



Public Service Commission

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RECORDS AND REPORTING

DATE: MARCH 4, 1999

TO: DIRECTOR, DIVISION OF RECORDS AND REPORTING (BAYÓ)

FROM: DIVISION OF WATER AND WASTEWATER (GALLOWAY, GILCHRIST, GOLDEN, EDWARDS) *ND for MG Be*
DIVISION OF LEGAL SERVICES (MCRAE) *S.M.*

RE: DOCKET NO. 980912-SU - APPLICATION FOR STAFF-ASSISTED RATE CASE BY SKY ACRES ENTERPRISES D/B/A TERRACE PARK VENTURES. COUNTY: PASCO

AGENDA: MARCH 16, 1999 - REGULAR AGENDA - PROPOSED AGENCY ACTION EXCEPT ISSUES 14 & 15 - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: 15-MONTH EFFECTIVE DATE: DECEMBER 17, 1999 (SARC)

SPECIAL INSTRUCTIONS: NONE

FILE NAME AND LOCATION: S:\PSC\WAW\WP\980912.RCM

DOCUMENT NUMBER-DATE

02782 MAR-4 99

FPSC-RECORDS/REPORTING

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CASE BACKGROUND

Sky Acres Enterprises d/b/a Terrace Park Venture (the utility or Terrace Park) is a Class C wastewater utility located in Pasco County. The utility provides wastewater service to approximately 130 residential customers and 1 general service customer; these same customers receive water service from Pasco County. Terrace Park began operations in 1984 and operated without a certificate until 1997. The Commission was unaware of the utility's existence until 1995.

Through Commission instruction, by letter dated April 22, 1995, the utility filed its application for an original certificate pursuant to Section 367.045, Florida Statutes. The utility was granted operating Certificate No. 505-S, pursuant to Order No. PSC 97-0011-FOF-SU, issued January 2, 1997. Terrace Park obtained the land to build the mobile home park and wastewater system in 1981. At that time, the name of the company was Amanda Company and the park was known as Terrace Grove. The name of the utility was later changed to Sky Acres and the park was renamed Terrace Park Estates.

On July 20, 1998, Terrace Park applied for this staff assisted rate case (SARC) pursuant to Section 367.0814, Florida Statutes. Staff determined eligibility for the utility's request by letter dated August 18, 1998. The utility paid its filing fee on September 18, 1998.

In its application, the utility requested an increase in wastewater rates. In preparation for this recommendation, staff audited the utility's records for compliance with Commission rules and orders and examined all components necessary for rate setting. The staff engineer has also conducted a field investigation, which included a visual inspection of the wastewater plant and collection system along with the service area. The utility's operating expenses, maps, files, and rate application were also reviewed to determine reasonableness of maintenance expenses, regulatory compliance, utility plant in service and quality of service.

Staff selected a historical test year ended December 31, 1997, for this case. Staff's adjusted test year revenues are \$9,763 and adjusted test year operating expenses are \$26,557. This results in an adjusted net loss of \$16,794.

QUALITY OF SERVICE

ISSUE 1: Is the quality of service provided by Sky Acres Enterprises d/b/a Terrace Park Ventures satisfactory?

RECOMMENDATION: Yes. The quality of service appears to be satisfactory. However, the utility should be required to initiate an office procedure that would expedite response time to customers' concerns and telephone calls. The program should be developed within three months of the effective date of the Commission order and a copy sent to the Commission. In addition, the utility should be required to correct the placement of the water line entering the plant from the meter within 90 days from the effective date of the Commission order. (EDWARDS)

STAFF ANALYSIS: Staff's recommendation on the overall quality of service provided by the Utility is derived from the evaluation of three separate components of Water and Wastewater Utility Operations:

- (1) Quality of the Utility's Product
- (2) Operational Condition of the Utility's Plant or Facilities
- (3) Customer Satisfaction

Quality of Utility's Product

In order to assess the overall quality of service provided by the Utility, the quality of the wastewater services must be evaluated. This evaluation consists of a review of the utility's current compliance with Department of Environmental Protection (DEP) and Health Department wastewater treatment standards.

The primary concern of a wastewater utility is the quality of the effluent discharged from the plant. Plant effluent has specific limitations, which are dependent on the point of discharge. For example, the limitations imposed on surface water discharges (lakes and rivers) are more stringent than discharges to percolation ponds. Currently, the Department of Environmental Protection's (DEP) appraisal of the plant's effluent is satisfactory.

Operational Condition of the Utility's Plant or Facilities

The operational conditions of the utility's treatment and collection systems must also be evaluated to determine the overall quality of service provided by the utility. Evaluation of these

systems includes a review of the utility's compliance with DEP's standards of operation as well as an analysis of proper system design. For example, among other standards of evaluation, wastewater treatment plants and collection systems are reviewed for compliance with permit standards, minimum operator requirements and lift station location and reliability among other standards. The quality of service appears to be satisfactory. Terrace Park's operational permit expired October 1, 1995. Therefore, the utility currently is not in good standing with DEP rules and regulations. DEP defines the present status of the plant as not in compliance, but not critical.

The utility's water supply line is not submerged and on one occasion a breakage in the line caused flooding in a nearby neighbor's yard. The water line parallels the terrain after it exits the water meter box. Terrace Park should correct this situation within 90 days from the issuance date of the Commission order.

Customer Satisfaction

The final component of the overall quality of service which must be assessed is the level of customer satisfaction which results from the utility's relations with its customers. A qualitative evaluation of these relations includes a review of proper notification requirements between the utility and its customers as well as a review of action taken by the utility regarding customer complaints. For example, utility policies are reviewed in order to insure that customers have been properly notified of scheduled service interruptions. A customer meeting was held on February 3, 1999, in Zephyrhills, Florida. Of the one hundred customers (approximately) who attended the customer meeting, only three customers were interested in speaking and not one expressed concerns in regards to the quality of the finished product. However, several customers stated that they were having problems contacting the utility's manager or customer service representative. In addition, customers stated that in order to contact the owners of the utility they, the customers, would have to call long distance. Two customers complained about the odor emulating from the treatment plant. At the time of the engineering investigation and the customer meeting, staff did not smell any abnormal odors at the plant.

At the time of the investigation, the wastewater treatment plant and the collection system appeared to be operating properly. Consequently, staff recommends that Sky Acres Enterprises d/b/a Terrace Park Ventures be required to initiate an office procedure that would expedite responses to customer complaints and phone calls. This program should be developed within three months of the effective date of the Commission order and a copy of it sent to the

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Commission. In addition, the utility should also be required to become completely in compliance with DEP's rules and regulations. Staff further recommends the quality of service provided by Sky Acres Enterprises d/b/a Terrace Park Ventures be considered satisfactory.

RATE BASE

ISSUE 2: What percentage of the utility's wastewater treatment plant and collection system is used and useful?

RECOMMENDATION: The wastewater treatment plant should be considered 56% used and useful. The collection system should be considered 74% used and useful. Staff recommends no margin reserved be allowed. (EDWARDS)

STAFF ANALYSIS: The utility's Monthly Operation Reports (MORs) for the test year were utilized to calculate the used and useful percentages. In addition to these reports, to calculate used and useful percentages, staff also reviewed the utility's records including annual reports which displayed the amount of wastewater treated (by the plant) vs. the plant's capacity. Terrace Park is occupied by approximately 131 customers. Two-thirds of these customers are seasonal with one-third living at the park year-round.

