

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-**

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**DATE:** February 17, 2005

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

**FROM:** Division of Economic Regulation (Merta, Massoudi, Rendell)  
Office of the General Counsel (Vining)

**RE:** Docket No. 040972-SU – Application for rate increase in Pinellas County by  
Ranch Mobile WWTP, Inc.

**AGENDA:** 03/01/05 – Regular Agenda – Proposed Agency Action Except Issue 15 -  
Interested Persons May Participate

**CRITICAL DATES:** 5-Month Effective Date (PAA Rate Case) waived until  
03/01/05

**SPECIAL INSTRUCTIONS:** None

**FILE NAME AND LOCATION:** S:\PSC\ECR\WP\040972.RCM.DOC

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## Case Background

Ranch Mobile WWTP, Inc. (Ranch Mobile or utility) is a Class C utility which provides wastewater service to three customers, Ranch Mobile (RM), Down Yonder (DY) and Twin Palms (TP), which are mobile home parks. The utility purchases wastewater treatment services from the City of Largo (City). Staff believes that this is a very unique utility. It is the only utility in Florida, which staff is aware of, that serves only three general service bulk customers. Therefore, in this case, staff will be recommending bulk rates.

This proceeding commenced on August 30, 2004, with the filing of a petition for a permanent rate increase by Ranch Mobile. The utility is engaged in phase one of a three phase project to rehabilitate its wastewater collection lines. Therefore, Ranch Mobile will be requesting additional increases as it undertakes phase two and three of its project. The utility is expected to file for the phase two increase at the end of 2005. In this case, the utility requested a 35.85% increase or \$66,489 in additional annual revenues. The utility based its request on a projected test year ending December 31, 2005. The Commission last granted Ranch Mobile a \$3,005 rate increase by Order No. 24888, issued August 7, 1991, in Docket No. 900246-SU, In re: Application for a staff-assisted rate case in Pinellas County by Ranch Mobile WWTP, Inc.

Pursuant to Section 367.081(8), Florida Statutes, the utility requested that the Commission process its petition for rate relief using Proposed Agency Action (PAA) procedures. Under that section, the Commission must enter its vote on the PAA within five months of the date on which a complete set of minimum filing requirements (MFRs) is filed with the Commission. The official date of filing in this case is September 22, 2004. By letter dated December 7, 2004, the utility waived its right pursuant to Section 367.081(8), Florida Statutes, to have the Commission enter its vote on its petition for a rate increase using the PAA procedure within five months following the filing of the company's petition. Specifically, the utility waived its right to the extent of agreeing to have the Commission vote on the utility's request at the March 1, 2005 Agenda Conference. The utility did not request interim rates. The Commission has jurisdiction over this request for a rate increase under Section 367.081, Florida Statutes.

## **Discussion of Issues**

### **Quality of Service**

**Issue 1:** Is the quality of service provided by the utility satisfactory?

**Recommendation:** Yes. The quality of service provided by the utility should be considered satisfactory. (Massoudi)

**Staff Analysis:** Rule 25-30.433(1), Florida Administrative Code, states that:

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

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

### **QUALITY OF UTILITY'S PRODUCT**

Jurisdiction over the utility's collection system is regulated by the Department of Environmental Services (DES), City of Largo. The DES inspected the utility's collection system on March 2, 2004. According to the DES, the utility meets or exceeds regulatory standards and is considered satisfactory.

### **OPERATIONAL CONDITIONS AT THE PLANT**

The utility has interconnected with the City of Largo and retired all of its plant. The utility's collection system operating permit was issued on March 2, 2004, and will expire on March 1, 2006. The utility is in the process of a comprehensive rehabilitation of the wastewater lines. This rehabilitation project was not mandated by the City of Largo nor the County of Pinellas. The utility has performed this project as preventative maintenance and to improve the operational conditions. All things considered, the operational conditions should be considered satisfactory.

Although the operational conditions are considered satisfactory, RM's collection system was designed and installed around 1959. Construction was primarily vitrified clay pipe. DY's collection system was constructed in the mid-1970s, and TP's collection system was constructed

in the mid-1980s. Near the end of July 2003, a portion of the RM's wastewater line collapsed due to a possible sink hole or age-related weakness. The utility was unable to determine if it was a sink hole or a weakness. The utility entered into a contract with Ultra Vision to repair the collapsed lines.

As a precautionary measure to determine the stability of the rest of the wastewater lines (which cover an expanse of 60 acres), the utility engaged Ultra Vision to videotape all the wastewater lines.

As a result of the video inspection, the utility decided to rehabilitate its wastewater lines. Three bids were received for the project and the Ultra Vision proposal was chosen for the work due to the lining material it would use and the previous satisfactory experience with the firm. The utility anticipated the rehabilitation project would extend over a ten-year period and the total cost would be approximately \$1.5 million. The utility has divided the park into phases for completion of the work, and currently, phase one is in progress.

Ultra Vision estimates that it will cost \$346,617.80 to inspect all manholes, install two new manholes, install eight manhole to manhole liners, and videotape the lines in year 2004. It will cost \$115,900.00 to install five manhole to manhole liners and videotape the lines in the year 2005. The total cost will be \$462,517.80 to complete the phase one pro forma project.

