

**FLORIDA PUBLIC SERVICE COMMISSION**

**Fletcher Building  
101 East Gaines Street  
Tallahassee, Florida 32399-0850**

**MEMORANDUM**

**AUGUST 5, 1991**

**TO : DIRECTOR, DIVISION OF RECORDS AND REPORTING**

**FROM : DIVISION OF AUDITING AND FINANCIAL ANALYSIS (HARTSFIELD) *in JB***  
**DIVISION OF WATER AND SEWER (RIEGER) *DR***  
**DIVISION OF LEGAL SERVICES (DAVIS) *MSD***

**RE : UTILITY: THE WOODS, A DIVISION OF HOMOSASSA UTILITIES**  
**~~DOCKET NO. 900966-WS~~**  
**COUNTY: SUMTER**  
**CASE: APPLICATION FOR A STAFF-ASSISTED RATE CASE**

**AGENDA : AUGUST 6, 1991 - CONTROVERSIAL - PROPOSED AGENCY ACTION EXCEPT FOR ISSUE 21 - PARTIES MAY PARTICIPATE**

**CRITICAL DATES : FIFTEEN MONTHS EXPIRES MAY 8, 1992**

**SPECIAL INSTRUCTIONS : THIS IS AN INITIAL DECISION WHICH SHOULD BE HEARD BY THE FULL COMMISSION.**

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On July 30, 1991, staff requested at the agenda conference that this docket be continued until the next agenda conference to allow staff additional time to examine why it was necessary to reconcile the capital structure up to the rate base amount.

Staff has determined that this case has been handled consistently with Commission Policy regarding the establishment of rate base at the time of transfer. The resulting adjustment to the capital structure occurs any time a utility purchases a system at a discount. Usually the capital structure of the purchasing utility is large enough to absorb the unrecognized negative acquisition adjustment and still be greater than the rate base of the system purchased. In this case, the existing capital structure was not large enough to absorb the unrecognized negative

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acquisition adjustment and remain larger than the rate base of the purchased system. Therefore, the capital structure, which is 100% Equity, has been reconciled up to the value of the rate base.

During staff's investigation of this situation, it was discovered that CIAC should have been imputed to include the transmission and distribution system for water and the collection system for wastewater. This has now been corrected and the revised issues are directly related to the imputation of additional CIAC.

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**CASE BACKGROUND**

The Woods, a Division of Homosassa Utilities (Homosassa), is a Class "C" water and wastewater utility located approximately six miles south of Bushnell on U.S. 301 in Sumter County, Florida. The utility was organized in the early 1970's and provides water and wastewater service to the Woods, a mobile home park of 56 connections, plus three other connections outside of its authorized service territory at the request of the Florida Department of Environmental Regulation. A certificate amendment application has been filed with the Commission and will be addressed at a future agenda conference.

The utility was granted grandfather certificates by Order No. 19848, issued August 22, 1988 as a result of a resolution of January 13, 1987 by the Sumter County Board of County Commissioners to transfer jurisdiction to the Public Service Commission. At the time of the jurisdictional transfer, the utility was owned by Central Utilities, LTD. (Central). During the interim period between the PSC receiving jurisdictional authority over utilities in Sumter County, ownership of the utility was transferred from Central to Homosassa. Although the application did not technically meet the requirements for a grandfather certificate, the Commission found it appropriate to issue the certificate to Homosassa.

On December 7, 1990, the utility applied for staff assistance and Docket Number 900945-WS was assigned. The utility paid the appropriate filing fee of \$150.00 for water and \$150.00 for wastewater, for a total of \$300.00 on February 26, 1991. In preparation for this recommendation, staff has conducted an audit of the utility's books and records for compliance with Commission rules and directives and to determine all components necessary for rate setting. It was determined that original cost documentation for the components of plant in service did not exist therefore the staff engineer conducted an original cost study. The staff engineer has also conducted a field investigation of the utility's water and wastewater facilities, and the service area. A review of the utility's operation expenses, maps, files and rate application was also conducted to obtain information about the physical plant and operating costs.

Staff has selected a historical test year ended December 31, 1990. Based on the staff audit, the utility provided service to 56 residential water and wastewater customers during the test year. The utility recorded test year revenues of \$6,973 and \$6,038 for water and wastewater, respectively. The utility incurred

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recoverable expenses of \$14,881 for water and \$13,577 for wastewater resulting in a net operating loss of \$7,908 and \$7,539 for water and wastewater, respectively.

A customer meeting in the utility's service area was held on May 22, 1991. Customer concerns were related to quality of service problems and will be discussed in the quality of service issue below.

**DISCUSSION OF ISSUES**

**QUALITY OF SERVICE**

**ISSUE 1:** What is the quality of service provided by this utility?

**RECOMMENDATION:** The quality of service provided by this utility should be considered to be satisfactory. The utility should be ordered to print on their bills that they will accept collect calls during business hours and will reimburse the customers for calls placed after business hours. This information should also be posted at the water and wastewater treatment facilities. (RIEGER)

**STAFF ANALYSIS:** The customer meeting was held of Wednesday, May 22, 1991, at the Bushnell Community Center, in Bushnell, Florida. In attendance were seven customers of the utility. Of those attending, five commented about the quality of service provided by the utility. Water service outages, water pressure, sediment in the water, water odor and taste problems, long distance phone bills, utility response time to problems, and water leaks, were all service problems that were brought up at the meeting.

Customer Maynard said that in the past, water has been out for as much as three days. Apparently, that was before the system was upgraded by the current owner. She said that the pressure is continuously low. Because the pressure fluctuates, hot water heaters are damaged and have to be replaced. Ms. Maynard said that there has been some improvement, but recommended that the County should take over the system, or the residents should get together and buy the system.

Customer Bright has had similar problems. He said that he had been a customer for three years, and has had continuously bad water. It is smelly and has no pressure. He also has had to replace his hot water heater. Mr. Bright also said that the system is leaking. Every meter is standing in water. He has complained about the water, but has not received any response. He would like to see someone else take the systems over, and have a full-time maintenance man on site. However, he did say that the utility has made some improvement.

Customer Brown said that he wants good water to drink. He has to buy bottled water to drink, and is getting tired of paying for something he cannot use. Because of too much chlorine in the water, he cannot take a shower. He also noted leaks in the water system.



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Customer Jones said that the water is cloudy and has too much chlorine. When the filter is back-washed at the water treatment plant, he gets an odor that comes through his sink. He said that in December of 1989, the water system was down for nearly a week. Although it was not clear as to when this happened, it is assumed that at about the same time, clothes had to be discarded because they were stained when washed. However, recently the filter was working improperly, and the water was reddish-looking and milky in appearance. Like the others, Mr. Jones has had to replace his hot water heater. Also, he experiences pressure problems. He said that pressure has gotten worse since some new customers, who are located outside the immediate subdivision, were recently connected. Besides regular pressure problems, he said that the water continues to remain cloudy. Mr. Jones brought up the point about having to call long distance to contact the utility. Staff explained to him that the utility has indicated that it has a policy of reimbursement. The utility stated they will accept collect calls.

Customer Sluzenski complained about the low pressure and was concerned about fire protection.

In addition to the comments made at the customer meeting, the Commission has received one letter from a customer who could not attend the meeting. The comments made were very similar to those generated at the meeting. They included pressure and general water quality problems. The customer was also concerned about the possibility of the rates increasing, and how it would effect her fixed income.

Historically, the utility's water system has had problems with water quality and pressure. Recent improvements that have been accomplished include filter sand replacement and the rewiring of the electrical control system at the water treatment plant. Currently, the system is in compliance with the quality standards as required by the Department of Environmental Regulations. Although the standards are being met, customer satisfaction is still in question because of the lack of consistent reliability of the product produced.

In an attempt to further make improvements, the utility recently increased pressure. Unfortunately, a water outage resulted after the increased pressure caused a pipe failure at the plant. Repairs have been made, and the restored pressure has been increased approximately five pounds per inch. The utility is also installing a pressure monitor in a remote area of the distribution

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system, in order to monitor pressure over a period of time. To date, no results have been received. If pressure is found to be insufficient, the utility is expected to make the appropriate modifications.

Staff believes that with the recent improvements that have been made at the water treatment facility, problems such as low pressure, outages, and sediment, will be significantly reduced. Most of the problems cited by the customers who attended the customer meeting, occurred long before the improvements were made. However, it is anticipated that there still will be occasional inconveniences due to the normal operation of facility. The design of the filter will allow solids to overflow when routine backwashing occurs. It appears that the only way to totally eliminate this situation, would be to replace the filter with a better designed facility. Because of the costs involved, replacement cannot be justified at this time.