Wastewater Treatment Plant - According to the utility's expired permit, the wastewater treatment plant has a designed capacity of 50,000 gallons per day. However, staff's calculations reveal that the average daily flows in the maximum month are only 27,800 gpd. The utility has experienced no customer growth over the last three years. Consequently, no margin reserve is included in the used and useful calculation. Since the utility experienced no excessive infiltration or inflow, the resulting overall used and useful was simply calculated by dividing 27,800 gpd by 50,000 gpd or 56%.

Wastewater Collection System - The wastewater collection system is not built out. It was installed to accommodate 178 potential ERCs. The number of test year connections was 131 with no growth anticipated. Therefore, the used and useful calculation for the collection system is 131 ERCs divided by 178 ERCs or 74%.

Staff's calculations of the appropriate used and useful percentages are shown on Attachment A.

ISSUE 3: What is the utility's appropriate average amount of rate base for ratesetting purposes?

RECOMMENDATION: The appropriate average amount of test year rate base should be \$25,907. (GALLOWAY, EDWARDS)

STAFF ANALYSIS: The appropriate components of the utility's rate base include utility plant in service (UPIS), land, non-used and useful plant, accumulated depreciation, and working capital allowance.

Generally, contributions-in-aid-of-construction (CIAC) is a component of rate base. However, for this utility, staff believes that it is appropriate to leave the balance for CIAC at \$0. The utility's tariff does not include any service availability charges. Further, the audit reflects that no service availability charges have ever been charged to the customers. The auditor notes that the utility does not charge customers for connection fees. Rule 25-30.570(1), Florida Administrative Code, provides in part:

If the amount of CIAC has not been recorded on the utility's books and the utility does not submit competent substantial evidence as to the amount of CIAC, the amount of CIAC shall be imputed to be the amount of plant costs charged to the cost of land sales for tax purposes if available, or the proportion of the cost of the facilities and plant attributable to the ... wastewater collection system.

No value was included in the audit for the wastewater collection system. Since this amount would be the value used for imputing CIAC, staff believes that the two amounts would cancel one another. Therefore, staff believes that simply leaving the CIAC balance at \$0 will appropriately reflect the utility's rate base.

Staff selected a test year ended December 31, 1997 for this rate case. Adjustments have been made to reflect the appropriate balances. A summary of each component and the adjustments follows:

Utility Plant in Service (UPIS) - The utility's plant balance at the beginning of test period was \$56,314. An addition to plant was made during the test year by the utility in the amount of \$455. The resulting plant balance at the end of the test period was \$56,769. Staff has reduced this ending plant balance by \$228 to reflect the adjustment for averaging. The resulting UPIS is \$56,541.

Land - The utility's books reflected a value for land in the amount of \$4,375. Tax records support this amount and staff agrees with this value. Therefore, the appropriate balance for land is \$4,375.

Non-Used and Useful Plant - As discussed in Issue 2, the staff engineer has determined the used and useful percentage for all plant accounts. The non-used and useful percentages times the appropriate accounts reflect average non-used and useful plant of \$23,021. The average accumulated non-used and useful depreciation on this plant is \$9,831. The resulting net non-used and useful plant is \$13,190. Net non-used and useful plant has a negative impact on rate base. Therefore, rate base has been decreased by \$13,190.

Accumulated Depreciation - The utility used an accelerated depreciation method. The utility recorded accumulated depreciation on its books in the amount of \$49,700. Staff has calculated the appropriate balances based on depreciation rates in conformity with Rule 25-30.140, Florida Administrative Code. Staff reduced this balance by \$23,568 to reflect the appropriate accumulated depreciation amount at the end of the test year. Staff also reduced this amount to reflect an averaging adjustment in the amount of \$1,345. The appropriate balance including the effect of an averaging adjustment, is \$24,787.

Working Capital Allowance - Consistent with Rule 25-30.443, Florida Administrative Code, staff recommends that the one-eighth of operation and maintenance expense (O&M) formula approach be used for calculating working capital allowance. Applying that formula, staff recommends a working capital allowance of \$2,968 (based on O&M expense of \$23,748). Working capital has been increased by \$2,968 to reflect one-eighth of staff's recommended O&M expense.

Rate Base Summary - Applying all of the above adjustments results in a year end rate base of \$25,907.

Rate base is shown on Schedule No. 1 and adjustments are shown on Schedule No. 1-A.

COST OF CAPITAL

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

RECOMMENDATION: The appropriate rate of return on equity is 9.85% with a range of 8.85% - 10.85% and the overall rate of return is 9.85%. (GALLOWAY)

STAFF ANALYSIS: The utility's capital structure includes two short term loans in the amount of \$10,220 and \$35,119, for total capital of \$45,338.

This utility recorded no common equity. Order No. PSC-97-0660-FOF-WS, issued June 10, 1997, in Docket No. 970006-WS, capped the rate of return on equity at 9.85% for all water and wastewater utilities having equity ratios of less than 40%. Since the utility's equity ratio is zero, the appropriate return on equity is 9.85%. However, since equity has a \$0 balance, the 9.85% return on equity is not included in calculating the overall rate of return.

The utility's short term debt was obtained through related parties. The audit revealed no supporting written debt agreements or stated interest rate for these loans. Since the utility has no debt instrument with a stated interest rate, staff has assigned the cost of debt based on the cost of equity as done in previous SARCs (Docket Nos. 890792-WS, 930656-WU, 950966-WS). In accordance with the leverage formula approved by Order No. PSC-97-0660-FOF-WS, issued June 10, 1997, in Docket No. 97006-WS, the appropriate cost for the debt is 9.85%.

The utility's capital structure has been reconciled with staff's recommended rate base. Applying the cost times the pro rata share of each capital component results in an overall rate of return of 9.85%.

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

NET OPERATING INCOME

ISSUE 5: What is the appropriate test year revenue?

RECOMMENDATION: The appropriate test year revenue is \$9,763.
(GALLOWAY)

STAFF ANALYSIS: During the test year the utility provided wastewater service to approximately 130 residential customers and 1 general service customer. The utility recorded revenues of \$12,909. However, per the audit, the utility included non-utility deposits as revenue.

Some customers paid the utility with one check combining payment of Terrace Park Homeowners Association (HOA) dues with payment of the wastewater bill. The amount associated with HOA dues totaled \$446. Also included as revenue, was a short-term, no interest loan in the amount of \$2,500. Other unspecified, non-utility revenue according to the audit was in the amount of \$200. These amounts which total \$3,146, have been removed from the utility's recorded revenue resulting in a balance of \$9,763.

The selected test year for this rate case includes the 12 month period from January 1997 through December 1997. As background, the utility receives its billing records from Pasco County. Pasco County utilizes a base facility/inclining block gallonage charge rate structure. The utility utilizes the same rate structure and bills its wastewater customers based on 75% of the Pasco County water bill.

When appropriate, staff simply uses the billing determinants times the existing rates to calculate annualized test year revenues. While staff has access to test year number of bills and gallons of wastewater billed, due to the inclining block rate structure for the gallonage charges, accurately annualizing revenues is impossible. Under the specific circumstances surrounding Terrace Park, staff is accepting the adjusted test year revenue of \$9,763.

Test year revenues are shown on Schedule No. 3 and adjustments are shown on Schedule No. 3-A.

ISSUE 6: What is the appropriate amount of operating expenses?

RECOMMENDATION: The appropriate amount of operating expenses is \$27,469. (GALLOWAY, EDWARDS)

STAFF ANALYSIS: The utility's recorded operating expense includes operation and maintenance expense, depreciation expense, and taxes other than income. Adjustments have been made to reflect annual operating costs on a going forward basis.

A summary of adjustments follows:

- 1) Salaries and Wages - Officers (703) - The utility recorded a \$0 balance in this account. Staff has increased this account by \$1,300 to reflect a salary for the President of the utility.