Although this rehabilitation project was not mandated by the City of Largo nor the County of Pinellas, staff and DES's inspector believe that the wastewater collection system is very old and that rehabilitation of the wastewater lines is prudent due to the age of the collection system and the type of the pipes used in construction. Also, staff believes that the total cost of \$462,517.80 is prudent to complete the phase one pro forma project.

### **UTILITY'S ATTEMPT TO ADDRESS CUSTOMER SATISFACTION**

A series of informal customer meetings were held on December 1, 2004, in the Ranch Mobile Clubhouse in Clearwater, Florida. Two persons requested individual meetings with staff to discuss issues related to the rate increase. The first meeting occurred at 4:00 pm with Mr. Earl Jones, the Twin Palms Mobile Home Park president, and Mr. Klaus Voss, the principal of the SI Group Environmental Consulting Firm, on behalf of Down Yonder Mobile Home. These representatives were concerned about increasing wastewater rates. Mr. Jones stated that his brother, his sister and he own and operate the Twin Palms Mobile Home Park. He said the Ranch Mobile rehabilitation cost should not affect the Twin Palms customers due to the small segment of the wastewater collection system shared with RM. Mr. Jones said if the Ranch Mobile's rehabilitation cost would affect the Twin Palms wastewater rates, he will pursue bypassing RM's wastewater system as expeditiously as he can.

Mr. Klaus Voss, the Down Yonder representative, stated that the DY wastewater collection system was constructed in the mid-1970s. The last phase was completed in the mid-1980s, while the RM wastewater collection system was constructed around 1959. Mr. Voss stated that DY utilizes less than 10% of the wastewater collection system that the utility is

currently repairing; therefore, it should not share in the cost to restore Ranch Mobile's wastewater collection system.

Mr. Voss also submitted a letter dated December 6, 2004, to staff after the customer meeting. In this letter, he added that the utility did not request nor obtain a third party independent engineering survey to determine an appropriate scope of work for the capital improvement project to its collection system. The utility solicited bids directly from repair contractors to repair/replace the entire system. This was done without consideration as to whether the entire collection system required repair/replacement. There was no determination by the utility of whether it would be prudent to repair portions of the system or replace the entire system.

The evening meeting was open to all customers at 6:00 P.M. in the Ranch Mobile Clubhouse. There were 43 persons that attended. Two customers made comments expressing concerns about the utility. The primary concern was the amount of the wastewater rate increase. Mr. Jones, the Twin Palms president, again shared his concerns in the evening meeting.

As discussed in Issue 13, staff is recommending a cost of service analysis which takes into consideration both DY and TP's concerns. Staff has discussed and explained this cost allocation to all three general service customers. Mr. Voss, as well as DY's attorney, have both indicated that DY is satisfied with staff's analysis and agree with staff's recommended rates. TP has indicated that it appreciates staff's consideration, but has no comment on the cost of service analysis.

Staff investigated and researched the line rehabilitation project and contacted Ultra Vision, the rehabilitation contractor. According to Ultra Vision, the following are TP's and DY's wastewater lines footage that are shared with RM's wastewater lines that are under rehabilitation:

TP discharges wastewater into manhole B7 through a 4" PVC force main where it is traveling through manhole B6 to manhole B1. From there, the lines have been refurbished.

From manhole B1 to manhole A2	280 feet
From manhole A2 to manhole A1A	80 feet
From manhole A1A to manhole A1	280 feet
From manhole A1 to Lift Station	<u>40 feet</u>
<b>Total TP New Lines Shared</b>	<b>680 feet</b>

DY discharges wastewater into manhole B5 to manhole B3 via a gravity sewage line. From there, the lines have been refurbished.

From manhole B3 to manhole B2	380 feet
From manhole B2 to manhole B1	380 feet
From manhole B1 to manhole A2	280 feet
From manhole A2 to manhole A1A	80 feet
From manhole A1A to manhole A1	280 feet
From manhole A1 to Lift Station	<u>40 feet</u>
<b>Total DY New Lines Shared</b>	<b>1,440 feet</b>

According to Ultra Vision's proposal, manhole A1 is going to be replaced with a new manhole and it is estimated that it will cost \$44,800 to complete this project. TP, DY and RM all discharge their wastewater in this new manhole.

Ultra Vision estimated that the rehabilitation of the wastewater lines will cost \$297,422.80 for a total of 2,503 linear feet or \$118.83 per linear foot ( $\$297,422.80 / 2,503$ ). The total new lines that TP is sharing is 680 feet and the total new lines that DY is sharing is 1,440 feet. However, the three parks, RM, TP and DY, are using the new lines from manholes B1 to A2 to A1A to A1 to the lift station which is 680 ft. This path from manhole B1 to the lift station will cost \$80,804.40 (680 ft x \$118.83/ft) to be rehabilitated.

DY and RM also are using the new lines from manhole B3 to B1 which is 760 feet. This path from manhole B3 to B1 will cost \$90,310.80 (760 ft x \$118.83/ft) to be rehabilitated.

All things considered, staff believes that the owner of the utility is putting forth a sufficient good faith effort to justify a "satisfactory" concerning its attempts to resolve customer complaints. It is recommended that the quality of service be considered satisfactory.

