

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: November 18, 2004

TO: Director, Division of the Commission Clerk & Administrative Services (Bayó)

FROM: Division of Economic Regulation (Biggins, Hudson, Massoudi)
Office of the General Counsel (Jaeger)

RE: Docket No. 040300-SU – Application for Staff-Assisted Rate Case in Volusia County by Tymber Creek Utilities.

AGENDA: 11/30/04 – Regular Agenda – Proposed Agency Action, Except for Issues 9 and 10 Interested Persons May Participate

CRITICAL DATES: 15-Month Effective Date (SARC): 09/02/05

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECR\WP\040300.RCM.DOC

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Case Background

On April 5, 2004, Tymber Creek Utilities (Tymber Creek or utility) applied for a staff assisted rate case for its wastewater system only. Tymber Creek is a Class C water and wastewater utility serving 447 water and 415 wastewater customers in Volusia County. For the wastewater system, the total gross revenues were \$147,334 and total operating expenses were \$163,863 in the 2003 annual report.

The utility was certificated on April 6, 1978. The utility has applied for numerous price index rate adjustments. In 1990, the utility filed for a staff-assisted rate case to adjust its rates and charges for both the water and wastewater systems. By Order No. 24206, issued March 7, 1991, in Docket No. 900501-WS, In Re: Application for a staff-assisted rate case in Volusia County by Tymber Creek Utilities, the wastewater rates were increased and the water rates were unchanged. In 1995, the utility filed for a staff-assisted rate case for its water system only. By Order No. PSC-97-0096-FOF-WS, issued January 27, 1997, in Docket No. 950647-WS, In Re: Application for staff-assisted rate case in Volusia County by Tymber Creek Utilities, the utility was granted an increase for its water system.

The customer meeting was held on October 7, 2004, in Ormond Beach Performing Arts Center. No customers attended this meeting.

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

Discussion of Issues

Quality of Service

Issue 1: Is the quality of wastewater service provided by Tymber Creek Utilities, Inc., considered satisfactory?

Recommendation: Yes. The quality of service provided by Tymber Creek should be considered satisfactory. Although, the utility currently is not in full compliance status for wastewater, the Department of Environmental Protection's (DEP's) inspector believes that the utility's owner is cooperating and currently bringing the plant into compliance status. The utility should complete any and all improvements to the system that are necessary to satisfy the standards set by the DEP within nine months of the Consummating Order. Also, it is recommended that a local emergency phone number be updated and be posted at the plant and at each lift station. The emergency phone number should be posted at all locations no later than 90 days from the date of the Consummating Order for this rate case. (Massoudi)

Staff Analysis: Tymber Creek Utilities, Inc. provides wastewater service to 415 customers, all of whom are residents of the Tymber Creek development. Rule 25-30.433(1), Florida Administrative Code (F.A.C.), states that:

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

Staff's analysis below addresses each of these three components based on the information available.

1. Quality of Utility's Product

Jurisdiction over wastewater facilities is under the DEP's Central District. The DEP inspected the utility on June 1, 2004. According to the DEP, the utility is currently up-to-date with all chemical analysis and all test results are satisfactory. The quality of wastewater service appears to meet or exceed regulatory standards and is considered satisfactory.

2. Operational Conditions At The Wastewater Plant

The wastewater plant-in-service is also reflective of the product provided by the utility. The overall capacity of the wastewater plant is sufficient to process the average daily flows of the on-line customers. The utility's operating permit was issued on October 5, 1999, and will expire on September 20, 2004. The utility is in the process of completing the DEP's application for the permit renewal.

According to the DEP's noncompliance letter dated June 15, 2004, to the utility, the wastewater plant was inspected on June 1, 2004. Based on this inspection, the DEP's inspector observed a few deficiencies such as sampling method, ground water monitoring, records and reports, and flow measurement. Although, in general, the utility is in noncompliance status, the inspector stated that the utility is in compliance status for its operation and maintenance and the effluent disposal. However, staff believes that the utility is cooperating and trying to improve the operational conditions and bring the plant into compliance status. In general, during the engineering field inspection, maintenance at the wastewater plant-site appeared to have been given adequate attention. The wastewater plant equipment and four percolation ponds appeared to have been receiving periodic maintenance and were functioning properly. The plant grounds within the fenced in area were organized. However, there was no local emergency phone number at the plant or the lift stations so that someone can respond to an emergency in a timely manner.

Staff believes that the Commission should require the utility to post a local emergency phone number, which can be easily seen, at the wastewater plant and at the lift stations. The emergency phone number should be posted at all locations no later than 90 days from the date of the Consummating Order for this rate case. Also, the utility should complete any and all improvements to the system that are necessary to satisfy the standards set by the PSC and DEP. Based on the above, operational conditions at the wastewater plant should be considered satisfactory at this time.

3. Utility's Attempt To Address Customer Satisfaction

The customer meeting was held on October 7, 2004, in Ormond Beach Performing Arts Center. No customers attended this meeting. Due to the lack of complaints and based on the utility's cooperation and good faith efforts, staff recommends that the utility's attempt to address customer satisfaction be considered satisfactory.

Rate Base

Issue 2: What portions of Tymber Creek Utilities, Inc. wastewater system, are used and useful?

Recommendation: The utility's wastewater treatment plant should be considered 61% used and useful. The wastewater collection system should be considered 92.30% used and useful. (Massoudi)

Staff Analysis:

Wastewater Treatment Plant

The existing capacity of the wastewater treatment plant is permitted by DEP as a 131,000 gallons per day (gpd) annual average daily flow (AADF) plant that is operating in the extended aeration mode of treatment. During the peak month of the most current test year (March), the maximum daily flow for historical test year was 314,000 gpd. The Annual Average Daily Flow (AADF) for the historical test year for the plant was measured and calculated to be 78,500 gpd. A regression analysis was performed to anticipate a growth of 2 ERCs for the next year. It is estimated that the increase demand for the five-year statutory growth period will be 1,874 gpd. There does not appear to be an excessive infiltration problem occurring within the collection system. Therefore, the formula used on the calculation sheet (see Attachment "A", Page 1 of 2) indicates a used and useful of 61%.