Staff believes that compensation is appropriate to recognize the responsibilities associated with making the broad overview of operation decisions, short and long-term financial decisions for the utility, as well as signing checks and other tasks associated with an officer for a utility of this size. Therefore, staff is recommending a total allowance of \$1,300 for the President.

- 2) Sludge Removal Expense (711) - The utility recorded \$2,124 as sludge removal expense for the test year. According to the engineer, the utility's records indicated that on three occasions, sludge was removed at a total cost of \$1,458. Therefore, staff has reduced the recorded amount by \$666 to reflect the appropriate balance of \$1,458.
- 3) Purchased Power (715) - During the test year, the utility recorded 11 months of purchased power in the amount of \$942. Staff has annualized this amount to reflect a complete test year for purchased power. Therefore, staff made an adjustment of \$86 to reflect a total purchase power expense of \$1,027.
- 4) Chemicals (718) - The utility recorded chemicals expense of \$965. According to the engineer, the chlorination method is liquid chlorine. Staff is adjusting the chemicals expense by \$535 to reflect the total amount necessary to appropriately treat wastewater for a utility of this size. Staff is recommending that the appropriate chemicals expense for this utility for the test year is \$1,500.

- 5) Materials and Supplies (720) - During the test year, the utility recorded \$0 for materials and supplies. Staff increased this account by \$1,467 to reflect a reclassification of materials and supplies expense. The utility misclassified materials and supplies in the amount of \$1,467 to contractual services (operator). With this reclassification, staff believes the appropriate balance for materials and supplies is \$1,467.
- 6) Contractual Services - Management/Billing (731) - The utility recorded a balance of \$2,304 in this expense account for the test year. Staff has increased this amount by \$83 to reflect the costs associated with billing. Meters are read by Pasco County at a cost of \$0.56 per meter. Based on approximately 132 meters, the annual meter reading costs is \$887. Also included in this account is an allowance for the person who is responsible for preparing and mailing the bills. The allowance for this person is \$1,500 on an annual basis. Therefore, staff is recommending a total allowance for this account in the amount of \$2,387.
- 7) Contractual Services - Testing (735) - The utility recorded \$347 for testing expense. This expense has been increased by \$1,800 to reflect the appropriate amount of testing expense. The appropriate total testing expense is \$2,147. A schedule of the required wastewater tests, frequency and costs follows:

<u>Description</u>	<u>Frequency</u>	<u>Annual Cost</u>
CBOD	Monthly	\$ 600
TSS	Monthly	312
Nitrates	Monthly	156
Fecal Coli	Monthly	156
MLTSS	---	52
MLSS	Monthly	78
MICRO	---	728
RPZ test	Yearly	<u>65</u>
	Total Amount	\$2,147

- 8) Contractual Services - Operator (736) - The utility recorded a balance of \$12,388 in this account. Staff has reduced this account by \$1,467 to reflect a misclassification of materials and supplies. Staff has also reduced this account by \$1,171 to reflect the appropriate balance based on the management services agreement as provided by the audit. Therefore, the resulting balance for this expense for the test year is \$9,750.

- 9) Contractual Services - Repairs & Maintenance (736) - The utility recorded \$0 in this account. Staff is increasing this account by \$600 to reflect an allowance for mowing and groundskeeping for the area surrounding the wastewater plant. Staff believes an appropriate amount for this service is \$50 per month. Therefore, staff has increased this account by \$600.
- 10) Rents (640) - The utility recorded a \$0 balance in this account. To reflect an allowance for rental of office space, this account has been increased by \$600 (\$50.00/month).
- 11) Regulatory Commission Expense (665) - The utility paid a \$1,000 filing fee for this rate case. Pursuant to Section 367.0816, Florida Statute, this expense has been amortized over 4 years, which allows an annual expense of \$250. The utility misclassified its regulatory assessment fees to this account. Staff has removed the misclassified amount of \$540. The resulting net adjustment is a decrease of \$290. Therefore, the appropriate balance is \$250.
- 12) Miscellaneous Expense (675) - The utility recorded a balance for miscellaneous expenses in the amount of \$3,114 according to the audit. The majority of this amount is the utility's purchased water expense. Reviewing water bills for the test year reveals usage in excess of 300,000 gallons during some months. Staff believes this amount is excessive for wastewater utility purposes.

The utility receives water service from Pasco County. The water is used to "wash down" the wastewater plant. The staff engineer estimated a more reasonable amount for the Terrace Park plant at 31,000 gallons per month. Staff applied the Pasco County water rates for a general service 1" meter. The resulting calculation was \$56.36/month or \$676 on an annual basis.

Staff believes the other miscellaneous expenses in the amount of \$500 for this utility are necessary and prudent. Therefore, staff is recommending an allowance for this account in the amount of \$1,176. Staff has reduced the utility's balance by \$1,938 to reflect the appropriate miscellaneous expense balance of \$1,176.

Depreciation Expense - Test year depreciation expense has been calculated using the rates prescribed by Rule 25-30.140, Florida

Administrative Code. The utility recorded depreciation expense in the amount of \$2,211. Staff calculated test year depreciation expense in the amount of \$2,690. Staff reduced the corrected depreciation expense by \$1,060 to reflect the non-used and useful portion of test year depreciation expense. The resulting depreciation expense net of non-used and useful is \$1,630.

Taxes Other Than Income - The utility recorded \$836 as taxes other than income. This total reflects property taxes only. Staff has reviewed the test year property tax assessment and concludes that the appropriate amount of property taxes is \$739. Therefore, staff reduced the balance by \$97 to reflect the appropriate property tax amount. Staff increased this account by \$540 to reflect the misclassified regulatory assessment fees. However, the \$540 was calculated based on incorrect test year revenues. Staff has recalculated the regulatory assessment fees for the test year. The resulting regulatory assessment fee amount is \$439, which results in a further reduction of \$101.

Therefore, the net adjustment for taxes is \$343. The resulting total amount for taxes is \$1,179.

Increase in Operating Revenues and Expenses:

Operating Revenue - Revenue has been increased by \$20,257 to reflect the increase required to allow the utility to recover its expenses and earn the authorized return on its investment.

Taxes Other Than Income - This expense has been increased by \$912 to reflect regulatory assessment fees at 4.5% on the required increase in revenue.

The application of staff's recommended adjustments to the utility's recorded operating expenses results in staff's recommended operating expenses of \$27,469.

Operating expenses are shown on Schedule No. 3 and adjustments are shown on Schedule No. 3-A.

REVENUE REQUIREMENT

ISSUE 7: What is the appropriate revenue requirement for this utility?

RECOMMENDATION: The appropriate revenue requirement is \$30,020.
(GALLOWAY)

STAFF ANALYSIS: The utility should be allowed an annual increase in revenue of \$20,257 (207.49%). This increase will allow the utility the opportunity to recover its expenses and earn a 9.85% return on its investment.

Adjusted rate base	\$ 25,907
Rate of return	<u>x .0985</u>
Return on investment	\$ 2,551
plus	
Adjusted O&M expense	23,748
Depreciation expense	1,630
Taxes other than income	<u>2,091</u>
Revenue requirement	\$ 30,020
Test year revenue	<u>(9,763)</u>
Increase in revenue	\$ 20,257
Percentage increase	207.49% (\$20,257/\$9,763)

The revenue requirement is shown on Schedule No. 3.

RATES AND TARIFF CHARGES

ISSUE 8: Is a repression adjustment to consumption appropriate for this utility, and, if so, what is the appropriate adjustment?

