

STATE OF FLORIDA

COMMISSIONERS:  
MATTHEW M. CARTER II, CHAIRMAN  
LISA POLAK EDGAR  
KATRINA J. MCMURRIAN  
NANCY ARGENZIANO  
NATHAN A. SKOP



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

Public Service Commission

August 21, 2008

RECEIVED-FPSC  
08 AUG 21 PM 4:07  
COMMISSION  
CLERK

Colony Park Utilities, Inc.  
Attn: Michael Abramowitz  
6786 Mangrove Drive  
Merritt Island, FL 32953

Re: Docket No. 080104-SU - Staff Assisted Rate Case for Colony Park Utilities, Inc. in Brevard County

Dear Mr. Abramowitz:

Enclosed are two copies of the staff report. Please ensure that a copy of the completed Application for Staff Assistance and the staff report are available for review, pursuant to Rule 25-22.0407 (9)(b), F.A.C., by all interested persons at the following location:

Colony Park Utilities, Inc,  
6786 Mangrove Drive  
Merritt Island, FL 32953-6849

Should you have any questions about any of the matters contained herein, please do not hesitate to contact me at (850) 413-7017. In addition, you may contact Shannon Hudson at (850) 413-7021, with any questions.

Sincerely,

Bart Fletcher  
Public Utilities Supervisor

Enclosures

BF/SH

cc: Division of Economic Regulation (Bulecza-Banks, Hudson, Daniel)  
Office of General Counsel (Klancke)  
Office of Commission Clerk (080104-SU)

DOCUMENT NUMBER-DATE  
07577 AUG 21 08  
FPSC-COMMISSION CLERK

State of Florida



## Public Service Commission

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

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

---

**DATE:** August 14, 2008

**TO:** Cheryl Bulecza-Banks, Bureau Chief, Bureau of Rate Filings

**FROM:** Shannon J. Hudson, Regulatory Analyst IV  
Patti Daniel, Public Utilities Supervisor

**RE:** Docket No. 080104-SU – Application for staff-assisted rate case in Brevard County by Colony Park Utility, Inc.

---

**- STAFF REPORT -**

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

**Table of Contents**

| <u>Issue</u> | <u>Description</u>                     | <u>Page</u> |
|--------------|--|-------------|
|              | Case Background.....                   | 3           |
| 1            | Quality of Service (Daniel) .....      | 4           |
| 2            | Used and Useful (Daniel) .....         | 5           |
| 3            | Rate Base (Hudson).....                | 6           |
| 4            | Rate of Return (Hudson) .....          | 8           |
| 5            | Test Year Revenues (Hudson).....       | 9           |
| 6            | Operating Expenses (Hudson).....       | 10          |
| 7            | Revenue Requirement (Hudson) .....     | 14          |
| 8            | Rates (Hudson) .....                   | 15          |
| 9            | Four Year Rate Reduction (Hudson)..... | 16          |
| 10           | Rates Subject to Refund (Hudson) ..... | 17          |
|              | Schedule No. 1-A .....                 | 19          |
|              | Schedule No. 1-B.....                  | 20          |
|              | Schedule No. 2.....                    | 21          |
|              | Schedule No. 3-A .....                 | 22          |
|              | Schedule No. 3-B.....                  | 23          |
|              | Schedule No. 3-C.....                  | 25          |
|              | Schedule No. 4.....                    | 26          |

### Case Background

This Staff Report is a **preliminary** analysis of the utility prepared by the Florida Public Service Commission (PSC) staff to give utility customers and the Utility an advanced look at what staff may be proposing. The final recommendation to the Commission (currently scheduled to be filed October 16, 2008, for the October 28, 2008 Agenda Conference) will be revised as necessary using updated information and results of customer quality of service or other relevant comments received at the customer meeting.

Colony Park Utilities, Inc. (Colony Park or Utility) is a Class C utility providing wastewater service in Brevard County to approximately 300 customers in Colony Park Mobile Home Park Community (Community). Colony Park Mobile Home Village (Village) is a mobile home rental area within the Community. Water service and the Utility's wastewater billings are provided by the City of Cocoa. Colony Park is located in the St. Johns River Water Management District, all of which is considered a water use caution area. The Utility's 2007 annual report indicates gross revenues of \$32,755 with a net loss of \$44,700. Colony Park was granted Certificate No. 137-S by Order No. 6365, issued December 2, 1974.<sup>1</sup> The certificate was subsequently transferred three times.<sup>2</sup>

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

---

<sup>1</sup> See Order No. 6365, issued December 2, 1974, in Docket No. 73391-S, In Re: Application of Mobile Home Investors, Inc., for a certificate to operate an existing sewer utility in Brevard County, Florida.

<sup>2</sup> See Order No. 7296, issued June 28, 1976, in Docket No. 750664-S, Application of Mobile Home Investors, Inc., and Colony Park Utilities, Inc., for approval of the transfer of assets and Certificate No. 137-S from the former to the latter; Order No. PSC-03-0320-FOF-SU, issued March 6, 2003, in Docket No. 020930-SU, In Re: Application for transfer of majority organizational control of Colony Park Utilities, Inc. holder of Certificate No. 137-S in Brevard County, from Robert Warren, Lenore Warren, William Warren, and Carol Kendall to Eileen Rogow, Arthur Rogow, and Philip Young; and Order No. PSC-07-420-FOF-SU, issued May 14, 2007, in Docket No. 060636-SU, In Re: Application for transfer of majority organizational control of Colony Park Utilities, Inc., holder of Certificate No. 137-S in Brevard County from Eileen Rogow to Michael Abramowitz.

