

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Application for a Staff- ) DOCKET NO. 920736-WS  
Assisted Rate Case in Flagler ) ORDER NO. PSC-94-0244-FOF-WS  
County by OCEAN CITY UTILITIES, ) ISSUED: March 4, 1994  
INC. )  
\_\_\_\_\_ )

The following Commissioners participated in the disposition of this matter:

J. TERRY DEASON, Chairman  
SUSAN F. CLARK  
JULIA L. JOHNSON  
DIANE K. KIESLING  
LUIS J. LAUREDO

ORDER GRANTING TEMPORARY RATES IN THE EVENT OF PROTEST

AND

NOTICE OF PROPOSED AGENCY ACTION ORDER  
GRANTING RATES AND CHARGES

BY THE COMMISSION:

NOTICE IS HEREBY GIVEN by the Florida Public Service Commission that the action discussed herein, except for the granting of temporary rates, subject to refund, in the event of a protest, is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code.

BACKGROUND

Ocean City Utilities, Inc. (Ocean City or utility) is a Class "C" water and wastewater utility located in Flagler County. Ocean City is made up of two water systems, the original Flagler Beach system and the former Beverly Beach system, and one wastewater system.

Order No. 20440, issued December 9, 1988, granted Ocean City its original water Certificate No. 509-W. Order No. 15504, issued December 26, 1985, granted Beverly Beach Surfside Utilities its original Certificates Nos. 457-W and 391-S. Order No. 24050, issued February 1, 1991, transferred Certificate No. 391-S from Beverly Beach to Ocean City and amended Ocean City's certificated

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area to include the Beverly Beach service area. This Order also cancelled Beverly Beach Surfside's Water Certificate No. 457-W.

When Beverly Beach's water certificate and its water and wastewater territory were transferred to Ocean City, this Commission approved water rates, wastewater rates, miscellaneous service charges and meter installation charges for Beverly Beach customers only. This Commission approved rates for water customers in the Flagler Beach territory in Order No. 15504, issued December 25, 1985. Ocean City has been granted a rate adjustment through the application of the 1991 price index.

On July 20, 1992, Ocean City applied for this staff assisted rate case (SARC). In its application, Ocean City indicated that the Department of Environmental Protection (DEP) wanted Ocean City to improve its water and wastewater treatment plants to accommodate the disposal of reverse osmosis unusable (reject) water. Ocean City also stated that it intended to move the Beverly Beach water treatment plant to another location.

Commission staff completed an audit and engineering field investigation. Since Ocean City had not obtained construction permits from DEP, Ocean City could not provide signed contracts for the DEP required plant improvements, nor could it provide estimated costs for moving the water treatment plant. This Commission informed Ocean City that signed contracts were required for all pro forma plant improvements which are to be included in rate base for rate setting purposes.

In November 1992, Ocean City requested that the 15 months statutory requirement for completing a staff assisted rate case be waived and requested that this docket be placed in monitor status for six months. Ocean City also requested that the current application be deemed withdrawn if all of the required information could not be provided within the six month time frame. Order No. PSC-93-0023-FOF-WS, issued January 5, 1993, granted Ocean City's requests and set the monitor status to end June 15, 1993.

On June 14, 1993, this Commission received from Ocean City those documents that were required to continue processing this rate case. Commission staff rescheduled an audit and engineering investigation. All the necessary audit and engineering reports in conjunction with rate setting have been performed.

The test year for this case is the historical test year ended May 31, 1993. Based on our staff's audit, Ocean City recorded test year revenues of \$168,363 for water and \$59,708 for wastewater. Test year operating expenses were \$144,242 for water

and \$46,156 for wastewater. This resulted in operating income of \$24,121 and \$13,552 for water and wastewater, respectively.

Ocean City is within the St. John's River Water Management District, and this area is listed as a critical use or water caution area. Ocean City's permit for the wastewater plant allows its effluent to be discharged into the coastal waterway, therefore, Ocean City has no reuse requirements.

#### QUALITY OF SERVICE

Commission staff held a customer meeting on October 14, 1993, at the Wickline Center, 800 South Daytona Avenue, Flagler Beach. Approximately 75 users, not necessarily customers, attended the meeting. Eight people talked primarily about the poor water quality, the low water pressure, and the bad odors from the wastewater plant. These individuals also asked about plant engineering, planning, and the staff engineer's computing. Further, the Commission has received several written complaints that voiced the same grievances that had been raised during the customer meeting.

While this Commission does not have the primary regulatory responsibility over the quality of the water, including taste, clarity, odor or chemical content, Commission staff expended a considerable amount of time and effort in investigation of the customers' complaints. At the conclusion of that investigation, we sent that information to the Northeast Florida Water Management District (NEFWMD), the DEP and the County Health Department (CHD). While these agencies stated that the quality of service provided by Ocean City has never been a major problem, the following is a synopsis of our investigation and Ocean City's response:

#### Water

TASTE - Ocean City uses Reverse Osmosis (RO) treatment plants which are considered the most practical system for water treatment in an environment similar to Ocean City's. Normally, this treatment removes most of the salt and some of the unwanted chemicals and leaves clean water, then chlorine will be added as a disinfectant. An incorrect amount of chlorine will cause a bad taste.

In August 1992, DEP discovered that Ocean City did not use enough chlorine. However, four months later, DEP found that Ocean City applied too much chlorine. Ocean City adjusted its automated metering device (chlorinator). Samples are being taken daily. During Ocean City's recent move and plant modification, there may

have been short intervals of excessive chlorine in the system. However, DEP has reported that these have been the only problems that Ocean City has had with the taste of the water.

Another factor has been the small, shallow well that Ocean City uses for emergencies. During an emergency, if the well has salt in it, it may pass through the distribution system. Discoloration, unpleasant taste, visible contaminants like sand may be present. Therefore, DEP must be notified whenever Ocean City plans to use the well.

ODOR - The underground water sources have a high level of hydrogen sulfide, a gaseous element that smells like rotten eggs. During normal conditions, with proper aeration, Ocean City does a good job of reducing the odor. Under unusual conditions, however, the smell may be stronger. Two possible reasons for this are: (1) Electrical shortage can lower the water level in reserve. After power has been restored, there is a lapsed time for the aeration process to function properly, and (2) the same thing can occur with the aeration during the repairs of main lines or when there have been scheduled or unscheduled outages. However, the responsible regulatory agencies have said that they have not found any unusual violations of their rules.

STAINS - The customers complained about "black stains". The membranes in the RO units will not pass anything larger than microscopic in size. Most of Ocean City's pipes are PVC (white plastic) with the exception of its southern most part. Any "black stains" probably comes from other sources.

The customers also complained about "white sediments" or "sands". These residuals may be from Ocean City since its water source, like most of Florida, contains calcium, silica and traces of lime. The RO membranes will only allow microscopic particles to pass, however, after years of operation, these minute particles can "collect" and become visible. Further, the chlorine, after a period of usage, develops small particles of visible scale. Another explanation is the occasional use of the shallow well. Ocean City does not flush the system as it should to remove these residuals.

Most of these complaints came from Surfside Estates Mobile Home Park's residents. During the period preceding the customer meeting, Ocean City did not own or maintain the lines within the park. Commission staff received information that the park owners restricted the utility from flushing since the park had a master meter and the park owner would have had to pay for the flushing. Since Ocean City has acquired the ownership of the park's lines and

has individually metered the park, we find it appropriate to require the utility to flush the lines once each quarter to remove any particles.

**BOTTLED WATER** - Some customers complained that they have had to buy bottled water because of their dissatisfaction with the water. However, DEP has said that Ocean City's water meets all DEP's requirements on taste and clarity, and the water can be consumed safely. Ocean City has to comply with more stringent requirements than suppliers of bottled water.

**PURCHASED FILTER** - Some customers mentioned that they used purchased filters. Certainly, any water customer has this option, but DEP and the County Health Department did not know of any violations of their water standards. Any filtering is strictly optional and unnecessary. Therefore, unless required by DEP, we find it inappropriate for any expenditures for additional filtering at Ocean City's facility, to be passed on to the customers.

**LOW PRESSURE** - The customers complained about low water pressure. Previously, Ocean City had separate water systems. It did not need standby generators for the number of customers of each system. It would have unnecessarily increased their rates. Now, Ocean City operates as one system, and since DEP requires Ocean City to have a standby generator, we find that Ocean City can include that expense in its rate base.

#### Wastewater

**ODOR** - Unpleasant odor is an inherent part of any wastewater system. Anyone who lives near a wastewater system can expect unpleasant odor. To some extent, the unpleasant odor can be suppressed, however on a few occasions, the odor was really bad from the Ocean City system.