RECOMMENDATION: No, a repression adjustment is not appropriate in this case. However, in order to monitor the effects of the rate increase on consumption, the utility should be ordered to file, on a quarterly basis, reports detailing the number of bills rendered, the number of gallons billed and the total revenues billed during the quarter, with the totals shown separately for the residential and general service classes of service. These reports should be required for a period of two years, beginning the first quarter after the revised rates go into effect. (GOLDEN)

STAFF ANALYSIS: As discussed previously, staff's recommended revenue requirement increase is \$20,257 (207.49%) for the wastewater system, which represents a monthly increase of \$15.38 per ERC. In an attempt to quantify the relationship between revenue increases and consumption impacts, staff has created a database of all water utilities that were granted rate increases or decreases (excluding indexes and pass-throughs) between January 1, 1990 and December 31, 1995. This database contains utility-specific information from the applicable orders, tariff pages and the utilities' annual reports for the years 1989 - 1995. Because the database specifically targeted water utilities, there is little information in the database regarding the impact of a wastewater rate increase on water consumption for a wastewater only utility. There is some evidence that a wastewater increase of the level seen in this case will cause a decrease in water consumption. However, there are no utilities in the database which match this utility's rate increase and change in rate structure closely enough to provide a reasonable estimate of the amount of repression that might occur in this case. Therefore, staff believes a repression adjustment is not appropriate in this case.

Staff has recommended repression adjustments in a limited number of cases to date, and, as such, we have no established, previously-approved methodology to calculate an appropriate adjustment. Until we do have approved methodologies in place, we believe it is appropriate to err on the side of caution when considering the magnitude of our recommended adjustments. Consequently, staff recommends that a repression adjustment is not appropriate in this case. However, staff believes it will be beneficial in future cases to monitor the effects of this rate increase on consumption. Therefore, staff recommends that the utility should be ordered to file, on a quarterly basis, reports

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detailing the number of bills rendered, the number of gallons billed and the total revenues billed during the quarter, with the totals shown separately for the residential and general service classes of service. These reports should be required for a period of two years, beginning the first quarter after the revised rates go into effect.

ISSUE 9: What is the appropriate conservation rate structure for this utility?

RECOMMENDATION: The appropriate conservation rate structure for this utility is the base facility and uniform gallonage charge rate structure. (GILCHRIST)

STAFF ANALYSIS: Terrace Park is located in a water use caution area (WUCA). Florida's Water Management Districts have identified areas with water shortages as "water resource caution areas." The Southwest Florida Water Management District (SWFWMD) declared Pasco County a WUCA in 1989. Terrace Park's facilities consist of one wastewater treatment plant and one wastewater collection system. Water service is provided by Pasco County (County).

Terrace Park provides wastewater service to approximately 130 residential customers and 1 general service customer. The utility's current rate structure for wastewater is based on 75% of the amount charged by Pasco County for water. Pasco County charges Terrace Park's water customers a base fee of \$4.77 and an inclining block rate based on the amount of gallons used. The utility bills different rates for several tiers of usage. Usage of 0 - 999 gallons is included in the \$4.77 base fee. In the minimum tier of 1,000 to 3,000 gallons, the water customers pay \$1.69 per thousand gallons and in the maximum tier of 46,000 gallons and above, the customer pays \$2.51 per thousand gallons. Terrace Park's wastewater customers pay a base fee of \$3.59, which includes usage of 0 - 999 gallons. For usage of 1,000 to 3,000 gallons, the customer pays \$1.27 per thousand gallons and for usage above 46,000, the charge is \$1.88 per thousand gallons. This rate structure applies to all customers.

The utility's current rate structure for wastewater was originally established by Pasco County and approved by the Commission under grandfather provisions when the utility was granted a certificate to operate in 1997. The utility's rate structure for wastewater should not be based on a percentage of what is being charged for water, but the rates and rate structure should be based on what is required for this utility to exist and operate as a separate entity. Staff is recommending that the utility's current rate structure for wastewater be changed to a base facility and uniform gallonage charge rate structure. Under staff's proposal, usage of 0 -999 gallons will no longer be included in the \$3.59 base fee.

Staff is recommending this change in rate structure because the Commission does not customarily set inclining block rates for

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wastewater utilities. An inclining block rate structure is more appropriate for water utilities when there is an urgent need for conservation and usage is high. Terrace Park's customers already pay inclining block rates to Pasco County for their water usage and average water usage is low for these customers. Under the utility's current rate structure, the total average consumption per residential bill for water is only 3,620 gallons.

Based on the reasons above, staff is recommending that the base facility and inclining block rate structure be discontinued and the base facility and **uniform** gallonage charge rate structure be implemented for this utility.

ISSUE 10: What are the appropriate rates?

RECOMMENDATION: The recommended rates should be designed to produce revenue of \$30,020. The appropriate residential wastewater gallonage cap should be set at 8,000 gallons. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), Florida Administrative Code, provided the customers have received notice. The rates may not be implemented until proper notice has been received by the customers. The utility should provide proof of the date notice was given within 10 days after the date of the notice. (GALLOWAY)

STAFF ANALYSIS: As discussed in Issue 9, staff is recommending that the appropriate rate structure is the base facility and uniform gallonage charge rate structure. As will be discussed in Issue 12, staff is recommending that the utility begin billing on a monthly basis rather than a quarterly basis.

During the test year, the utility provided wastewater service to approximately 130 residential customers and 1 general service customer. Rates have been calculated using the number of bills and the number of gallons of wastewater billed during the test year. A schedule of the utility's existing rates and staff's recommended rates follows:

<u>WASTEWATER</u>		
<u>Monthly Rates</u>		
--Residential--	Existing	Staff's
BASE FACILITY CHARGE	<u>Rates</u>	<u>Recommended</u>
		<u>Rates</u>
All Meter Sizes	\$ 3.59	\$ 10.54
GALLONAGE CHARGE		
		\$ 3.14
		per 1,000 gallons
		(8,000 gallon cap)
1,000 - 3,999 gallons	\$ 1.27	
4,000 - 6,999 gallons	1.36	
7,000 - 10,999 gallons	1.44	
11,000 - 15,999 gallons	1.58	
16,000 - 45,999 gallons	1.69	
46,000 gallons and over	1.88	

--General Service-- BASE FACILITY CHARGE	<u>Existing Rates</u>	<u>Staff's Recommended Rates</u>
<u>Meter Size</u>		
5/8 x 3/4"	\$ 3.59	\$ 10.54
3/4"	N/A	15.81
1"	N/A	26.35
1 1/2"	N/A	52.71
2'	N/A	84.33
3"	N/A	168.67
4"	N/A	263.54
6"	N/A	527.09

GALLONAGE CHARGE

	\$ 3.77
	per 1,000 gallons
1,000 - 3,999 gallons	\$ 1.27
4,000 - 6,999 gallons	1.36
7,000 - 10,999 gallons	1.44
11,000 - 15,999 gallons	1.58
16,000 - 45,999 gallons	1.69
46,000 gallons and over	1.88

The average number of gallons of residential wastewater billed for the test year is approximately 3,620 gallons per month/customer. A schedule of an average residential bill based on existing rates and recommended rates follows:

Average bill using recommended rates	\$ 21.91
Average bill using existing rates	<u>(6.92)</u>
Increase in bill	\$ 14.99
Percentage increase in bill	216.62% (\$14.99/\$6.92)

Staff has included in the wastewater rate structure a gallonage cap of 8,000 gallons. The Commission's goal in setting a wastewater cap is to recognize the general usage level of the utility's customers. Water used beyond that general level is probably used for irrigation purposes, and will not be returned to the system.