**Discussion of Issues**

**Issue 1:** Is the quality of service provided by Colony Park considered satisfactory?

**Preliminary Recommendation:** Yes. The overall quality of service provided by Colony Park should be considered satisfactory. (Daniel)

**Staff Analysis:** Pursuant to Rule 25-30.433(1), Florida Administrative Code (F.A.C.), the Commission determines 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 condition of Colony Park's plant and facilities, and the Utility's attempt to address customer satisfaction. A field investigation was conducted on May 27-28, 2008. The investigation included a visual inspection of the wastewater treatment facilities and Colony Park's service area. In addition, the Utility's files and rate application were reviewed. According to DEP, the Colony Park's wastewater treatment facilities and finished product are in compliance with regulatory standards; therefore, it appears that the quality of the finished product and the operating condition of the plant are satisfactory. No complaints regarding the utility were reported to the Commission during the test year. A customer meeting is scheduled for September 10, 2008, to obtain additional input from customers regarding the Utility's quality of service.

**Issue 2:** What portions of the Utility's wastewater facilities are used and useful?

**Preliminary Recommendation:** Colony Park's wastewater treatment plant and collection system should be considered 100 percent used and useful. (Daniel)

**Staff Analysis:** The Utility's wastewater collection system is composed of Vitrified clay pipe and PVC, with two lift stations located in the service area. The two lift stations transfer the influent by force mains to the wastewater treatment plant. The wastewater treatment plant is permitted by DEP at 70,000 gallons per day (gpd) based on the average annual daily flow (AADF). The plant is a concrete Morolf extended aeration plant with two side tanks. Liquid chlorine disinfection is applied prior to the wastewater effluent being deposited into percolation ponds.

Pursuant to Rule 25-30.432, F.A.C. the used and useful percentage of a wastewater treatment plant is calculated by taking the demand based on the permitted capacity plus a growth allowance minus excessive inflow and infiltration and dividing the sum by the permitted capacity of the plant. Colony Park's test year AADF was 21,479 gallons per day for the 12 months ending December 30, 2007. There has been no growth in the service area since the Utility's last rate case and there does not appear to be excessive infiltration or inflow at this time. The wastewater treatment plant's permitted capacity is 70,000 gpd. Based on the above information, the wastewater treatment plant is 30.68 percent used and useful. However, Colony Park's service territory is built out and there is no apparent potential for expansion; therefore, staff recommends that the wastewater treatment plant and collection system be considered 100 percent used and useful.

**Issue 3:** What is the appropriate average test year rate base for Colony Park?

**Preliminary Recommendation:** The appropriate average test year rate base for Colony Park should be \$76,940. (Hudson)

**Staff Analysis:** The Utility's rate base was last established in 1996.<sup>3</sup>

Staff has selected a test year ended December 30, 2007 for this rate case. Rate base components established in Order No. PSC-96-1083-FOF-SU, have been updated through December 31, 2007, using information obtained from staff's audit and engineering reports. A summary of each component and adjustments follows:

**Utility Plant in Service (UPIS):** The Utility recorded a balance of \$197,663 for UPIS. Per Audit Finding No. 2, Colony Park was unable to provided invoices for plant additions made in 1996 and 1997. The Utility also incorrectly recorded an addition to pumping equipment and it did not retire the replaced pump. Based on the above, staff has made the following adjustments to UPIS.

|    |  |            |
|----|--|------------|
| 1. | To remove unsupported plant from Acct. No. 354 | (\$22,281) |
| 2. | To remove unsupported plant from Acct. No. 371 | (1,838)    |
| 3. | To remove unsupported plant from Acct. No. 393 | (3,652)    |
| 4. | To correct an incorrectly recorded invoice     | (464)      |
| 5. | To retire plant in the composite account       | (2,652)    |

Colony Park has requested pro forma plant additions for a blower and flapper in the amounts of \$1,550 and \$1,400, respectively. Staff believes these requested pro forma plant items are reasonable; therefore, staff has increased UPIS by those amounts to reflect the pro forma plant additions. Also, staff has decreased UPIS by \$1,475 to reflect a pro forma averaging adjustment. Staff's net adjustment to UPIS is a decrease of \$29,412 for water. Staff's recommended UPIS balance is \$168,251.

**Non-used and Useful Plant:** As discussed in Issue No. 2, Colony Park's wastewater treatment facilities and collection system should be considered 100 percent used and useful. Therefore, a used and useful adjustment is unnecessary.

**Accumulated Depreciation:** The Utility recorded a balance for accumulated depreciation of \$140,238 for the test year. Staff has calculated accumulated depreciation using the prescribed rates set forth in Rule 25-30.140, F.A.C. As a result, staff has decreased this account by \$9,687 to reflect depreciation calculated per staff. Staff has increased this account by \$78 to reflect accumulated depreciation for the pro forma plant additions. Staff has decreased this account by \$2,356 to reflect an averaging adjustment. These adjustments result in average accumulated depreciation of \$128,273.

<sup>3</sup> See Order No. PSC-96-1083-FOF-SU, issued August 22, 1996, in Docket No. 951591-SU, In Re: Application for a staff assisted rate case in Brevard County by Colony Park Utilities, Inc.