Previously, Ocean City could not control these incidents because they came from other sources. Following a long period of heavy rain, the Surfside Estates Mobile Home Park's gravity feed lines (Ocean City did not have control over these lines) allowed surface water to enter the wastewater plant in amounts that exceeded the plant's capacity. Ocean City had two choices, one illegal. Ocean City could have allowed the infiltration to pass through untreated and enter the inter-coastal waterway which would have been illegal. Instead, Ocean City prudently allowed the solids to settle at the bottom and allow rainwater to go to the outflow after a heavy dosage of chlorine.

The odor problem should improve because Ocean City has acquired ownership of the Surfside Estates Mobile Home Park's lines

and plans to repair these lines. The wastewater plant now has excess capacity which allows the process to slow down without becoming septic. That is, the excess capacity alleviates any toxic condition than may spread bacteria.

**WASTEWATER BACK-UP** - One customer complained about wastewater backing up into his toilet. As stated in the preceding section, this problem was beyond Ocean City's control because it did not own the gravity feed lines that had allowed infiltration in the system. Ocean City has acquired the park's lines and plans to repair them. As a result, this situation should improve. Therefore, all future problems will be attributed to Ocean City unless it comes from a customer's plumbing.

**TANK SERVICE** - This Commission and the customers have been concerned about Ocean City processing additional sludge from Jarosz Tank Service (Jarosz). Ocean City and Jarosz entered in an agreement on June 8, 1993, whereby Ocean City agreed that it would process Jarosz's raw sewage. The addition of the RO reject from the water treatment plant as required by the DEP hinders the wastewater treatment process. Since the wastewater customers do not create enough raw sewage to process properly the quantity of RO reject that has been applied, the wastewater plant needs additional raw sewage to operate efficiency.

Jarosz is being charged \$25.00 per load. Each load averages 1,000 gallons and cannot exceed 2,500 gallons. We find that the agreement between Ocean City and the tank service is a prudent and economical one that benefits the wastewater customers.

#### Individual Meters

During the October 14, 1993, customer meeting, Surfside Estates Mobile Home Park's residents requested that individual meters be installed in their mobile home park. They also submitted a petition for individual meters to this Commission. The mobile home park owner and Ocean City entered into an agreement on December 9, 1993, that transferred title of the lines, meters, collection system and lift station to Ocean City. That is, Ocean City received donated property from the mobile home park owner. One condition of the agreement stated that the mobile home park would receive individual meters as consideration for transferring title of the lines, meters, sewer collection system, and lift station to Ocean City.

RATE BASE

Our calculations of the appropriate rate base for the purpose of this proceeding are depicted on Schedules Nos. 1 and 1-A and our adjustments to rate base are itemized on Schedule 1-B. Those adjustments which are self-explanatory or essentially mechanical in nature are reflected on those schedules without further discussion in the body of this Order. The major adjustments are discussed below.

Used and Useful

Water Treatment Plant - Ocean City has a capacity of 105,000 gallons per day. A review of the operator's records showed a total of 18,914,000 gallons of drinking water was produced by this facility during the test year. This computes to a daily average of 51,820 gallons and which is very close to the quantities shown in the Annual Report for 1992. The highest daily flow measured at 79,000 gallons per day (gpd) on April 24, 1993, the highest five day average had 77,200 gpd, and the high month of the test year had an average of 70,400 gallons daily flow.

Our staff engineer inspected the water treatment complex and it appeared to operate satisfactorily. Based on the approved formula, the RO reject line is found to be 100% used and useful while the remainder of the water treatment plant is found to be 86.93% used and useful.

Water Distribution System - The used and useful formula has been valuable as an indicator and yields a percentage that qualifies as a representation of useful plant. Based on the approved formula, the water distribution system is found to be 72.4% used and useful.

Wastewater Treatment Plant - DEP required Ocean City to add an 87,000 gallon capacity wastewater treatment plant to accommodate the industrial waste (RO reject) from the two water treatment plants. Ocean City had two options: (1) Buy a collection tank and then collect and truck the RO reject to some other wastewater treatment plant, then pay that utility to process it, or (2) provide an 87,000 gallon extension to the existing wastewater plant for the RO reject.

We concur with Ocean City's decision to choose the second option to provide an extension. However, this extension created an accounting problem because the wastewater customers currently have sufficient capacity. Further, since this extension does not involve a wastewater problem, the wastewater customers should not have to pay for this extension.

Ocean City purchased a used 150,000 gallon wastewater treatment plant cheaper than it could have purchased an 87,000 gallon unit. We have determined that the first 87,000 gallons of this wastewater addition is exclusively for water customers' usage while the remaining capacity is for wastewater customers.

Since this 87,000 gallon addition has been designed, permitted, constructed, and connected for the sole purpose of receiving and assisting the processing of the industrial waste water from the two water treatment plants, this addition will be considered "built out." In the past, when a facility had been "built out", we considered the facility to be 100% used and useful. Using this basis, we find the 87,000 gallon addition to be 100% used and useful.

The remaining 63,000 gallons of the 150,000 gallon addition will be treated as an addition to the existing wastewater treatment plant. Further, when the measured influent has been added to the 87,000 gallon RO reject requirement, the true used and useful for the total wastewater plant computes to 61.36%.

Wastewater Collection System - While Ocean City has future plans to offer wastewater collection throughout its certificated area, Ocean City does not currently own the total collection system. The Surfside Estates Mobile Home Park has contributed the collection system within its park to Ocean City, while the remaining collection system is customer owned. The total part of the collection system that is under the control of Ocean City is contributed and is found to be 100% used and useful, but will have no effect in computing the rate base. For this reason, and the fact that a part of the system is customer owned and the actual flows from each are impossible to compute, we will make no determination of used and useful for the collection system.

#### Ownership of Land

On October 2, 1987, Ocean City acquired a 99 year lease for the land on which the Flagler Beach water system is located. The cost for the lease is \$10 annually. Therefore, the appropriate value for the land is \$0. The annual cost of \$10 for leasing the land is included in operation and maintenance expense.

Ocean City owns the land on which the Beverly Beach wastewater system is located, and Order No. 24050, issued February 1, 1993, established the original cost of the land at \$23,230. There have been no additions to land for wastewater. Ocean City acquired the land on which the Beverly Beach water system is located through an agreement with the seller dated May 16, 1988. In this agreement,

Ocean City acquired the land in exchange for ten connections to the seller's property. The value of ten connections based on Ocean City's existing authorized service availability charges is \$10,000. There have been no connections made to the seller's property, and Ocean City has not recorded a value for this land on its books. Therefore, the appropriate value for the land for rate-setting purposes is \$0. Based on these facts, the value of the land will be recognized as Contribution-in-Aid-of-Construction (CIAC) when the connections are made.

Utility Plant in Service - Ocean City recorded plant in service of \$330,124 for water and \$232,565 for wastewater. Plant has been adjusted by \$63,771 and by \$70,524 for water and wastewater, respectively, to reflect a reclassification from Construction Work in Progress (CWIP).

An adjustment has also been made of \$1,201 for wastewater to reflect a reclassification from operation and maintenance expense. In addition, an averaging adjustment has been made of (\$31,885) and (\$35,262) for water and wastewater CWIP, respectively. Adjustments have also been made of \$62,462 for water and \$95,659 for wastewater to include plant that has been donated to Ocean City by the mobile home park owner.

Average pro forma plant improvements associated with donated plant are \$5,900 for water and \$400 for wastewater. Ocean City purchased a digester, as required by DEP, for \$11,000 with quarterly payments of \$500 to Jarosz septic tank service. There is no interest charge for this digester. The average cost of the digester is included in the rate base as pro forma plant of \$5,500. The digester has been scheduled to be in service by mid-February 1994, which DEP has required by the Protection and it has become a part of the permit for the new wastewater facility. Ocean City also charges Jarosz \$25 per load for treating sludge. We have adjusted Ocean City's capital structure to include the average cost of the digester as cost free debt. An averaging adjustment of (\$854) for water and (\$600) for wastewater has also been made. The total adjustment to Ocean City's plant in service is \$99,394 for water and \$137,422 for wastewater.

Land - Ocean City leases the land on which the Flagler Beach water system is located and the appropriate value for this land is \$0. Ocean City owns the land on which the Beverly Beach water system is located and the appropriate value is \$0. Ocean City owns the land on which the Beverly Beach wastewater system is located and the appropriate value for this land is \$23,230.

Plant Held for Future Use - The water treatment system is 86.93% used and useful, the water distribution system is 72.40% used and useful, and the wastewater treatment system is 61.36% used and useful. Average plant held for future use has been calculated based on the non-used and useful percentages times average plant and average accumulated depreciation.

