State of Florida

Public Service Commission

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RECORDS AND REPORTING

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DATE: MAY 4, 2000

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

FROM: DIVISION OF WATER AND WASTEWATER (REHWINKEL, EDWARDS, RENDELL, WILLIS, LINGO, RIEGER, BETHEA)
DIVISION OF LEGAL SERVICES (FUDGE)

RE: DOCKET NO. 990243-WS - APPLICATION FOR LIMITED PROCEEDING INCREASE AND RESTRUCTURING OF WATER RATES BY SUN COMMUNITIES FINANCE, LIMITED PARTNERSHIP IN LAKE COUNTY, AND OVEREARNINGS INVESTIGATION

AGENDA: 05/16/00 - REGULAR AGENDA - PROPOSED AGENCY ACTION EXCEPT ISSUES 29, 30, 31, AND 32 - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: NONE

FILE NAME AND LOCATION: S:\PSC\WAW\WP\990243WS.RCM

DOCUMENT NUMBER-DATE
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FPSC-RECORDS/REPORTING

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ATTACHMENTS

CASE BACKGROUND

Sun Communities Finance, Limited Partnership (Sun Communities or utility) is a Class B water and wastewater utility located in Lake County. The utility provides water and wastewater service to approximately 745 residential customers and 14 general service customers. The utility was granted Water Certificate No. 454-W and Wastewater Certificate No. 388-S, pursuant to Order No. 16150, issued May 23, 1986, in Docket No. 850517-WS. The utility's rate base was last established pursuant to Order No. PSC-97-0034-FOF-WS, issued January 7, 1997 in Docket No. 960040-WS.

On March 2, 1999, Sun Communities applied for the instant limited proceeding to increase its water rates based on costs associated with a mandated institution of a conservation rate structure by the St. John's River Water Management District (SJRWMD) and also based on the recovery of costs associated with the replacement of an existing hydropneumatic tank along with the addition of a second hydropneumatic tank necessitated by the Department of Environmental Protection (DEP) requirements. The utility paid its filing fee in the amount of $1,000.

As with any application for a rate increase, staff reviewed prior Commission orders along with the most recent annual reports on file with the Commission. It was through this review that staff became concerned that the utility may be in an overearnings posture. Out of this concern, staff broadened the scope of the audit to include an examination of all components necessary for water and wastewater rate setting along with an examination for compliance with Commission rules and orders. The staff engineer conducted a field investigation, which included a visual inspection of the water plant and distribution system, wastewater plant and collection system, along with the service area. The utility's operating expenses, maps, files, and limited proceeding application were also reviewed to determine reasonableness of maintenance expenses, regulatory compliance, utility plant-in-service and quality of service.

Staff conducted a customer meeting on October 7, 1999, in the service territory for the purpose of allowing customers an opportunity to speak directly with Commission staff regarding the rate restructuring, the scope of the limited proceeding and any problems that they were experiencing. Representatives from the SJRWMD were also present at the customer meeting to address various concerns regarding the proposed rate restructuring. Information regarding this meeting is discussed in Issue 1.

Staff selected a historical test year ended December 31, 1998, for this case. As mentioned earlier, the utility serves approximately 745 water and wastewater customers along with approximately 14 general service water and wastewater customers. Of the residential customers, approximately 200 customers have been paying for the utility service through their monthly lot rent. The utility has not been reporting these revenues. Further, the general service customers have not been paying for water and wastewater service. These revenues have been imputed for purposes of this proceeding.

This recommendation is presented in two parts. In the first portion, staff is recommending that the Commission deny the utility's request for a limited proceeding increase and restructuring of its water rates. In the second portion of this recommendation, we discuss the level of overearnings and our recommended disposition of those overearnings. Consequently, there are two sets of schedules resulting from two different methodologies associated with the appropriate used and useful calculations. This matter is explained in Issue 3 and Issue 23. Part I - Limited Proceeding Schedules (pages 74 - 82) and Part II - Overearnings Investigation Schedules (pages 84 - 95) are attached to this recommendation.

QUALITY OF SERVICE

ISSUE 1: Is the quality of service satisfactory?