Although there are operational problems, it is apparent that the utility is attempting to provide adequate service. Service cannot be considered to be outstanding. However, based on the recent improvements, it is sufficient. Therefore, quality of service is recommended to be satisfactory. Because there is a history with outages and low pressure, the utility should be ordered to print on their bills that they accept collect calls during business hours and will reimburse the customers for calls placed after business hours. This information should also be posted at the water and wastewater treatment facilities.

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**ISSUE 2:** What percent of plant in service is used and useful?

**RECOMMENDATION:** The water treatment facility is 75% used and useful, the wastewater treatment facility is 87% used and useful, the water distribution and the wastewater collection system is 43% used and useful. (RIEGER)

**STAFF ANALYSIS:** The water treatment plant has a treatment capacity of 150,000 gallons per day. The maximum daily flow figure used for used and useful consideration is 5600 gallons per day. Because the records showed that growth in recent years fluctuated back and forth, margin reserve was not considered. Based on the above numbers, the used and useful is 38%. Because of the limited gallons per minute capacity of the plant's only well, it is questionable if the peak hourly demand on the system can satisfactorily be met. A used and useful recommendation of 75% is considered to be more realistic in this case (Attachment "A").

The wastewater treatment plant has a treatment capacity of 15,000 gallons per day. The average daily flow of the peak usage month during the test year is 13,000 gallons per day. Because the records showed that growth in recent years fluctuated back and forth, margin reserve was not considered. Therefore, it is recommended that the wastewater treatment plant be considered to be 87% used and useful (Attachment "A").

The water distribution and wastewater collection systems have a capacity of 138 ERC's. The number of test year connections is 47 ERC's for water, and 45 ERC's for wastewater. However, 60 ERC's for water and 59 ERC's for wastewater will be considered because there are existing connections that occupy two or more lots. It is estimated that 30% of the existing connections occupy lots in this manner. Like the water and wastewater treatment plants, because of the fluctuations of customer growth, margin reserve was not considered. Therefore, it is recommended that the water distribution and the wastewater collection systems be considered 43% used and useful (Attachment "A").



Docket No. 900966-WS Utility Homosassa - The Woods Date March, 1991

1) Capacity 138 ERC's (Number of potential customers without expansion)

2) Number of Test Year Connections (1) 60 ERC's

a) Begin Test Year 45 ERC's

b) End Test Year 48 ERC's

c) Average Test Year 46.5 ERC's

3) Margin Reserve Not considered ERC's  
\*Not to exceed 20% of present customers

a) Average Yearly Customer Growth in ERC's for Most Recent 5 years Including Test Year (2) ERC'S

b) Construction Time for Additional Capacity no construction necessary Years

(a) x (b) = \_\_\_\_\_ ERC's Margin Reserve

PERCENT USED AND USEFUL FORMULA

$$\frac{2 + 3}{1} = \underline{43} \% \text{ Used and Useful}$$

(1) Many existing connections occupy two or more lots - It is estimated that approximately 30% is done in this matter. That is why test year connections is at 60 ERCs.

(2) Records show that growth in recent years fluctuates back and forth. Margin reserve will not be considered.

Stacy D. Pies

Engineer

SEWER TREATMENT PLANT

USED AND USEFUL DATA

Docket No. 900966-WS Utility Homosassa - The Woods Date March, 1991

- 1) Capacity of Plant 15,000 gallons per day
- 2) Maximum Daily Flow 15,000 gallons per day
- 3) Average Daily Flow Peak month 9/90 13,000 gallons per day
- 4) Fire Flow Requirements NOT APPLICABLE gallons per day
- 5) Margin Reserve Not considered gallons per day  
\*Not to exceed 20% of present customers

- a) Test Year Customers in ERC's - Begin 45 End 45 Av. 45
- b) Average Yearly Customers Growth in ERC's for Most Recent 5 Years Including Test Year \_\_\_\_\_ ERC's
- c) Construction Time for Additional Capacity (1) Years

(b) x (c) x  $\left[ \frac{3}{(a)} \right] =$  \_\_\_\_\_ gallons per day

- 6) Excessive Infiltration None noted gallons per day
  - a) Total Amount \_\_\_\_\_ gallons per day \_\_\_\_\_ % of Av. Daily Flow
  - b) Reasonable Amount \_\_\_\_\_ gallons per day \_\_\_\_\_ % of Av. Daily Flow
  - c) Excessive Amount \_\_\_\_\_ gallons per day \_\_\_\_\_ % of Av. Daily Flow

PERCENT USED AND USEFUL FOPMULA

$\frac{(3) + (5)}{6} =$  87 % Used and Useful

(1) Records show that growth in recent years fluctuates back and forth. Margin reserve will not be considered.

Stacy D. Rice Engineer

**SEWAGE COLLECTION SYSTEM**

**USED AND USEFUL DATA**

Docket No. 900966-Ws Utility Homosassa - The Woods Date March, 1991

- 1) Capacity 138 ERC's (Number of potential customers without expansion)
- 2) Number of Test Year Connections (1) 59 ERC's
  - a) Begin Test Year 45 ERC's
  - b) End Test Year 45 ERC's
  - c) Average Test Year 45 ERC's
- 3) Margin Reserve Not considered ERC's  
 \*Not to exceed 20% of present customers
  - a) Average Yearly Customer Growth in ERC's for Most Recent 5 years Including Test Year (2) ERC'S
  - b) Construction Time for Additional Capacity \_\_\_\_\_ Years

(a) x (b) = \_\_\_\_\_ ERC's Margin Reserve

**PERCENT USED AND USEFUL FORMULA**

$$\frac{2 + 3}{1} = \underline{43} \quad \text{3 Used and Useful}$$

- (1) Many existing connections occupy two or more lots. It is estimated that approximately 30% is done in this matter. That is why test year connections is at 59 ERCs.
- (2) Records show that growth in recent years fluctuates back and forth. Margin reserve will not be considered.

Stanley D. Rice

Engineer

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**ISSUE 3:** What is the appropriate average amount of utility plant in service?

**RECOMMENDATION:** The appropriate average amount of utility plant in service is \$92,670 and \$87,747 for water and wastewater, respectively. (HARTSFIELD, RIEGER)

**STAFF ANALYSIS:** During the staff audit of the books and records of this utility, it was discovered that no original cost documentation was available for review by the staff auditor. The auditor requested that the staff engineer perform an original cost study to determine the original cost of the plant in service and land as of December 31, 1990. The cost study did not take into consideration the value of the transmission lines which were installed at the request of the DER to serve three additional customers outside of the service territory. Staff has included these costs with the original cost study to determine the balance of utility plant in service for the water system. The wastewater system cost was not affected by the addition of transmission lines. Staff has adjusted the year end balances to reflect the average balance during the test year.

Utility plant in service for water and wastewater is shown on Schedule Nos. 1 and 2, respectively.



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**ISSUE 4:** What is the appropriate average amount of accumulated depreciation for water and wastewater?

**RECOMMENDATION:** The appropriate average amount of accumulated depreciation is \$42,569 and \$40,873, for water and wastewater, respectively. (HARTSFIELD, RIEGER)

**STAFF ANALYSIS:** As part of the original cost study performed by the staff engineer, an estimate of the percentage of depreciation was made. Staff has adjusted the accumulated depreciation level for the additional transmission lines not included in the study and has made an averaging adjustment.

Accumulated depreciation is shown on Schedule Nos. 1 and 2 for water and wastewater, respectively.

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**ISSUE 5:** What is the appropriate net average value of plant held for future use for water and wastewater?

**RECOMMENDATION:** The appropriate net average amount of plant held for future use is \$5,027 and \$5,082, for water and wastewater, respectively. (HARTSFIELD, RIEGER)

**STAFF ANALYSIS:** As discussed in Issue No. 2, staff has determined that the water treatment system is 75% used and useful, the wastewater treatment system is 87% used and useful, and the water distribution and wastewater collection systems are 43% used and useful. When these percentages are applied to the average balance of utility plant in service, accumulated depreciation, CIAC and accumulated amortization of CIAC, the result is a net average amount of plant held for future use of \$5,027 for the water system and \$5,082 for the wastewater system.

Plant held for future use is shown on Schedule Nos. 1 and 2 for water and wastewater, respectively.