Plant held for future use has been adjusted by (\$49,472) for water and (\$103,005) for wastewater to reflect average plant held for future use. The non-used and useful accumulated depreciation is \$10,534 for water and \$32,599 for wastewater. The total adjustments for plant held for future use are (\$38,938) for water and (\$70,406) for wastewater.

Construction Work in Progress (CWIP) - Ocean City recorded a well at a cost of \$12,675 for water in CWIP. Ocean City provided invoices supporting additional CWIP of \$51,096 for water and \$70,524 for wastewater. Total CWIP for water is \$63,771 and for wastewater, \$70,524. This CWIP is now in service. Therefore, we have adjusted CWIP by (\$63,771) for water and (\$70,524) for wastewater to reflect reclassification to plant in service.

Contributions-in-Aid-of-Construction (CIAC) - Ocean City recorded CIAC of (\$224,963) for water and (\$141,370) for wastewater. CIAC for water has been adjusted by (\$25,000) to reflect an advance paid to Ocean City by a developer for distribution lines. CIAC has also been adjusted by (\$62,462) for water and (\$91,159) for wastewater to reflect CIAC on donated plant. In addition, CIAC has been adjusted by (\$3,132) for water and (\$4,500) for wastewater to reflect CIAC on donated pro forma plant.

CIAC has been adjusted by (\$26,631) for water and (\$13,500) for wastewater to reflect CIAC associated with margin reserve. The averaging adjustments are \$8,128 for water and \$9,100 for wastewater. The total adjustment for CIAC is (\$109,097) for water and (\$100,059) for wastewater.

Accumulated Depreciation - Ocean City recorded accumulated depreciation of (\$87,932) for water and (\$88,597) for wastewater at May 31, 1993. Ocean City's water plant has two reverse osmosis plants. Ocean City requested that the membranes for the reverse osmosis plant be depreciated over five years as approved by the Commission in Docket No. 920638-WU. Ocean City gave us a breakdown of the cost of the two reverse osmosis plants which furnished the basis for the cost of the membranes. Ocean City's accumulated depreciation at May 31, 1992 required no adjustments.

Accumulated depreciation has been adjusted by (\$11,832) for water and (\$2,333) for wastewater to reflect year end accumulated depreciation at May 31, 1993. Accumulated depreciation has been adjusted by (\$1,572) for water and (\$2,352) for wastewater to reflect depreciation on reclassified CWIP, by (\$36,957) for water and (\$46,734) for wastewater to reflect depreciation on donated and pro forma plant, and by (\$367) for wastewater to reflect depreciation on the digester. Averaging adjustments have been made of \$13,277 for water and \$8,955 for wastewater. The total adjustment for accumulated depreciation is (\$37,084) for water and (\$42,831) for wastewater.

Accumulated Amortization of CIAC - Ocean City recorded amortization of CIAC of \$67,876 for water and \$41,910 for wastewater. Adjustments have been made of \$1,212 for water and \$1,453 for wastewater to reflect accumulated amortization of CIAC at May 31, 1993. Amortization of CIAC has also been adjusted by \$36,645 for water and \$46,724 for wastewater to reflect amortization on donated plant, and by \$1,763 for water and \$768 for wastewater to reflect amortization of CIAC for margin reserve. The averaging adjustments are (\$5,817) for water and (\$5,627) for wastewater. The total adjustment for amortization of CIAC is \$33,803 for water and \$43,318 for wastewater.

Working Capital Allowance - Following our usual practice and consistent with Rule 25-30.443, Florida Administrative Code (Form PSC/WAS 18), we used the one-eighth of operation and maintenance expense formula approach for calculating working capital allowance. Applying that formula, we find a working capital allowance of \$12,678 for water and \$13,380 for wastewater is appropriate.

Test Year Rate Base - Based on the foregoing, we find the appropriate rate base for this utility to be \$45,861 for water and \$48,562 for wastewater.

#### CAPITAL STRUCTURE

Ocean City's capital structure includes negative common equity of \$57,538. It is our practice to adjust the negative common equity to zero. Order No. PSC-93-1107-FOF-WS, issued July 29, 1993, capped the return on common equity at 10.97% for all water and wastewater utilities having equity ratios of less than 40%. Based on the foregoing, the appropriate return on equity is 10.97%.

Ocean City's capital structure also includes long term debt of \$10,500 at a cost of 10%, long term debt of \$323,625 at a cost of 8%, and customer deposits of \$8,998 at a cost of 8%. Ocean City purchased a digester from Jarosz tank service for \$11,000 by an

agreement dated June 8, 1993. Ocean City agrees to pay the seller \$500 per quarter. There is no interest charge stated in this agreement. The average cost of the digester is included in the rate base as pro forma plant and is scheduled to be in service by mid-February 1994. Therefore we have adjusted Ocean City's capital structure by \$5,500 of long term debt at zero cost.

Ocean City's capital structure has been reconciled with our calculation of rate base for water and wastewater. Applying the weight of the long term debt and customer deposits to our rate bases times the cost of each capital component results in an overall rate of return of 7.94%. Therefore, the appropriate overall return is 7.94%. Capital Structure is listed on Schedule No. 2.

#### NET OPERATING INCOME

Our calculations of net operating income are depicted on Schedules Nos. 3 and 3-A, and our adjustments are itemized on Schedule No. 3-B. Those adjustments which are self-explanatory or which are essentially mechanical in nature are reflected on those schedules without further discussion in the body of this Order. The major adjustments are discussed below.

#### Test Year Operating Revenue

Ocean City recorded test year revenue of \$168,363 for water and \$59,708 for wastewater. A revenue check has been done based on the test year's number of customers, consumption, and the rates that were in effect during the test year. Based on this analysis, Ocean City charged the appropriate rates and collected and recorded the appropriate amount for its test year revenue.

#### Test Year Operating Loss

Ocean City's test year operating revenue is \$168,363 for water and \$59,708 for wastewater. The corresponding test year operating expenses are \$178,293 for water and \$76,763 for wastewater, which do not include our revenue increase and corresponding taxes. This results in a test year operating loss of \$9,930 for water and \$17,055 for wastewater.

#### Operating Expenses

The appropriate amounts of operating expenses are \$178,932 for water and \$77,748 for wastewater. Ocean City's recorded test year expenses include operation and maintenance expense, depreciation

expense, amortization of CIAC and taxes other than income. The test year operating expenses include expenses for the water systems and the wastewater system. Test year operating expenses are listed on Schedule Nos. 3 and 3-A. Ocean City recorded operating expenses of \$144,242 for water and \$46,156 for wastewater. A summary of adjustments to Ocean City's recorded expenses are as follows:

Operation and Maintenance Expenses

1) Sludge Removal - Ocean City recorded sludge removal expense of \$500 for the test year. This expense has been adjusted by \$500 to reflect the appropriate annual allowance of \$1,000 for wastewater.

2) Purchased Power - DEP has required Ocean City to increase its wastewater treatment plant capacity to accommodate the treatment of its reject water from the two RO water systems. We find that the current purchased power expense will double. Therefore, we have increased purchased power by \$6,868 for wastewater.

3) Chemicals - We also find that the chemical expense will double to accommodate the treatment of reject water from the RO water systems. We have adjusted this expense by \$1,836 for wastewater.

4) Contractual Services - Ocean City recorded contractual service expense of \$53,975 for water and \$16,151 for wastewater. Ocean City's recorded expenses include DEP's required water testing cost of \$1,983 and wastewater testing cost of \$2,331. The frequency and number of DEP's required water and wastewater tests have increased. We have adjusted this expense by \$1,144 for water and \$10,892 for wastewater to reflect the appropriate annual testing allowance of \$3,127 for water and \$13,223 for wastewater.

Affiliated Utility Services, Inc. (AUSI), a related company, provides contractual operator and management services. Ocean City's president is the licensed operator and part owner of AUSI. Ocean City recorded a contractual operator/management expense of \$47,455 for water and \$12,210 for wastewater. Ocean City requested an annual contractual allowance of \$9,515 per month, \$114,180 annually, for operator/management service.

Based on the number of DEP's required tests, the complexity of plant operations, and amount of maintenance needed, we find that Ocean City's total hours for operator services should be 60 hours, 21 hours for water and 39 hours for wastewater, and the hourly rate should be \$20.00 per hour which is reasonable for this type of

utility. Therefore, we find that a contractual operator allowance of \$21,840 for water and \$40,560 for wastewater is appropriate.