RECOMMENDATION: Yes, the quality of service is satisfactory. (EDWARDS)

STAFF ANALYSIS: The Commission staff, in order to determine the overall quality of service provided by a utility, will evaluate three separate components of water operations. These are (1) the quality of the utility's product, (2) the operating conditions of the utility's plants and facilities, and (3) customer satisfaction. The rule also states that sanitary surveys, outstanding citations, violations, and consent orders on file with the DEP and the County Health Department over the preceding three year periods will be considered. DEP and health department officials' input as well as customer comments will also be considered.

Sun Communities' water treatment facilities consist of a plant and two distribution systems. The purpose of having two distribution systems is to provide water to the community, and the second system provides water to the golf course. The plant's format is to pump and chlorinate.

Quality of the Product

Staff acknowledges that the finished product meets standards, and both staff and the DEP engineer concur that the finished product is satisfactory. However, all of the agencies (DEP, SJRWMD, and FPSC) involved have concerns regarding the unaccounted for water.

After reviewing the Monthly Operating Reports (MORs) and listening to the concerns of customers, staff concluded the majority of the low water pressure complaints were due to inadequate pressure being provided by a deteriorating hydropneumatic tank.

Quality of Plant

On July 27, 1999, the staff engineer conducted a field inspection of the facilities. The investigation revealed Sun Communities is currently in compliance with the Department of Health and DEP's rules and regulations. In addition, this utility is listed under the jurisdiction of SJRWMD. Further, SJRWMD has placed water usage restrictions on Lake County.

Water Treatment Facilities: The Plant has a source of supply permitted capacity of 1,080,000 gallons per day. The utility's water treatment facilities consist of: Four wells (two 8", 6" and 4" cased; two 75 horsepower pumps, a 65 horsepower pump and a 5 horse power pump; two 20,000 gallon hydropneumatic galvanized steel tanks; gas chlorine injection system). At the time of the engineering investigation, the water treatment facility appeared to be operating properly.

Water Distribution System: The water distribution system mains are PVC pipe (10",8",6",4",3" and 2"). During the engineering investigation, the distribution system appeared to be operating properly.

Customer Satisfaction

The quality of the product is good. At the customer meeting which was held on October 7, 1999 in Lady Lake, Florida at the Main Club House, Water Oak Country Club Estates, there was a relatively large representation of the total population. The utility provides water service to approximately 760 customers and the possibility of a rate increase precipitated a turnout of more than 400 customers. The opinion expressed by the majority of the customers was an expression of disagreement with any form of a rate increase. The customers feel that they should not be required to incur the cost of the two new hydropneumatic tanks. The utility should write off the cost as a part of being in business.

Summary

The quality of the product by DEP's standards is satisfactory, and the operating conditions of the plants are satisfactory. However, the customers do not support an increase in rates.

ISSUE 2: Were the installations of the two new hydropneumatic tanks necessary? If yes, were the costs prudent?

RECOMMENDATION: Yes, because of governmental regulatory requirements and in order to provide adequate service to the community, the installations of both new hydropneumatic tanks were necessary and the cost should be considered prudent. (EDWARDS)

STAFF ANALYSIS: Sun Communities has been in existence since 1981. Due to the natural course of weathering, the structural integrity of the 20,000 gallon hydropneumatic tank (original) had deteriorated. While performing a consulting evaluation for plant improvements, EXCEL Engineering Consulting, Inc. discovered a leak in the tank. The utility performed a temporary repair and reported the situation to the DEP. DEP acknowledged that the tank was in a state of disrepair and allowed the utility to replace it.

Pursuant to the DEP's current Rules (Chapter 62-555, Florida Administrative Code), the utility had reached a level of flows within its water system that required a second hydropneumatic tank. The utility, in response, installed a second 20,000 gallon hydropneumatic tank.

In summary, because of governmental regulatory requirements and in order to provide adequate service to the community, the installations of both new hydropneumatic tanks were necessary and the cost should be considered prudent.

USED AND USEFUL

ISSUE 3: What percentage of the utility's water treatment plant and distribution system is used and useful?

RECOMMENDATION: The water treatment plant should be considered 79%, and the water distribution system should be considered 90% used and useful. Further, the wastewater treatment plant should be considered 36% and the collection system considered 84% used and useful. (EDWARDS, WILLIS, FUDGE)

STAFF ANALYSIS: In its filing, the utility requested the recovery of both hydropneumatic tanks as 100% used and useful. The utility's request for full recovery did not include any calculations for growth. The utility's records for the test year were utilized to calculate the used and useful percentages. Presently, the utility's records indicate that the system is operating properly. Although the applicant did not request an allowance for growth (margin reserve), growth was calculated for both the water and wastewater systems. Staff calculated growth by utilizing a growth of 18 months for the water and wastewater treatment plant and 12 months for the distribution and collection systems.