The recommended rates are designed to produce revenue in the amount of \$30,020. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), Florida Administrative Code, provided the customers have received notice. The rates may not be implemented until proper notice has been received by the

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customers. The utility should provide proof of the date notice was given within 10 days after the date of the notice.

ISSUE 11: What is the appropriate amount by which rates should be reduced four years after the established effective date to reflect the removal of the amortized rate case expense as required by Section 367.0816, Florida Statutes?

RECOMMENDATION: The wastewater rates should be reduced as shown on Schedule No. 4, to remove rate case expense grossed-up for regulatory assessment fees and amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the recovery period, pursuant to Section 367.0816, Florida Statutes. The utility should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. (GALLOWAY)

STAFF ANALYSIS: Section 367.0816, Florida Statutes requires that the rates be reduced immediately following the expiration of the four year period by the amount of the rate case expense previously included in the rates. The reduction will reflect the removal of the revenues associated with the amortization of rate expense and the gross-up for regulatory assessment fees, which is \$262. The reduction in revenues will result in a reduction of rates as recommended by staff on Schedule No. 4.

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

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

ISSUE 12: What are the appropriate billing procedures and billing format for this utility?

RECOMMENDATION: The utility should follow the guidelines of Rule 25-30.335, Florida Administrative Code, for billing procedures. The utility should bill its customers of record on a monthly basis rather than on a quarterly basis. The utility should bill its customers of record on a separate bill that includes the utility's name, the billing period covered, the applicable rate along with beginning and ending meter readings. Further, the utility bill should include the delinquent date or the date after which the bill becomes past due. (GALLOWAY)

STAFF ANALYSIS: On February 3, 1999, a customer meeting was held in the utility's service area to give customers the opportunity to discuss concerns about the utility's quality of service and operation. Among other topics, the utility's billing procedure was addressed during the meeting. Two customers complained that their wastewater bill did not clearly state the amount of consumption.

Rule 25-30.335(1), Florida Administrative Code, provides in part:

Except as provided in this rule, a utility shall render bills to customers at regular intervals, and each bill shall indicate: the billing period covered; the applicable rate schedule; beginning and ending meter reading; the amount of the bill; the delinquent date or the date after which the bill becomes past due; and the authorized late payment charge.

Staff has discussed with the utility and with the customers at the customer meeting, the change in billing procedures. More specifically, staff discussed changing from a quarterly billing cycle to a monthly billing cycle. The utility has agreed to this billing procedure. Staff also believes that monthly billing is the preferred billing procedure from the customers at the meeting held on February 3, 1999.

Staff recommends that the utility follow the guidelines of Rule 25-30.335(1), Florida Administrative Code, for billing procedures. The utility should bill its customers of record on a monthly basis rather than on a quarterly basis. The utility should bill its customers of record on a separate bill that includes the utility's name, the billing period covered, the applicable rate along with beginning and ending meter readings. Further, the utility bill should include the delinquent date or the date after which the bill becomes past due.

ISSUE 13: What should the appropriate miscellaneous service charges be for Terrace Park?

RECOMMENDATION: The appropriate miscellaneous service charges should be those recommended in the staff analysis. The utility should file revised tariff sheets which are consistent with the Commission's vote. Staff should be given administrative authority to approve the revised tariff sheets upon staff's verification that the tariffs are consistent with the Commission's decision. If revised tariff sheets are filed and approved, the miscellaneous service charges should become effective for connections made on or after the stamped approval date of the revised tariff sheets, if no protest is filed. (GALLOWAY)

STAFF ANALYSIS: The utility's existing tariff currently provides for no miscellaneous service charges. Staff believes that the miscellaneous service charges should be updated and included in the utility's tariff. Staff recommends that the following charges be authorized:

	<u>Utility's Existing</u>	<u>Staff Recommended</u>
Initial Connection	\$0	\$ 15.00
Normal Reconnection	\$0	\$ 15.00
Violation Reconnection	\$0	Actual Cost
Premises Visit (in lieu of disconnection)	\$0	\$ 10.00

The four types of miscellaneous service charges are:

- 1) Initial Connection: This charge is to be levied for service initiation at a location where service did not exist previously.
- 2) Normal Reconnection: This charge is to be levied for transfer of service to a new customer account at a previously served location, or reconnection of service subsequent to a customer requested disconnection.

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- 3) Violation Reconnection: This charge is to 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 (in lieu of disconnection): This charge is to be levied when a service representative visits a premises for the purpose of discontinuing service for nonpayment of a due and collectible bill, but does not discontinue service because the customer pays the service representative or otherwise make satisfactory arrangements to pay the bill.

These charges are designed to more accurately reflect the costs associated with each service and to place the burden of payment on the person who causes the cost to be incurred (the "cost causer"), rather than on the entire ratepaying body as a whole.

Therefore, staff recommends that the utility's tariff be revised to incorporate the charges discussed above. The utility should file revised tariff sheets which are consistent with the Commission's vote. Staff should be given administrative authority to approve the revised tariff sheets upon staff's verification that the tariffs are consistent with the Commission's decision. If revised tariff sheets are filed and approved, the miscellaneous service charges should become effective for connections made on or after the stamped approval date of the revised tariff sheets, if no protest is filed.

ISSUE 14: Should the recommended rates be approved for the utility on a temporary basis in the event of a timely 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 timely protest filed by a party other than the utility. The utility should be authorized to collect the temporary rates after staff's approval of the security for potential refund, the proposed customer notice, and the revised tariff sheets. (GALLOWAY, MCRAE)

STAFF ANALYSIS: This recommendation proposes an increase in wastewater rates. A timely protest might delay what may be a justified rate increase resulting in an unrecoverable loss of revenue to the utility. Therefore, in the event of a timely 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 the staff's approval of the security for potential refund and the proposed customer notice. The security should be in the form of a bond or letter of credit in the amount of \$14,004. Alternatively, the utility could establish an escrow agreement with an independent financial institution.

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

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

If the utility chooses a letter of credit as 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 final Commission order is rendered, either approving or denying the rate increase.

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

1) No funds in the escrow account may be withdrawn by the utility without the express approval of the Commission.

2) The escrow account should be an interest bearing account.

3) If a refund to the customers is required, all interest earned by the escrow account should be distributed to the customers.

4) If a refund to the customers is not required, the interest earned by the escrow account should revert to the utility.

5) All information on the escrow account should be available from the holder of the escrow account to a Commission representative at all times.

6) The amount of revenue subject to refund should 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 to 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 a 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.

The utility should maintain a record of the amount of the bond, and the amount of revenues that are subject to refund. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), Florida Administrative Code, the utility should file reports with the Division of Water and Wastewater no later than 20

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days after each monthly billing. These reports shall indicate the amount of revenue collected under the increased rates.

ISSUE 15: Should the Commission order Terrace Park to show cause, in writing within 21 days, why it should not be fined for its apparent violation of Rule 25-30.115, Florida Administrative Code?

RECOMMENDATION: No. A show cause proceeding should not be initiated. However, the utility should be ordered to maintain its books and records in conformity with the 1996 NARUC Uniform System of Accounts (USOA) and should be required to submit a statement from its accountant by March 31, 2000, along with its 1999 annual report, stating that its books are in conformity with the NARUC USOA and have been reconciled with the Commission's order. (MCRAE, GALLOWAY)

STAFF ANALYSIS: According to the audit, some of the utility's accounts were not maintained in conformity with the USOA during the test year. Rule 25-30.115, Florida Administrative Code, entitled "Uniform System of Accounts for Water and Wastewater Utilities," states:

Water and wastewater utilities shall, effective January 1, 1998, maintain their accounts and records in conformity with the 1996 NARUC Uniform System of Accounts adopted by the National Association of Regulatory Utility Commissioners.