AUSI also provides management services for Ocean City. Based on AUSI's duties and its required increased duties, as a result of the increased customer base, we find that Ocean City should be allowed a contractual management fee allowing 40 hours per week at \$20.00 per hour. Therefore, we find that a contractual management fee of \$41,600 annually, \$20,800 for water and wastewater, respectively, is appropriate. We have adjusted this expense by (\$4,815) for water and by \$49,150 for wastewater to reflect an annual operator/management allowance of \$42,640 for water and \$61,360 for wastewater.

This expense has also been adjusted by (\$1,100) for water and (\$550) for wastewater to remove plant costs that are already included in CWIP. The total adjustment for contractual service expense is \$4,771 for water and \$59,492 for wastewater.

5) Rents - Ocean City recorded rent expense of \$19,528 for water and \$50 for wastewater. During the test year Ocean City paid Beverly Beach Enterprises \$18,725 for the rental of land for the Beverly Beach water plant. The Beverly Beach Plant has been relocated. Therefore, this expense has been adjusted by (\$18,725) to remove a non-recurring rent expense. Ocean City has relocated its office and currently pays \$340 for rent. We find that the monthly rent for the office of \$340 per month is reasonable. Therefore, this expense has been adjusted by \$1,247 for water and \$1,990 for wastewater to reflect an annual rent allowance of \$4,080 (\$340 times 12). The total adjustment for rent is (\$17,478) for water and \$1,990 for wastewater.

6) Insurance - This expense has been adjusted by (\$360) to remove a non-utility insurance expense for water only.

7) Regulatory Commission Expense - This expense has been adjusted by \$38 for water and wastewater each to reflect the \$150 rate case filing fee per system amortized over four years.

8) Miscellaneous Expense - Ocean City recorded miscellaneous expense of \$7,833 for water and \$4,298 for wastewater. This expense has been adjusted by (\$119) for water to remove a non-utility payroll tax expense. This expense has also been adjusted by (\$675) for water to reflect a reclassification to CWIP and by (\$1,201) for wastewater to reflect reclassification of plant improvement costs to plant in service.

Ocean City's recorded miscellaneous expense for wastewater includes a repair and maintenance expense of \$315. We have adjusted this expense by \$4,685 to reflect an annual repair and maintenance expense of \$5,000 for wastewater.

Miscellaneous expense has also been adjusted by \$350 each for water and wastewater to reflect an allowance for establishing the mobile home park residents as customers. This expense covers the cost for processing customer applications and represents approximately \$15 per customer amortized over 5 years. The total adjustment for miscellaneous expense is (\$444) for water and \$3,834 for wastewater.

Depreciation Expense - Ocean City recorded a depreciation expense net of amortization of CIAC of \$2,828 for water and \$5,768 for wastewater. Except for the RO water membranes, we have calculated test year depreciation expense using the prescribed depreciation rates. Depreciation on the RO membranes was calculated by using a five year service life as approved in Docket No. 920638-WU. This expense has been adjusted by \$13,156 for water and (\$1,549) for wastewater to reflect test year depreciation expense net of non-used and useful depreciation, and amortization of CIAC.

Reject Water Treatment (Cost Allocation) - DEP required Ocean City to discharge all of the RO reject from its water treatment facilities through the wastewater plant. DEP also required that 87,000 gallons of wastewater capacity be provided to accept the RO reject from the water plant. This requirement increased the flow into the wastewater facility beyond its capacity. The plant capacity has been increased by an additional 150,000 gallons per day to a total of 215,000 gallons per day.

Since Ocean City has been required to increase the wastewater treatment capacity by 87,000 gpd to treat the reject water, we find that the return and the depreciation on that portion of the wastewater treatment plant used in processing RO reject water should be allocated to water. Therefore, costs related to 40.47% (87,000/215,000) of total plant have been allocated to water. We also find that those operation and maintenance expenses that will increase due to the treatment of the reject water should also be allocated to water. These expenses have been determined based on total RO reject treated to total wastewater plus reject treated. We have calculated the cost to be allocated to be \$43,911. Therefore, we have made an adjustment of \$43,911 for water and (\$43,911) for wastewater.

Taxes Other Than Income - Ocean City recorded taxes other than income of \$16,976 for water and \$7,903 for wastewater. This

expense has been adjusted by \$1,167 for water to reflect personal property tax at the earliest discount amount. In addition, an adjustment has been made of \$1,166 for water and \$1,509 for wastewater to reflect pro forma personal property tax on donated plant.

Increase In Operating Revenues and Expenses For  
Rate-Setting Purposes

Taxes Other Than Income - This expense has been adjusted by \$639 for water and \$985 for wastewater to reflect the regulatory assessment fee at 4.5% on the increase in revenue. Based on the foregoing, the appropriate amounts of operating expenses are \$178,932 for water and \$77,748 for wastewater.

Operating Revenue - Revenue has been adjusted by \$14,210 for water and \$21,896 for wastewater to reflect the increase in revenue required to cover expenses and allow the appropriate rate of return on investment.

REVENUE REQUIREMENT

Based upon our review of Ocean City's books and records and the adjustments made herein, we find that the appropriate annual revenue requirement is \$182,573 for water and \$81,604 for wastewater. Accordingly, we find it appropriate to approve an annual increase of \$14,210 (8.44%) for water and \$21,896 (36.67%) for wastewater. This will allow Ocean City the opportunity to recover its expenses and earn a 7.94% return on its investment.

RATES AND RATE STRUCTURE

Ocean City employs the base facility/gallongage rate structure. This rate structure is considered a conservation rate structure. Therefore, we find that the base facility/gallongage charge rate structure is appropriate.

Ocean City is composed of two water systems, the original Flagler Beach system and the former Beverly Beach system, and one wastewater system. This Commission approved the current rates for the Flagler Beach water system and the Beverly water and wastewater systems under separate dockets. In its application for a rate increase, Ocean City requested uniform rates and the mobile home park residents requested that they be individually metered. Specifically, the mobile home park residents submitted a signed petition to this Commission for individual meters. Therefore, an additional 232 meters have been added to the number of customers used for calculating rates for water and wastewater.

The park owner and Ocean City entered into an agreement dated December 9, 1993, whereby the park owner transferred title of the park's lines, meters, sewer collection system, and lift station to Ocean City. That is, the transfer became donated property to Ocean City. The agreement stated as one of its conditions that the mobile home park would receive individual meters as consideration for the transfer of title of the park's lines, meters, sewer collection system, and lift station to Ocean City.

In addition, all of the associated costs for testing the existing meters and lines along with a number of additional meters to be included in the customer base have been included in the rate base. The additional testing costs incurred by the park owner and Ocean City have been also provided. The donated and pro forma plant for meter installation has been included in rate base. All the lines have been on line and functioning since December 31, 1993. Therefore, an additional 232 meters have been added to the number of customers used for calculating rates for water and wastewater. These additional meters increase the water customer base to 318 residential customers and 9 general service customers. The wastewater customer base now includes 232 residential customers and 2 general service customers.

Further, during the October 14, 1993 customer meeting, several customers complained about Ocean City's treatment of Jarosz's sludge. Pursuant to an agreement between Ocean City and Jarosz, dated June 8, 1993, not in the test year, Jarosz has agreed to pay Ocean City \$25 per load for every load of sludge or treatment plant residual. Jarosz has agreed that no load will exceed 2,500 gallons.

Ocean City began treatment on September 1993. The additional sludge is necessary to process the industrial waste from the RO plants. Since the RO reject is primarily saline, it does not break down under normal treatment process with bacteria from other sources.

Ocean City gave us the number of loads treated and revenue collected during a three month period. We have annualized the revenue collected during this three month period and have estimated an annual revenue for this service of \$4,200 for 168 loads. This amount has been grossed up for regulatory assessment fees and has been subtracted from the wastewater revenue requirement.

Our approved rates for water and wastewater have been based on test consumption and includes the additional customers and meter sizes. Ocean City's current rates and those approved herein are set forth below for comparison.