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**ISSUE 6:** What is the appropriate average amount of contributions in aid of construction (CIAC) to include in rate base for water and wastewater?

**RECOMMENDATION:** The appropriate average amount of CIAC to include in rate base is \$66,510 and \$59,692 for water and wastewater, respectively. (HARTSFIELD)

**STAFF ANALYSIS:** No CIAC is recorded on the books of the utility. Central Utilities, Ltd., the original owner of the water and wastewater systems, collected CIAC from Consumer Mortgage Company prior to Sumter County turning jurisdiction over to the PSC. It is staff's opinion that since CIAC has been collected from the original homeowners, it should be recognized for rate making purposes. It has been Commission Policy to impute CIAC on the transmission and distribution and collection systems when no documentation exist. Staff has imputed additional CIAC in the amount of these components as per the original cost study. Also, the DER has reimbursed the utility for the cost of the transmission lines installed, at its request, to serve customers outside of the utility's service area. Based on the above analysis, staff is recommending that the appropriate average amount of CIAC be established as \$66,510 for the water system and \$59,692 for the wastewater system.

CIAC is shown on Schedule Nos. 1 and 2 for water and wastewater, respectively.

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**ISSUE 7:** What is the appropriate average amount of amortization of CIAC to include in rate base for water and wastewater?

**RECOMMENDATION:** The appropriate average amount of amortization of CIAC to include in rate base is \$21,161 and \$34,636 for water and wastewater, respectively. (HARTSFIELD)

**STAFF ANALYSIS:** No amortization of CIAC is recorded on the books of the utility. Staff has elected to use a 2.5% amortization rate for CIAC. The 2.5% depreciation rate has been applied to amortization of CIAC because the Commission has not prescribed a depreciation rate for this utility. When the utility was built in the early 70's, the depreciation rate was 2.5%. A utility may not change its depreciation rates without Commission approval, so until such approval is given, 2.5% should be used. The average amount of amortization of CIAC for the test year has been calculated as \$21,161 for water and \$34,636 for wastewater.

Amortization of CIAC is shown on Schedule Nos. 1 and 2 for water and wastewater, respectively.

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**ISSUE 8:** What is the appropriate method of calculating the working capital allowance, and what is the appropriate amount to include in rate base for the water and wastewater systems?

**RECOMMENDATION:** The appropriate method of calculating the working capital allowance is the one-eighth of operation and maintenance expenses method. The appropriate amount to include in the rate base calculation is \$1,709 for the water system and \$1,514 for the wastewater system. (HARTSFIELD)

**STAFF ANALYSIS:** Consistent with Rule 25-30.443, Florida Administrative Code and as referenced in Form PSC/WAS 18, the formula method (one-eighth of operation and maintenance expenses) was used to calculate the working capital requirements of the utility.

As will be discussed in Issue No. 12, the appropriate amounts of operation and maintenance expenses are \$13,672 and \$12,110 for water and wastewater, respectively. Therefore, the appropriate amount of working capital to include in the rate base calculation is \$1,709 ( $13,672 / 8$ ) for the water system and \$1,514 ( $12,110 / 8$ ) for the wastewater system.

The working capital allowance is shown on Schedule Nos. 1 and 2 for water and wastewater, respectively.

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**ISSUE 9:** What is the appropriate average test year rate base for the water and wastewater systems?

**RECOMMENDATION:** The appropriate average test year rate base is \$4,933 for the water system and \$25,750 for the wastewater system. (HARTSFIELD)

**STAFF ANALYSIS:** The appropriate components to include in the calculation of average test year rate base are utility plant in service, land, accumulated depreciation, plant held for future use, contributions in aid of construction (CIAC), amortization of CIAC and the working capital allowance. Each of these components have been discussed in Issues 3 through 8. The appropriate average test year rate base is \$4,933 and \$25,750 for the water and wastewater systems, respectively.

The calculation of rate base, including land, is shown on Schedule Nos. 1 and 2 for water and wastewater, respectively.

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**COST OF CAPITAL**

**ISSUE 10:** What is the appropriate overall rate of return?

**RECOMMENDATION:** The appropriate overall rate of return should be equal to the return on common equity, 11.22%. (HARTSFIELD)

**STAFF ANALYSIS:** The utility's books indicate average negative retained earnings of \$28,940. A proforma adjustment has been made by staff for debt from an associated company, USA Utilities, consisting of two debt agreements which total \$32,446 at an interest rate of 12.00%. The average for the test year is \$25,793. As of the end of field work, no loans had been made from USA to the Woods. A related company with a similar debt agreement has as of this writing had the debt forgiven by USA. Staff believes that since the companies are associated and no money has actually been borrowed by the Woods and no payment schedule exists at this time and the possibility exists that the debt has been forgiven, this debt should be included in the capital structure as common equity and assigned a cost rate by utilizing the leverage formula. The total dollar value of equity is below the total dollar value of rate base, therefore, staff has increased the dollar value of common equity to reconcile the capital structure to the total average rate base.

Staff has applied Commission Policy of setting rate base at original cost. The increase in Common Equity is necessary to reflect the unrecognized negative acquisition adjustment resulting from the purchase of this utility at a discount. The same reconciliation occurs when a large company, such as Southern States Utilities, Inc. (SSUI) purchases a system at a discount. SSUI has a large enough capital structure, however, that the upward allocation of the capital structure to rate base is buried and undetectable.

The ratio of common equity to total capital is 100%. Applying the current Commission approved leverage graph cost rate formula to the 100% common equity ratio results in a return on equity, and an overall rate of return, of 11.22%.

The capital structure is shown on Schedule No. 3.

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**NET OPERATING INCOME**

**ISSUE 11:** What is the appropriate amount of test year operating revenues for water and wastewater?

**RECOMMENDATION:** The appropriate amount of test year operating revenues for water and wastewater is \$6,973 and \$6,038, respectively. (HARTSFIELD)

**STAFF ANALYSIS:** The amount of water and wastewater operating revenues for the test year have been determined by the auditor using the utility's customer billing register as \$6,973 for water and \$6,038 for wastewater. Staff has not made any adjustments to the audit amount of test year revenues.

Operating revenues are shown on Schedule Nos. 4 and 5.



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**ISSUE 12:** What is the appropriate amount of test year operating expenses for water and wastewater?

**RECOMMENDATION:** The appropriate amount of test year operating expenses for water and wastewater is \$15,280 and \$14,069, respectively. (HARTSFIELD, RIEGER)

**STAFF ANALYSIS:** The components of operating expenses include operation and maintenance expenses, depreciation expense (net of related amortization of CIAC), taxes other than income and income taxes. USA Utilities has included mark-ups in some accounts which has been removed by staff. Staff does not believe the mark-ups are appropriate since this inflates the actual cost to provide service. A discussion of each component follow.

#### **WATER**

**Water Operation and Maintenance Expenses:** The utility recorded \$14,225 of operating expenses during the test year and \$240 of unrecorded expenses for a total of \$17,065. Explanations of staff's adjustments to the utility's recorded and unrecorded expenses and staff's recommended allowances follow:

1) **Purchased Power** - The utility is billed for purchased power by USA Utilities (USA). The amount billed includes a mark-up by USA. Only the actual amount of power purchased is appropriate for this account. The utility booked \$2,929.01 for purchased power, which has been reduced by \$1,655.56 to reflect the actual cost of power of \$1,273.45, which is the appropriate amount to include in the water operating expenses for the test year.

2) **Chemicals** - The utility booked \$361.87 during the test year for the purchase of chemicals. Staff believes this amount to be reasonable and has included this amount in test year operating expenses.

3) **Materials and Supplies** - Included in the cost of materials and supplies is a \$35.26 charge for mark-ups by USA. Staff does not believe any mark-ups are appropriate and therefore, have made an adjustment to remove them. The utility incurred an expense during the test year to replace sand in its sand filter. Staff has included one-third of the cost associated with replacing

the sand in materials and supplies to reflect this expense being incurred every three years. The total material and supplies allowance for water operating expenses recommended by staff for the test year is \$1,719.16.

4) Plant Operator - The utility booked a total of \$2,261.00 for a plant operator for the test year. Included in this amount was an out of period expense of \$170.00, which has been removed by staff. The charge for the plant operator has increased since the test period. Staff believes the increase is reasonable and has made an adjustment of \$909.00 to reflect the annual increase. The total plant operator expense recommended by staff of \$3,000.00 is appropriate and should be included in water operating expenses.