Docket No. 080104-SU

Date: August 14, 2008

**Working Capital Allowance:** Working capital is defined as the investor-supplied funds necessary to meet operating expenses or going-concern requirements of the utility. Consistent with Rule 25-30.433(2), F.A.C., staff used the one-eighth of the operation and maintenance (O&M) expense formula approach for calculating working capital allowance. Applying this formula, staff recommends a working capital allowance of \$6,483 (based on O&M of \$51,867). Working capital has been increased by \$6,483 to reflect one-eighth of staff's recommended O&M expenses.

**Rate Base Summary:** Based on the forgoing, staff recommends that the appropriate test year average rate base is \$76,940. Rate base is shown on Schedule No. 1-A and staff's adjustments are shown on Schedule No. 1-B.



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

**Preliminary Recommendation:** The appropriate return on equity is 12.01 percent with a range of 11.01 percent - 13.01 percent. The appropriate overall rate of return is 5.50 percent. (Hudson)

**Staff Analysis:** Colony Park's capital structure for the test year consists solely of long term debt in the amount of \$1,500,000 with a cost rate of 5.50 percent. The appropriate rate of return on equity is 12.01 percent using the most recent Commission-approved leverage formula.<sup>4</sup> The Utility's capital structure has been reconciled with staff's recommended rate base. Staff recommends a return on equity of 12.01 percent with a range of 11.01 percent – 13.01 percent, and an overall rate of return of 5.50 percent. The return on equity and overall rate of return are shown on Schedule No. 2.

---

<sup>4</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 5:** What are the appropriate amount of test year revenues?

**Preliminary Recommendation:** The appropriate test year revenue for this Utility is \$41,499. (Hudson)

**Staff Analysis:** The Utility provides wastewater service to the Colony Park Mobile Home Park, as well as to customers outside the mobile home park. The Utility is contracted with the City of Cocoa (City) for the billing of its customers. The City bills the wastewater charges, collects the revenue, withholds a fee, and remits a check to the Utility. Staff auditors requested Colony Park provide information with regard to its customers, revenues and billing issues. The Utility was unable to provide the information.

Staff auditor contacted the City and requested billing information for the calendar year ending December 31, 2007. The City provided staff audit with the billing data for the customers outside of the mobile home park. The mobile home park is not billed for wastewater by the City or the Utility. However, the City provides the mobile home park with water services, and it provided the staff auditor with the water consumption for the mobile home park. Based on the information provided by the City, staff auditor was able to calculate test year revenues. Therefore, pursuant to Audit Finding No. 4, the Utility's test year revenues should be \$41,499. Test year revenue is shown on Schedule No. 3-A. The related adjustments are shown on Schedule No. 3-B.

**Issue 6:** What are the appropriate operating expenses?

**Preliminary Recommendation:** The appropriate amount of operating expenses for Colony Park is \$60,046. (Hudson)

**Staff Analysis:** Colony Park recorded operating expenses of \$93,330 during the test year ending December 31, 2007. 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 as summarized below:

**Salaries and Wages – Officers (710)** – Colony Park recorded \$0 to this account during the test year. The Utility is requesting a pro forma increase for the officer's salary. Colony Park indicated that the Utility owner, Mr. Abramowitz, spends an average of five hours per week in the office on utility business. He meets with the plant operator two times per month and spends three additional hours per month picking up equipment, writing checks and handling customer complaints. Staff has determined the Utility owner spends approximately 6.19 hours per week (322 hours per year) on utility business. The Commission has approved in the past \$30.00 per hour for officer's salary. Staff has adjusted the salary for inflation and determined an hourly salary of \$36.37. Therefore, staff recommends a salary of \$11,713 (322 x \$36.37) for the Utility owner. Staff has included the salary for the Utility owner in the preliminary recommendation. However, staff will be requesting additional detailed job duties for the final recommendation. Staff recommends salaries and wages-officers for the test year of \$11,713.

**Sludge Removal Expense – (711)** – Colony Park recorded \$2,473 to this account during the test year. Pursuant to Audit Finding No. 5, the Utility was only able to provide receipts totaling \$2,373. Therefore, staff has reduced this account by \$100 (\$2,473 - \$2,373) to reflect the removal of an undocumented expense. Colony Park is requesting a pro forma increase in sludge removal of \$2,000. The staff engineer believes this amount is reasonable. Therefore, staff has increased this account by \$2,000. Staff has included the pro forma increase in sludge removal for the preliminary recommendation. However, staff will be requesting documentation for this increase for the final recommendation. Staff recommends sludge removal expense for the test year of \$4,373.

**Chemicals – (718)** – The Utility recorded \$1,095 to this account during the test year. Pursuant to Audit Finding No. 5, Colony Park was only able to provide invoices totaling \$772. Therefore, staff has reduced this account by \$323 (\$1,095 - \$772) to reflect the removal of an undocumented expense. Staff recommends chemical expense for the test year of \$772.

**Material and Supplies – (720)** – Colony Park recorded \$1,014 to this account during the test year. Per Audit Finding No. 5, the staff auditor reviewed invoices and the amounts invoiced through the plant operator and determined material and supplies expense to be \$1,755. Therefore, staff has increased this account by \$741. The Utility has also requested pro forma increases for the following: bracket repair on lines at \$450; DEP required back-up chlorine pump at \$350; back-up pump for the plant's irrigation well at \$350; and plant security lighting at \$300. Staff believes these amounts are reasonable. Therefore, staff has increased this account by \$1,450. Staff has included the pro forma items in the preliminary recommendation. However, staff will be

requesting documentation for this increase for the final recommendation. Staff recommends material and supplies for the test year of \$3,205.