WATER

Residential, Multi-residential and General Service

Base Facility Charge	Current Rates	Commission Approved Rates
<u>Meter Sizes:</u>		
5/8" x 3/4"	\$ 19.49	\$ 20.49
3/4"	29.24	30.74
1"	48.74	51.23
1 1/2"	97.47	102.45
2"	155.95	163.92
3"	311.90	327.84
4"	487.35	512.25
6"	974.70	1,024.50

<u>Gallonge Charge</u> per 1,000 gallons	\$ 4.00	\$ 4.73
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Base Facility Charge

Meter Sizes:

1 1/2" (R.V. Campground)	\$ 768.02	N/A
2" (Mobile Home Park)	1,228.76	N/A

<u>Gallonge Charge</u> per 1,000 gallons	\$ 7.56	
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WASTEWATER

Residential Service

Base Facility Charge	Current Rates	Commission Approved
<u>Meter Size:</u>		
All Meter Sizes	N/A	\$ 11.71
<u>Gallonge Charge</u> per 1,000 gallons (6,000 gallon maximum)	\$ 3.83	

General Service

Base Facility Charge	Current	Commission
<u>Meter Size:</u>	<u>Rates</u>	<u>Approved</u>
		<u>Rates</u>
5/8" x 3/4"	\$ N/A	\$ 11.71
3/4"	N/A	17.56
1"	N/A	29.26
1 1/2"	385.70	58.53
2"	617.14	93.64
3"	N/A	187.29
4"	N/A	292.64
6"	N/A	585.27
<u>Gallonage Charge</u>		
per 1,000 gallons	\$ 4.44	\$ 4.59

Commission Approved  
Sludge Treatment Charge  
Jarosz Septic Tank Service

Flat Rate                               \$ 26.18 per load

Customer Deposits - The rates approved above shall be effective for service rendered on or after the stamped approval date on the revised tariff sheets. The revised tariff sheets will be approved upon our staff's verification that the tariff sheets are consistent with the Commission's decision, the proposed customer notice is adequate, and that any required security is provided.

Ocean City's existing tariff authorizes it to collect customer deposits for the Flagler Beach territory only. We grant Ocean City's request for customer deposits to reflect our approved rates. Customer deposits have been calculated to allow the average monthly bill for a two month period for a 5/8" x 3/4" meter for water and wastewater. Due to the various levels of combined consumption for the additional meter sizes, an accurate customer deposit cannot be calculated. A schedule of Ocean City's existing deposits and Commission's approved deposits follows:

WATER

Current Deposits (Flagler Beach only)

<u>Meter Sizes:</u>	<u>Residential</u>	<u>General Service</u>
5/8" x 3/4"	\$ 70.00	\$ 70.00
Over 5/8" x 3/4"	2 x average monthly bill	2 x average monthly bill

\* Deposits are not charged for the former Beverly Beach territory.

Commission Approved Deposits

<u>Meter Sizes:</u>	<u>Residential</u>	<u>General Service</u>
5/8" x 3/4"	\$ 75.00	\$ 75.00
1"	N/A	average monthly bill x 2
1 1/2"	N/A	average monthly bill x 2
2"	N/A	average monthly bill x 2

WASTEWATER

Existing Deposits

<u>Meter Sizes:</u>	<u>Residential</u>	<u>General Service</u>
All meter sizes	N/A	N/A

COMMISSION APPROVED DEPOSITS

<u>Meter Sizes:</u>	<u>Residential</u>	<u>General Service</u>
5/8" x 3/4"	\$ 45.00	\$ 50.00
1"	45.00	average monthly bill x 2
1 1/2"	45.00	average monthly bill x 2
2"	45.00	average monthly bill x 2

These rates shall become effective for service rendered on or after the stamped approval date on the revised tariff sheets. The revised tariff sheets will be approved upon staff's verification that the tariff sheets are consistent with the Commission's

decision, and that the proposed customer notice is adequate, and that any required security is provided.

Statutory Rate Reduction and Recovery Period

Section 367.0816, Florida Statutes, entitled "Recovery of Rate Case Expense" addresses 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 of four years. At the conclusion of the recovery period, the rate of the public utility shall be reduced immediately by the amount of rate case expense previously included in rates.

The rate case expense incurred by Ocean City for this case was a \$150 filing fee for each system. Based on the above mentioned statute, the appropriate recovery period for these expenses is four years which allows Ocean City to recover approximately \$38 per system per year through its rates. Once the annual rate case expense has been grossed up to reflect regulatory assessment fees, the annual recovery increases to \$40 for each system.

At the end of four years Ocean City's rates should be reduced by \$40 annually for each system. Using Ocean City's current revenues, expenses, capital structure and customer base, we have calculated the rate reduction in the base facility and gallonage charge for all meter sizes. The rate case expense rate reduction after four years is listed on Schedules Nos. 4 and 4-A.

Ocean City shall file revised tariff sheets no later than one month prior to the actual date of the required rate reduction. Ocean City should also file a proposed customer notice setting forth the lower rates and the reason for the reduction. If Ocean City files this reduction in conjunction with a price index or pass-through rate adjustment, separate data shall be filed for the price index and/or pass-through rate increase or decrease and the reduction in the rates due to the amortized rate case expense.

Miscellaneous Service Charges

Ocean City's existing tariff includes separate Commission approved miscellaneous service charges for the Flagler Beach and

Beverly Beach systems. Since the Beverly Beach system has been interconnected with the Flagler Beach system, only one schedule of miscellaneous service charges is necessary.

We have modified Ocean City's current charges to reflect more reasonable charges that are consistent with Commission practice. The Commission's approved miscellaneous service charges are designed to defray the costs associated with each service and place the responsibility of the cost on the person creating it, rather than on the rate paying body as a whole. A schedule of Ocean City's existing charges and the approved charges follows:

WATER

Current Charges

	<u>Flagler Beach</u>		<u>Beverly Beach</u>	
	<u>Normal Hours</u>	<u>After Hours</u>	<u>Normal Hours</u>	<u>After Hours</u>
Initial Connection	\$15.00	\$15.00	\$10.00	\$15.00
Normal Connection	\$15.00	\$15.00	\$10.00	\$15.00
Violation Reconnection	\$15.00*	\$15.00	\$10.00	\$15.00
Premises visit (in lieu of disconnection)	\$10.00**	N/A***	\$ 5.00	N/A
Return check charge	\$10.00			

\*plus any delinquent payment and/or cost or damage

\*\*plus any delinquent payment

\*\*\*not applicable

Commission Approved Charges

Initial Connection	\$15.00
Normal Connection	\$15.00
Violation Reconnection	\$15.00
Premises Visit (in lieu of disconnection)	\$10.00

	<u>WASTEWATER</u>		Commission
	<u>Normal</u>	<u>After</u>	<u>Approved</u>
	<u>Hours</u>	<u>Hours</u>	<u>Charges</u>
Initial Connection	\$10.00	\$15.00	\$15.00
Normal Reconnection	\$10.00	\$15.00	\$15.00
Violation Reconnection	\$10.00	\$15.00	Actual cost
Premises Visit charge (in lieu of disconnection)	\$ 5.00	N/A	\$10.00

When both water and wastewater services are provided, we believe that only a single charge is appropriate unless circumstances beyond the control of Ocean City require multiple actions.

Definition of each charge is provided for clarification:

1) Initial Connection - this charge would be levied for service initiation at a location where service did not exist previously.

2) Normal Reconnection - this charge would be levied for transfer of service to a new customer account, a previously served location or reconnection of service subsequent to a customer requested disconnection.

3) Violation Reconnection - this charge would be levied prior to reconnection of an existing customer after disconnection of service for cause according to Rule 25-30.320(2), Florida Administrative Code, including a delinquency in bill payment.

4) Premises Visit Charge (in lieu of disconnection) - this charge would be levied when a service representative visits a premises for the purpose of discontinuing service for non-payment of a due and collectible bill and does not discontinue service because the customer pays the service representative or otherwise makes satisfactory arrangements to pay the bill.

Return check charges are allowed by statute, but are not under the jurisdiction of this Commission. Therefore, the current \$10.00 return check charge is removed from Ocean City's tariff.

The miscellaneous service charges approved herein shall be effective for service rendered or connections made on or after the stamped approval date on the revised tariff sheets provided customers have received notice. The revised tariff sheets will be approved upon staff's verification that the tariff sheets are consistent with the Commission's decision and that the proposed customer notice is adequate.

#### Service Availability Charges

Ocean City's current tariff authorizes a water system capacity charge, meter installation and tap-in charge for the Flagler Beach service area. Ocean City's current tariff also authorizes a separate and different water meter installation charge for the former Beverly Beach service area. There are no authorized service availability charges for wastewater.

The Flagler Beach and the former Beverly Beach systems were interconnected in January 1993. The combined water systems' contribution level is 64.56%. Based on historical growth, the water systems will be built out in approximately three years. The existing \$807 system capacity charge approved for the Flagler Beach service area will not cause the contribution level to exceed the maximum 75%. Therefore, this charge should remain in effect for all future connections in the Flagler Beach and Beverly Beach service areas. We have determined that this \$807 charge should be broken down into a \$200 main extension charge and a \$607 plant capacity charge.