5) Sample Analysis - The utility booked \$584.10 in sample analysis expense during the test year which included a \$480.60 charge for special samples required when the total system pressure drops to zero due to a line break or line extension. Also included was an out of period charge of \$13.50. The remaining \$162.00 was to cover a contractual agreement for water testing at \$13.50 per month (\$13.50 x 12). The new plant operator contract mentioned above provides for (1) basic water plant operation; (2) testing of water samples and (3) preparation of monthly operating reports to regulatory agencies. Since water testing is included in the new contract, all normal water testing charges should be removed from this account for rate setting purposes. Out of period expenses should be removed also. It is recommended that the special water testing charges be amortized over a three year period resulting in a charge of \$136.20, which is the total amount recommended for this account for rate setting purposes.

6) Repairs - USA Utilities - During the test year the Woods booked a total of \$4,725.00 to Repairs - USA Utilities. Included in this amount was an out of period charge of \$430.00 which has been removed by staff. The remaining charges were based on the number of hours USA Utilities personnel actually worked on behalf of The Woods, at an hourly rate that varied from \$20.00 to \$37.50 per hour for straight time and from \$32.00 to \$45.00 per hour for overtime. Staff has adjusted the hourly rate to \$11.12 for straight time and \$16.67 for overtime based on a TREEO survey of 1983, indexed forward to 1990 and adjusted to included payroll taxes of 11.15%, resulting in a test year expense of \$1,612.32.

7) Repairs - Third Party - During the test year the Woods booked a total of \$806.25 to Repairs - Third Party. This amount appears to be reasonable and has been included in the test year operating expenses by staff.

8) Accounting - The utility booked \$1,168.92 during the test year for accounting services. Included was \$686.69 for accounting services for another utility billed to The Woods in error. Staff has removed the remaining \$482.23 in this account to remove all accounting charges in order to reflect a new contract for accounting services with another accounting firm for \$150.00 per year. Staff believes this amount is excessive and recommends it be reduced to \$1,100.00 per year.

9) Engineering - The utility has proposed an adjustment for unbilled costs of \$750.00 per year for Miscellaneous Engineering. The services to be provided include renewal of operating permits and updating system maps. The engineering firm this agreement has been made with has common ownership with USA Utilities and staff does not believe it is an arms-length transaction and therefore should not be allowed in test year water operating expenses.

10) Management Fees - The utility has proposed an adjustment for unbilled management fees of \$880.00 per year. The fee was based on an hourly rate of \$62.50 per hour for the manager and \$75.00 per hour for the president of USA Utilities. Based on a 1981 survey of water and wastewater utility salaries by the American Water Works Association, staff has adjusted these hourly rates to \$19.85 per hour for the manager. The president's salary has been removed from the utility's adjustment since this position evidently does not receive compensation from USA Utilities. The 1980 salary level for the manager has been indexed forward to 1990 and adjusted to included payroll taxes of 11.15%, resulting in a test year expense of \$2,477.28.

11) Office - Clerical - The utility has proposed an adjustment for unbilled clerical costs of \$624.00 per year. The cost is based on an hourly rate of \$26.00 per hour. Based on a 1981 survey of water and wastewater utility salaries by the American Water Works Association, staff has adjusted this hourly rate to \$10.00 per hour. The 1980 salary level has been indexed forward to 1990 and adjusted to included payroll taxes of 11.15%, resulting in a test year expense of \$240.00. Also included is postage expense of \$0.19 per bill divided between water and wastewater. The resulting total expense for this account is \$303.84.

12) Meter Reading - The utility has proposed an adjustment for unbilled meter reading costs of \$450.00 per year. The cost is based on an hourly rate of \$25.00 per hour. Based on a 1981 survey of water and wastewater utility salaries by the American Water Works Association, staff has adjusted this hourly rate to \$9.70 per

hour. The 1980 salary level has been indexed forward to 1990 and adjusted to include payroll taxes of 11.15%, resulting in a test year expense of \$174.60.

13) Rents - The utility has included in rents a mark-up of \$3.60 by USA Utilities. Staff does not believe any mark-ups are appropriate and therefore, have made an adjustment to remove them. The remaining rent charge of \$12.94 is appropriate and should be allowed in water operating expenses.

14) Transportation Expense - The utility included transportation expenses billed by USA in its operating expenses in the amount of \$172.50. This amount was based on a \$0.25 per mile charge during normal work hours and a \$0.50 per mile charge on holidays. While staff can sympathize with the fact the working on a holiday is not desirable, it does not cost more to operate a vehicle on a holiday, therefore, staff has adjusted the holiday per mile rate to \$0.25 per mile resulting in a transportation expense of \$131.25 for the test year.

15) Regulatory Commission Expense - During the test year the utility booked a total of \$317.00 to this account for services performed by Rhema Business Services, \$236.25 for index/pass through work. Rate case expense is estimated to be \$2,020.55 for both water and wastewater. As was discussed above, accounting services will now be provided by a new accounting consultant, which will include index/pass through work. The total charge has been included in the accounting charge and therefore, has been removed from this account. Staff has reduced rate case expense by \$237.50 to \$1,783.05, one-half of which should be recovered through water rates. A total of \$891.53 has been included in water rates, amortized over a four year period, resulting in the inclusion of \$222.88 (891.53/4) in regulatory commission expense.

16) Bad Debt Expense - The utility has included a charge of \$547.55 for bad debts. It is staff's opinion that if the utility is having a problem with bad debts, it should re-examine its customer deposit policy to handle the problem, and not include a bad debt expense in its water operating expenses. Therefore, staff is recommending all bad debt expense be removed from water operating expenses and that the customer deposit amount be adjusted. (See Issue 18).

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17) Office Supplies & Expense - Postage - The utility incurred an unbilled expense of \$25.20 for mailing Lead notices during the test year. Staff believes this will be a non-recurring expense and is recommending it not be included in test year water operating expenses.

18) Office Supplies & Expense - Rent - USA Utilities provides all services to the Woods. A portion of the rent of its office is allocated to the Woods. This charge was not billed during the test year. The amount which was not billed by USA, according to USA, should have been \$333.90. Staff has reviewed the percentages used to allocate this expense between the various utilities that USA is providing service to and have decided that 10% of the total expense will be appropriate for the Woods. The resulting charge to the Woods is \$159.00 and staff is recommending this amount be included in test year water operating expenses.

19) Office Supplies & Expense - Electric - Electricity charges for office space are allocated as discussed above. The test year amount allocated, but unbilled, to the Woods by USA is \$101.65. Staff has decided the same percentage should be applied to this expense and recommends \$48.40 be included in test year water operating expenses.

20) Office Supplies & Expense - Telephone - The same percentage has been applied to telephone expenses also resulting in a recommended test year expense of \$125.80.

**Water Depreciation Expense (Net of Amortization of CIAC):**

The utility has not had depreciation rates set by this Commission in any prior cases. Because of this, staff has applied an overall composite rate of 2.5% to depreciable used and useful water plant resulting in a depreciation expense of \$1,246. Applying the same rate to used and useful CIAC offsets depreciation expense by \$715. The resulting net depreciation expense is \$531 for water during the test year.

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**Water Taxes Other Than Income:**

Taxes other than income are made up of two components, Regulatory Assessment Fees and Property Taxes. Based on staff's recommended revenue requirement of \$15,833, the associated regulatory assessment fees are \$712. The utility paid property tax on the water treatment plant site during the test year of \$364. It is recommended based on property taxes actually paid and regulatory assessment fees based on staff's recommended revenue requirement, that \$1,077 be included in test year water operating expenses for taxes other than income.

**Water Income Taxes:**

The utility has a large negative retained earnings balance. This is an indication that there is a large amount of loss carry-forwards which can be utilized on future state and federal income tax returns. Therefore, no income tax has been allowed for the test year.

**Water Operating Expenses Summary:**

Based on the foregoing, the appropriate amount of test year water operating expenses is \$15,280. Water operating expenses are shown on Schedule No. 4.

**WASTEWATER**

**Wastewater Operation and Maintenance Expenses:** The utility recorded \$12,156 of operating expenses during the test year and \$2,900 of unrecorded expenses for a total of \$14,069. Explanations of the utility's recorded expenses and staff's recommended allowances follows:

1) **Sludge Removal Expense** - The utility booked \$1,975 for sludge removal during the test year. Included in this amount was mark-up by USA. Staff believes mark-up is not appropriate and it has been removed from this account. The remaining balance of the account is made up of expenses related to annual sludge removal at the wastewater treatment plant of \$800 billed and \$100 unbilled for

a total of \$900. \$1,105 is related to a repair made during the test year to a lift station. Staff believes these charges are related to a non-recurring event and should be amortized over a four year period. The resulting sludge removal expense recommended for the test year is \$1,176.25.