## **Rate Base**

**Issue 2:** Should the Commission approve a year end rate base for the utility?

**Recommendation:** Yes, the Commission should approve a year end rate base for the utility to allow it an opportunity to earn a fair return on its investment made during the test year and to insure compensatory rates on a prospective basis. A year end test year ending December 31, 2005, should be approved. (Merta)

**Staff Analysis:** The utility is undertaking a comprehensive rehabilitation of its wastewater lines as a preventative maintenance measure. By Order No. 23807, issued November 27, 1990, in Docket No. 900246-SU, In re: Application for staff-assisted rate case in Pinellas County by Ranch Mobile WWTP, Inc., the utility retired all of its plant assets and the land value was established as zero for rate setting purposes. The collection system is contributed plant as established by Order No. 16730, issued October 15, 1986, in Docket No. 860582-SU, In re: Application by Ranch Mobile WWTP, Inc. for staff-assisted rate case in Pinellas County. Each mobile home park maintains its own collection lines. Therefore, for the historical 2003 test year, the utility had a zero beginning balance for plant in service. For the test year ended December 31, 2005, the utility requested \$463,162 for its rehabilitation project which represents 100% of its rate base. To allow the utility an opportunity to recover the amount spent on plant improvements, the utility should be allowed a year end rate base.

The Commission should only apply a year end rate base in extraordinary circumstances. City of Miami v. Florida Pub. Serv. Comm'n, 208 So. 2d 249, 258 (Fla. 1968); Citizens of Florida v. Hawkins, 356 So. 2d 254, 257 (Fla. 1978). Staff believes that extraordinary circumstances exist in this docket. The utility made net additions of \$243,985 in the 2004 test year and staff is recommending pro forma additions of \$237,808 for the projected 2005 test year. As stated above, these improvements represent 100% of the utility's rate base. In Order No. PSC-00-1774-PAA-WU, issued September 27, 2000, in Docket No. 991627-WU, In re: Application for rate increase in Polk County by Park Water Company, Inc., the Commission found improvements representing over 52% of the utility's rate base to be considered an extraordinary circumstance.

The year end rate base will provide the utility an opportunity to recover the investment made to rehabilitate its lines and will insure compensatory rates for this utility in this rate case. Moreover, pursuant to Section 367.081(2)(a), Florida Statutes, the Commission is required to consider the investment in plant made by the utility in the public service. Therefore, staff recommends that the Commission approve a year end rate base for this utility.



**Issue 3:** What are the used and useful percentages of the utility's wastewater facilities?

**Recommendation:** The utility has interconnected with the City of Largo and retired all of its treatment plant. The wastewater collection system should be considered 100% used and useful. (Massoudi)

**Staff Analysis:** The utility has interconnected with the city of Largo. The utility retired all of its treatment plant assets, except the collection system. The collection system is contributed plant according to the Order No. 23807. Each park maintains its own collection lines. The City of Largo has installed a lift station on the utility's land, owned and operated by the City. The network of gravity mains throughout the three parks transport the raw influent to a central collection point (lift station) where the city transfers it into their system. The utility has granted the City easement rights. The utility has served the three parks (867 customers) since 1983. There is no possibility of any growth and the utility would never serve wastewater to more than 867 customers. Therefore, staff believes that the wastewater collection system should be considered 100% used and useful.

**Issue 4:** Are any adjustments necessary to the utility's plant in service, land and land rights, accumulated depreciation and depreciation expense?

**Recommendation:** Yes. Plant in service should be increased by \$21,689, land and land rights should be decreased by \$1,000, accumulated depreciation should be decreased by \$3,079, and depreciation expense should be decreased by \$2,257. (Merta, Massoudi)

**Staff Analysis:** Staff auditors conducted an audit of the utility's minimum filing requirement (MFR) schedules. The audit report contained several disclosures and recommendations for adjustments. No response to the audit has been received by the Commission.

#### Utility Plant in Service (UPIS)

For 2005, the utility included \$463,192 in plant in service. As discussed above, for the historical 2003 test year, the utility had a zero plant in service beginning balance. For 2003, the utility included \$42,974 in construction work in process (CWIP). The \$42,974 consisted of \$34,506 for sink hole repairs, and \$8,468 in legal fees. For 2004 and 2005, Ranch Mobile included plant additions of \$304,318 and \$115,900, respectively, for the rehabilitation of lines.

Per Audit Disclosure 1, in 2003, the utility experienced a break in its wastewater collection lines, evidenced by the sinking of a manhole. As a precautionary measure the utility engaged Ultra Vision to video the entire wastewater collection system at a cost of \$22,363. Ranch Mobile included the total cost of the sink hole repair and video inspection of \$34,506 in CWIP and reclassified these costs to plant in service in 2004. Staff believes the \$22,363 cost of the video inspection should be capitalized as part of the rehabilitation project because the entire system was videoed. However, staff believes the remaining \$12,143 for the repair is a nonrecurring maintenance expense and should be removed from rate base, reclassified to Account 736, Contractual Services-Other, and amortized over five years in accordance with Rule 25-30.433(8), Florida Administrative Code (F.A.C.). Therefore, staff recommends that plant in service be decreased by \$12,143 and expenses be increased by \$2,429 to amortize the repair over five years.