Ocean City's wastewater system contribution level is 49.69%. In order to accommodate additional wastewater customers, Ocean City will have to expand its collection system. We calculated a plant capacity charge of \$515 and main extension charge of \$485 based on historical growth and build-out at ten years. These calculated charges will not cause the contribution level to exceed the maximum 75% level. Ocean City's current charges and the approved charges are as follows:

WATER (FLAGLER BEACH)

EXISTING CHARGES

Description

<u>System Capacity Charge</u> per ERC (350 gpd)		\$807.00
<u>Meter Installation</u>		
<u>Meter Size:</u>		
5/8" x 3/4"		\$101.75
1"		129.75
1 1/2"		247.75
2"		336.75
Over 2"		Actual Cost
<u>Customer Connection Charge (TAP IN)</u>		
<u>Meter Size:</u>		
5/8" x 3/4"	metered service	\$ 91.25
1"	metered service	91.25
1 1/2"	metered service	128.75
2"	metered service	128.75
Over 2"	metered service	Actual Cost

WATER (FORMER BEVERLY BEACH)

EXISTING CHARGES

Description

<u>Meter Installation</u>		
<u>Meter Size:</u>		
5/8" x 3/4"		\$100.00
Over 5/8" x 3/4"		Actual Cost

WATER

COMMISSION APPROVED CHARGES

Description

Plant Capacity Charge	\$200.00
Main Extension Charge	607.00

Meter Installation

5/8" x 3/4"	110.00
Over 5/8" x 3/4"	Actual Cost

WASTEWATER

COMMISSION APPROVED CHARGES

Description

Plant Capacity Charge	\$485.00
Main Extension Charge	515.00

The service availability charges approved herein shall be effective for service rendered or connections made on or after the stamped approval date on the revised tariff sheets. The revised tariff sheets will be approved upon staff's verification that the tariff sheets are consistent with the Commission's decision and that the proposed customer notice is adequate.

Temporary Rates in the Event of Protest

This Order 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 Ocean City. Therefore, in the event of a protest filed by a party other than Ocean City, we find it appropriate to permit the utility to charge the rates approved herein as temporary rates. The increased rates collected by Ocean City shall be subject to the refund provisions discussed below.

Ocean City shall be authorized to collect the temporary rates after staff's approval of the security for potential refund, a copy of the proposed customer notice, and revised tariff sheets. The security should be in the form of a bond or letter of credit in the amount of \$24,575. Alternatively, Ocean City could establish an escrow agreement with an independent financial institution.

If Ocean City 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 approved the rate increase, or

- 2) If the Commission denies the increase, Ocean City shall refund the amount collected that is attributable to the increase.

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

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

If the 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 Ocean City 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 account shall revert to Ocean City.
- 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 Consentino 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 to the escrow agreement.

In no instance shall the maintenance and administration costs associated with the refund be borne by the customers. These costs are the responsibility of, and shall be borne by, Ocean City. Irrespective of the form of security chosen by Ocean City, an account of all monies received as a result of the rate increase shall be maintained by Ocean City. This account must specify by whom and on whose behalf such monies are paid. If a refund is ultimately required, it should be paid with interest calculated pursuant to Rule 25-30.360(4), Florida Administrative Code.

Ocean City shall 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, Ocean City shall 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.

#### Water Conservation and Reuse Requirements

Ocean City is within the St. John's River Water Management District. Due to the size of the wells, it is not required to have a Consumptive Use Permit at this time, but, instead, operates on Public Use Permit Number 9-035-0092, issued March 20, 1990, and that permit will expire on March 20, 1995. While the entire St. John's River Water Management District is classified as a critical usage area, this particular area is not of special concern. The major problem in the beach area is salt intrusion. An additional well, six inches in diameter, has been planned, and when this has been activated, a Consumptive Use Permit will be required.

The permit for the wastewater plant allows the effluent to be discharged into the inter-coastal waterway, therefore Ocean City has no reuse requirements. Ocean City operates within its permitted parameters and should not be required to take further action regarding water conservation or reuse at this time.

Pro forma plant has been included in the rate base for water and wastewater. Ocean City informed Commission staff that all pro forma plant improvements are expected to be on line by mid-February 1994. Therefore, this docket shall remain open for three months from the effective date of the order to allow our staff time to verify completion of all pro forma plant improvements. If Ocean

City does not satisfy all requirements within three months of the effective date of the order, our staff shall present its findings to this Commission. If all requirements are met within the three month time-frame and no protest is received from a substantially affected person, this docket shall be closed administratively.

Based on the foregoing, it is, therefore,

ORDERED by the Florida Public Service Commission that the application of Ocean City Utilities, Inc., for an increase in its water and wastewater rates for Flagler County is approved as set forth in the body of this Order. It is further

ORDERED that Ocean City Utilities, Inc., is authorized to charge the new rates and charges as set forth in the body of this Order. It is further

ORDERED that prior to implementation of the approved rates and charges, Ocean City Utilities, Inc., shall submit and have approved revised tariff sheets. It is further

ORDERED that these rates shall become effective for service rendered on or after the stamped approval date on the revised tariff sheets. The revised tariff sheets will be approved upon staff's verification that the tariff sheets are consistent with the Commission's decision, that the proposed customer notice is adequate, and that any required security is provided. In no event shall the rates be effective for service rendered prior to the stamped approval date. The return check charge shall be removed from Ocean City's tariff. It is further

ORDERED that the approved customer deposits and miscellaneous service charges shall be effective for service rendered on or after the stamped approval date on the revised tariff sheets. It is further

ORDERED that, prior to the implementation of the approved rates and charges, Ocean City Utilities, Inc., shall submit and have approved a proposed notice to its customers of the increased rates and charges and the reasons therefor. The notice will be approved upon Staff's verification that it is consistent with our decisions herein. It is further

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DOCKET NO. 920736-WS  
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ORDERED that all provisions of this Order, except for the granting of temporary rates in the event of protest, subject to refund, are issued as proposed agency action and shall become final, unless an appropriate petition in the form provided by Rule 25-22.029, Florida Administrative Code, is received by the Director of Records and Reporting at his office at 101 East Gaines Street, Tallahassee, Florida 32399-0807, by the date set forth in the Notice of Further Proceedings below. It is further

ORDERED that, in the event of a protest by any substantially affected person other than the utility, Ocean City Utilities, Inc., is authorized to collect the approved rates on a temporary basis, subject to refund in accordance with Rule 25-30.360, Florida Administrative Code, provided that Ocean City Utilities, Inc., has furnished satisfactory security for any potential refund and provided that it has submitted and our staff has approved revised tariff sheets and a proposed customer notice. It is further

ORDERED that this docket shall remain open three months from the effective date of this Order to allow our staff time to verify completion of all proforma plant improvements included in the rate base for both systems. If all of the requirements have been met within the three month period and no timely protest is received from a substantially affected person, this docket shall be closed administratively.

By ORDER of the Florida Public Service Commission, this 4th day of March, 1994.

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STEVE TRIBBLE, Director  
Division of Records and Reporting

( S E A L )

ELS

By: Kay Helms  
Chief, Bureau of Records

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.59(4), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

As identified in the body of this order, our action herein, except for the granting of temporary rates, subject to refund, in the event of a protest, is preliminary in nature and will not become effective or final, except as provided by Rule 25-22.029, Florida Administrative Code. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, as provided by Rule 25-22.029(4), Florida Administrative Code, in the form provided by Rule 25-22.036(7)(a) and (f), Florida Administrative Code. This petition must be received by the Director, Division of Records and Reporting at his office at 101 East Gaines Street, Tallahassee, Florida 32399-0870, by the close of business on March 25, 1994. In the absence of such a petition, this order shall become effective on the date subsequent to the above date as provided by Rule 25-22.029(6), Florida Administrative Code.

Any objection or protest filed in this docket before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

If the relevant portion of this order becomes final and effective on the date described above, any party adversely affected may request judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or by the First District Court of Appeal in the case of a water or wastewater utility by filing a notice of appeal with the Director, Division of Records and Reporting and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days of the effective date of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.

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Any party adversely affected by the Commission's final action in this matter may request: (1) reconsideration of the decision by filing a motion for reconsideration with the Director, Division of Records and Reporting within fifteen (15) days of the issuance of this order in the form prescribed by Rule 25-22.060, Florida Administrative Code; or (2) judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or the First District Court of Appeal in the case of a water or wastewater utility by filing a notice of appeal with the Director, Division of Records and Reporting and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days after the issuance of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.