Contractual Services – Professional – (731) – The Utility recorded \$24,839 to this account during the test year. Colony Park included in this account amounts paid to the plant operator and attorney fees for a court case against the prior owners. The plant operator's monthly fee is \$500. Staff believes this amount is reasonable for the plant operator. Therefore, the plant operator's fee should be reflected as \$6,000 ( $\$500 \times 12$ ) in this account. The Utility did not provide sufficient documentation for the attorney fees. Therefore, the attorney fees should be removed. Staff has decreased this account by \$18,839 to reflect the appropriate plant operator's monthly fee. Staff recommends contractual services – professional for the test year of \$6,000.

Contractual Services – Testing – (735) – Colony Park recorded \$875 to this account during the test year. According to the Utility's plant operator, the testing expense should be \$1,275. The staff engineer believes this amount is reasonable. Therefore, staff has increased this account by \$400 to reflect the appropriate testing. Staff has included the pro forma items in the preliminary recommendation. However, staff will be requesting documentation for this increase for the final recommendation. Staff recommends contractual services - testing for the test year of \$1,275.

Contractual Services – Other – (736) – Colony Park recorded \$24,138 to this account during the test year. Pursuant to Audit Finding No. 5, the Utility included amounts paid to maintain the wastewater ponds and to maintain the lawn for the mobile home park and wastewater plant site. The staff auditor allocated the lawn maintenance based on the acreage of the park and the plant site. Based on the allocation plus the cost of the pond maintenance, the total this in the account should be \$5,920. Therefore, staff has decreased this account by \$18,218 to reflect the appropriate expense for maintaining the lawn and wastewater plant. Colony Park has requested a pro forma increase of \$2,000 for draining and cleaning Percolation Pond No. 1. The staff engineer believes this amount is reasonable and should be amortized over three years. Therefore, staff has increased this account by \$667 ( $\$2,000/3$ ). Staff has included the pro forma item in the preliminary recommendation. However, staff will be requesting documentation for this increase for the final recommendation. Staff recommends contractual services - other for the test year of \$6,587.

Insurance – (755) – The Utility recorded \$8,436 to this account during the test year. The amount in this account included payments for property insurance and auto insurance. Per Audit Finding No. 5, the staff auditor allocated the property insurance based on the value of the wastewater plant compared to the policy value. Staff used its recommended net rate base for the wastewater plant value and determined the percentage to be 14.25 percent of the policy value. Therefore, staff has allocated \$1,309 of the \$9,188 property insurance premium to the Utility. The auto insurance premium was allocated based on the time spent by the maintenance man on utility business. Staff auditor determined that 12.5 percent of the maintenance man's time is spent on utility business. Thus, Colony Park should be allocated \$85 of the \$679 auto insurance premium. Based on the above, the Utility's total insurance expense should be \$1,394. Staff has decreased this account by \$7,042. Staff recommends insurance for the test year of \$1,394.

Regulatory Commission Expense – (765) – The Utility recorded \$0 in this account during the test year. Pursuant to Section 367.0816, F.S., rate case expense is amortized over a 4-year period. Colony Park paid a \$1,000 rate case filing fee for wastewater. 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 has estimated noticing expense for water of \$127 postage expense, \$106 printing expense, and \$15 for envelopes. The above results in a total rate case expense for noticing of \$248. Staff recommends regulatory commission expense for the test year of \$312  $((\$1,000 + \$248) / 4)$ .

Miscellaneous Expense – (775) – Colony Park recorded \$8,759 in this account for the test year. Per Audit Disclosure No. 5, the Utility provided invoices for a cell phone used by maintenance personnel. Also, Colony Park provided information regarding other park expenses which should be shared between the mobile home park and the Utility (i.e. office manager, bookkeeper, maintenance men, auto usage, rent and electricity). The cell phone and shared expenses have been allocated based on the average number of hours spent on utility business. Based on the above, staff has determined the appropriate miscellaneous expense to be \$7,258. Therefore, staff had decreased this account by \$1,501. Staff recommends miscellaneous expense for the test year of \$7,258.

Operation and Maintenance Expense (O&M Summary) – Based on the above adjustments, O&M should be decreased by \$31,627. Staff's recommended O&M expenses of \$51,867 are shown on Schedule 3-C.

Depreciation Expense (Net of Amortization of CIAC) – Colony Park recorded \$7,248 for wastewater depreciation expense during the test year. Staff calculated test year depreciation expense using the rates prescribed in Rule 25-30.140, F.A.C. Staff's calculated test year depreciation expense is \$4,867 for wastewater; therefore, staff has decreased this account by \$2,381  $(\$7,248 - \$4,867)$  for wastewater. Staff recommends net depreciation expense of \$4,867.

Taxes Other Than Income (TOTI) – The Utility recorded taxes other than income of \$2,588 for wastewater. Staff has increased this account by \$896 to reflect payroll taxes on staff's recommended salary. Pursuant to Audit Finding No. 6, based on staff's calculated test year revenue, Colony Park's RAFs should be \$1,867. The Utility paid \$1,985 in RAFs for 2007. Therefore, this account should be reduced by \$118 to reflect the appropriate test year RAFs. In Audit Exception 6, the staff auditor discovered that the utility did not take advantage of the property tax discount for payments made in November. It is Commission practice to only include the lowest property tax amount in expenses so the rate payers do not pay for the Utility's decision to pay late. Therefore, staff has decreased this account by \$54. Staff's net adjustment to this account is an increase of \$724.