Section 367.161, Florida Statutes, authorizes the Commission to assess a penalty of not more than \$5,000 for each offense, if a utility is found to have knowingly refused to comply with, or have willfully violated any Commission rule, order, or provision of Chapter 367, Florida Statutes. In failing to maintain its books and records in conformity with the USOA, the utility's act was "willful" in the sense intended by Section 367.161, Florida Statutes. In Order No. 24306, issued April 1, 1991, in Docket No. 890216-TL, titled In Re: Investigation Into The Proper Application of Rule 25-14.003, Florida Administrative Code, Relating To Tax Savings Refund For 1988 and 1989 For GTE Florida, Inc., the Commission having found that the company had not intended to violate the rule, nevertheless found it appropriate to order it to show cause why it should not be fined, stating that "[i]n our view, 'willful' implies an intent to do an act, and this is distinct from an intent to violate a statute or rule." Additionally, "[i]t is a common maxim, familiar to all minds that 'ignorance of the law' will not excuse any person, either civilly or criminally." Barlow v. United States, 32 U.S. 404, 411 (1833).

Although Terrace Park's failure to keep some of its accounts in conformity with the USOA is an apparent violation of Rule 25-30.115, Florida Administrative Code, staff believes that a show cause proceeding is not warranted and should not be initiated. As stated in the case background, Terrace Park began operating in

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1984. The Commission was unaware of the utility's existence until 1995, at which time the Commission instructed the utility, by letter dated April 22, 1995, to file an application for an original certificate. Order No. PSC-97-0011-FOF-SU, issued January 2, 1997, granted the utility operating Certificate No. 505-S. The test year for this proceeding is for the year ended December 31, 1997, and this proceeding is the utility's first rate case before the Commission. Given the relatively short time under Commission jurisdiction, staff believes that the utility should be given time to set up its books in conformity with the NARUC USOA and to reconcile its books with the Commission's order.

Staff does not believe that the apparent violation of Rule 25-30.115, Florida Administrative Code, rises in these circumstances to the level which warrants the initiation of a show cause proceeding. Therefore, staff recommends that the Commission not order Terrace Park to show cause for failing to keep some of its accounts in conformity with the NARUC USOA. However, staff also recommends that the utility should be ordered to maintain its books and records in conformity with the 1996 NARUC USOA and should be required to submit a statement from its accountant by March 31, 2000, along with its 1999 annual report, stating that its books are in conformity with the NARUC USOA and have been reconciled with the Commission's order.

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ISSUE 16: Should this docket be closed?

RECOMMENDATION: No. If no timely protest is received upon expiration of the protest period, this docket should remain open for an additional 90 days from the effective date of the Commission order to allow staff to verify that the utility has corrected the placement of the water line entering the plant from the meter. Once staff has verified that his work has been completed, the docket should be closed administratively. (GALLOWAY, MCRAE)

STAFF ANALYSIS: Staff is recommending that the utility should be required to correct the placement of the water line entering the plant from the meter within 90 days from the effective date of the Commission order. If no timely protest is received upon expiration of the protest period, this docket should remain open for an additional 90 days from the effective date of the Commission order to allow staff to verify that the utility has corrected the placement of the water line entering the plant from the meter. Once staff has verified that his work has been completed, the docket should be closed administratively.

SKYACRES ENTERPRISES d/b/a TERRACE PARK VENTURES
 SCHEDULE OF WASTEWATER RATE BASE
 TEST YEAR ENDED DECEMBER 31, 1997

SCHEDULE NO. 1
 DOCKET NO. 980912-SU

	BALANCE PER UTILITY	STAFF ADJ. TO UTIL. BAL.	BALANCE PER STAFF
UTILITY PLANT IN SERVICE	\$ 56,769	\$ (228) A	\$ 56,541
LAND/NON-DEPRECIABLE ASSETS	4,375	0	4,375
NON-USED AND USEFUL PLANT	0	(13,190) B	(13,190)
ACQUISITION ADJUSTMENT	0	0	0
CWIP	0	0	0
CIAC	0	0	0
ACCUMULATED DEPRECIATION	(49,700)	24,913 C	(24,787)
AMORTIZATION OF ACQUISITION ADJUSTMENT	0	0	0
AMORTIZATION OF CIAC	0	0	0
WORKING CAPITAL ALLOWANCE	0	2,968 E	2,968
WASTEWATER RATE BASE	\$ 11,444	\$ 14,463	\$ 25,907

SKYACRES ENTERPRISES d/b/a TERRACE PARK VENTURES
ADJUSTMENTS TO RATE BASE
TEST YEAR ENDED DECEMBER 31, 1997

SCHEDULE NO. 1A
DOCKET NO. 980912-SU

WASTEWATER

A. UTILITY PLANT IN SERVICE

1. To reflect adjustment for averaging \$ (228)

B. NON-USED AND USEFUL PLANT

1. To reflect non-used and useful average plant \$ (23,021)
2. To reflect non-used and useful average accumulated depreciation 9,831
\$ (13,190)

C. ACCUMULATED DEPRECIATION

1. To reflect accumulated depreciation at 12/31/97 \$ 23,568
2. To reflect averaging adjustment 1,345
\$ 24,913

D. WORKING CAPITAL ALLOWANCE

1. To reflect 1/8 of operation and maintenance expense \$ 2,968

SKYACRES ENTERPRISES d/b/a TERRACE PARK VENTURES
 SCHEDULE OF CAPITAL STRUCTURE
 TEST YEAR ENDED DECEMBER 31, 1997

SCHEDULE NO. 2
 DOCKET NO. 980912-SU

	<u>PER UTILITY</u>	<u>STAFF ADJUST. TO UTIL. BAL.</u>	<u>ADJUSTED BALANCE PER STAFF</u>	<u>PRO RATA ADJUST. PER STAFF</u>	<u>RECONCIL- IATION TO RATE BASE</u>	<u>PERCENT OF TOTAL</u>	<u>COST</u>	<u>WEIGHTED COST</u>
COMMON EQUITY	\$ 0	\$ 0	\$ 0	\$ 0	0	0.00%	9.85%	0.00%
SHORT-TERM DEBT	10,220	0	10,220	(4,380)	5,840	22.54%	9.85%	2.22%
SHORT-TERM DEBT	35,119	0	35,119	(15,051)	20,068	77.46%	9.85%	7.63%
PREFERRED EQUITY	0	0	0	0	0	0.00%	0.00%	0.00%
CUSTOMER DEPOSITS	0	0	0	0	0	0.00%	0.00%	0.00%
OTHER	0	0	0	0	0	0.00%	0.00%	0.00%
TOTAL	<u>\$ 45,338</u>	<u>\$ 0</u>	<u>45,338</u>	<u>\$ (19,431)</u>	<u>25,907</u>	100.00%		<u>9.85%</u>

<u>RANGE OF REASONABLENESS</u>	<u>LOW</u>	<u>HIGH</u>
RETURN ON EQUITY	8.85%	10.85%
OVERALL RATE OF RETURN	9.85%	9.85%

SKYACRES ENTERPRISES d/b/a TERRACE PARK VENTURES
 SCHEDULE OF WASTEWATER OPERATING INCOME
 TEST YEAR ENDED DECEMBER 31, 1997