As stated above, in 2003, Ranch Mobile capitalized \$8,468 in legal fees related to contract negotiations among the utility, DY and TP mobile home parks. Per Audit Disclosure 1, the negotiations were an attempt to persuade the mobile home parks to hook up directly with the City of Largo and thereby close the utility business. Negotiations were unsuccessful and Ranch Mobile is currently providing service to the parks without a contract. Staff believes these expenses are nonrecurring and do not apply to wastewater operations. Therefore, staff recommends that plant in service be decreased by \$8,468.

In 2004, as stated above, Ranch Mobile included \$304,318 in plant in service. Per Audit Disclosure 1, this amount consisted of \$301,818 in rehabilitation costs plus \$2,500 in rate case amortization. The National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts for Class C Wastewater Utilities states that Account 765, Regulatory Commission Expenses, shall include all expenses incurred by the utility in connection with formal cases before regulatory commissions. Rate case expense will be

addressed in Issue 9. Therefore, staff recommends that plant in service be decreased by \$2,500 to remove rate case expense and that it be reclassified to Account 765.

Per Audit Disclosure 2, in 2004, Ranch Mobile entered into a contract for \$44,800 with Ultra Vision Pipeline Services to install a new manhole to replace the existing manhole A1. An analysis of rate base revealed that the utility did not include this cost in its rate base calculation for 2004. Therefore, staff recommends that plant in service be increased by \$44,800.

#### Pro Forma 2005 Plant Additions

In 2005, the utility included \$115,900 in UPIS for pro forma wastewater rehabilitation costs. Staff reviewed these estimates and believes the costs are prudent and reasonable. Therefore, staff recommends that no adjustment is necessary.

#### Land and Land Rights

Ranch Mobile included \$1,000 for land in its MFRs. Per Audit Disclosure 3, the utility's plant was situated on the land, which was conveyed to the utility by its parent. When the utility interconnected with the City of Largo, the City installed a lift station on approximately this same area of land. The lift station is owned and operated by the City. The utility granted the City permanent easement rights. As a result, Ranch Mobile does not pay real estate tax on this land. Order No. 23807 removed the land from rate base because "the land has no usefulness for utility operations." Therefore, staff recommends that land be decreased by \$1,000.

#### Accumulated Depreciation

Ranch Mobile recorded an accumulated depreciation balance of \$15,317 for the projected test year. Staff has recalculated accumulated depreciation using the prescribed rates in Rule 25-30.140, F.A.C. Staff's calculated accumulated depreciation on December 31, 2005, is \$12,238. Therefore, staff recommends that this account be decreased by \$3,079 to reflect staff calculated accumulated depreciation.

#### Depreciation Expense

The utility recorded depreciation expense of \$14,379 for the projected test year. Depreciation expense was calculated by staff using the prescribed rates in Rule 25-30.140, F.A.C. Staff's calculated depreciation expense is \$12,122. Therefore, staff recommends that depreciation expense be decreased by \$2,257.

The adjustments to rate base and depreciation expense are shown on Schedule Nos. 1-B and 3-B, respectively.

**Issue 5:** What is the appropriate working capital allowance?

**Recommendation:** The appropriate working capital allowance is \$23,756. (Merta)

**Staff Analysis:** Rule 25-30.433(2), F.A.C., requires that Class C utilities use the formula method (one-eighth of operation and maintenance (O&M) expenses) to calculate the working capital allowance. Ranch Mobile did not include a working capital allowance in its MFRs. Applying the formula, staff recommends that rate base be increased by \$23,756 to include a working capital allowance based on O&M of \$190,046.

**Issue 6:** What is the appropriate rate base?

**Recommendation:** The appropriate year end rate base for Ranch Mobile for the projected test year ended December 31, 2005, is \$496,399. (Merta)

**Staff Analysis:** Consistent with staff's recommended adjustments in other issues, the appropriate year end rate base for Ranch Mobile for the projected test year ended December 31, 2005, is \$496,399. Rate base is shown on Schedule No. 1-A and the adjustments to rate base are shown on Schedule No. 1-B.

**Cost of Capital**

**Issue 7:** What is the appropriate rate of return on equity and the appropriate overall rate of return for this utility?

**Recommendation:** The appropriate rate of return on equity is 9.10% with a range of 8.10% - 10.10% and the appropriate overall rate of return for this utility is 9.10%. (Merta)

**Staff Analysis:** Ranch Mobile is a wholly-owned subsidiary of Ranch Mobile, Inc. The utility used its parent's capital in the MFRs. Staff also elected to use the consolidated capital structure of the parent because the source of funds for utility operations comes entirely from Ranch Mobile, Inc. In a similar situation, in Order No. PSC-02-1739-PAA-WS, issued December 10, 2002, in Docket No. 020010-WS, In re: Application for staff-assisted rate case in Highlands County by The Woodlands of Lake Placid, L.P., the Commission approved the use of the parent's capital structure rather than the utility's.

Based on the staff audit, the capital structure consists entirely of equity of \$1,780,876. In its MFRs, the utility requested a 9.10% return on equity. Using the current 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 rate of return on common equity allowed for the utility is 9.10% with a range of 8.10% - 10.10%.

The utility's capital structure was reconciled with staff's recommended rate base. Applying the cost of each capital component times the pro-rata share of each component results in an overall rate of return of 9.10%.