Income Tax – The Utility recorded income tax of \$0 for water. Colony Park is an 1120 C corporation; however, the Utility has a large amount of loss carry forwards based on its current income tax return. These loss carry forwards will continue over the next couple of years. Therefore, staff has not made an adjustment to this account.

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 \$60,046.

Docket No. 080104-SU

Date: August 14, 2008

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

**Issue 7:** What is the appropriate revenue requirement?

**Preliminary Recommendation:** The appropriate revenue requirement is \$65,351 for wastewater. (Hudson)

**Staff Analysis:** The Utility should be allowed an annual increase of \$23,852 (57.48 percent) for wastewater. This will allow Colony Park the opportunity to recover its expenses and earn a 5.50 percent return on its investment. The calculation is as follows:

|                             | <u>Wastewater</u> |
|-----------------------------|-------------------|
| Adjusted Rate Base          | \$76,940          |
| Rate of Return              | x .0550           |
| Return on Rate Base         | <u>\$ 4,232</u>   |
| Adjusted O & M expense      | 51,548            |
| Depreciation expense (Net)  | 4,867             |
| Amortization                | \$0               |
| Taxes Other Than Income     | 4,385             |
| Income Taxes                | <u>\$0</u>        |
| Revenue Requirement         | \$65,351          |
| Less Test Year Revenues     | <u>41,499</u>     |
| Annual Increase             | <u>\$23,852</u>   |
| Percent Increase/(Decrease) | <u>57.48%</u>     |

The recommended revenue requirement is shown on Schedule No. 3-A.

**Issue 8:** What are the appropriate rates for this Utility?

**Preliminary Recommendation:** The appropriate monthly wastewater rates are shown on Schedule No. 4-A. Excluding miscellaneous service revenues, the recommended wastewater rates are designed to produce revenues of \$65,351. Colony Park 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. (Hudson)

**Staff Analysis:** Excluding miscellaneous service revenues, the recommended wastewater rates are designed to produce revenues of \$65,351. The recommended rates are shown on Schedule No. 4-A. Approximately 54 percent (or \$35,094) of the wastewater monthly service revenues is recovered through the base facility charges, while approximately 46 percent (or \$30,256) represents revenue recovery through the consumption charges. Based on Colony Park's billing data, the 6,000 gallon consumption level accounts for approximately 80% of the bills. Therefore, the Utility's gallonage cap has been changed from 10,000 gallons to 6,000 gallons.

Colony Park 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.



**Issue 9:** What is the appropriate amount by which rates should be reduced four years after the established effective date to reflect the removal of the amortized rate case expense as required by Section 367.0816, F.S.?

**Preliminary 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. Colony Park 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 \$327 for wastewater. Using Colony Park'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. Colony Park 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 10:** Should the recommended rates be approved for the Utility on a temporary basis, subject to refund, in the event of a protest filed by a party other than Colony Park?

**Preliminary 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, Colony Park 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., Colony Park 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 wastewater rates. A timely protest might delay what may be a justified rate increase resulting in an unrecoverable loss of revenue to the Utility. Therefore, pursuant to Section 367.0814(7), F.S., in the event of a protest filed by a party other than Colony Park, 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.

Colony Park should be authorized to collect the temporary rates upon the staff's approval of appropriate security for the potential refund and the proposed customer notice. Security should be in the form of a bond or letter of credit in the amount of \$16,161. Alternatively, the Utility could establish an escrow agreement with an independent financial institution.

If Colony Park 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.
- 9) The 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 Colony Park, 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.

Colony Park 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.

| COLONY PARK UTILITIES, INC<br>TEST YEAR ENDING 12/31/2007<br>SCHEDULE OF WASTEWATER RATE BASE |                           | SCHEDULE NO. 1-A<br>DOCKET NO. 080104-SU |                         |
|---|---------------------------|--|-------------------------|
| DESCRIPTION   | BALANCE<br>PER<br>UTILITY | STAFF<br>ADJUST.<br>TO UTIL. BAL.        | BALANCE<br>PER<br>STAFF |
| 1. UTILITY PLANT IN SERVICE   | \$ 197,663                | \$ (29,412)                              | \$ 168,251              |
| 2. LAND & LAND RIGHTS   | 30,479                    | 0  | 30,479                  |
| 3. NON-USED AND USEFUL COMPONENTS   | 0                         | 0  | 0                       |
| 4. CIAC   | (23,500)                  | 0  | (23,500)                |
| 5. ACCUMULATED DEPRECIATION   | (140,238)                 | 11,965                                   | (128,273)               |
| 6. AMORTIZATION OF CIAC   | 23,500                    | 0  | 23,500                  |
| 7. WORKING CAPITAL ALLOWANCE  | <u>0</u>                  | <u>6,483</u>                             | <u>6,483</u>            |
| 8. WASTEWATER RATE BASE   | <u>\$ 87,904</u>          | <u>\$ (10,964)</u>                       | <u>\$ 76,940</u>        |