Wastewater Collection System

The utility's potential customer base is 465 ERCs. The average number of customers for the test year is 419 ERCs. Future growth for the next five years is calculated to be 10 ERCs. In accordance with the formula method used on the calculation sheet (see Attachment "A", Page 2 of 2), the used and useful is calculated to be 92.30%. By the formula method, it is recommended that the wastewater collection system be considered 92.30% used and useful.

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

Recommendation: The appropriate average test year rate base for Tymber Creek is \$159,097 for wastewater. The utility should complete the pro forma plant items within nine months from the date of the consummating order. (Biggins, Hudson)

Staff Analysis: As stated above, the utility's rate base was last established by Order No. 24206.

To evaluate the utility's request for increased rates, staff has used a test year ended December 31, 2003 for this rate case. Rate base components, established in Order No. 24206, have been updated through December 31, 2003, using information obtained from staff's audit and engineering reports.

A discussion of each component of rate base follows:

Utility Plant in Service (UPIS): The utility recorded \$667,149 for wastewater for the test year ended December 31, 2003. Per Audit Exception 1, the utility did not provide supporting documentation for some of its plant additions, misclassified some of its plant accounts, did not retire some of its plant, and after more than a ten-year period, made a second attempt to reconcile to Order No. 24206. Staff made an adjustment to decrease this account by \$4,456 to reflect the appropriate plant balance per audit, and decreased this account by \$373 to reflect fully depreciated plant in Account No. 395. Staff has made an adjustment to decrease plant by \$2,787 to reflect the appropriate plant for Account No. 361. In addition, staff made an adjustment to increase this account by \$1,987 to reflect the reclassification of labor for plant additions from Account No. 736, and also an adjustment to increase this account by \$3,687 to reflect the reclassification of labor related to plant additions from Account No. 720. In 1991 the utility did not book manholes for gravity collection. Therefore, staff has made an adjustment to increase this account by \$9,263 to reflect manholes that were not booked in 1991.

Pro Forma Plant

The utility requested pro forma plant items to be included in rate base. Staff has determined these items to be reasonable and with the appropriate adjustments, has included the items in staff's calculation of rate base. The following is a description of staff adjustments for pro forma plant. The utility requested for Account No. 380, two portable automatic samplers in the amount of \$5,316. According to the DEP's noncompliance letter dated June 15, 2004, the utility is not in compliance status because of its effluent sampling method. These samples are currently being taken as grab samples. During the DEP's inspection, the inspector suggested that the utility purchase an automatic sampler for solving this problem.

The utility also requested for Account No. 381, one 6" plug valve for the effluent pond area in the amount of \$1,380. The utility has four percolation ponds. The most efficient process in the long run for effluent disposal is to rotate the percolation ponds. This allows maintenance of the pond structure which aids the effluent percolation rate. Due to a faulty buried valve at the plant, rotation of the ponds is impossible.

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Staff has made averaging adjustments of \$2,976 and \$3,348 to UPIS and pro forma plant, respectively. Staff's net adjustment to UPIS is an increase of \$7,693. Staff's recommended UPIS balance is \$674,842.

Non-used and Useful Plant: The staff engineer has determined the used and useful percentages for the wastewater treatment plant and the wastewater collection system to be 61% and 92.3%, respectively. Applying the non-used and useful percentages to the wastewater system results in non-used and useful plant of \$159,353. The non-used and useful accumulated depreciation is \$84,107. This results in net non-used and useful UPIS of \$75,246.

Contribution in Aid of Construction (CIAC): The utility recorded CIAC of \$375,056 for the test year ended December 31, 2003. Staff has decreased this account by \$1,575 to reflect an averaging adjustment. Staff has calculated CIAC to be \$373,481.

Accumulated Depreciation: The utility recorded a balance for accumulated depreciation of \$377,518 for the test year. Staff has calculated accumulated depreciation using the prescribed rates in Rule 25-30.140, F.A.C. Therefore, staff has increased this account by \$9,135 to reflect depreciation calculated per staff. Staff has decreased this account by \$12,384 to reflect an averaging adjustment. Staff also has increased this account by \$398 to reflect one half-year of pro forma depreciation, and decreased this account by \$199 to reflect an averaging adjustment for pro forma. Staff made an adjustment to decrease this account by \$373 to retire a fully depreciated plant item in Account No. 395.

These adjustments result in accumulated depreciation of \$374,095.

Amortization of CIAC: The utility recorded \$314,300 for amortization of CIAC. Amortization of CIAC has been recalculated by staff using composite depreciation rates. This account has been decreased by \$22,516 to reflect year-end amortization of \$291,784 as calculated by staff. Staff has decreased this account by \$7,779 to reflect an averaging adjustment. Staff's net adjustments to this account results in amortization of CIAC of \$284,005.

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 that formula, staff recommends a working capital allowance of \$18,548 (based on O&M of \$147,384). Working capital has been increased by \$18,548 to reflect one-eighth of staff's recommended O&M expenses.

Rate Base Summary: Based on the foregoing, staff recommends that the appropriate test year rate base is a positive \$159,097.

Rate base is shown on Schedule No. 1-A.

Cost of Capital

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

Recommendation: The appropriate return on equity is 9.25% with a range of 8.25% - 10.25%. The appropriate overall rate of return is 8.78%. (Biggins, Hudson)

Staff Analysis: Per Audit Exception 6, the utility recorded notes payable of \$78,919 in the 2003 General Ledger as of December 31, 2003. The notes payable consist of loans from the shareholders to the utility. There are no written agreements, interest, or terms of back payment. Pursuant to Order No. PSC-00-1165-PAA-WS, issued June 27, 2000, in Docket No. 990243-WS, In Re: Application for limited proceeding increase and restructuring of water rates by Sun Communities Finance Limited Partnership in Lake County, and overearnings investigation, where a utility also had no debt instrument, the commission characterized the debt as other common equity:

... No cost is assigned to the long term debt and no debt instrument was available. The debt is from the utility's parent company. Therefore, we find that it is appropriate to characterize the long term debt as other common equity rather than long-term debt given the related party status of the "debt."