OCEAN CITY UTILITIES, INC.  
 SCHEDULE OF WATER RATE BASE  
 TEST YEAR ENDING MAY 31, 1993

SCHEDULE NO. 1  
 DOCKET NO. 920736-WS

	<u>TEST YEAR PER UTILITY</u>	<u>COMM. ADJUST. TO UTIL. BAL.</u>	<u>BALANCE PER COMM</u>
UTILITY PLANT IN SERVICE	330,124	99,394 A	429,518
LAND/NON-DEPRECIABLE ASSETS	0	0	0
PLANT HELD FOR FUTURE USE	0	(38,938) B	(38,938)
ACQUISITION ADJUSTMENT	0	0	0
CWIP	63,771	(63,771) C	0
CIAC	(224,963)	(109,097) D	(334,060)
ACCUMULATED DEPRECIATION	(87,932)	(37,084) E	(125,016)
AMORTIZATION OF ACQUISITION ADJUSTMENT	0	0	0
AMORTIZATION OF CIAC	67,876	33,803 F	101,679
WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>12,678</u> G	<u>12,678</u>
WATER RATE BASE	148,876	(103,015)	<span style="border: 1px solid black; padding: 2px;">45,861</span>

OCEAN CITY UTILITIES, INC.  
 SCHEDULE OF WASTEWATER RATE BASE  
 TEST YEAR ENDING MAY 31, 1993

SCHEDULE NO. 1-A  
 DOCKET NO. 920736-WS

	<u>TEST YEAR PER UTILITY</u>	<u>COMM. ADJUST. TO UTIL. BAL.</u>	<u>BALANCE PER COMM</u>
UTILITY PLANT IN SERVICE	232,565	137,422 A	369,987
LAND/NON-DEPRECIABLE ASSETS	23,230	0	23,230
PLANT HELD FOR FUTURE USE	0	(70,406) B	(70,406)
ACQUISITION ADJUSTMENT	0	0	0
CWIP	70,524	(70,524) C	0
CIAC	(141,370)	(100,059) D	(241,429)
ACCUMULATED DEPRECIATION	(88,597)	(42,831) E	(131,428)
AMORTIZATION OF ACQUISITION ADJUSTMENT	0	0	0
AMORTIZATION OF CIAC	41,910	43,318 F	85,228
WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>13,380</u> G	<u>13,380</u>
WASTEWATER RATE BASE	138,262	(89,700)	<span style="border: 1px solid black; padding: 2px;">48,562</span>

OCEAN CITY UTILITIES, INC.  
ADJUSTMENTS TO RATE BASE  
TEST YEAR ENDING MAY 31, 1993

SCHEDULE NO. 1-B  
DOCKET NO. 920736-WS

	<u>WATER</u>	<u>WASTEWATER</u>
<b>A. <u>UTILITY PLANT IN SERVICE</u></b>		
1. To reflect reclassification of CWIP to plant in service	63,771	70,524
2. To reflect reclassification from O & M expense	0	1,201
3. To reflect average adjustment to CWIP reclassified to plant	(31,885)	(35,262)
4. To reflect average proforma plant associated with plant transferred to utility	5,900	400
5. To reflect proforma amount for digester	0	5,500
6. To reflect transferred plant from mobile home park owners	62,462	95,659
7. To reflect averaging adjustment	(854)	(600)
	<u>99,394</u>	<u>137,422</u>
<b>B. <u>PLANT HELD FOR FUTURE USE</u></b>		
1. To reflect non-used and useful plant	(49,472)	(103,005)
2. To reflect average non-used and useful accumulated depreciation	10,534	32,599
	<u>(38,938)</u>	<u>(70,406)</u>
<b>C. <u>CONSTRUCTION WORK IN PROGRESS</u></b>		
1. To reflect reclassification to plant in service	(63,771)	(70,524)
<b>D. <u>CONTRIBUTIONS IN AID OF CONSTRUCTION</u></b>		
1. To reflect cash advances as CIAC	(25,000)	0
2. To reflect donated plant as CIAC	(62,462)	(91,159)
3. To reflect average proforma donated plant as CIAC	(3,132)	(4,500)
4. To reflect CIAC associated with margin reserve	(26,631)	(13,500)
5. To reflect averaging adjustment	8,128	9,100
	<u>(109,097)</u>	<u>(100,059)</u>
<b>E. <u>ACCUMULATED DEPRECIATION</u></b>		
1. To reflect accumulated depreciation at 5/31/93	(11,832)	(2,333)
2. To reflect depreciation on reclassified CWIP	(1,572)	(2,352)
3. To reflect accumulated depreciation on plant transferred to utility and proforma plant	(36,957)	(46,734)
4. To reflect depreciation on digester	0	(367)
5. To reflect averaging adjustment	13,277	8,955
	<u>(37,084)</u>	<u>(42,831)</u>
<b>F. <u>AMORTIZATION OF CIAC</u></b>		
1. To reflect amortization of CIAC at 5/31/93	1,212	1,453
2. To reflect amortization of CIAC at 5/31/93 on donated plant	36,645	46,724
3. To reflect amortization of CIAC for margin reserve	1,763	768
4. To reflect averaging adjustment	(5,817)	(5,627)
	<u>33,803</u>	<u>43,318</u>
<b>G. <u>WORKING CAPITAL ALLOWANCE</u></b>		
1. To reflect 1/8 of operation and maintenance expenses	12,678	13,380

OCEAN CITY UTILITIES, INC.  
 SCHEDULE OF CAPITAL STRUCTURE  
 TEST YEAR ENDING MAY 31, 1993

SCHEDULE NO. 2  
 DOCKET NO. 920736-WS

	<u>PER UTILITY</u>	<u>COMM. ADJUST. TO UTIL. BAL.</u>	<u>BALANCE PER COMM.</u>	<u>PERCENT OF TOTAL</u>	<u>COST</u>	<u>WEIGHTED COST</u>
LONG-TERM DEBT	\$ 10,500	(7,860)	2,640	2.80%	10.00%	0.28%
LONG-TERM DEBT	323,625	(242,224)	81,401	86.21%	8.00%	6.90%
LONG TERM DEBT	5,500	(4,116)	1,384	1.47%	0.00%	0.00%
CUSTOMER DEPOSITS	8,998	0	8,998	9.53%	8.00%	0.76%
RETAINED EARNINGS	(57,538)	57,538	0	0.00%	10.97%	0.00%
COMMON STOCK	0	0	0	0.00%	0.00%	0.00%
DEFERRED TAXES	0	0	0	0.00%	0.00%	0.00%
OTHER	0	0	0	0.00%	0.00%	0.00%
TOTAL	\$ 291,085	(196,662)	94,423	100.00%		7.94%

<u>RANGE OF REASONABLENESS</u>	<u>LOW</u>	<u>HIGH</u>
RETURN ON EQUITY	9.97%	11.97%
OVERALL RATE OF RETURN	7.94%	7.94%

OCEAN CITY UTILITIES, INC.  
SCHEDULE OF WATER OPERATING INCOME  
TEST YEAR ENDING MAY 31, 1993

SCHEDULE NO. 3  
DOCKET NO. 920736-WS

	TEST YEAR PER UTILITY	COMM. ADJ. TO UTILITY	COMM. ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	TOTAL PER COMM
OPERATING REVENUES	<u>168,363</u>	<u>0</u>	<u>168,363</u>	<u>14,210 E</u>	<u>182,573</u>
OPERATING EXPENSES:					
OPERATION AND MAINTENANCE	124,438	(23,015) A	101,423	0	101,423
DEPRECIATION (NET)	2,828	13,156 B	15,984	0	15,984
REJECT WATER TREATMENT	0	43,911 C	43,911	0	43,911
TAXES OTHER THAN INCOME	16,976	(1) D	16,975	639 F	17,614
INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL OPERATING EXPENSES	<u>144,242</u>	<u>34,051</u>	<u>178,293</u>	<u>639</u>	<u>178,932</u>
OPERATING INCOME/(LOSS)	<u>24,121</u>		<u>(9,930)</u>		<u>3,641</u>
WATER RATE BASE	<u>148,876</u>		<u>45,861</u>		<u>45,861</u>
RATE OF RETURN	<u>16.20%</u>		<u>-21.65%</u>		<u>7.94%</u>