2) Purchased Power - The utility is billed for purchased power by USA Utilities (USA). The amount billed includes a mark-up by USA. Only the actual amount of power purchased is appropriate for this account. The utility booked \$3,137.43 for purchased power, which has been reduced by \$1,378.08 to reflect the actual cost of power of \$1,759.35, which is the appropriate amount to include in the wastewater operating expenses for the test year.

3) Materials and Supplies - Included in the cost of materials and supplies is a \$29.62 charge for mark-ups by USA. Staff does not believe any mark-ups are appropriate and therefore, has made an adjustment to remove them. The total material and supplies allowance for wastewater operating expenses recommended by staff for the test year is \$106.44.

4) Plant Operator - The utility booked a total of \$2,261.00 for a plant operator for the test year. Included in this amount was an out of period expense of \$170.00, which has been removed by staff. The charge for the plant operator has increased since the test period by \$909. Staff believes an increase is reasonable and has made an adjustment to reflect an annual increase equal to the increase for the water plant operator. The total wastewater plant operator expense recommended by staff of \$3,000.00 is appropriate and should be included in wastewater operating expenses.

5) Sample Analysis - The utility booked \$456.60 in sample analysis expense during the test year. Included was an out of period charge of \$35.00. The new plant operator contract mentioned above provides for (1) basic wastewater plant operation; (2) testing of wastewater samples and (3) preparation of monthly operating reports to regulatory agencies. Since wastewater testing is included in the new contract, all normal wastewater testing charges should be removed from this account for rate setting purposes.

6) Repairs - USA Utilities - During the test year the Woods booked a total of \$1,976.25 to Repairs - USA Utilities. Included in this amount was an out of period charge of \$60.00 which has been removed by staff. The remaining charges were based on the number of hours USA Utilities personnel actually worked on behalf of The Woods, at an hourly rate that varied from \$25.77 to \$37.50 per

hour. Staff has adjusted the hourly rate to \$11.12 based on a TREEO survey of 1983, indexed forward to 1990 and adjusted to include payroll taxes of 11.15%, resulting in a test year expense of \$755.82.

7) Accounting - The utility booked \$1,168.92 during the test year for accounting services. Included was \$686.69 for accounting services for another utility billed to The Woods in error. Staff has removed the remaining \$482.23 in this account to remove all accounting charges in order to reflect a new contract for accounting services with another accounting firm for \$150.00 per year. Staff believes this amount is excessive and recommends it be reduced to \$1,100.00 per year.

8) Engineering - The utility has proposed an adjustment for unbilled costs of \$750.00 per year for Miscellaneous Engineering. The services to be provided include renewal of operating permits and updating system maps. The engineering firm this agreement has been made with has common ownership with USA Utilities and staff does not believe it is an arms-length transaction and therefore should not be allowed in test year water operating expenses. The utility did incur a charge from an outside engineering firm for permit renewal charges in the amount of \$140.25 which should be allowed in the test year.

9) Management Fees - The utility has proposed an adjustment for unbilled management fees of \$880.00 per year. The fee was based on an hourly rate of \$62.50 per hour for the manager and \$75.00 per hour for the president of USA Utilities. Based on a 1981 survey of water and wastewater utility salaries by the American Water Works Association, staff has adjusted these hourly rates to \$19.85 per hour for the manager. The president's salary has been removed from the utility's adjustment since this position evidently does not receive compensation from USA Utilities. The 1980 salary level for the manager has been indexed forward to 1990 and adjusted to include payroll taxes of 11.15%, resulting in a test year expense of \$2,477.28.

10) Office - Clerical - The utility has proposed an adjustment for unbilled clerical costs of \$624.00 per year. The cost is based on an hourly rate of \$26.00 per hour. Based on a 1981 survey of water and wastewater utility salaries by the American Water Works Association, staff has adjusted this hourly rate to \$10.00 per hour. The 1980 salary level has been indexed forward to 1990 and adjusted to include payroll taxes of 11.15%, resulting in a test year expense of \$240.00. Also included is



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postage expense of \$0.19 per bill divided between water and wastewater. The resulting total expense for this account is \$303.84.

11) Regulatory Commission Expense - During the test year the utility booked a total of \$317.00 to this account for services performed by Rhema Business Services, \$236.25 for index/pass through work. Rate case expense is estimated to be \$2,020.55 for both water and wastewater. As was discussed above, accounting services will now be provided by a new accounting consultant, which will include index/pass through work. The total charge has been included in the accounting charge and therefore, has been removed from this account. Staff has reduced rate case expense by \$237.50 to \$1,783.05, one-half of which should be recovered through water rates. A total of \$891.53 has been included in water rates, amortized over a four year period, resulting in the inclusion of \$222.88 ( $891.53/4$ ) in regulatory commission expense.

12) Bad Debt Expense - The utility has included a charge of \$341.21 for bad debts. It is staff's opinion that if the utility is having a problem with bad debts, it should re-examine its customer deposit policy to handle the problem, and not include a bad debt expense in its wastewater operating expenses. Therefore, staff is recommending all bad debt expense be removed from wastewater operating expenses and that the customer deposit amount be adjusted (See Issue 18).

13) Office Supplies & Expense - Rent - USA Utilities provides all services to the Woods. A portion of the rent of its office is allocated to the Woods. This charge was not billed during the test year. The amount which was not billed by USA, according to USA, should have been \$333.90. Staff has reviewed the percentages used to allocate this expense between the various utilities that USA is providing service to and have decided that 10% of the total expense will be appropriate for the Woods. The resulting charge to the Woods is \$159.00 and staff is recommending this amount be included in test year wastewater operating expenses.

14) Office Supplies & Expense - Electric - Electricity charges for office space are allocated as discussed above. The test year amount allocated, but unbilled, to the Woods by USA is \$101.64. Staff has decided the same percentage should be applied to this expense and recommends \$48.39 be included in test year water operating expenses.

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15) Office Supplies & Expense - Telephone - The same percentage has been applied to telephone expenses also resulting in a recommended test year expense of \$125.80.

**Wastewater Depreciation Expense (Net of Amortisation of CIAC):**

The utility has not had depreciation rates set by this Commission in any prior cases. Because of this, staff has applied an overall composite rate of 2.5% to depreciable used and useful wastewater plant resulting in a depreciation expense of \$1,367. Applying the same rate to used and useful CIAC offsets depreciation expense by \$791. The resulting net depreciation expense is \$576 for wastewater during the test year.

**Wastewater Taxes Other Than Income:**

Taxes other than income are made up of two components, Regulatory Assessment Fees and Property Taxes. Based on staff's recommended revenue requirement of \$16,958, the associated regulatory assessment fees are \$763. The utility paid property tax on the wastewater treatment plant site during the test year of \$619. It is recommended based on property taxes actually paid and regulatory assessment fees based on staff's recommended revenue requirement, that \$1,382 be included in test year wastewater operating expenses for taxes other than income.

**Wastewater Income Taxes:**

The utility has a large negative retained earnings balance. This is an indication that there is a large amount of loss carry-forwards which can be utilized on future state and federal income tax returns. Therefore, no income tax has been allowed for the test year.

**Wastewater Operating Expenses Summary:**

Based on the foregoing, the appropriate amount of test year wastewater operating expenses is \$14,069. Wastewater operating expenses are shown on Schedule No. 5.

DOCKET NO. 900966-WS  
AUGUST 5, 1991

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**ISSUE 13:** What is the appropriate test year operating income (loss) for water and wastewater?

**RECOMMENDATION:** The appropriate test year operating loss is \$7,908 and \$7,539 for water and wastewater, respectively. (HARTSFIELD)

**STAFF ANALYSIS:** The test year operating revenues for the water system are \$6,973 and the test year operating expenses are \$14,881. This results in a test year operating loss of \$7,908 for the water system.

The test year operating revenues for the wastewater system are \$6,038 and the test year operating expenses are \$13,577. This results in a test year operating loss of \$7,539 for the wastewater system.

Test year operating income (loss) is show on Schedule Nos. 4 and 5.

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AUGUST 5, 1991

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**ISSUE 14:** What are the appropriate revenue requirement and resulting annual increases for the water and wastewater systems?