Consistent with the aforementioned order, the loans were reclassified to other common equity.

Using the leverage formula approved by Order No. PSC-04-0587-PAA-WS issued June 10, 2004, in Docket No. 040006-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), F.S., the appropriate rate of return on equity is 9.25%

The utility's capital structure has been reconciled with staff's recommended rate base. Staff recommends a return on equity of 9.25% with a range of 8.25% - 10.25% and an overall rate of return of 8.78%.

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

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Net Operating Income

Issue 5: What are the appropriate test year revenues?

Recommendation: The appropriate test year revenues for this utility are \$147,094 for wastewater. (Biggins, Hudson)

Staff Analysis: The utility booked revenues during the test year of \$147,094 for wastewater. The utility's wastewater tariff, at the end of the test year, authorized a base facility charge of \$9.95 and a gallonage charge of \$3.89 per 1,000 for both residential and commercial customers. However, the residential customers had a monthly maximum cap of 10,000 gallons.

No adjustments to the utility's test-year revenues are necessary, and staff recommends test year revenue of \$147,094 for wastewater.

Test year revenue is shown on Schedule No. 3-A.

Issue 6: What are the appropriate amount of operating expenses?

Recommendation: The appropriate amount of operating expenses for this utility is \$166,187 for wastewater. (Biggins, Hudson)

Staff Analysis: The utility recorded operating expenses of \$163,863 during the test year ending December 31, 2003. The utility improperly classified several of its expenses. Staff has reallocated these expenses to the appropriate accounts.

The utility provided the auditor with access to all books and records, invoices, canceled checks, and other utility records to verify its O&M and taxes other than income expense for the test year ending December 31, 2003. Staff has determined the appropriate operating expenses for the test year and a breakdown of expenses by account class using the documents provided by utility. Adjustments have been made to reflect the appropriate annual operating expenses that are required for utility operations on a going forward basis.

Operations and Maintenance Expenses (O&M)

Salaries and Wages – Employees – (701) – The utility’s general ledger did not record a dollar amount for salaries and wages during the test year. Staff has reclassified \$8,196 from Account No. 730 for the utility accountant. Staff has increased this account by \$76 to reflect the appropriate test year salary for the utility accountant. The utility requested an increase in the utility accountant’s salary of \$80 per month for additional duties related to the maintaining of property maintenance records. Staff believes this is reasonable and has made a pro forma adjustment of \$960 (\$80 x 12) to this account to increase the utility accountant’s annual salary. The utility has requested salary for a part-time office employee to assist the accountant with plant accounting and plant records. Staff believes this is reasonable and has made a pro forma adjustment to increase this account by \$4,020 (\$335 x 12).

Staff recommends employee salaries and wages for the test year of \$13,252.

Salaries and Wages – Officers – (702) – The utility recorded \$8,498 in this account during the test year. The utility has requested an increase of \$46 per month for the utility officer for reviewing plant additions and coordinating necessary construction and retirements by the contract construction company. The utility officer has not had an increase since the last rate case in 1990. Staff believes this request is reasonable and has made a pro forma adjustment of \$552 (\$46 x 12) to increase this account. Staff recommends officer salaries and wages for the test year of \$9,050.

Sludge Removal Expense – (711) – The utility recorded \$37,987 in this account during the test year. During the test year, the utility paid a total of \$36,500 to remove 73 loads of sludge at \$500 per load. The staff engineer determined 73 loads to be reasonable for this utility. Staff has also reclassified maintenance expense of \$1,487 to Account No. 736. Staff recommends sludge removal expense of \$36,500.

Purchased Power – (715) – The utility recorded \$15,471 in this account during the test year. This amount included purchased power expense for the sewer plant meter of \$11,099. The utility requested to increase the purchase power expense for the sewer plant meter to \$16,130 due

to the test year being abnormal. For several years, the utility had been experiencing low power consumption from its sewer treatment plant meter. During the last part of and after the 2003 test year, Tymber Creek noticed a power spike at the sewer treatment plant. Tymber Creek reviewed its power consumption in all of 2003 and 2004 to date and noticed the power bill increases from the sewer treatment plant meter were not spikes but rather a general shift to higher monthly meter readings. A business account specialist with Florida Power and Light reviewed the billing records for the last 10 years (March of 1993 through June of 2004) and stated that the last few years of lower meter readings had been abnormal. Staff believes the increase is reasonable and has made a pro forma adjustment of \$5,031 (\$16,130 - \$11,099).

Staff recommends purchased power expense for the test year of \$20,502.

Materials and Supplies – (720) – The utility recorded \$5,099 in this account during test year. Staff has reclassified \$3,687 (labor for plant additions) from this account to Account No. 370 (UPIS). Staff also reclassified \$1,412 for labor and maintenance from this account to Account No. 736. Staff's total adjustment to this account is a decrease of \$5,099. Thus, staff recommends materials and supplies for the test year of \$0.

Contractual Services - Billing – (730) – The utility recorded \$9,836 in this account during the test year. Staff has reclassified salary of \$8,196 for the utility accountant from this account to Account No. 701. Staff has reclassified \$823 of rate case expense for its consultant from this account to Account No. 736. Staff has reclassified consultant fees of \$527 from this account to Account No. 731. Staff has reclassified accounting fees of \$290 from this account to Account No. 731. Staff has increased this account by \$950 to reflect billing expenses reclassified from Account No. 736. The billing expense for the wastewater is \$1,140 (\$95 x 12). Staff has increased this account by \$190 (\$1140 - \$950) to reflect the annualized billing expense.

Staff recommends contractual services – billing for the test year of \$1,140.

Contractual Services - Professional – (731) – The utility recorded \$24,136 in this account during the test year. Staff has reclassified \$527 and \$290 for consultant and accounting fees, respectively, from Account No. 730 to increase this account. Staff has reclassified \$14 for a maintenance charge to Account No. 736. Staff reclassified operations and maintenance charges of \$2,134 from Account No. 735. The utility requested an increase of \$65 a month for 1 hour of instruction per month in proper plant accounting by the consultant. The consultant currently charges \$45 an hour for non-rate case work and will continue to do so. Therefore, staff believes \$45 a month or \$540 (\$45 x 12) annually is a more reasonable fee. The additional hour of instruction is a non-recurring expense and should be amortized over 5 years pursuant to Rule 25-30.433(8), F.A.C. Staff has increased this account by \$108 (\$540/5).