Water Treatment System

The water treatment plant has a source of supply permitted capacity of 1,080,000 gpd. The maximum daily flow from the utility's records is 688,000 gpd. The fire flow requirement equates to 120,000 gpd. Customer growth for the previous five years was calculated to be 61 ERCs per year which equates to 77,336 gpd. Staff has calculated the excess unaccounted for water which exceeds 10% to be 9.7% or 33,955 gpd. In accordance with the formula approach which is used as an indicator of useful plant, the water plant is considered 79% used and useful. This is calculated by taking the maximum daily flows to which you add the growth allowance and the fire flow requirement and subtract the unaccounted for water which produces the flows that are then divided by the plant capacity. (See Attachment A, p. 1 of 4)

Water Distribution System

The water distribution system has the potential capacity to serve an estimated 984 ERCs without the construction of additional distribution mains. The average number of connections served during the test year was 829 ERCs. Growth over the past five years was calculated to be 61 ERCs per year. In accordance with the formula

method of calculating used and useful, staff has calculated the distribution system to be 90% used and useful for this proceeding. This is calculated by taking the test year ERCs plus the growth allowance then dividing that total by the estimated capacity in ERCs. (See Attachment A, p. 2 of 4)

Wastewater Treatment Plant

The wastewater treatment plant is permitted by the DEP to process 200,000 gpd using Annual Average Daily Flow (AADF). The actual flows during the test year, based on AADF, were 63,874 gpd. Growth over the past five year has been 59 ERCs per year or 7,478 gpd. Staff also determined that their was no excess infiltration in the collection system. Based on the formula method of calculating used and useful, the wastewater treatment plant is determined to be 36% used and useful. This is calculated by taking the actual flows based on AADF plus the growth allowance less the excess infiltration and then dividing that total by the capacity based on AADF. (See Attachment A, p. 3 of 4)

Wastewater Collection System

The wastewater collection system has the potential of serving 984 ERCs. The average number of connections served during the test year was 771 ERCs. Growth over the past five years has been 59 ERCs per year. Using the formula method of calculation used and useful, the wastewater collection system is determined to be 84% used and useful. This is calculated by taking the test year ERCs plus the growth allowance then dividing that total by the estimated capacity in ERCs.(See Attachment A, p. 4 of 4)

Growth Allowance

In this filing, the utility did not request any growth factors. Therefore, staff has calculated margin reserve by using a growth allowance of 18 months for the water and wastewater treatment plants and 12 months for the distribution and collection systems, in accordance with Commission policy based on Section 367.081(2)(a) and (b), Florida Statutes (1997), the law that was in effect at the time the application was filed.[1]

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[1]Section 367.081(2)(a), Florida Statutes, as amended in 1999, requires a minimum growth calculation of five years for both water and wastewater treatment plant and distribution and collection systems. However, this Section specifically does not apply to cases pending on March 11, 1999 and this case was pending on that

Based on the above, staff recommends that the water treatment plant should be considered 79% used and useful, and the water distribution system should be considered 90% used and useful. Further, the wastewater treatment plant should be considered 36% used and useful, and the wastewater collection system should be considered 84% used and useful.

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date having been filed on March 2, 1999. Staff notes that had the utility filed this case under this new law, used and useful plant would have been materially greater; with the water treatment plant at 96%, the water distribution system at 100%, the wastewater treatment plant at 44%, and the wastewater collection system at 100% used and useful.

RATE BASE

ISSUE 4: What is the utility's appropriate average amount of utility plant in service (UPIS) for the water system for ratesetting purposes?

RECOMMENDATION: The appropriate average amount of UPIS for the water system for ratesetting purposes should be $243,765. (REHWINKEL, EDWARDS)

STAFF ANALYSIS: Staff believes the appropriate average amount of utility plant in service (UPIS) for the water system for ratesetting purposes should include adjustments for prior Commission orders, for misclassified and unsupported capital additions and for the pro forma additions necessary to capture the cost of the hydropneumatic tanks.