**RECOMMENDATION:** The appropriate revenue requirements are \$15,833 and \$16,958 for the water and wastewater systems, respectively. (HARTSFIELD)

**STAFF ANALYSIS:** The calculation of the utility's revenue requirements and resulting annual increase for each system is shown below:

	<u>Water</u>	<u>Wastewater</u>
Adjusted Rate Base	\$ 4,933	\$ 25,750
X Rate of Return	<u>11.22%</u>	<u>11.22%</u>
= Return on Investment	\$ 554	\$ 2,889
+ Operation & Maintenance	13,672	12,110
+ Depreciation Expense	531	576
+ Taxes Other Than Income	1,077	1,382
= Revenue Requirement	\$ <u>15,833</u>	\$ <u>16,958</u>
Annual Revenue Increase	\$ 8,860	\$ 10,920
Percentage Increase	<u>127%</u>	<u>181%</u>

The revenue requirements and resulting annual increase for water and wastewater are shown on Schedule Nos. 4 and 5.

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**RATES AND CHARGES**

**ISSUE 15:** What is the appropriate rate structure and what are the recommended rates for the water and wastewater systems?

**RECOMMENDATION:** The appropriate rate structure is the base facility/gallongage charge rate structure. The recommended rates for each system (listed in staff's analysis) will allow the utility to recover its expenses and the opportunity to earn a 11.22% return on its investment. (HARTSFIELD)

**STAFF ANALYSIS:** The Commission's preferred rate structure is the base facility/gallongage charge rate structure, because it is designed to provide for the equitable sharing by the rate payers of both the fixed and variable costs of providing service. The base facility charge is based upon the concept of readiness to serve all customers connected to the system. This ensures that rate payers pay their share of the costs of providing service (through the consumption or gallongage charge), and also pay their share of the fixed costs of providing service (through the base facility charge). Staff recommends changing the utility's existing rate structure to the base facility/gallongage charge rate structure.

The appropriate water rates are those that allow the utility the opportunity to recover its water system operating expenses of \$15,280, as well as earn a 11.22% return on its investment. The appropriate wastewater rates are those that allow the utility the opportunity to recover its wastewater operating expenses of \$14,069, as well as earn a 11.22% return on its investment.

The current and recommended rates are shown on the following pages.

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**MONTHLY RATES - WATER**  
**Residential and General Service**

<u>Meter Size</u>	<u>Current Minimum Gallons</u>	<u>Current Minimum Charge</u>	<u>Staff's Recommended Rates</u>
5/8" x 3/4"	5,000	\$ 8.40	\$ 12.33
3/4"	N/A	N/A	18.50
1"	12,500	21.00	30.83
1 1/2"	25,000	42.00	61.65
2"	40,000	67.20	98.64
3"	80,000	134.40	197.28
4"	125,000	210.00	308.25
6"	250,000	420.00	616.50
8"	N/A	N/A	986.40
<u>Consumption Charge</u>			
Per 1,000 Gallons	\$0.84		\$ 2.33
over minimum gallons			

**MONTHLY RATES - WASTEWATER**  
**Residential and General Service**

<u>CURRENT RATES:</u>	<u>Residential</u>	<u>General Service</u>
Flat Rate	\$ 8.37	\$ 16.29 per ERC
Customer Charge	<u>1.68</u>	
Minimum Charge	10.05	16.29 per ERC

STAFF'S

RECOMMENDED RATES:

<u>Meter Size</u>	<u>Base Facility Charge</u>
5/8" x 3/4"	\$ 11.47
3/4"	17.21
1"	28.68
1 1/2"	57.35
2"	91.76
3"	183.52
4"	286.75
6"	573.50
8"	917.60

Consumption Charge  
 Per 1,000 Gallons

Residential	\$ 2.50 *
General Service	3.00

\* Maximum of 6,000 gallons per month.

The rate case data summary is shown on the following two pages.

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**STAFF'S RECOMMENDED RATES  
 RATE CASE DATA SUMMARY**

Docket No. 900966-WS                      County:      Sumter                      Water   X    
 Wastewater \_\_\_\_\_  
 Utility Name: The Woods, A Division of Homosassa Utilities, Inc.  
 General Area Served: The Woods Mobile Home Park  
 Proposed   X   OR As Directed in Order No. \_\_\_\_\_ Staff Assisted  
  X   Regular \_\_\_\_\_

	Utility Test Year	Staff Test Year	Staff Rate Making
Rate Base	\$ 2,527	\$ 4,933	\$ 4,933
Operating Income	(10,152)	(7,908)	554
Rate of Return	(401.74%)	(160.30%)	11.22%

	Original	Staff	Increase %
Gross Annual Revenue	6,973	15,833	
Increased Revenues		8,860	127.06%
Average Monthly Bills:			
Residential	\$ 8.40	\$ 21.65	157.74%
General Service	N/A	N/A	

RESIDENTIAL

TYPICAL BILLS

5/8" x 3/4" Meter:			
3,000 Gallons	\$ 8.40	\$ 19.32	130.00%
5,000 Gallons	8.40	23.98	185.48%
10,000 Gallons	12.60	35.63	182.78%

RATE STRUCTURE

BFC: 5/8" x 3/4"	\$ 8.40 *	\$ 12.33
1"	21.00 *	30.83
1 1/2"	42.00 *	61.65
2"	67.20 *	98.64
Gallonage Charge:	\$ 0.84 *	\$ 2.33

Number of Residents:      Residential   56        General Service   0  

Remarks: The utility is currently on a base facility charge rate structure which includes a minimum number of gallons per month per meter size and a minimum bill per month per meter size. \* (See page 34)

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**STAFF'S RECOMMENDED RATES  
 RATE CASE DATA SUMMARY**

Docket No. 900966-WS                      County:     Sumter                      Water     \_\_\_  
 Wastewater   X  
 Utility Name: The Woods, A Division of Homosassa Utilities, Inc.  
 General Area Served: The Woods Mobile Home Park  
 Proposed   X     OR As Directed in Order No.     \_\_\_     Staff Assisted  
X Regular     \_\_\_

	Utility Test Year	Staff Test Year	Staff Rate Making
Rate Base	\$ 2,372	\$ 25,750	\$ 25,750
Operating Income	(9,067)	( 7,539)	2,889
Rate of Return	(382.26%)	(29.28%)	11.22%

	Original	Staff	Increase %
Gross Annual Revenue	6,038	16,958	
Increased Revenues		10,920	180.85%
Average Monthly Bills:			
Residential	\$ 10.05	\$ 21.47	113.63%
General Service	N/A	N/A	

**RESIDENTIAL**

**TYPICAL BILLS**

5/8" x 3/4" Meter:			
3,000 Gallons	\$ 10.05	\$ 20.83	107.26%
5,000 Gallons	10.05	27.07	169.35%
10,000 Gallons	10.05	42.67	324.58%

**RATE STRUCTURE**

BFC: 5/8" x 3/4"	\$ 10.05 *	\$ 11.47
1"	N/A	28.68
1 1/2"	N/A	57.35
2"	N/A	91.76
Gallonage Charge:	\$ N/A	\$ 2.50
Gallonage Charge General Service		\$ 3.00

Number of Residents:     Residential   56     General Service   0

Remarks:     The utility is currently on a flat rate structure.     \*  
 (See page 34)



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**ISSUE 16:** Should the utility be authorized to collect service availability charges and if so, what are the appropriate charges?

**RECOMMENDATION:** Staff recommends the utility be able to collect its current tariffed service availability charges. (HARTSFIELD, RIEGER)

**STAFF ANALYSIS:** The utility's current tariff contains provisions for a Plant Capacity Charge of \$450.00 and \$700.00 per residential connection for water and wastewater, respectively. It also contains provisions for a Main Extension Charge of \$50.00 and \$250.00 per residential connection for water and wastewater, respectively.

Water service may be requested by a near by RV park. If this occurs, the utility will need to increase its plant capacity and service availability should be re-addressed at that time. The number of customers in the current service area has remained fairly constant during the test period. Because there is little or no growth, staff recommends no changes to service availability at this time.

**ISSUE 17:** Should the utility be authorized to collect miscellaneous service charges and if so, what are the appropriate charges?