Staff recommends contractual services – professional for the test year of \$27,181.

Contractual Services - Testing – (735) – The utility recorded \$9,384 in this account during the test year.

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 F. A.C. and enforced by DEP. The tests and the frequency at which tests must be repeated for this utility are:

<u>Wastewater</u>		
<u>Test</u>	<u>Frequency</u>	<u>Annual Amount</u>
CBOD/TSS (influent)	Monthly	\$780/yr
CBOD/TSS (effluent)	Monthly	\$780/yr
Fecal Coliform	Monthly	\$480/yr
Nitrate, Nitrite	Quarterly	\$160/yr
Sludge Analysis	Yearly	<u>\$450/yr</u>
	Total	<u>\$2,650/yr</u>

Based on the utility's permit requirements, the utility is required to sample ground water in accordance with its permit and the approved ground water monitoring plan prepared in accordance with Rule 65-522.600, F.A.C. The utility is not in compliance status because it did not submit the ground water monitoring reports for all quarters of 2003. In order to be in compliance with DEP's requirements, it will cost \$1,150 per quarter or \$4,600 per year to perform the DEP's required ground water monitoring tests for the six wells. Staff has determined that testing expense should be \$7,250 (\$2,650 + \$4,600). Staff has reclassified \$2,134 to Account No. 731.

Staff recommends contractual services – testing for the test year of \$7,250.

Contractual Services - Other – (736) – The utility recorded \$12,343 to this account during the test year. Staff has reclassified \$950 of billing expense to Account No. 730. Staff has reclassified \$200 of accounting fees to Account No. 731. Staff has removed \$59 for interest paid on an unpaid invoice. Staff has reclassified \$1,987 for labor related to plant additions to Account No. 370. Staff has increased this account by \$1,412 for labor and maintenance reclassified from Account No. 720. Staff has reclassified maintenance expense of \$1,487 from Account No. 711.

Staff recommends contractual services – other for the test year of \$12,046.

Rents – (740) – The utility recorded \$9,490 in this account during the test year. In the utility's last rate case, a pro forma adjustment of \$49,432 was made to plant for the purchase of land to construct additional percolation ponds. The utility has chosen not to purchase the land but to rent it at \$6,480 from a related party. Staff recommends that the appropriate rent amount for the land should be the annual rate of return, based on the utility's current capital structure, times the original cost of the land in service. Staff's recommended rate of return is 8.78%. Therefore, staff has determined rent for the land to be \$4,340 (\$49,432 x 8.78%). Staff has decreased this account by \$2,140 (\$6,480 - \$4,340). The utility requested that the rent expense be increased by \$12 per month to reflect current market rental rate on office space. Staff determined the amount to be below market value and to be reasonable. Staff has made a pro forma adjustment to increase this account by \$144 (\$12 x 12).

The utility paid \$250 for sales tax during the test year. Pursuant to Rule 12A-1.070(19)(a), F.A.C., the lease or rental of real property or a license fee arrangement to use or occupy real property between related “persons”, in the capacity of lesser/lessee is subject to tax. The current sales tax, as of November 1, 2004, is 6.5% for Volusia County. Based on staff’s recommended rent expense, the sales tax on rent is \$471 ($\$7,244 \times 6.5\%$). Staff has increased this account for sales tax by \$221 ($\$471 - \250).

Staff recommends rent expense for the test year of \$7,715.

Transportation Expense – (750) – The utility recorded \$0 in this account during the test year. In performing utility duties, the utility owner uses his personal vehicle to monitor the service area, attend meetings with regulatory personnel, make bank deposits, transport financial information to the accountant, pick up supplies, etc. The staff engineer estimates the utility owner will travel an average of 120 miles per week. Therefore, staff has increased this account by \$1,810 ($120 \text{ miles} \times 52 \text{ wk} \times \29) to reflect transportation expense. Staff recommends transportation expense for the test year of \$1,810.

Regulatory Commission Expense – (765) – 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 4-year period. 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 wastewater of \$154 postage expense, \$42 printing expense, and \$21 for envelopes. The above results in a total rate case expense for noticing of \$417. Staff has increased this account by \$54 ($\$217/4$) to reflect rate case expense for noticing. Staff has reclassified rate case expense of \$823 for the consultant to this account from Account No. 730 and amortized it over four years for an increase of \$206 ($\$823/4$). The utility paid a \$1,000 rate case filing fee for wastewater. Staff has increased this account by \$250 ($\$1000/4$). Staff recommends a net increase to this account of \$510.

Staff recommends regulatory commission expense of \$510.

Miscellaneous Expense – (775) – The utility recorded \$2,819 in this account for the test year. The utility is in the process of renewing its wastewater permit. The utility has a contract in the amount of \$6,700 with a consulting engineering firm to prepare the wastewater permit documents and related reports. The utility also has to pay \$3,000 for the DEP’s Permit Application fee. Staff has increased this account by \$1,940 ($\$9,700/5$) amortized over the life of the permit. Staff recommends miscellaneous expense for the test year of \$4,759.

Operation and Maintenance Expense (O&M Summary) – The total O&M adjustment is an increase of \$6,652. Staff’s recommended O&M expenses are \$148,384. O&M expenses are shown on Schedule 3-C.

Depreciation Expense – The utility recorded depreciation expense net of CIAC amortization of \$10,076 ($\$26,976$ Depreciation Expense and $\$16,900$ Amortization of CIAC) during the test year. Depreciation expense has been calculated by staff using the prescribed rates in Rule 25-30.140, F.A.C. Staff has increased depreciation expense by \$1,119 to reflect staff’s calculated depreciation expense of \$28,095. Staff has increased this account by \$398 to reflect pro forma depreciation expense. Staff decreased this account by \$8,275 to reflect non-used and useful

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depreciation. Staff has calculated amortization of CIAC based on composite rates. Staff has increased this account by \$1,205 to reflect staff's calculated amortization of CIAC of \$15,695. Non-used and useful depreciation and amortization of CIAC have a negative impact on depreciation expense. Net depreciation expense is \$4,523.