| <b>COLONY PARK UTILITIES, INC</b>  |  | <b>SCHEDULE NO. 1-B</b>     |
|------------------------------------|--|-----------------------------|
| <b>TEST YEAR ENDING 12/31/2007</b> |  | <b>DOCKET NO. 080104-SU</b> |
| <b>ADJUSTMENTS TO RATE BASE</b>    |  | <b>PAGE 1 OF 2</b>          |
|                                    | <b><u>UTILITY PLANT IN SERVICE</u></b>                       | <b><u>WASTEWATER</u></b>    |
| 1.                                 | To remove unsupported plant from Acct No. 354                | (\$22,281)                  |
| 2.                                 | To remove unsupported plant from Acct No. 371                | (1,838)                     |
| 3.                                 | To remove unsupported plant from Acct No. 393                | (3,652)                     |
| 4.                                 | To correct invoice   | (464)                       |
| 5.                                 | To retire plant in the composite account                     | (2,652)                     |
| 6.                                 | To include pro forma plant to Acct. No. 380                  | 1,550                       |
| 7.                                 | To include pro forma plant to Acct. No. 360                  | 1,400                       |
| 8.                                 | To include pro forma averaging adjustment                    | (1,475)                     |
|                                    | Total  | <u>(\$29,412)</u>           |
|                                    | <b><u>ACCUMULATED DEPRECIATION</u></b>                       |                             |
| 1.                                 | To reflect accumulated depreciation per Rule 25-30.0140, FAC | \$9,687                     |
| 2.                                 | To include pro forma accumulated depreciation                | (\$78)                      |
| 3.                                 | Averaging adjustment   | <u>2,356</u>                |
|                                    | Total  | <u>\$11,965</u>             |
|                                    | <b><u>WORKING CAPITAL ALLOWANCE</u></b>                      |                             |
|                                    | To reflect 1/8 of test year O & M expenses.                  | <u>\$6,483</u>              |

**COLONY PARK UTILITIES, INC**  
**TEST YEAR ENDING 12/31/2007**  
**SCHEDULE OF CAPITAL STRUCTURE**

**SCHEDULE NO. 2**  
**DOCKET NO. 080104-SU**

| CAPITAL COMPONENT              | PER UTILITY        | SPECIFIC ADJUSTMENTS | BALANCE                     |                      | BALANCE PER STAFF | PERCENT OF TOTAL  | COST               | WEIGHTED COST |
|--------------------------------|--------------------|----------------------|-----------------------------|----------------------|-------------------|-------------------|--------------------|---------------|
|                                |                    |                      | BEFORE PRO RATA ADJUSTMENTS | PRO RATA ADJUSTMENTS |                   |                   |                    |               |
| 1. COMMON STOCK                | \$0                | \$0                  | \$0                         |                      |                   |                   |                    |               |
| 2. RETAINED EARNINGS           | 0                  | 0                    | 0                           |                      |                   |                   |                    |               |
| 3. PAID IN CAPITAL             | 0                  | 0                    | 0                           |                      |                   |                   |                    |               |
| 4. OTHER COMMON EQUITY         | <u>0</u>           | <u>0</u>             | <u>0</u>                    |                      |                   |                   |                    |               |
| TOTAL COMMON EQUITY            | \$0                | \$0                  | \$0                         | \$0                  | \$0               | 0.00%             | 12.01%             | 0.00%         |
| 5. LONG TERM DEBT              | <u>\$1,500,000</u> | <u>\$0</u>           | <u>\$1,500,000</u>          | <u>(\$1,423,060)</u> | <u>\$76,940</u>   | <u>100.00%</u>    | 5.50%              | 5.50%         |
| 8. CUSTOMER DEPOSITS           | <u>\$0</u>         | <u>\$0</u>           | <u>\$0</u>                  | <u>\$0</u>           | <u>\$0</u>        | <u>0.00%</u>      | 0.00%              | <u>0.00%</u>  |
| 9. TOTAL                       | <u>\$1,500,000</u> | <u>\$0</u>           | <u>\$1,500,000</u>          | <u>(\$1,423,060)</u> | <u>\$76,940</u>   | <u>100.00%</u>    |                    | <u>5.50%</u>  |
| <b>RANGE OF REASONABLENESS</b> |                    |                      |                             |                      |                   | <b><u>LOW</u></b> | <b><u>HIGH</u></b> |               |
| RETURN ON EQUITY               |                    |                      |                             |                      |                   | <u>11.01%</u>     | <u>13.01%</u>      |               |
| OVERALL RATE OF RETURN         |                    |                      |                             |                      |                   | <u>5.50%</u>      | <u>5.50%</u>       |               |