**RECOMMENDATION:** Yes, the utility should collect the miscellaneous service charges shown in staff's analysis. (HARTSFIELD)

**STAFF ANALYSIS:** The utility's current tariff contains provisions for miscellaneous service charges. The utility's authorized miscellaneous service charges as follows:

	<u>Water</u>	<u>Wastewater</u>
Initial Connection	\$25.00	\$25.00
Normal Reconnection	\$25.00	\$25.00
Violation Reconnection	\$25.00	\$25.00
Premises Visit (in lieu of disconnection)	N/A	N/A

Staff recommends the utility be authorized to collect miscellaneous service charges as listed in SAB 13 as follows:

	<u>Water</u>	<u>Wastewater</u>
Initial Connection	\$15.00	\$15.00
Normal Reconnection	15.00	15.00
Violation Reconnection	Actual	Actual
Premises Visit (In Lieu of disconnection)	\$10.00	\$10.00

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**ISSUE 18:** Should the utility be authorized to collect customer deposits and if so, what is the appropriate amount?

**RECOMMENDATION:** Yes, the utility should be authorized to collect a \$40.00 customer deposit for both water and wastewater. (HARTSFIELD)

**STAFF ANALYSIS:** The utility's current tariff contains provisions for customer deposits of \$12.50 for water and 1 months bill for wastewater.

Commission Rule states the customer deposit level should not exceed two times the average monthly bill. Based on an average consumption of 4,000 gallons per month, the appropriate customer deposit should be set at \$40.00 for both water and wastewater. The current customer deposit level and staff's proposed customer deposit level are as follows:

	<u>Current</u>	<u>Staff</u>	<u>Increase %</u>
<u>Water</u>	\$ 12.50	40.00	220.00%
<u>Wastewater</u>	1 Mo. Bill	40.00	N/A

**ISSUE 19:** Should the utility be required to maintain its books and records in conformity with the 1984 NARUC Uniform System of Accounts (USOA)?

**RECOMMENDATION:** Yes, the utility should be required to maintain its books and records in conformity with the 1984 NARUC Uniform System of Accounts. (HARTSFIELD)

**STAFF ANALYSIS:** The utility's books are not maintained in conformity with the USOA. Because of the condition of the books and records, staff has made numerous calculation's and/or imputations that would have not been necessary otherwise.

Paragraph (1) of Rule 25-30.115, Florida Administrative Code, entitled "Uniform System of Accounts for Water and Sewer Utilities", states:

- 1) Water and Sewer Utilities shall, effective January 1, 1986, maintain its [sic] accounts and records in conformity with the 1984 NARUC Uniform System of Accounts adopted by the National Association of Regulatory Commissioners.

Staff believes the utility's accountant has the expertise necessary to convert and maintain the utility's records in conformity with Rule 25-30.115, Florida Administrative Code. Therefore, staff recommends the utility be ordered to maintain its books and records in conformity with the 1984 NARUC Uniform System of Accounts.

**ISSUE 20:** What is the appropriate recovery period for rate case expenses, and what is the appropriate annual rate reduction for each system at the end of that period?

**RECOMMENDATION:** The appropriate recovery period for rate case expenses is four years. The appropriate annual rate reduction for each system at the end of that period is \$233.38. (HARTSFIELD)

**STAFF ANALYSIS:** Section 367.0816, Florida Statutes, entitled "Recovery of Rate Case Expense" Speaks to this issue:

The amount of rate case expense determined by the Commission pursuant to the provisions of this chapter to be recovered through a public utilities rate shall be apportioned for recovery over a period, the rate of public utility shall be reduced immediately by the amount of rate case expense previously included in rates.

The estimated rate case expense in the instant case is 2,020.55. Staff has reduced estimated rate case expense by \$237.50 to \$1,783.05. Based on the above mentioned statute, the appropriate recovery period for this fee is four years, which allows the utility to recover \$222.88 per system per year through its rates. Once the annual rate case expense recovery is grossed up to reflect regulatory assessment fees, the annual recovery increases to \$233.38 per system.

**ISSUE 21:** Should the recommended rates be approved for the utility on a temporary basis in the event of a protest filed by a party other than the utility?

**RECOMMENDATION:** Yes, the recommended rates should be approved for the utility on a temporary basis in the event of a protest filed by a party other than the utility. (HARTSFIELD)

**STAFF ANALYSIS:** This recommendation proposes an increase in water and 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, in the event of a protest filed by a party other than the utility, staff recommends that the recommended rates be approved as temporary rates. The recommended rates collected by the utility shall be subject to the refund provisions discussed below.

The utility should be authorized to collect the temporary rates upon staff's approval of security for both the potential refund and a copy of the proposed customer notice. The security should be in the form of a bond or letter of credit in the amount of \$7,572 for the water system and \$9,341 for the wastewater system. 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.

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, the utility should file reports with the Division of Water and Wastewater no later than 20 days after each monthly billing. These reports shall indicate the amount of revenue collected under the increased rates.

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 the final Commission Order is rendered, either approving or denying the rate increase.

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

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

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 the result of the rate increase should be maintained by the utility. This account must specify by whom and on whose behalf such monies were paid. If a refund is ultimately required, it should be paid with interest calculated pursuant to Rule 25-30.360(4), Florida Administrative Code.

DOCKET NO. 900966-WS  
AUGUST 5, 1991

**ISSUE 22:** What is the appropriate effective date of the increased rates and charges?

**RECOMMENDATION:** Metered rates for water and wastewater service should be effective for meter readings on or after thirty days from the stamped approval date on the revised tariff sheets. The miscellaneous service charges and customer deposits should be effective for service rendered or connections made on or after the stamped approval date on the revised tariff sheets. Tariff sheets will not be approved until customer notice is approved.  
(HARTSFIELD)

**STAFF ANALYSIS:** The approved monthly metered rates should be effective for meter readings on or after thirty days from the stamped approval date on the revised tariff sheets. The approved miscellaneous service charges and customer deposits will be effective for service rendered or connections made on or after the stamped approval date on the revised tariff sheets. Tariff sheets will not be approved until staff verifies that the tariff sheets are consistent with the Commission's decision, that the proper security for refund (if necessary) has been provided, and that the proposed notice is adequate.



DOCKET NO. 900966-WS  
AUGUST 5, 1991

**ISSUE 23:** Should this docket be closed?

**RECOMMENDATION:** If there is no timely protest filed by a substantially affected party, and staff has approved both the proposed customer notice and revised tariff sheets, then this docket should be closed. (HARTSFIELD)

**STAFF ANALYSIS:** Staff must verify that the revised tariff sheets comply with the Commission's decision, and that the proposed customer notice is adequate. If there are no timely protests filed, then the docket should be closed.

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Homosassa Utilities, Inc. (The Woods)  
 Schedule of Water Rate Base  
 Test Year Ended 12/31/90  
 REVISED 08/02/91

Docket No. 900966-WS  
 Schedule No. 1

Description	Balance Per Annual Report	Utility Adjust.	Balance Per Utility	Staff Adjust.	Average Per Staff
Utility Plant in Service	2,163	0	2,163	90,507	92,670
Land	500	0	500	3,000	3,500
Accumulated Depreciation	(136)	0	(136)	(42,433)	(42,569)
Contributions-in-aid-of-Construction	0	0	0	(66,510)	(66,510)
Accumulated Amortization of C.I.A.C.	0	0	0	21,161	21,161
Plant Held for Future Use	0	0	0	(5,027)	(5,027)
Working Capital Allowance	0	0	0	1,709	1,709
<b>TOTAL</b>	<b>2,527</b>	<b>0</b>	<b>2,527</b>	<b>2,406</b>	<b>4,933</b>

Description	Adjustments
<hr/>	
Utility Plant in Service	
To reflect the average balance of plant in service at 12/31/90 as per the staff engineering original cost study.	70,732
To reflect the average balance of transmission mains installed during the test year contributed by the Department of Environmental Regulation.	19,775
Total Adjustment to Utility Plant in Service	90,507 *****
Land	
To reflect the value of land as per the original cost study.	3,000 *****
Accumulated Depreciation	
To reflect the proper amount of accumulated depreciation based on the original cost study and the plant contributed by DER.	(42,433) *****
Contributions-in-aid-of-Construction	
To reflect the average balance of contributed property and connection fees collected by the previous owner and staff's imputation of C.I.A.C.	(66,510) *****
Accumulated Amortization of C.I.A.C.	
To reflect the average balance of C.I.A.C. amortization.	21,161 *****
Plant Held for Future Use	
To reflect the average balance of non-used and useful plant.	(5,027) *****
Working Capital Allowance	
To include working capital equal to 1/8 of O & M.	1,709 *****