Taxes Other Than Income – The utility recorded taxes other than income of \$12,055 during the test year. Staff has decreased this account by \$48 to reflect the appropriate test year payroll taxes. Staff has increased this account by \$534 to reflect the appropriate test year property taxes. Staff has removed \$250 from this account for an expense related to the water system. Staff has decreased this account by \$922 to reflect the non-used and useful property tax. Staff has increased this account by \$423 to reflect the increase in payroll taxes due to staff's recommended salary increases.

Staff's total adjustment to this account is a decrease of \$263.

Income Tax – Tymber Creek is a Sub-chapter S corporation; therefore, consistent with Rule 25-30.433(7), F.A.C., an allowance for income tax has not been made.

Operating Revenues – Revenues have been increased by \$33,061 to reflect the change in revenue required to cover expenses and allow the recommended return on investment.

Taxes Other Than Income – The expense has increased by \$1,488 to reflect regulatory assessment fees 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 \$166,187.

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

Revenue Requirement

Issue 7: What is the appropriate revenue requirement?

Recommendation: The appropriate revenue requirement is \$180,155 for wastewater. (Biggins, Hudson)

Staff Analysis: The utility should be allowed an annual increase of \$33,061 (22.48%) for wastewater. This will allow the utility the opportunity to recover its expenses and earn an 8.78% return on its investment. The calculations are as follows:

	<u>Wastewater</u>
Adjusted Rate Base	\$159,097
Rate of Return	x .0878
Return on Rate of Return	<u>\$13,969</u>
Adjusted O & M Expense	\$148,384
Depreciation expense (Net)	\$4,523
Amortization	\$0
Taxes Other Than Income	\$13,280
Income Taxes	<u>\$0</u>
Revenue Requirement	<u><u>\$180,155</u></u>
Adjusted Test Year Revenues	<u>\$147,094</u>
Percent Increase/(Decrease)	<u><u>22.48%</u></u>

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

Rates and Charges

Issue 8: What are the appropriate rates for the system?

Recommendation: The recommended rates should be designed to produce revenues of \$173,454. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), F.A.C. 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 within 10 days after the date of the notice. (Biggins, Hudson)

Staff Analysis: The recommended rates should be designed to produce revenue of \$180,155. Staff has calculated rates using test-year number of bills and consumption. Staff's calculated rates for wastewater have been calculated based on 80% of the water used by residential customers and actual usage for the general service customers. Staff's calculated rates also include a 10,000 gallon monthly gallonage cap for residential wastewater customers.

Schedules of the utility's current rates and staff's recommended are as follows:

Monthly Rates – Wastewater		
Residential Service		
<u>Meter Sizes</u>	<u>Existing Rates</u>	<u>Staff's Recommended Rates</u>
<u>Base Facility Charge</u>		
Meter Sizes		
5/8" x 3/4"	\$9.95	N/A
3/4"	\$14.90	N/A
1"	\$24.85	N/A
1 ½"	\$49.70	N/A
2"	\$79.51	N/A
3"	\$159.01	N/A
4"	\$248.46	N/A
6"	\$496.92	N/A
All Meter Sizes	N/A	\$14.41
<u>Gallonage Charge</u>		
Per 1,000 Gallons (10,000 Gallon Cap)	\$3.89	\$4.39

Monthly Rates – Wastewater
 General Service
 Base Facility Charge

<u>Meter Sizes</u>	<u>Existing Rates</u>	<u>Staff's Recommended Rates</u>
5/8" x 3/4"	\$9.95	\$14.41
3/4"	\$14.90	\$21.61
1"	\$24.85	\$36.02
1 1/2"	\$49.70	\$72.04
2"	\$79.51	\$115.26
3"	\$159.015	\$230.52
4"	\$248.465	\$360.18
6"	\$496.92	\$720.36
<u>Gallonage Charge</u>		
Per 1,000 Gallons	\$3.89	\$5.26

Based on Staff's recommended rates, the utility would recover approximately 40% (\$72,281) of wastewater system revenue from the base facility charge, and the remaining 60% (\$107,874) for wastewater recovered from the gallonage charge.

If the Commission approves staff's recommendation, these rates should be effective for service rendered on or after the stamped approval date on the revised tariff sheets. The tariff sheets should be approved administratively upon staff's verification that the tariffs are consistent with the Commission's decision and the customer notice is adequate.

If the effective date of the new rates falls within a regular billing cycle, the initial bills at the new rate may be prorated. The old charge should be prorated based on the number of days in the billing cycle before the effective date of the new rates. The new charge should be prorated based on the number of days in the billing cycle on and after the effective date of the new rates. In no event should the rates be effective for service rendered prior to the stamped approval date.

Issue 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, Florida Statutes?

Recommendation: The wastewater 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, Florida Statutes. The utility should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. If the utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense. (Biggins, 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 regulatory assessment fees which is \$534 annually for wastewater. Using the utility's current revenues, expenses, capital structure and customer base the reduction in revenues will result in the rate decreases as shown on Schedules No. 4.

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

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

Issue 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 the utility?

Recommendation: Yes. Pursuant to Section 367.0814(7), Florida Statutes, the recommended rates should be approved for the utility on a temporary basis, subject to refund, in the event of a protest filed by a party other than the utility. Prior to implementation of any temporary rates, the utility should provide 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. (Biggins, 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 the utility, staff recommends that the recommended rates be implemented as temporary rates. The recommended rates collected by the utility should be subject to the refund provisions discussed below if there is a protest.

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 \$22,247. Alternatively, the utility could establish an escrow agreement with an independent financial institution.

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

- 1) The Commission approves the rate increase; or
- 2) If the Commission denies the increase, the utility shall refund the amount collected that is attributable to the increase.