Staff recommends the appropriate rate of return on equity is 9.10% with a range of 8.10% - 10.10% and the appropriate overall rate of return for this utility is 9.10%. Staff's recommended cost of capital is shown on Schedule No. 2.

**Net Operating Income**

**Issue 8:** What is the appropriate test year operating revenue?

**Recommendation:** The appropriate test year operating revenue is \$198,038. (Merta)

**Staff Analysis:** Ranch Mobile recorded revenues of \$185,468 for the projected test year ended December 31, 2005. This was the same amount of revenues recorded for the historical test year ended December 31, 2003. Tariffed rates have changed since 2003. Staff calculated revenues using the current rates times the number of customers in each mobile home park, resulting in projected test year revenues of \$198,038. Therefore, staff recommends that revenues be increased by \$12,570 to reflect projected test year revenues of \$198,038.

**Issue 9:** What adjustments, if any, should be made to test year operation and maintenance expenses?

**Recommendation:** Operation and maintenance expenses should be increased by \$5,291 as detailed in the staff analysis. (Merta)

**Staff Analysis:** The utility recorded \$184,755 in O&M expenses which includes \$182,297 for purchased wastewater treatment and \$2,458 for miscellaneous expenses (\$2,000 management fee, \$200 permit fee, \$150 corporate filing fee, and \$108 bank fee).

(736) Contractual Services – Other – As discussed in Issue 4, staff increased this account by \$2,429 to amortize nonrecurring repairs over five years (\$12,143/5). In addition, per Audit Disclosure 1, in 2004, the utility incurred \$7,555 in repair costs that were not included in the MFRs. Staff recommends that the repairs be amortized over five years in accordance with Rule 25-30.433(8), Florida Administrative Code (F.A.C.). Therefore, staff recommends that this account be increased by \$1,511. (\$7,555/5)

(765) – Regulatory Commission Expense – Ranch Mobile requested a total of \$5,672 in rate case expense. This amount includes the \$2,500 in rate case expense, discussed in Issue 4, that staff reclassified to this account. The requested rate case expense included \$147 in costs of the parent company from Office Depot and \$120 in fees for preparing a price index application. Staff believes these costs are unrelated to the rate case and recommends that rate case expense be decreased by \$267. Therefore, staff recommends rate case expense of \$5,405.

For the projected test year, the utility's MFRs included \$1,418 ( $\$5,672/4$ ) of rate case amortization expense in Account 407, Amortization Expense – Other. Per the NARUC Uniform System of Accounts, this amount should be included in Account 765. Therefore, staff recommends that Amortization Expense be decreased by \$1,418 to reclass amortized rate case expense to this account.

Based on the above, staff recommends that this account be increased by \$1,351 ( $\$5,405/4$ ) to amortize rate case expense over four years pursuant to Section 367.0816, Florida Statutes.

### Summary

Total O&M adjustments amount to an increase of \$5,291 resulting in a total projected test year O&M expense of \$190,046. O&M expenses are shown on Schedule No. 3-C.

**Issue 10:** Are any adjustments necessary to taxes other than income?

**Recommendation:** Yes. Test year regulatory assessment fees (RAFs) should be increased by \$566. (Merta)

**Staff Analysis:** In the projected test year, Ranch Mobile included \$8,346 in taxes other than income for RAFs. Staff recommends that this account be increased by \$566 to reflect RAFs based on projected test year annualized revenues ( $\$198,038 \times .045 = \$8,346$ ).

**Issue 11:** What is the test year operating income before any revenue increase?

**Recommendation:** Based on the adjustments discussed in previous issues, staff recommends that projected test year operating income before any provision for increased revenues should be (\$13,042). (Merta)

**Staff Analysis:** Staff recommends that the test year net operating/loss before any revenue increase should be (\$13,041). Staff's recommended NOI is reflected on Schedule No. 3-A with adjustments shown on Schedule No. 3-B.



**Revenue Requirement**

**Issue 12:** What is the appropriate revenue requirement?

**Recommendation:** The following revenue requirement should be approved. (Merta)

	Test Year		Revenue	
	<u>Revenues</u>	<u>\$ Increase</u>	<u>Requirement</u>	<u>% Increase</u>
Wastewater	\$198,038	\$54,713	\$252,751	27.63%

**Staff Analysis:** The utility requested a revenue requirement of \$252,751. Based on staff's recommendations concerning the underlying rate base, cost of capital, and operating income issues, staff calculated a revenue requirement of \$258,995 for this utility. Staff's adjustments generate a revenue requirement higher than that requested by the utility. In such circumstances, it has been Commission practice to limit the revenue requirement to the level requested by the utility. See Order No. PSC-95-0191-FOF-WS, issued February 9, 1995, in Docket No. 940917-WS, In Re: Application for rate increase for increased water and wastewater rates in Seminole, Orange, and Pasco Counties by Utilities, Inc. of Florida; Order No. PSC-92-0229-FOF-GU, issued April 20, 1992, in Docket No. 910873-GU, In re: Petition for approval of initial rates to be established by Sebring Gas System, a division of Coker Fuels, Inc.; Order No. 15796, issued March 10, 1986, in Docket No. 840047-WS, In Re: Application of Poinciana Utilities, Inc., for increased rates to its customers in Osceola County, Florida. Nevertheless, it should be noted that by Order No. 24094, issued February 12, 1991, in Docket No. 900151-GU, In re: Application for a rate increase in natural gas operations by Florida Public Utilities Company, the Commission approved a revenue requirement higher than requested by the company; however, in that case there were mitigating circumstances. Subsequent to the company filing its MFRs, a depreciation study was approved by the Commission that substantially increased O&M expense and accumulated depreciation. Notwithstanding that, in the instant case, staff believes that Ranch Mobile should be limited to the revenue requirement it requested because the projected test year is based on estimates that will be trued up when the utility requests recovery of phase two and phase three of its rehabilitation project beginning at the end of 2005.