OCEAN CITY UTILITIES, INC.  
 SCHEDULE OF WASTEWATER OPERATING INCOME  
 TEST YEAR ENDING MAY 31, 1993

SCHEDULE NO. 3-A  
 DOCKET NO. 920736-WS

	<u>TEST YEAR PER UTILITY</u>	<u>COMM. ADJ. TO UTILITY</u>	<u>COMM. ADJUSTED TEST YEAR</u>	<u>ADJUST. FOR INCREASE</u>	<u>TOTAL PER COMM</u>
OPERATING REVENUES	<u>59,708</u>	<u>0</u>	<u>59,708</u>	<u>21,896</u> E	<u>81,604</u>
OPERATING EXPENSES:					
OPERATION AND MAINTENANCE	32,485	74,558 A	107,043	0	107,043
DEPRECIATION (NET)	5,768	(1,549) B	4,219	0	4,219
REJECT WATER TREATMENT	0	(43,911) C	(43,911)	0	(43,911)
TAXES OTHER THAN INCOME	7,903	1,509 D	9,412	985 F	10,397
INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL OPERATING EXPENSES	<u>46,156</u>	<u>30,607</u>	<u>76,763</u>	<u>985</u>	<u>111,401</u>
OPERATING INCOME/(LOSS)	<u>13,552</u>		<u>(17,055)</u>		<u>3,856</u>
WASTEWATER RATE BASE	<u>138,262</u>		<u>48,562</u>		<u>48,562</u>
RATE OF RETURN	<u>9.80%</u>		<u>-35.12%</u>		<u>7.94%</u>

OCEAN CITY UTILITIES, INC.  
 ADJUSTMENTS TO OPERATING INCOME  
 TEST YEAR ENDING MAY 31, 1993

SCHEDULE NO. 3-B  
 DOCKET NO. 920736-WS

A. OPERATION AND MAINTENANCE EXPENSES	<u>WATER</u>	<u>WASTEWATER</u>
1. Sludge Removal Expense		
a. To reflect appropriate annual expense	<u>0</u>	<u>500</u>
2. Purchased Power		
a. To reflect an increase in purchased power expense	<u>0</u>	<u>6,868</u>
3. Chemicals		
a. To reflect an increase in chemical expense	<u>0</u>	<u>1,836</u>
4. Contractual Services		
a. To reflect the annual expense for DEP required water and wastewater testing	1,144	10,892
b. To reflect annual contractual operator management service expense	(4,815)	49,150
c. To remove plant cost already included in CWIP	(1,100)	(550)
	<u>(4,771)</u>	<u>59,492</u>
5. Rents		
a. To remove a non-recurring rent expense	(18,725)	0
b. To reflect an annual rent expense	1,247	1,990
	<u>(17,478)</u>	<u>1,990</u>
6. Insurance		
a. To remove a non-utility insurance expense	<u>(360)</u>	<u>0</u>
7. Regulatory Commission Expense		
a. To reflect rate case filing fee amortized over four years	<u>38</u>	<u>38</u>
8. Miscellaneous Expenses		
a. To remove a non-utility payroll tax expense	(119)	0
b. To remove plant cost already included in CWIP for water and to reflect a reclassification to plant for wastewater	(675)	(1,201)
c. To reflect commission approved annual repair and maintenance allowance	0	4,685
d. To reflect allowance to establish mobile home park residents as customers of the utility amortized over 5 years	350	350
	<u>(444)</u>	<u>3,834</u>
TOTAL O & M ADJUSTMENTS	<u>(23,015)</u>	<u>74,558</u>
B. DEPRECIATION EXPENSE		
1. To reflect commission approved test year depreciation expense net of non-used and useful depreciation and amortization of CIAC	<u>13,156</u>	<u>(1,549)</u>
C. REJECT WATER TREATMENT COST ALLOCATION		
1. To reflect commission approved reject water treatment cost allocation	<u>43,911</u>	<u>(43,911)</u>
D. TAXES OTHER THAN INCOME		
1. To adjust personal property tax expense to earliest discount amount	(1,167)	0
2. To reflect proforma personal property tax on donated plant	1,166	1,509
	<u>(1)</u>	<u>1,509</u>
E. OPERATING REVENUES		
1. To reflect commission approved increase in revenue	<u>14,210</u>	<u>21,896</u>
F. TAXES OTHER THAN INCOME		
1. To reflect the regulatory assessment fees at 4.5% of commission's revenue increase	<u>639</u>	<u>985</u>

OCEAN CITY UTILITIES, INC.  
ANALYSIS OF WATER OPERATION AND  
MAINTENANCE EXPENSE  
TEST YEAR ENDING MAY 31, 1993

SCHEDULE NO. 3-C  
DOCKET NO. 920736-WS

	<u>TOTAL PER UTIL.</u>	<u>COMM. ADJUST.</u>	<u>TOTAL PER COMM.</u>
SALARIES AND WAGES – EMPLOYEES	\$ 0	\$ 0	\$ 0
SALARIES AND WAGES – OFFICERS	0	0	0
PENSIONS AND BENEFITS	0	0	0
PURCHASED WATER	0	0	0
PURCHASED POWER	21,891	0	21,891
FUEL FOR POWER PRODUCTION	0	0	0
CHEMICALS	12,201	0	12,201
MATERIALS AND SUPPLIES	3,524	0	3,524
CONTRACTUAL SERVICES	53,975	(4,771)[4]	49,204
RENTS	19,528	(17,478)[5]	2,050
TRANSPORTATION EXPENSE	0	0	0
INSURANCE EXPENSE	5,486	(360)[6]	5,126
REGULATORY COMMISSION EXPENSE	0	38 [7]	38
MISCELLANEOUS EXPENSES	7,833	(444)[8]	7,389
	\$ 124,438	\$ (23,015)	\$ 101,423

OCEAN CITY UTILITIES, INC.  
 ANALYSIS OF WASTEWATER OPERATION AND  
 MAINTENANCE EXPENSE  
 TEST YEAR ENDING MAY 31, 1993

SCHEDULE NO. 3-D  
 DOCKET NO. 920736-WS

	TOTAL PER UTIL.	COMM. ADJUST.	TOTAL PER COMM.
SALARIES AND WAGES - EMPLOYEES	\$ 0	\$ 0	\$ 0
SALARIES AND WAGES - OFFICERS	0	0	0
PENSIONS AND BENEFITS	0	0	0
PURCHASED SEWAGE TREATMENT	0	0	0
SLUDGE REMOVAL EXPENSE	500	500 [1]	1,000
PURCHASED POWER	6,863	6,868 [2]	13,736
FUEL FOR POWER PRODUCTION	0	0	0
CHEMICALS	1,836	1,836 [3]	3,672
MATERIALS AND SUPPLIES	1,147	0	1,147
CONTRACTUAL SERVICES	16,151	59,492 [4]	75,643
RENTS	50	1,990 [5]	2,040
TRANSPORTATION EXPENSE	0	0	0
INSURANCE EXPENSE	1,635	0	1,635
REGULATORY COMMISSION EXPENSE	0	38 [7]	38
BAD DEBT EXPENSE	0	0	0
MISCELLANEOUS EXPENSES	4,298	3,834 [8]	8,132
	\$ 32,485	\$ 74,558	\$ 107,043

OCEAN CITY UTILITIES, INC.  
 SCHEDULE OF RATE CASE EXPENSE RATE  
 REDUCTION AFTER FOUR YEARS  
 TEST YEAR ENDING MAY 31, 1993

SCHEDULE NO. 4  
 DOCKET NO. 920736-WS

WATER

MONTHLY RATES

<u>RESIDENTIAL AND GENERAL SERVICE</u>	<u>COMM. APPROVED RATES</u>	<u>RATE DECREASE</u>
BASE FACILITY CHARGE:		
Meter Size:		
5/8"X3/4"	\$ 20.49	0.00
3/4"	30.74	0.01
1"	51.23	0.01
1-1/2"	102.45	0.02
2"	163.92	0.04
3"	327.84	0.07
4"	512.25	0.11
6"	1,024.50	0.22
 RESIDENTIAL GALLONAGE CHARGE PER 1,000 GALLONS	 \$ 4.73	 0.00

OCEAN CITY UTILITIES, INC.  
 SCHEDULE OF RATE CASE EXPENSE RATE  
 REDUCTION AFTER FOUR YEARS  
 TEST YEAR ENDING MAY 31, 1993

SCHEDULE NO. 4-A  
 DOCKET NO. 920736-WS

WASTEWATER

MONTHLY RATES

<u>RESIDENTIAL AND GENERAL SERVICE</u>	<u>COMM. APPROVED RATES</u>	<u>RATE DECREASE</u>
BASE FACILITY CHARGE:		
Meter Size:		
5/8"x3/4"	\$ 11.71	0.01
1"	17.56	0.01
1-1/4"	29.26	0.01
1-1/2"	58.53	0.03
2"	93.64	0.05
3"	187.29	0.09
4"	292.64	0.14
6"	585.27	0.29
RESIDENTIAL GALLONAGE CHARGE PER 1,000 GALLONS	\$ 3.83	0.00
GENERAL SERVICE GALLONAGE CHARGE PER 1,000 GALLONS	\$ 4.59	0.00