Docket No. 080104-SU

Date: August 14, 2008

| COLONY PARK UTILITIES, INC<br>TEST YEAR ENDING 12/31/2007<br>SCHEDULE OF WASTEWATER OPERATING INCOME |                          |                      | SCHEDULE NO. 3-A<br>DOCKET NO. 080104-SU |                            |                        |
|--|--------------------------|----------------------|--|----------------------------|------------------------|
|  | TEST YEAR<br>PER UTILITY | STAFF<br>ADJUSTMENTS | STAFF<br>ADJUSTED<br>TEST YEAR           | ADJUST.<br>FOR<br>INCREASE | REVENUE<br>REQUIREMENT |
| 1. OPERATING REVENUES  | <u>\$0</u>               | <u>\$41,499</u>      | <u>\$41,499</u>                          | <u>\$23,852</u><br>57.48%  | <u>\$65,351</u>        |
| <b>OPERATING EXPENSES:</b>   |                          |                      |  |                            |                        |
| 2. OPERATION & MAINTENANCE   | \$83,494                 | (\$31,627)           | \$51,867                                 | \$0                        | \$51,867               |
| 3. DEPRECIATION (NET)  | 7,248                    | (2,381)              | 4,867                                    | 0                          | 4,867                  |
| 4. AMORTIZATION  | 0                        | 0                    | 0  | 0                          | 0                      |
| 5. TAXES OTHER THAN INCOME   | 2,588                    | 724                  | 3,312                                    | 1,073                      | 4,385                  |
| 6. INCOME TAXES  | <u>0</u>                 | <u>0</u>             | <u>0</u>                                 | <u>0</u>                   | <u>0</u>               |
| 7. TOTAL OPERATING EXPENSES  | <u>\$93,330</u>          | <u>(\$33,284)</u>    | <u>\$60,046</u>                          | <u>\$1,073</u>             | <u>\$61,119</u>        |
| 8. OPERATING INCOME/(LOSS)   | <u>(\$93,330)</u>        |                      | <u>(\$18,547)</u>                        |                            | <u>\$4,232</u>         |
| 9. WASTEWATER RATE BASE  | <u>\$87,904</u>          |                      | <u>\$76,940</u>                          |                            | <u>\$76,940</u>        |
| 10. RATE OF RETURN   | <u>-106.17%</u>          |                      | <u>-24.11%</u>                           |                            | <u>5.50%</u>           |

**COLONY PARK UTILITIES, INC**  
**TEST YEAR ENDING 12/31/2007**  
**ADJUSTMENTS TO OPERATING INCOME**

**SCHEDULE NO. 3-B**  
**DOCKET NO. 080104-SU**  
 Page 1 of 2

**WASTEWATER**

**OPERATING REVENUES**

To adjust utility revenues to audited test year amount. \$41,499

**OPERATION AND MAINTENANCE EXPENSES**

1. Salaries & Wages - Officers
  - a. To reflect the appropriate employee salaries \$11,713
2. Sludge Removal Expense (711)
  - a. To reflect appropriate sludge removal expense per AF No. 5 (\$100)
  - b. To reflect pro forma increase in sludge removal 2,000
  - Total \$1,900
3. Purchased Power (715)
  - a. To reflect appropriate purchase power expense per AF No. 5 (\$4,559)
4. Chemicals (718)
  - a. To reflect appropriate chemical expense per AF No. 5 (\$323)
5. Material and Supplies (720)
  - a. To reflect appropriate material and supplies per AF No. 5 \$741
  - b. To reflect pro forma material and supplies 1,450
  - Total \$2,191
6. Contractual Services - Billing
  - a. To reflect appropriate billing expenses per AF No. 5 \$1,672
7. Contractual Services - Professional (731)
  - a. To unsupported court cost per AF No. 5 (\$18,839)
8. Contractual Services - Testing (735)
  - a. To reflect the appropriate testing per AF No. 5 \$250
  - b. To reflect the appropriate DEP required testing 150
  - Total \$400
9. Contractual Services - Other (736)
  - a. To reflect the appropriate contractual-other expense per AF No. 5 (\$18,218)
  - b. To reflect pro forma expense 667
  - Total (\$17,551)
10. Insurance Expenses (755)
  - a. To reflect insurance expense per AF No. 5 (\$7,042)

(O & M EXPENSES CONTINUED ON NEXT PAGE)



| <b>COLONY PARK UTILITIES, INC</b>                                     |  | <b>SCHEDULE NO. 3-B</b>     |
|---|--|-----------------------------|
| <b>TEST YEAR ENDING 12/31/2007</b>                                    |  | <b>DOCKET NO. 080104-SU</b> |
| <b>ADJUSTMENTS TO OPERATING INCOME</b>                                |  | <b>Page 2 of 2</b>          |
| 11. Regulatory Expense (665/ 765)                                     |  |                             |
| a. Amortize Rate Case Filing Fee over 4 years (\$200/4-200)           |  | \$250                       |
| b. Include and amortize notice expense over 4 years                   |  | <u>62</u>                   |
| Subtotal  |  | <u>\$312</u>                |
| 12. Miscellaneous Expense (675/ 775)                                  |  |                             |
| a. To reflect the appropriate miscellaneous expense per AF No. 5      |  | <u>(\$1,501)</u>            |
| <b>TOTAL OPERATION &amp; MAINTENANCE ADJUSTMENTS</b>                  |  | <u><b>(\$31,627)</b></u>    |
|   |  | <b><u>WASTEWATER</u></b>    |
| <b>DEPRECIATION EXPENSE</b>   |  |                             |
| 1. To reflect test year depreciation calculated per 25-30.140, F.A.C. |  | (\$2,536)                   |
| 2. To reflect pro forma depreciation expense                          |  | <u>155</u>                  |
| Total   |  | <u>(\$2,381)</u>            |
| <b>TAXES OTHER THAN INCOME</b>  |  |                             |
| 1. To reflect the appropriate payroll taxes                           |  | \$896                       |
| 2. To reflect the appropriate property taxes                          |  | (54)                        |
| 3. To reflect the appropriate test year RAFs                          |  | <u>(118)</u>                |
| Total   |  | <u>\$724</u>                |

**COLONY PARK UTILITIES, INC**  
**TEST YEAR ENDING 12/31/2007**  
**ANALYSIS OF WASTEWATER OPERATION**  
**AND MAINTENANCE EXPENSE**