Therefore, staff recommends the approval of rates that are designed to generate a revenue requirement of \$252,751. This reflects a 27.63% increase over staff's adjusted test year revenues of \$198,038 as shown on Schedule No. 3A. This will provide the utility the opportunity to recover its expenses and earn a 7.84% return on its investment in rate base.

### **Cost of Service and Rates**

**Issue 13:** What is the appropriate cost of service methodology to be used in allocating costs to the three customers?

**Recommendation:** The appropriate cost of service methodology to be used in allocating costs to the three customers is based on allocators that assign the appropriate amount of the revenue requirement to the cost causers. (Merta)

**Staff Analysis:** As discussed in the case background, staff believes that this is a very unique utility. It is the only utility in Florida, that staff is aware of, that serves only three general service bulk customers. Therefore, in this case, staff is recommending bulk rates. When bulk rates are designed, cost allocations must be employed.

The purpose of a cost of service study is to allocate the total costs of the utility among the various rate classes. The results of the cost of service study are used to determine how any revenue increase granted by the Commission will be allocated to the rate classes. Once this determination is made, rates are designed for each rate class that recover the total revenue requirement attributable to that class.

Staff prepared a detailed cost of service study for this utility. This is unusual for a Class C utility. A cost of service study is required by Rules 25-6.043, and 25-7.039, F.A.C., for electric and gas rate cases, respectively. However, cost of service studies are not required for Class B or C water and wastewater rate cases. Below is a description of the methodology used by staff to allocate costs to the three customers.

Whenever possible, costs were directly assigned to the cost causer. For example, the sink hole repairs and costs for the rehabilitation of nonshared lines were directly assigned to RM, and costs for a check valve were directly assigned to Down Yonder because these items were entirely related to the particular mobile home park. The purchased wastewater treatment was directly assigned based on the breakdown provided by the utility in MFR Schedule B-5.

**O&M Expenses** – As stated above, sink hole repairs were directly assigned to RM, and purchased wastewater treatment was directly assigned per the MFR schedule. The remaining O&M expenses and related taxes were allocated based on the number of customers in each mobile home park.

**Depreciation Expense** – Depreciation and the associated taxes were allocated based on plant improvements. First, the total cost of plant improvements (Manhole A1, Shared Line from B1 to A2 to A1A to A1, CCTV wastewater lines, and shared line from B3 to B1) was allocated based on the number of customers of the impacted mobile home parks (some improvements did not involve all three customers). The check valve was directly assigned to Down Yonder. Non-shared lines were directly assigned to RM. Second, a ratio was calculated based on the improvements of each customer to the total of all improvements. Third, the ratio was applied to depreciation expense.

Return on Investment – The return on investment and associated taxes were allocated based on the plant improvement methodology described above for depreciation expense.

Staff believes the methodology used in this case is reasonable and fairly allocates costs to the cost causers. Staff explained and discussed the cost of service methodology with all three mobile home parks. DY has indicated that it agrees with this method and the resulting rates. While RM and TP did not agree with staff, they did not strongly oppose or offer an alternative methodology. Therefore, staff recommends allocating costs based on the cost of service methodology described above.

**Issue 14:** What are the appropriate monthly rates for this utility?

**Recommendation:** The appropriate monthly rates for this utility are those shown in the staff analysis. The utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(1), F.A.C. 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. (Merta)

**Staff Analysis:** Staff's recommended revenue requirement and the revenue to be recovered through rates is \$252,751. Ranch Mobile's current tariff sheets characterize the rates as Residential (RS). As discussed in Issue 13, because staff is recommending bulk rates, staff recommends that the tariff sheets be changed to reflect the General Service (GS) designation.

Monthly flat rates were calculated by adding the expenses and the return on investment (revenue requirement) as discussed in Issue 13 allocated to each mobile home park, dividing by the number of customers in each mobile home park, and dividing by 12 months. Staff's recommended rates are as follows:

MONTHLY GENERAL SERVICE (GS)

FLAT RATES – WASTEWATER

	<u>Existing Rates</u> (per mobile home)	<u>Staff's</u> <u>Recommended Rates</u> (per mobile home)
Ranch Mobile	\$18.27	\$26.08
Down Yonder	\$18.27	\$20.87
Twin Palms	\$22.72	\$23.70

The utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(1), F.A.C. 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 15:** What is the appropriate amount by which rates should be reduced four years after the established effective date to reflect the removal of 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. (Merta)

**Staff Analysis:** Section 367.0816, F.S., requires that the rates be reduced immediately following the expiration of the four-year period by the amount of the rate case expense previously included in the rates. The reduction will reflect the removal of revenues associated with the amortization of rate case expense and the gross-up for regulatory assessment fees which is \$1,415 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 Schedule No. 4.

