 631	(\$793)
c.) To reclassify testing expense to Acct. No. 635	(\$405)
d.) To reclassify computer and accounting expenses to Acct No. 675	(\$3,078)
e.) To remove expenses for plant site maintenance	<u>(\$1,517)</u>
	<u>(\$40,652)</u>
10. Contractual Services - Professional (631)	
a.) To reclassify accounting expenses from Acct. No. 630	\$793
b.) To reflect appropriate professional expenses per audit	\$30
c.) To reflect consulting expenses	\$300
d.) To reflect accounting expenses	\$3,000
e.) To reflect amortization of accounting start up costs (\$1000/4)	<u>\$250</u>
	<u>\$4,373</u>
11. Contractual Services - Testing (635)	
a.) To reclassify testing expense from Acct. No. 630	\$405
b.) To reflect appropriate testing expense per engineer	\$1,825
c.) To reflect DEP required testing	<u>\$2,520</u>
Total	<u>\$4,750</u>
12. Contractual Services - Other (636)	
a.) To reclassify management fees from Acct. No. 630	\$34,859
b.) To remove 2004 expenses	(\$17)
c.) To remove operator service management fees	(\$1,320)
Total	<u>\$33,523</u>
13. Rents (640)	
a.) To remove land rent	(\$2,250)
b.) To remove rent for compressor	(\$2,391)
c.) To allocate 40% rent expense	<u>(\$3,987)</u>
	<u>(\$8,628)</u>
14. Regulatory Commission Expense (665)	
a.) To amortize rate case filing fee over 4 years (\$1000/4)	\$250
b.) To amortize noticing expenses over 4 years (\$536/4)	\$134
c.) To amortize legal rate case expense over 4 years (\$7,677/4)	<u>\$1,919</u>
	<u>\$2,303</u>

<b>COUNTY-WIDE UTILITY COMPANY, INC.</b>		<b>SCHEDULE NO. 3-A</b>
<b>TEST YEAR ENDING 12/31/2005</b>		<b>Page 3 of 3</b>
<b>ADJUSTMENTS TO OPERATING INCOME</b>		
15. Miscellaneous Expense (675)		
a.) To reclassify expenses for telephone from Acct. No. 620		\$1,110
b.) To reclassify computer expenses from Acct No. 630		\$3,078
c.) To remove telephone charge for related party		<u>(\$35)</u>
Total		<u>\$4,153</u>
<b>TOTAL OPERATION &amp; MAINTENANCE ADJUSTMENTS</b>		<b><u>\$26,459</u></b>
<b>DEPRECIATION EXPENSE</b>		
1. To reflect test year net depreciation expense		\$107
Total		<u>\$107</u>
<b>TAXES OTHER THAN INCOME</b>		
1. To adjust payroll tax for recommended salaries		<u>(\$88)</u>
2. To reflect RAFs on annualized test year revenue		<u>\$265</u>
Total		<u>\$177</u>



COUNTY-WIDE UTILITY COMPANY, INC.			SCHEDULE NO. 3-B	
TEST YEAR ENDING 12/31/2005			DOCKET NO. 050862-WU	
ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE				
	TOTAL PER UTILITY	STAFF PER ADJUST.		TOTAL PER PER STAFF
(601) SALARIES AND WAGES - EMPLOYEES	\$6,006	\$7,880	[1]	\$13,886
(603) SALARIES AND WAGES - OFFICERS	\$25,826	(\$6,286)	[2]	\$19,539
(604) EMPLOYEE PENSION & BENEFITS	\$4,783	\$1,442	[3]	\$6,225
(610) PURCHASED WATER	\$5,154	\$30,596	[4]	\$35,750
(615) PURCHASED POWER	\$5,263	(\$5,263)	[5]	\$0
(616) FUEL FOR POWER PRODUCTION	\$51	(\$51)	[6]	\$0
(618) CHEMICALS	\$588	(\$588)	[7]	\$0
(620) MATERIALS AND SUPPLIES	\$2,478	(\$1,092)	[8]	\$1,387
(630) CONTRACTUAL SERVICES - BILLING	\$40,652	(\$40,652)	[9]	\$0
(631) CONTRACTUAL SERVICES - PROFESSIONAL	\$0	\$4,373	[10]	\$4,373
(635) CONTRACTUAL SERVICES - TESTING	\$0	\$4,750	[11]	\$4,750
(636) CONTRACTUAL SERVICES - OTHER	\$0	\$33,523	[12]	\$33,523
(640) RENTS	\$14,774	(\$8,628)	[13]	\$6,146
(650) TRANSPORTATION EXPENSE	\$542	\$0		\$542
(655) INSURANCE EXPENSE	\$639	\$0		\$639
(665) REGULATORY COMMISSION EXPENSE	\$0	\$2,303	[14]	\$2,303
(670) BAD DEBT EXPENSE	\$580	\$0		\$580
(675) MISCELLANEOUS EXPENSES	<u>\$150</u>	<u>\$4,153</u>	[15]	<u>\$4,303</u>
	<u>\$107,487</u>	<u>\$26,459</u>		<u>\$133,946</u>

COUNTY-WIDE UTILITY COMPANY, INC.		SCHEDULE NO. 4		
TEST YEAR ENDING 12/31/2005		DOCKET NO. 050862-WU		
MONTHLY WATER RATES				
	UTILITY'S EXISTING RATES	COMMISSION APPROVED EMERGENCY RATES	STAFF RECOMMENDED RATES	MONTHLY RATE REDUCTION
<b>Residential and General Service</b>				
<u>Base Facility Charge by Meter Size:</u>				
5/8"X3/4" *	\$13.23	\$30.11	\$9.54	\$0.15
3/4"			\$14.31	\$0.23
1" **	\$33.05	\$75.22	\$23.85	\$0.38
1-1/2" ***	\$66.10	\$150.44	\$47.70	\$0.77
2"			\$76.32	\$1.23
3"			\$152.64	\$2.46
4"			\$238.50	\$3.84
6"			\$477.00	\$7.69
<b>Residential Service Gallonage Charge</b>				
* BFC includes 3.75 kgals for existing and emergency rates				
3.75kgals - 22.5 kgals	\$1.89	\$4.30		
22.5 kgals +	\$1.02	\$2.32		
** BFC includes 9.4 kgals for existing and emergency rates				
9.4 kgals - 46.8 kgals	\$1.89	\$4.30		
46.8 kgals +	\$1.02	\$2.32		
*** BFC includes 18.8 kgals for existing and emergency rates				
18.8 kgals - 93.6 kgals	\$1.89	\$4.30		
93.6 kgals +	\$1.02	\$2.32		
0-10,000 Gallons			\$2.39	\$0.04
10,001 - 20,000 Gallons			\$2.99	\$0.05
20,000+			\$3.59	\$0.06
<b>General Service Gallonage Charge</b>				
Per 1,000 Gallons			\$2.53	\$0.04
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>				
3,000 Gallons	\$13.23		\$16.71	
5,000 Gallons	\$15.59		\$21.49	
10,000 Gallons	\$25.04		\$33.44	