Homosassa Utilities, Inc. (The Woods)  
 Schedule of Sewer Rate Base  
 Test Year Ended 12/31/90  
 REVISED 08/02/91

Docket No. 900966-WS  
 Schedule No. 2

Description	Balance Per Annual Report	Utility Adjust.	Balance Per Utility	Staff Adjust.	Balance Per Staff
Utility Plant in Service	2,000	0	2,000	85,747	87,747
Land	500	0	500	7,000	7,500
Accumulated Depreciation	(128)	0	(128)	(40,745)	(40,873)
Contributions-in-aid-of-Construction	0	0	0	(59,692)	(59,692)
Accumulated Amortization of C.I.A.C.	0	0	0	34,636	34,636
Plant Held for Future Use	0	0	0	(5,082)	(5,082)
Working Capital Allowance	0	0	0	1,514	1,514
<b>TOTAL</b>	<b>2,372</b>	<b>0</b>	<b>2,372</b>	<b>23,378</b>	<b>25,750</b>

Description	Adjustments
Utility Plant in Service	
To reflect the average balance of plant in service at 12/31/90 as per the staff engineering original cost study.	85,747
Land	
To reflect the value of land as per the original cost study.	7,000
Accumulated Depreciation	
To reflect the proper amount of accumulated depreciation based on the original cost study.	(40,745)
Contributions-in-aid-of-Construction	
To reflect the inclusion of connection fees collected by the previous owner and staff's imputation of C.I.A.C.	(59,692)
Accumulated Amortization of C.I.A.C.	
To reflect the average balance of C.I.A.C. amortization.	34,636
Plant Held for Future Use	
To reflect the average balance of non-used and useful plant.	(5,082)
Working Capital Allowance	
To include working capital equal to 1/8 of O & M.	1,514

Description	Balance Per Filing	Utility Adjust.	Balance Per Utility	Staff Adjust.	Balance Per Staff	Recon. Adjust.	Recon. Balance	Weight	Cost Rate	Weighted Cost
Common Equity	(28,940)	0	(28,940)	25,793	(3,147)	33,830	30,683	100.00%	11.22%	11.22%
Long and Short-Term Debt			0		0	0	0	0.00%	12.00%	0.00%
Customer Deposits			0		0	0	0	0.00%	8.00%	0.00%
Advances from Associated Companies			0		0	0	0	0.00%	0.00%	0.00%
Other			0		0	0	0	0.00%	0.00%	0.00%
<b>Total</b>	<b>(28,940)</b>	<b>0</b>	<b>(28,940)</b>	<b>25,793</b>	<b>(3,147)</b>	<b>33,830</b>	<b>30,683</b>	<b>100.00%</b>		<b>11.22%</b>

Range of Reasonableness:	High	Low
Common Equity	12.22%	10.22%
Overall Rate of Return	12.22%	10.22%

Description	Balance Per Utility	Staff Adjust.	Balance Per Staff	Staff Adjust. Required Revenue	Required Revenue Per Staff
Operating Revenues	6,973	0	6,973	8,860	15,833
Operating and Maintenance	17,065	(3,393)	13,672	0	13,672
Depreciation Expense	0	531	531	0	531
Taxes Other Than Income	60	618	678	399	1,077
Income Taxes	0	0	0	0	0
Total Operating Expenses	17,125	(2,244)	14,881	399	15,280
Net Operating Income	(10,152)	2,244	(7,908)	8,461	554
Rate Base	2,527		4,933		4,933
Rate of Return	-401.74%		-160.30%		11.22%

Description	Adjustments
-----	
<b>Operating and Maintenance</b>	
To reflect the net effect of the adjustments shown in the body of the attached recommendation.	(3,393) *****
<b>Depreciation Expense</b>	
To reflect the proper amount of depreciation expenses based on a 2.5% depreciation rate net of C.I.A.C. amortization.	531 *****
<b>Taxes Other Than Income</b>	
To reflect the proper amount of regulatory assessment fees @ 4.5%.	254
To reflect the inclusion of property taxes not included by the utility.	364 -----
Total adjustment to Taxes Other Than Income	618 *****
<b>Operating Revenues</b>	
To reflect the increase in operating income to allow the utility the opportunity to earn a 11.22% overall rate of return.	8,860 *****
<b>Taxes Other Than Income</b>	
To reflect the increase in regulatory assessment fees related to the above increase in operating revenues.	399 *****



Description	Balance Per Filing	Utility Adjust.	Balance Per Utility	Staff Adjust.	Balance Per Staff	Recon. Adjust.	Recon. Balance	Weight	Cost Rate	Weighted Cost
Common Equity	(28,940)	0	(28,940)	25,793	(3,147)	33,830	30,683	100.00%	11.22%	11.22%
Long and Short-Term Debt			0		0	0	0	0.00%	12.00%	0.00%
Customer Deposits			0		0	0	0	0.00%	8.00%	0.00%
Advances from Associated Companies			0		0	0	0	0.00%	0.00%	0.00%
Other			0		0	0	0	0.00%	0.00%	0.00%
<b>Total</b>	<b>(28,940)</b>	<b>0</b>	<b>(28,940)</b>	<b>25,793</b>	<b>(3,147)</b>	<b>33,830</b>	<b>30,683</b>	<b>100.00%</b>		<b>11.22%</b>

Range of Reasonableness:	High	Low
Common Equity	12.22%	10.22%
Overall Rate of Return	12.22%	10.22%

Description	Balance Per Utility	Staff Adjust.	Balance Per Staff	Staff Adjust. Required Revenue	Required Revenue Per Staff
Operating Revenues	6,973	0	6,973	8,860	15,833
Operating and Maintenance	17,065	(3,393)	13,672	0	13,672
Depreciation Expense	0	531	531	0	531
Taxes Other Than Income	60	618	678	399	1,077
Income Taxes	0	0	0	0	0
<b>Total Operating Expenses</b>	<b>17,125</b>	<b>(2,244)</b>	<b>14,881</b>	<b>399</b>	<b>15,280</b>
<b>Net Operating Income</b>	<b>(10,152)</b>	<b>2,244</b>	<b>(7,908)</b>	<b>8,461</b>	<b>554</b>
<b>Rate Base</b>	<b>2,527</b>		<b>4,933</b>		<b>4,933</b>
<b>Rate of Return</b>	<b>-401.74%</b>		<b>-160.30%</b>		<b>11.22%</b>

Description	Adjustments
<hr style="border-top: 1px dashed black;"/>	
Operating and Maintenance	
To reflect the net effect of the adjustments shown in the body of the attached recommendation.	(3,393) *****
Depreciation Expense	
To reflect the proper amount of depreciation expenses based on a 2.5% depreciation rate net of C.I.A.C. amortization.	531 *****
Taxes Other Than Income	
To reflect the proper amount of regulatory assessment fees @ 4.5%.	254
To reflect the inclusion of property taxes not included by the utility.	364 -----
Total adjustment to Taxes Other Than Income	618 *****
Operating Revenues	
To reflect the increase in operating income to allow the utility the opportunity to earn a 11.22% overall rate of return.	8,860 *****
Taxes Other Than Income	
To reflect the increase in regulatory assessment fees related to the above increase in operating revenues.	399 *****

Homosassa Utilities, Inc. (The Woods)  
 Schedule of Sewer Operations  
 Test Year Ended 12/31/90  
 REVISED 08/02/91

Docket No. 870539-WS  
 Schedule No. 5

Description	Balance Per Utility	Staff Adjust.	Balance Per Staff	Staff Adjust. Required Revenue	Required Revenue Per Staff
Operating Revenues	6,038	0	6,038	10,920	16,958
Operating and Maintenance	15,056	(2,946)	12,110	0	12,110
Depreciation Expense	0	576	576	0	576
Taxes Other Than Income	49	842	891	491	1,382
Income Taxes	0	0	0	0	0
<b>Total Operating Expenses</b>	<b>15,105</b>	<b>(1,528)</b>	<b>13,577</b>	<b>491</b>	<b>14,069</b>
<b>Net Operating Income</b>	<b>(9,067)</b>	<b>1,528</b>	<b>(7,539)</b>	<b>10,429</b>	<b>2,889</b>
<b>Rate Base</b>	<b>2,372</b>		<b>25,750</b>		<b>25,750</b>
<b>Rate of Return</b>	<b>-382.26%</b>		<b>-29.28%</b>		<b>11.22%</b>