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

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

Docket No. 040972-SU  
Date: February 17, 2005

**Other Issues**

**Issue 16:** Should this docket be closed?

**Recommendation:** Yes, if no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the Order, this docket should be closed upon the issuance of a Consummating Order. (Vining)

**Staff Analysis:** If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the Order, this docket should be closed upon the issuance of a Consummating Order.

RANCH MOBILE WWTP, INC. TEST YEAR ENDING 12/31/05 SCHEDULE OF WASTEWATER RATE BASE		SCHEDULE NO. 1-A DOCKET NO. 040972-SU		
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF	
1 UTILITY PLANT IN SERVICE	\$463,192	\$21,689	\$484,881	
2 LAND & LAND RIGHTS	1,000	(1,000)	\$0	
3 NON-USED AND USEFUL COMPONENTS	0	0	\$0	
4 CIAC	0	0	\$0	
5 ACCUMULATED DEPRECIATION	(15,317)	3,079	(\$12,238)	
6 AMORTIZATION OF CIAC	0	0	\$0	
7 WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>23,756</u>	\$23,756	
8 WASTEWATER RATE BASE	\$448,875	\$47,524	\$496,399	

<b>RANCH MOBILE WWTP, INC.</b>		<b>SCHEDULE 1-B</b>
<b>TEST YEAR ENDING 12/31/05</b>		<b>DOCKET NO. 040972-SU</b>
<b>ADJUSTMENTS TO RATE BASE</b>		
	<b><u>UTILITY PLANT IN SERVICE</u></b>	<b><u>WASTEWATER</u></b>
1	Reclassify 2003 repairs to expenses (736)	(\$12,143)
.		
2	Remove 2003 legal fees re contract with RM, DY, TP	(8,468)
.		
3	Reclassify 2004 rate case expense to expenses (765)	(2,500)
.		
4	Include cost for 2004 rehab not included in MFRs	44,800
.		
	Total	<u>\$21,689</u>
1	<b>LAND AND LAND RIGHTS</b>	
.		
	Remove land not owned or used by the utility	<u>(\$1,000)</u>
	<b>ACCUMULATED DEPRECIATION</b>	
1	Accumulated depreciation per Rule 25-30.140, FAC	<u>\$3,079</u>
.		
	<b>WORKING CAPITAL ALLOWANCE</b>	
1	To reflect 1/8 of test year O & M expenses.	<u>\$23,756</u>
.		



**RANCH MOBILE WWTP, INC.**  
**TEST YEAR ENDING 12/31/05**  
**SCHEDULE OF CAPITAL STRUCTURE**

**SCHEDULE NO. 2**  
**DOCKET NO. 040972-SU**

<b>CAPITAL COMPONENT</b>	<b>PER UTILITY</b>	<b>SPECIFIC ADJUSTMENTS</b>	<b>BALANCE BEFORE PRO RATA ADJUSTMENTS</b>	<b>PRO RATA ADJUSTMENTS</b>	<b>BALANCE PER STAFF</b>	<b>PERCENT OF TOTAL</b>	<b>COST</b>	<b>WEIGHTED COST</b>
1. COMMON STOCK	\$500	\$0	\$500					
2. RETAINED EARNINGS	(523,031)	0	(523,031)					
3. PAID IN CAPITAL	2,024,524	0	2,024,524					
4. OTHER COMMON EQUITY	<u>278,883</u>	<u>0</u>	<u>278,883</u>					
<b>TOTAL COMMON EQUITY</b>	<b>\$1,780,876</b>	<b>\$0</b>	<b>\$1,780,876</b>	<b>(1,284,477)</b>	<b>496,399</b>	<b>100.00%</b>	<b>9.10%</b>	<b>9.10%</b>
<b>LONG TERM DEBT</b>								
5	0	0	0	0	0	0.00%	0.00%	0.00%
	0	0	0	0	0	0.00%	0.00%	0.00%
	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>
<b>TOTAL LONG TERM DEBT</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0.00%</b>		
6. CUSTOMER DEPOSITS	<u>0</u>	<u>0</u>	<u>0</u>	0	<u>0</u>	<u>0.00%</u>	6.00%	<u>0.00%</u>
7. TOTAL	<u>\$1,780,876</u>	<u>\$0</u>	<u>\$1,780,876</u>		<u>\$496,399</u>	100.00%		<u>9.10%</u>
<b>RANGE OF REASONABLENESS</b>						<b>LOW</b>	<b>HIGH</b>	
RETURN ON EQUITY						8.10%	10.10%	
OVERALL RATE OF RETURN						8.10%	10.10%	