SCHEDULE NO. 3
 DOCKET NO. 980912-SU

	<u>TEST YEAR PER UTILITY</u>	<u>STAFF ADJ. TO UTILITY</u>	<u>STAFF ADJUSTED TEST YEAR</u>	<u>ADJUST. FOR INCREASE</u>	<u>TOTAL PER STAFF</u>
OPERATING REVENUES	\$ 12,909	\$ (3,146) A	\$ 9,763	\$ 20,257 E	\$ 30,020
				207.49%	
OPERATING EXPENSES:					
OPERATION AND MAINTENANCE	\$ 22,808	\$ 940 B	\$ 23,748	\$ 0	23,748
DEPRECIATION (NET)	2,211	(581) C	1,630	0	1,630
AMORTIZATION (CIAC)	0	0	0	0	0
TAXES OTHER THAN INCOME	836	343 D	1,179	912 F	2,091
INCOME TAXES	0	0	0	0	0
TOTAL OPERATING EXPENSES	\$ 25,855	\$ 702	\$ 26,557	\$ 912	\$ 27,469
OPERATING INCOME/(LOSS)	\$ (12,947)		\$ (16,794)		\$ 2,551
WASTEWATER RATE BASE			\$ 25,907		\$ 25,907
RATE OF RETURN			<u>-64.82%</u>		<u>9.85%</u>

<u>A. OPERATING REVENUES</u>	<u>WASTEWATER</u>
1. To reflect misclassified loans	\$ (2,500)
2. To reflect misclassified HOA dues	(446)
3. To reflect other non-utility related revenue	(200)
	<u>\$ (3,146)</u>
<u>B. OPERATION AND MAINTENANCE EXPENSES</u>	
1. <u>Salaries and Wages - Officers</u>	
a. To reflect salaries and wages for President	\$ <u>1,300</u>
2. <u>Sludge Removal Expense</u>	
a. To remove out of period sludge removal expenses	\$ <u>(666)</u>
3. <u>Purchased Power</u>	
a. To reflect annualized purchased power expense	\$ <u>86</u>
4. <u>Chemicals</u>	
a. To reflect appropriate chemicals expense per staff engineer based on test year invoices	\$ <u>535</u>
5. <u>Materials and Supplies</u>	
a. To record expense that was misclassified as contractual services	\$ <u>1,467</u>
6. <u>Contractual Services (Management/Billing)</u>	
a. To reflect appropriate billing costs	\$ <u>83</u>
7. <u>Contractual Services (Testing)</u>	
a. To reflect annual testing expenses per staff engineer	\$ <u>1,800</u>
8. <u>Contractual Services (Operator)</u>	
a. To remove misclassified materials and supplies expense	\$ (1,467)
b. To reflect appropriate balance as per management services agreement	(1,171)
	<u>\$ (2,638)</u>
9. <u>Contractual Services (Maintenance and Repairs)</u>	
a. To reflect allowance for mowing and groundskeeping	\$ <u>600</u>
10. <u>Rents</u>	
a. To reflect office space rental	\$ <u>600</u>
11. <u>Regulatory Commission Expense</u>	
a. To remove misclassified regulatory assessment fees	(540)
b. To reflect rate case expense amortized over 4 years	250
	<u>\$ (290)</u>
12. <u>Miscellaneous Expense</u>	
a. To remove excessive purchased water charges and other non-utility expenses	\$ <u>(1,938)</u>
TOTAL O & M ADJUSTMENTS	<u>\$ 939</u>

SKYACRES ENTERPRISES d/b/a TERRACE PARK VENTURES
ADJUSTMENTS TO OPERATING INCOME
TEST YEAR ENDED DECEMBER 31, 1997

SCHEDULE NO. 3A
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C. DEPRECIATION EXPENSE

1.	To remove recorded test year depreciation expense	\$ (2,211)
2.	To reflect test year depreciation expense	2,690
3.	To reflect non-used & useful portion of test year depr. expense	<u>(1,060)</u>
		\$ <u>(581)</u>

D. TAXES OTHER THAN INCOME

1.	To reflect appropriate test year property taxes	\$ (97)
2.	To reflect reclassification of regulatory assessment fees from regulatory commission expense	540
3.	To adjust for appropriate amount of regulatory assessment fees @ 4.5% of test year revenues	<u>(101)</u>
		\$ <u>343</u>

E. OPERATING REVENUES

1.	To reflect increase in revenue required to cover expenses and allow recommended rate of return	\$ <u>20,257</u>
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F. TAXES OTHER THAN INCOME

1.	To reflect regulatory assessment fee at 4.5% on increase in revenue	\$ <u>912</u>
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SKYACRES ENTERPRISES d/b/a TERRACE PARK VENTURES
 ANALYSIS OF WASTEWATER OPERATION AND
 MAINTENANCE EXPENSE
 TEST YEAR ENDED DECEMBER 31, 1997

SCHEDULE NO. 3B
 DOCKET NO. 980912-SU

	TOTAL PER UTIL.	STAFF RECOM- MENDED ADJUST.	TOTAL PER STAFF
#701 SALARIES AND WAGES - EMPLOYEES	\$ 0	\$ 0	\$ 0
#703 SALARIES AND WAGES - OFFICERS	0	1,300 [1]	1,300
#704 PENSIONS AND BENEFITS	0	0	0
#710 PURCHASED WASTEWATER TREATMENT	0	0	0
#711 SLUDGE REMOVAL EXPENSE	2,124	(666) [2]	1,458
#715 PURCHASED POWER	942	86 [3]	1,027
#716 FUEL FOR POWER PRODUCTION	0	0	0
#718 CHEMICALS	965	535 [4]	1,500
#720 MATERIALS AND SUPPLIES	0	1,467 [5]	1,467
#730 CONTRACTUAL SERVICES (MGMT)	2,304	83 [6]	2,387
#731 CONTRACTUAL SERVICES (LEGAL)	0	0	0
#735 CONTRACTUAL SERVICES (TESTING)	347	1,800 [7]	2,147
#736 CONTRACTUAL SERVICES (OPERATOR)	12,388	(2,638) [8]	9,750
#736 CONTRACTUAL SERVICES (REPAIRS & MAINT.)	0	600 [9]	600
#740 RENTS	0	600 [10]	600
#750 TRANSPORTATION EXPENSE	0	0	0
#755 INSURANCE EXPENSE	85	0	85
#765 REGULATORY COMMISSION EXPENSE	540	(290) [11]	250
#770 BAD DEBT EXPENSE	0	0	0
#775 MISCELLANEOUS EXPENSES	3,114	(1,938) [12]	1,176
	<u>\$ 22,809</u>	<u>\$ 939</u>	<u>\$ 23,748</u>

SKYACRES ENTERPRISES d/b/a TERRACE PARK VENTURES
 SCHEDULE OF RATE CASE EXPENSE RATE
 REDUCTION AFTER FOUR YEARS
 TEST YEAR ENDED DECEMBER 31, 1997

SCHEDULE NO. 4
 DOCKET NO. 980912-SU

MONTHLY RATES

<u>RESIDENTIAL WASTEWATER SERVICE</u>	<u>STAFF REC. RATES</u>	<u>STAFF REC. DECREASE</u>
BASE FACILITY CHARGE:		
Meter Size:		
All Meter Sizes	\$ 10.54	\$ 0.09
RESIDENTIAL GALLONAGE CHARGE		
PER 1,000 GALLONS (8,000 gallon cap)	\$ 3.14	\$ 0.03
<u>GENERAL SERVICE</u>		
BASE FACILITY CHARGE:		
Meter Size:		
5/8" x 3/4"	\$ 10.54	\$ 0.09
3/4"	15.81	0.14
1"	26.35	0.23
1 1/2"	52.71	0.46
2"	84.33	0.74
3"	168.67	1.47
4"	263.54	2.30
6"	527.09	4.60
RESIDENTIAL GALLONAGE CHARGE		
PER 1,000 GALLONS	\$ 3.77	\$ 0.03