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

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

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

- 1) No funds in the escrow account may be withdrawn by the utility without the express approval of the Commission.
- 2) The escrow account shall be an interest bearing account.
- 3) If a refund to the customers is required, all interest earned by the escrow account shall be distributed to the customers.
- 4) If a refund to the customers is not required, the interest earned by the escrow account shall revert to the utility.
- 5) All information on the escrow account shall be available from the holder of the escrow account to a Commission representative at all times.
- 6) The amount of revenue subject to refund shall be deposited in the escrow account within seven days of receipt.
- 7) This escrow account is established by the direction of the Florida Public Service Commission for the purpose(s) set forth in its order requiring such account. Pursuant to Cosentino v. Elson, 263 So. 2d 253 (Fla. 3d DCA 1972), escrow accounts are not subject to garnishments.
- 8) The Director of Commission Clerk and Administrative Services must be a signatory to the escrow agreement.

This account must specify by whom and on whose behalf such monies were paid.

In no instance should the maintenance and administrative costs associated with the refund be borne by the customers. These costs are the responsibility of, and should be borne by, the utility. Irrespective of the form of security chosen by the utility, an account of all monies received as 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.

Other Issues

Issue 11: Should this docket be closed?

Recommendation: No. If no timely protest is received upon expiration of the protest period, the PAA Order will become final upon the issuance of a Consummating Order. However, this docket should remain open for an additional nine months from the date of the Consummating Order to allow staff to verify completion of pro forma plant items described in Issue No. 3. Once staff has verified that this work has been completed, the docket should be closed administratively. (Jaeger, Biggins, Hudson)

Staff Analysis: Staff has recommended that the utility complete pro forma items described in Issue No. 3. If no timely protest is received upon expiration of the protest period, the PAA Order will become final upon the issuance of a Consummating Order. However, this docket should remain open for an additional nine months from the effective date of the Consummating Order to verify completion of the pro forma items. Once staff has verified that the work has been completed, this docket should be closed administratively.

Attachments

ATTACHMENT A, PAGE 1 OF 2

WASTEWATER TREATMENT PLANT – USED AND USEFUL DATA				
1)		Permitted Capacity of Plant (AADF)	131,000	gallons per day
2)		Maximum Day From Maximum Month	314,000	gallons per day
3)		Average Daily Flow (AADF)	78,500	gallons per day
4)		Growth		
	a)	Average Test Year Customers in ERCs: Historical Test Year: Jan. 2003 - Dec. 2003	419	ERCs
	b)	Customer Growth in ERCs using Regression Analysis for most recent 5 years including Test Year	2	ERCs
	c)	Statutory Growth Period	5	Years
	d)	Growth = (4b)x(4c)x[3^(4a)]	1,874	gallons per day
5)		Excessive Infiltration or Inflow (I&I)	0	gallons per day
	a)	Total I&I	8,747	gallons per day
	b)	Percent of Excessive		
	c)	Reasonable Amount (500 gpd per inch dia pipe per mile)	16,966	gallons per day
	d)	Excessive Amount	0	gallons per day

USED AND USEFUL FORMULA

$$[(3) + (4) - (5)] / (1) =$$

$$[78,500 + 1,874 - 0] / 131,000 = 61\% \quad \text{Used \& Useful}$$

WASTEWATER COLLECTION SYSTEM – USED AND USEFUL DATA				
1)		Capacity of System (Number of Potential in ERCs)	465	ERCs
2)		Test Year Connections (Customers) Average Test Year in ERC	419	ERCs
3)		Growth		
	a)	Customer growth in connections for last 5 years including test year using Regression Analysis	2	ERCs
	b)	Statutory Growth Period	5	Years
	c)	Growth = (a)x(b) Connections allowed for growth	10	ERCs

USED AND USEFUL FORMULA

$$[(2)+(3C)] / (1) = 92.30\% \quad \text{Used and Useful}$$

TYMBER CREEK UTILITIES
TEST YEAR ENDING 12/31/03
SCHEDULE OF WASTEWATER RATE BASE

SCHEDULE NO. 1-A
 DOCKET NO. 040300-SU

DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	\$667,149	\$7,693	\$674,842
2. LAND & LAND RIGHTS	\$4,524	\$0	\$4,524
3. NON-USED AND USEFUL COMPONENTS	\$0	(\$75,246)	(\$75,246)
4. CIAC	(\$375,056)	\$1,575	(\$373,481)
5. ACCUMULATED DEPRECIATION	(\$377,518)	\$3,423	(\$374,095)
6. AMORTIZATION OF CIAC	\$314,300	(\$30,295)	\$284,005
7. WORKING CAPITAL ALLOWANCE	<u>\$0</u>	<u>\$18,548</u>	<u>\$18,548</u>
8. WASTEWATER RATE BASE	\$233,399	(\$74,302)	\$159,097

**TYMBER CREEK UTILITIES
 TEST YEAR ENDING 12/31/03
 ADJUSTMENTS TO RATE BASE**

SCHEDULE NO. 1-B
 DOCKET NO. 040300-SU
PAGE 1

WASTEWATER

UTILITY PLANT IN SERVICE

1.	To reflect appropriate plant balances per audit	(\$4,456)
2.	To retire fully depreciated plant in Acct. 395	(\$373)
3.	To reflect appropriate plant for Acct. 361	(\$2,787)
4.	To reclassify labor for plant additions from Acct. 736	\$1,987
5.	To reclassify labor related to plant addition from Acct. 720	\$3,687
6.	Manhole not booked in 1991	\$9,263
7.	To reflect proforma plant addition - Automatic Sampler (Acct. 380)	\$5,316
8.	To reflect proforma plant addition - Effluent Outfall Valve (Acct. 381)	\$1,380
9.	Average adjustment	(\$2,976)
10.	Average adjustment proforma plant	<u>(\$3,348)</u>
	Total	<u>\$7,693</u>

NON-USED AND USEFUL PLANT

1.	To reflect non-used and useful plant.	(\$159,353)
2.	Average non-used and useful accumulated depreciation	<u>\$84,107</u>
	Total	<u>(\$75,246)</u>

CIAC

1.	Average adjustment	<u>\$1,575</u>
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ACCUMULATED DEPRECIATION

1.	Accumulated depreciation per Rule 25-30.140, FAC	(\$9,135)
2.	To reflect full depreciation of Acct. 395	\$373
3.	To reflect proforma depreciation	(\$398)
4.	To reflect average adjustment for proforma plant	\$199
5.	Average adjustment	<u>\$12,384</u>
	Total	<u>\$3,423</u>