<b>RANCH MOBILE WWTP, INC.</b>		<b>SCHEDULE 3-A</b>			
<b>TEST YEAR ENDING 12/31/05</b>		<b>DOCKET NO. 040972-SU</b>			
<b>SCHEDULE OF WASTEWATER OPERATING INCOME</b>					
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. <b>OPERATING REVENUES</b>	<u>\$185,468</u>	<u>\$12,570</u>	<u>\$198,038</u>	<u>\$60,957</u> 30.78%	<u>\$258,995</u>
<b>OPERATING EXPENSES:</b>					
2. OPERATION & MAINTENANCE	184,755	5,291	190,046	0	190,046
3. DEPRECIATION (NET)	14,379	(2,257)	12,122	0	12,122
4. AMORTIZATION	1,418	(1,418)	0	0	0
5. TAXES OTHER THAN INCOME	8,346	566	8,912	2,743	11,655
6. INCOME TAXES	0	0	0	0	0
7. <b>TOTAL OPERATING EXPENSES</b>	<u>\$208,898</u>	<u>\$2,182</u>	<u>\$211,080</u>	<u>\$2,743</u>	<u>\$213,823</u>
8. <b>OPERATING INCOME/(LOSS)</b>	<u>(\$23,430)</u>		<u>(\$13,042)</u>		<u>\$45,172</u>
9. <b>WASTEWATER RATE BASE</b>	<u>\$448,875</u>		<u>\$496,399</u>		<u>\$496,399</u>
10. <b>RATE OF RETURN</b>	<u>-5.22%</u>		<u>-2.63%</u>		<u>9.10%</u>

<b>RANCH MOBILE WWTP, INC.</b> <b>TEST YEAR ENDING 12/31/05</b> <b>ADJUSTMENTS TO OPERATING INCOME</b>		<b>Schedule No. 3-B</b> <b>DOCKET NO. 040972-SU</b>
		<b><u>WASTEWATER</u></b>
<b>OPERATING REVENUES</b>		
1	To adjust utility revenues to annualized test year amount.	<u>\$12,570</u>
	.	
<b>OPERATION AND MAINTENANCE EXPENSES</b>		
1	Contractual Services - Other (636/ 736)	
	a. Reclassify 2003 repairs from Rate Base and amortize over 5 yrs.	\$2,429
	b. Include 2004 repairs not recorded and amortize over 5 yrs.	1,511
	Subtotal	<u>\$3,940</u>
2	Regulatory Expense (665/ 765)	
	a. Amortize rate case expense over 4 years (\$5,405/4)	<u>\$1,351</u>
	<b>TOTAL OPERATION &amp; MAINTENANCE ADJUSTMENTS</b>	<b><u>\$5,291</u></b>
<b>DEPRECIATION EXPENSE</b>		
1	To reflect test year depreciation calculated per 25-30.140, F.A.C.	<u>(\$2,257)</u>
	.	
<b>AMORTIZATION</b>		
1	Reclass rate case expense amortization to Acct. 765	<u>(\$1,418)</u>
	.	
<b>TAXES OTHER THAN INCOME</b>		
1	Adjust RAF's to Projected Revenue	<u>\$566</u>
	.	

<b>RANCH MOBILE WWTP, INC.</b> <b>TEST YEAR ENDING 12/31/05</b> <b>ANALYSIS OF WASTEWATER OPERATION</b> <b>AND MAINTENANCE EXPENSE</b>		<b>SCHEDULE NO. 3-C</b> <b>DOCKET NO. 040972-SU</b>	
	<b>TOTAL</b> <b>PER</b> <b>UTILITY</b>	<b>STAFF</b> <b>ADJUST-</b> <b>MENT</b>	<b>TOTAL</b> <b>PER</b> <b>STAFF</b>
(701) SALARIES AND WAGES - EMPLOYEES	\$0	0	\$0
(703) SALARIES AND WAGES - OFFICERS	0	0	\$0
(704) EMPLOYEE PENSIONS AND BENEFITS	0	0	\$0
(710) PURCHASED SEWAGE TREATMENT	182,297	0	\$182,297
(711) SLUDGE REMOVAL EXPENSE	0	0	\$0
(715) PURCHASED POWER	0	0	\$0
(716) FUEL FOR POWER PRODUCTION	0	0	\$0
(718) CHEMICALS	0	0	\$0
(720) MATERIALS AND SUPPLIES	0	0	\$0
(730) CONTRACTUAL SERVICES - BILLING	0	0	\$0
(731) CONTRACTUAL SERVICES - PROFESSIONAL	0	0	\$0
(735) CONTRACTUAL SERVICES - TESTING	0	0	\$0
(736) CONTRACTUAL SERVICES - OTHER	0	3,940	\$3,940
(740) RENTS	0	0	\$0
(750) TRANSPORTATION EXPENSE	0	0	\$0
(755) INSURANCE EXPENSE	0	0	\$0
(765) REGULATORY COMMISSION EXPENSES	0	1,351	\$1,351
(770) BAD DEBT EXPENSE	0	0	\$0
(775) MISCELLANEOUS EXPENSES	<u>2,458</u>	0	\$2,458
	<u>184,755</u>	<u>5,291</u>	<u>190,046</u>

**RECOMMENDED RATE REDUCTION SCHEDULE**

RANCH MOBILE WWTP, INC.  
TEST YEAR ENDING 12/31/05

SCHEDULE NO. 4  
DOCKET NO. 040972-SU

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

MONTHLY WASTEWATER RATES

	MONTHLY RECOMMENDED RATES	MONTHLY RATE REDUCTION
<u>GENERAL SERVICE - FLAT RATES</u>		
Ranch Mobile	\$ 26.08	0.15
Down Yonder	\$ 20.87	0.12
Twin Palms	\$ 23.70	0.13