As stated in the case background, staff selected a test year ended December 31, 1998 for this proceeding. The utility's rate base was last established pursuant to Order No. PSC-97-0034-FOF-WS, issued January 7, 1997, in Docket No. 960040-WS. The rate base was established for transfer purposes as of November 30, 1993. Therefore, in keeping with Commission practice, the auditor reconciled the utility's water plant in service balance with the balance established in the last Commission order. The auditor then included additions and retirements made between November 30, 1993 and December 31, 1998.

The utility records indicate a water UPIS balance of $367,846 for the period ending December 31, 1998. Staff has reduced this amount by $13,189 to reflect prior Order adjustments not recorded by the utility. The utility also misclassified wastewater plant costs in the amount of $58,489 to water UPIS. A further reduction to the utility's balance is necessary to reflect non-recurring expenses in the amount of $33,031.

According to the audit, the utility could not provide support for capital additions to the water plant in the amount of $13,265. Staff has reduced the utility's plant balance by this amount. Also, the utility did not record the retirement of the hydropneumatic tank that was replaced during the test period. The retirement is in the amount of $10,000. Therefore, total reductions to the utility's recorded balance are in the amount of $127,974.

The utility misclassified $1,275 of capital additions to wastewater UPIS accounts that should have been recorded in the

water UPIS accounts. Staff recommends that the water UPIS accounts should be increased by $1,275. Staff also recommends that an additional increase to water UPIS in the amount of $40,169 is appropriate to reflect the supported additions made to water UPIS since the prior Order. The two new hydropneumatic tanks have been included in staff's calculations of UPIS as requested by the utility. The total additions to water UPIS equal $41,444. Therefore, the net adjustment to water UPIS is a reduction in the amount of $86,530. The resulting UPIS balance at the end of the test period is $281,316. An averaging adjustment in the amount of $37,551 further reduces the water plant balance. The resulting average water UPIS balance that staff recommends is $243,765.

ISSUE 5: What is the utility's appropriate average amount of utility plant in service (UPIS) for the wastewater system for ratesetting purposes?

RECOMMENDATION: The appropriate average amount of UPIS for the wastewater system for ratesetting purposes should be $372,808. (REHWINKEL, EDWARDS)

STAFF ANALYSIS: Staff believes the appropriate average amount of utility plant in service (UPIS) for the wastewater system for ratesetting purposes should include adjustments for prior Commission orders, and for misclassified and unsupported capital additions.

As stated in the case background, staff selected a test year ended December 31, 1998 for this proceeding. The utility's rate base was last established pursuant to Order No. PSC-97-0034-FOF-WS, issued January 7, 1997, in Docket No. 960040-WS. The rate base was established for transfer purposes as of November 30, 1993. Therefore, in keeping with Commission practice, the auditor reconciled the utility's wastewater plant in service balance with the balance established in the last Commission order. The auditor then included additions and retirements made between November 30, 1993 and December 31, 1998.

The utility records indicate a wastewater UPIS balance of $352,266 for the period ending December 31, 1998. Staff has reduced this amount by $21,748 to reflect prior Order adjustments not recorded by the utility. The utility also misclassified water plant costs in the amount of $1,275 to wastewater UPIS. According to the audit, the utility could not provide support for capital additions to the wastewater plant in the amount of $2,924. Staff has reduced the utility's plant balance by this amount. Also, the utility did not record the retirement of the equipment in Lift Station 1 that was replaced in 1995. The retirement should have been in the amount of $12,000. Staff has further reduced the utility's recorded wastewater plant balance by this amount. Therefore, total reductions to the utility's recorded balance are in the amount of $37,947.

The utility misclassified $58,489 of capital additions to water UPIS accounts that should have been recorded in the wastewater UPIS accounts. Staff has increased the wastewater UPIS accounts by $58,489. Therefore, the net adjustment to wastewater UPIS is an increase in the amount of $20,542. The resulting recommended UPIS balance at the end of the test period is $372,808.

Since the utility had no test year additions, an averaging adjustment is not necessary for the wastewater plant in service.

ISSUE 6: What is the appropriate land value for this utility during the test year?

RECOMMENDATION: The appropriate land value for the water system is $3,050 and for the wastewater system is $120,500. (REHWINKEL)

STAFF ANALYSIS: The land value for the water system was established by Order No. 16528, issued August 27, 1986, in Docket No. 850517-WS in the amount of $3,050. No purchases or additions have been made since the prior Order. Therefore, staff believes that this value is appropriate for this proceeding.