**SCHEDULE NO. 3-C**  
**DOCKET NO. 080104-SU**

|   | <b>TOTAL<br/>PER<br/>UTILITY</b> | <b>STAFF<br/>ADJUST-<br/>MENT</b> | <b>TOTAL<br/>PER<br/>STAFF</b> |
|---|----------------------------------|-----------------------------------|--------------------------------|
| (701) SALARIES AND WAGES - EMPLOYEES      | \$0                              | \$0                               | \$0                            |
| (703) SALARIES AND WAGES - OFFICERS       | 0                                | 11,713                            | 11,713                         |
| (704) EMPLOYEE PENSIONS AND BENEFITS      | 0                                | 0                                 | 0                              |
| (710) PURCHASED SEWAGE TREATMENT          | 0                                | 0                                 | 0                              |
| (711) SLUDGE REMOVAL EXPENSE              | 2,473                            | 1,900                             | 4,373                          |
| (715) PURCHASED POWER                     | 11,865                           | (4,559)                           | 7,306                          |
| (716) FUEL FOR POWER PRODUCTION           | 0                                | 0                                 | 0                              |
| (718) CHEMICALS                           | 1,095                            | (323)                             | 772                            |
| (720) MATERIALS AND SUPPLIES              | 1,014                            | 2,191                             | 3,205                          |
| (730) CONTRACTUAL SERVICES - BILLING      | 0                                | 1,672                             | 1,672                          |
| (731) CONTRACTUAL SERVICES - PROFESSIONAL | 24,839                           | (18,839)                          | 6,000                          |
| (735) CONTRACTUAL SERVICES - TESTING      | 875                              | 400                               | 1,275                          |
| (736) CONTRACTUAL SERVICES - OTHER        | 24,138                           | (17,551)                          | 6,587                          |
| (740) RENTS                               | 0                                | 0                                 | 0                              |
| (750) TRANSPORTATION EXPENSE              | 0                                | 0                                 | 0                              |
| (755) INSURANCE EXPENSE                   | 8,436                            | (7,042)                           | 1,394                          |
| (765) REGULATORY COMMISSION EXPENSES      | 0                                | 312                               | 312                            |
| (770) BAD DEBT EXPENSE                    | 0                                | 0                                 | 0                              |
| (775) MISCELLANEOUS EXPENSES              | <u>8,759</u>                     | <u>(1,501)</u>                    | <u>7,258</u>                   |
|   | <u>\$83,494</u>                  | <u>(\$31,627)</u>                 | <u>\$51,867</u>                |

| COLONY PARK UTILITIES, INC<br>TEST YEAR ENDING 12/31/2007<br>MONTHLY WASTEWATER RATES |                                | SCHEDULE NO. 4<br>DOCKET NO. 080104-SU       |                             |
|---|--------------------------------|--|-----------------------------|
|   | UTILITY'S<br>EXISTING<br>RATES | STAFF<br>PRELIMINARY<br>RECOMMENDED<br>RATES | 4-YEAR<br>RATE<br>REDUCTION |
| <b>Residential and General Service</b>  |                                |  |                             |
| Base Facility Charge by Meter Size:   |                                |  |                             |
| 5/8"X3/4"   | \$6.14                         |  |                             |
| 3/4"  | \$15.36                        |  |                             |
| 1"  | \$30.71                        |  |                             |
| 1-1/2"  | \$49.14                        |  |                             |
| 2"  | \$98.26                        |  |                             |
| 3"  | \$154.53                       |  |                             |
| 4"  | \$309.07                       |  |                             |
| 6"  |                                |  |                             |
| <b>Gallage Charge</b>   |                                |  |                             |
| Per 1,000 Gallons (10,000 gallon cap)   |                                |  |                             |
| Residential   | \$1.80                         |  |                             |
| General Service   | \$2.16                         |  |                             |
| <b>Residential Service</b>  |                                |  |                             |
| Base Facility Charge All Meter Sizes  |                                | \$10.80                                      | \$0.05                      |
| <b>Gallage Charge</b>   |                                |  |                             |
| Per 1,000 Gallons (6,000 gallon cap)  |                                | \$2.64                                       | \$0.01                      |
| <b>General Service</b>  |                                |  |                             |
| Base Facility Charge by Meter Size:   |                                |  |                             |
| 5/8"X3/4"   |                                | \$10.80                                      | \$0.05                      |
| 3/4"  |                                | \$16.20                                      | \$0.08                      |
| 1"  |                                | \$27.00                                      | \$0.13                      |
| 1-1/2"  |                                | \$54.00                                      | \$0.27                      |
| 2"  |                                | \$86.40                                      | \$0.43                      |
| 3"  |                                | \$172.79                                     | \$0.86                      |
| 4"  |                                | \$269.99                                     | \$1.35                      |
| 6"  |                                | \$539.98                                     | \$2.70                      |
| Gallage Charge per 1,000 gallons  |                                | \$3.17                                       | \$0.02                      |
| <b>Colony Park Mobile Home Park</b>   |                                |  |                             |
| Base Facility Charge  |                                | \$921.22                                     | \$1,295.95                  |
| Gallage Charge per 1,000 (720,000 Gallon Cap)   |                                | \$1.80                                       | \$3.17                      |
| <b>Typical Residential 5/8" x 3/4" Meter Bill Comparison</b>                          |                                |  |                             |
| 3,000 Gallons   | \$11.54                        | \$18.72                                      |                             |
| 5,000 Gallons   | \$15.14                        | \$24.00                                      |                             |
| 10,000 Gallons  | \$24.14                        | \$26.64                                      |                             |