AMORTIZATION OF CIAC

1.	To adjust Amortization of CIAC based on composite rates	(\$22,516)
2.	Averaging adjustment	(\$7,779)
	Total	<u>(\$30,295)</u>

WORKING CAPITAL ALLOWANCE

1.	To reflect 1/8 of test year O & M expenses.	<u>\$18,548</u>
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Docket No. 040300-SU
 Date: November 18, 2004

TYMBER CREEK UTILITIES										SCHEDULE NO. 2	
TEST YEAR ENDING 12/31/03										DOCKET NO. 040300-SU	
SCHEDULE OF CAPITAL STRUCTURE											
CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUSTMENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUSTMENTS	BALANCE PER STAFF	PERCENT OF TOTAL	WEIGHTED COST	PRO RATA ADJUSTMENTS	BALANCE PER STAFF	PERCENT OF TOTAL	WEIGHTED COST
1. COMMON STOCK	\$185,239	\$0	\$185,239		\$137,107	86.18%	7.97%		\$137,107	86.18%	7.97%
2. RETAINED EARNINGS	\$0	\$0	\$0								
3. PAID IN CAPITAL	\$0	\$0	\$0								
4. OTHER COMMON EQUITY	\$0	\$78,919	\$78,919								
TOTAL COMMON EQUITY	\$185,239	\$78,919	\$264,158	(\$127,051)	\$137,107	86.18%	7.97%		\$137,107	86.18%	7.97%
LONG TERM DEBT											
5. PARENT COMPANY	\$104,793	(\$78,919)	\$25,874	(\$12,444)	\$13,430	8.44%	0.48%		\$13,430	8.44%	0.48%
6. TOTAL LONG TERM DEBT	\$0	\$0	\$0	\$0	\$0	0.00%	0.00%		\$0	0.00%	0.00%
	\$104,793	(\$78,919)	\$25,874	(\$12,444)	\$13,430	8.44%			\$13,430	8.44%	
8. CUSTOMER DEPOSITS	\$8,560	\$0	\$8,560	\$0	\$8,560	5.38%	0.32%		\$8,560	5.38%	0.32%
9. TOTAL	\$298,592	\$0	\$298,592	(\$139,495)	\$159,097	100.00%			\$159,097	100.00%	
RANGE OF REASONABLENESS										LOW	HIGH
RETURN ON EQUITY										8.25%	10.25%
OVERALL RATE OF RETURN										7.92%	9.64%

Docket No. 040300-SU
Date: November 18, 2004

TYMBER CREEK UTILITIES		SCHEDULE NO. 3-A			
TEST YEAR ENDING 12/31/03		DOCKET NO. 040300-SU			
SCHEDULE OF WASTEWATER OPERATING INCOME					
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	\$147,094	\$0	\$147,094	\$33,061	\$180,155
				\$0	
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	\$141,732	\$6,652	\$148,384	\$0	\$148,384
3. DEPRECIATION (NET)	\$10,076	(\$5,553)	\$4,523	\$0	\$4,523
4. AMORTIZATION	\$0	\$0	\$0	\$0	\$0
5. TAXES OTHER THAN INCOME	\$12,055	(\$263)	\$11,792	\$1,488	\$13,280
6. INCOME TAXES	\$0	\$0	\$0	\$0	\$0
TOTAL OPERATING EXPENSES	\$163,863	\$836	\$164,699	\$1,488	\$166,187
8. OPERATING INCOME/(LOSS)	(\$16,769)		(\$17,605)		\$13,969
9. WASTEWATER RATE BASE	\$233,399		\$159,097		\$159,097
10. RATE OF RETURN	-7.18%		-11.07%		8.78%

TYMBER CREEK UTILITIES
TEST YEAR ENDING 12/31/03
ADJUSTMENTS TO OPERATING INCOME

WASTEWATER

OPERATING REVENUES

1. \$0

OPERATION AND MAINTENANCE EXPENSES

1. Salaries and Wages for Employees (701)	
a. To include salary for daily wastewater duties performed by Marla Kumpf	\$8,196
b. To reflect appropriate test year salary for Marla Kumpf	\$76
c. To reflect proforma salary increase for Marla Kumpf	\$960
d. To reflect proforma salary for part-time office assistant	<u>\$4,020</u>
	<u>\$13,252</u>
2. Salaries and Wages for Officers (703)	
a. To reflect proforma salary increase for Officer	<u>\$552</u>
3. Sludge Removal Expense (711)	
a. To reclassify maintenance expenses to Acct. 736	<u>(\$1,487)</u>
4. Purchased Power	
a. To reflect increase in purchase power due to abnormal test year	<u>\$5,031</u>
5. Materials and Supplies	
a. To reclassify plant additions labor Acct. 370	(\$3,687)
b. To reclassify labor and maintenance to Acct. 736	<u>(\$1,412)</u>
	<u>(\$5,099)</u>
6. Contractual Services - Billing (730)	
a. To reclassify salary to Acct. 701 for Marla Kumpf	(\$8,196)
b. To reclassify fees for Rate Case Fee to Acct. 765	(\$823)
c. To reclassify fees for consultant to Acct. 731	(\$527)
d. To reclassify accounting fees to Acct. 731	(\$290)
e. To reclassify billing expense for Elva Wilson from Acct. 736	\$950
f. To annualize billing expense for Elva Wilson	<u>\$190</u>
	<u>(\$8,696)</u>
7. Contractual Services - Professional (731)	
a. To reclassify fees for consultant from Acct. 730	\$527
b. To reclassify fees for accounting from Acct. 730	\$290
c. To reclassify Wetherall maintenance charge to Acct. 736	(\$14)
d. To reclassify Wetherall operations and maintenance from Acct. 735	\$2,134
e. To reflect proforma increase for consultant amortized over 5 years (\$540/5)	<u>\$108</u>
	<u>\$3,045</u>

(O & M EXPENSES CONTINUED ON NEXT PAGE)