WASTEWATER TREATMENT PLANT

USED AND USEFUL DATA

Docket No. 980912-SU Utility Sky Acres Ent. /Terrace Park Date OCT. 98

- 1) Capacity of Plant 50,000 gallons per day
- 2) Maximum Daily Flow 36,000 gallons per day
- 3) Average Daily Flow 27,800 gallons per day
- 4) Fire Flow Requirements NOT APPLICABLE gallons per day
- 5) Margin Reserve 0 gallons per day
*Not to exceed 20% of present customers

a) Test Year Customers in ERC's - Begin 131 End 131 Av. 131

b) Customer Growth Using Regression Analysis in ERC's
for Most Recent 5 Years Including Test Year 0

c) Construction Time for Additional Capacity 1.0 Years

$$(b) \times (c) \times \left[\frac{3}{(a)} \right] = 0 \text{ gallons per day}$$

6) Excessive Infiltration 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 FORMULA

$$\frac{[(3) + (5)] - 6}{1} = 56 \% \text{ Used and Useful}$$

_____ Engineer

WASTEWATER COLLECTION SYSTEM

USED AND USEFUL DATA

Docket No. 980912-SU Utility Sky Acres Ent./Terrace Park Date OCT. 98

1) Capacity 178 ERC's (Number of potential customers without expansion)

2) Number of TEST YEAR Connections 131 day

a) Begin Test Year 131 ERC's

b) End Test Year 131 ERC's

c) Average Test Year 131 ERC's

3) Margin Reserve 0 ERC's

a) Customer Growth Using Regression Analysis in ERC's for Most Recent
5 Years Including Test Year 0 ERC's

b) Construction Time for Additional Capacity 1 Years

(a) x (b) = 0 ERC's Margin Reserve

PERCENT USED AND USEFUL FORMULA

$$\frac{(2 + 3)}{1} = \underline{74} \% \text{ Used and Useful}$$

Engineer

ISSUE AND RECOMMENDATION SUMMARY

QUALITY OF SERVICE

ISSUE 1: Is the quality of service provided by Sky Acres Enterprises d/b/a Terrace Park Ventures satisfactory?

RECOMMENDATION: Yes. The quality of service appears to be satisfactory. However, the utility should be required to initiate an office procedure that would expedite response time to customers' concerns and telephone calls. The program should be developed within three months of the effective date of the Commission order and a copy sent to the Commission. In addition, the utility should be required to correct the placement of the water line entering the plant from the meter within 90 days from the effective date of the Commission order. (EDWARDS)

RATE BASE

ISSUE 2: What percentage of the utility's wastewater treatment plant and collection system is used and useful?

RECOMMENDATION: The wastewater treatment plant should be considered 56% used and useful. The collection system should be considered 74% used and useful. Staff recommends no margin reserved be allowed. (EDWARDS)

ISSUE 3: What is the utility's appropriate average amount of rate base for ratesetting purposes?

RECOMMENDATION: The appropriate average amount of test year rate base should be \$25,907. (GALLOWAY, EDWARDS)

COST OF CAPITAL

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

RECOMMENDATION: The appropriate rate of return on equity is 9.85% with a range of 8.85% - 10.85% and the overall rate of return is 9.85%. (GALLOWAY)

NET OPERATING INCOME

ISSUE 5: What is the appropriate test year revenue?

RECOMMENDATION: The appropriate test year revenue is \$9,763. (GALLOWAY)

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ISSUE 6: What is the appropriate amount of operating expenses?

RECOMMENDATION: The appropriate amount of operating expenses is \$27,469. (GALLOWAY, EDWARDS)

REVENUE REQUIREMENT

ISSUE 7: What is the appropriate revenue requirement for this utility?

RECOMMENDATION: The appropriate revenue requirement is \$30,020. (GALLOWAY)

RATES AND TARIFF CHARGES

ISSUE 8: Is a repression adjustment to consumption appropriate for this utility, and, if so, what is the appropriate adjustment?

RECOMMENDATION: No, a repression adjustment is not appropriate in this case. However, in order to monitor the effects of the rate increase on consumption, the utility should be ordered to file, on a quarterly basis, reports detailing the number of bills rendered, the number of gallons billed and the total revenues billed during the quarter, with the totals shown separately for the residential and general service classes of service. These reports should be required for a period of two years, beginning the first quarter after the revised rates go into effect. (GOLDEN)

ISSUE 9: What is the appropriate conservation rate structure for this utility?

RECOMMENDATION: The appropriate conservation rate structure for this utility is the base facility and uniform gallonage charge rate structure. (GILCHRIST)

ISSUE 10: What are the appropriate rates?

RECOMMENDATION: The recommended rates should be designed to produce revenue of \$30,020. The appropriate residential wastewater gallonage cap should be set at 8,000 gallons. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), Florida Administrative Code, provided the customers have received notice. The rates may not be implemented until proper notice has been received by the customers. The utility should provide proof of the date notice was given within 10 days after the date of the notice. (GALLOWAY)

ISSUE 11: What is the appropriate amount by which rates should be reduced four years after the established effective date to reflect the removal of the amortized rate case expense as required by Section 367.0816, Florida Statutes?

RECOMMENDATION: The wastewater rates should be reduced as shown on Schedule No. 4, to remove rate case expense grossed-up for regulatory assessment fees and amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the recovery period, pursuant to Section 367.0816, Florida Statutes. The utility should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. (GALLOWAY)

ISSUE 12: What are the appropriate billing procedures and billing format for this utility?

RECOMMENDATION: The utility should follow the guidelines of Rule 25-30.335, Florida Administrative Code, for billing procedures. The utility should bill its customers of record on a monthly basis rather than on a quarterly basis. The utility should bill its customers of record on a separate bill that includes the utility's name, the billing period covered, the applicable rate along with beginning and ending meter readings. Further, the utility bill should include the delinquent date or the date after which the bill becomes past due. (GALLOWAY)

ISSUE 13: What should the appropriate miscellaneous service charges be for Terrace Park?

RECOMMENDATION: The appropriate miscellaneous service charges should be those recommended in the staff analysis. The utility should file revised tariff sheets which are consistent with the Commission's vote. Staff should be given administrative authority to approve the revised tariff sheets upon staff's verification that the tariffs are consistent with the Commission's decision. If revised tariff sheets are filed and approved, the miscellaneous service charges should become effective for connections made on or after the stamped approval date of the revised tariff sheets, if no protest is filed. (GALLOWAY)

ISSUE 14: Should the recommended rates be approved for the utility on a temporary basis in the event of a timely 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 timely protest filed by a party other than the utility. The utility should be authorized to collect the temporary rates after staff's approval of the security for potential refund, the proposed customer notice, and the revised tariff sheets. (GALLOWAY, MCRAE)

ISSUE 15: Should the Commission order Terrace Park to show cause, in writing within 21 days, why it should not be fined for its apparent violation of Rule 25-30.115, Florida Administrative Code?

RECOMMENDATION: No. A show cause proceeding should not be initiated. However, the utility should be ordered to maintain its books and records in conformity with the 1996 NARUC Uniform System of Accounts (USOA) and should be required to submit a statement from its accountant by March 31, 2000, along with its 1999 annual report, stating that its books are in conformity with the NARUC USOA and have been reconciled with the Commission's order. (MCRAE, GALLOWAY)

ISSUE 16: Should this docket be closed?

RECOMMENDATION: No. If no timely protest is received upon expiration of the protest period, this docket should remain open for an additional 90 days from the effective date of the Commission order to allow staff to verify that the utility has corrected the placement of the water line entering the plant from the meter. Once staff has verified that his work has been completed, the docket should be closed administratively. (GALLOWAY, MCRAE)