TYMBER CREEK UTILITIES
TEST YEAR ENDING 12/31/03
ADJUSTMENTS TO OPERATING INCOME

8.	Contractual Services - Testing(735)	
	a. To reclassify Wetherall operations and maintenance to Acct. 731	<u>(\$2,134)</u>
9.	Contractual Services - Other (736)	
	a. To reclassify billing expense for Elva Wilson to Acct. 730	(\$950)
	b. To reclassify accounting fees to Acct. 731	(\$200)
	c. To remove interest paid on a unpaid invoice	(\$59)
	d. To reclassify labor related to plant addition to Acct. 370	(\$1,987)
	e. To reclassify labor and maintenance from Acct. 720	\$1,412
	f. To reclassify maintenance expense from Acct. 711	<u>\$1,487</u> <u>(\$297)</u>
10.	Rent Expense	
	a. To remove land rent	(\$2,140)
	b. To reflect proforma increase for rent	\$144
	c. To reflect the appropriate sales tax	<u>\$221</u> <u>(\$1,775)</u>
11.	Transportation Expense (750)	
	a. To reflect appropriate transportation expense per staff	<u>\$1,810</u>
12.	Regulatory Commission Expenses (765)	
	a. Notice Expense Amortized over 4 Years (\$216/4)	\$54
	b. Amortize Rate Case Filing Fee over 4 Years (\$1000/4)	\$250
	c. Amortize Rate Case Consult. Fee over 4 Years from Acct. 730 (\$823/4)	<u>\$206</u> <u>\$510</u>
13.	Miscellaneous Expense (775)	
	a. Amortize renewal of wastewater permit (9700/5)	<u>\$1,940</u>
	TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	<u>\$6,652</u>
	DEPRECIATION EXPENSE	
1.	To reflect test year depreciation calculated per 25-30.140, F.A.C.	\$1,119
2.	Pro forma depreciation expense	\$398
3.	Non-Used and Useful Depreciation	(\$8,275)
4.	To reflect amortization per composite rates	<u>\$1,205</u>
	Total	<u>(\$5,553)</u>
	TAXES OTHER THAN INCOME	
1.	To reflect appropriate payroll taxes per audit	(\$48)
2.	To reflect appropriate property taxes per audit	\$534
3.	To remove expense related to the water system	(\$250)
4.	To reflect non-used and useful property tax	(\$922)
5.	To reflect payroll tax increase due to salary increases	<u>\$423</u>
	Total	<u>(\$263)</u>

TYMBER CREEK UTILITIES
TEST YEAR ENDING 12/31/03
ANALYSIS OF WASTEWATER OPERATION
AND MAINTENANCE EXPENSE

SCHEDULE NO. 3-C
 DOCKET NO. 040300-SU

	TOTAL PER UTILITY	STAFF ADJUST- MENT		TOTAL PER STAFF
(701) SALARIES AND WAGES - EMPLOYEES	\$0	\$13,252	[1]	\$13,252
(703) SALARIES AND WAGES - OFFICERS	\$8,498	\$552	[2]	\$9,050
(704) EMPLOYEE PENSIONS AND BENEFITS	\$0	\$0		\$0
(710) PURCHASED SEWAGE TREATMENT	\$0	\$0		\$0
(711) SLUDGE REMOVAL EXPENSE	\$37,987	(\$1,487)	[3]	\$36,500
(715) PURCHASED POWER	\$15,471	\$5,031	[4]	\$20,502
(716) FUEL FOR POWER PRODUCTION	\$0	\$0		\$0
(718) CHEMICALS	\$4,165	\$0		\$4,165
(720) MATERIALS AND SUPPLIES	\$5,099	(\$5,099)	[5]	\$0
(730) CONTRACTUAL SERVICES - BILLING	\$9,836	(\$8,696)	[6]	\$1,140
(731) CONTRACTUAL SERVICES - PROFESSIONAL	\$24,136	\$3,045	[7]	\$27,181
(735) CONTRACTUAL SERVICES - TESTING	\$9,384	(\$2,134)	[8]	\$7,250
(736) CONTRACTUAL SERVICES - OTHER	\$12,343	(\$297)	[9]	\$12,046
(740) RENTS	\$9,490	(\$1,775)	[10]	\$7,715
(750) TRANSPORTATION EXPENSE	\$0	\$1,810	[11]	\$1,810
(755) INSURANCE EXPENSE	\$1,200	\$0		\$1,200
(765) REGULATORY COMMISSION EXPENSES	\$0	\$510	[12]	\$510
(770) BAD DEBT EXPENSE	\$1,304	\$0		\$1,304
(775) MISCELLANEOUS EXPENSES	<u>\$2,819</u>	<u>\$1,940</u>	[13]	<u>\$4,759</u>
	<u>\$141,732</u>	<u>\$6,652</u>		<u>\$148,384</u>

RECOMMENDED RATE REDUCTION SCHEDULE

TYMBER CREEK UTILITIES
TEST YEAR ENDING 12/31/03

SCHEDULE NO. 4
DOCKET NO. 040300-SU

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

MONTHLY WASTEWATER RATES

	<u>MONTHLY RECOMMENDED RATES</u>	<u>MONTHLY RATE REDUCTION</u>
<u>RESIDENTIAL SERVICE</u>		
BASE FACILITY CHARGE:		
Meter Size:		
All Meter Sizes	\$ 14.41	\$0.04
<u>GENERAL SERVICE</u>		
BASE FACILITY CHARGE:		
Meter Size:		
5/8"X3/4"	\$ 14.41	\$0.04
3/4"	21.61	\$0.06
1"	36.02	\$0.11
1-1/2"	72.04	\$0.21
2"	115.26	\$0.34
3"	230.52	\$0.68
4"	360.18	\$1.07
6"	720.36	\$2.14
<u>RESIDENTIAL GALLONAGE CHARGE</u>		
PER 1,000 GALLONS (10,000 GALLON CAP)	\$ 4.39	\$0.01
<u>GENERAL SERVICE GALLONAGE CHARGE</u>		
PER 1,000 GALLONS	\$ 5.26	\$0.02