According to the audit, the utility's wastewater land balance established by Order No. 16528 is $30,500. A reduction to the balance should be made in the amount of $80. According to the audit, this amount was inadvertently omitted from the balance established by the prior Order.

Additionally, staff discovered during the audit that the former developer purchased land for $90,000 and donated it to the utility by means of a Warranty Deed dated July 8, 1987, for use as a sprayfield. Staff recommends that this amount should be included in the wastewater rate base calculation. However, because the land was donated, the amount should also be included in contributions in aid of construction (CIAC). While the two amounts will cancel one another in the wastewater rate base calculation, staff believes that each adjustment should be made for purposes of this proceeding and included on the utility's books and records on a going forward basis. Therefore, the resulting recommended land value for the water system is $3,050 and for the wastewater system is $120,500.

ISSUE 7: What is the appropriate non-used and useful plant-in-service balance for the water and wastewater systems during the test period?

RECOMMENDATION: The appropriate non-used and useful plant-in-service balance for the water system is $10,975 and for the wastewater system is $22,128. (REHWINKEL)

STAFF ANALYSIS: As discussed in Issue 3, the engineer has determined the used and useful percentage for all water and wastewater plant accounts. The non-used and useful percentages times the appropriate account balances reflect average non-used and useful plant of $28,044 for water and $152,137 for wastewater. The average accumulated non-used and useful depreciation on this plant is $17,069 for water and $130,009 for wastewater. The net non-used and useful plant is $10,975 for water and $22,128 for wastewater. Net non-used and useful plant has a negative impact on rate base. Therefore, water rate base has been decreased by $10,975 and wastewater rate base has been decreased by $22,128.

ISSUE 8: Should an acquisition adjustment continue as a component of rate base?

RECOMMENDATION: No. An acquisition adjustment is no longer an appropriate component of rate base for this utility. However, Sun Communities should be required to convert the previously approved negative acquisition adjustment to CIAC. Therefore, for the period ending December 31, 1998, the utility should be required to record CIAC in the amount of $117,170 for water and $117,844 for wastewater to reflect obligations previously approved by the Commission, as addressed in the staff analysis. Service availability charges should be reinstated equal to the amount of the remaining prior negative acquisition adjustment. This will be specifically addressed in Issue No. 28. (RENDELL, WILLIS)

STAFF ANALYSIS: According to the audit, utility records indicate balances of $496,755 and ($120,526) for utility plant acquisition adjustments and accumulated amortization of plant adjustments, respectively, at period ended December 31, 1998. However, there are actually two separate acquisition adjustments that should be addressed. The first is a positive acquisition adjustment which the utility has recorded on its books and the second is a negative acquisition adjustment that was previously approved by the Commission in two separate dockets. Due to the complexities of this issue, staff will address each acquisition adjustment amount separately.

Positive Acquisition Adjustment

The first acquisition adjustment addressed is the current amount recorded by Sun Communities. Sun Communities has recorded a positive acquisition adjustment in the amount of $496,755. The utility also recorded accumulated amortization in the amount of $120,526. This amount has been allocated on a pro-rata share as reflected on Schedule No. 1.

This amount was a result of the transfer from Water Oak Utilities Co., Inc. to Sun Communities, which was approved by Order No. PSC-97-0034-FOF-WS, issued January 7, 1997, in Docket No. 960040-WS. However, the Commission did not approve a positive acquisition adjustment in that Order. Specifically, the Commission stated, "we find that a positive acquisition adjustment shall not be included in the calculation of rate base." Therefore, staff has made an adjustment to remove the positive acquisition adjustment from rate base as shown on Schedule No. 1.

Negative Acquisition Adjustment

The second acquisition adjustment is a negative acquisition adjustment, which has been approved by this Commission in two separate dockets. This negative acquisition adjustment amount was the subject of an offer of settlement which was first approved by this Commission in Order No. 18255, issued October 6, 1987, in Docket No. 870122-WS. To better understand this extremely complex negative acquisition adjustment, a history of the adjustment is necessary.

The original owner, Mr. Mel Bishop, was providing water and wastewater service to Water Oak Estates. Since the service charges of the water and wastewater were included in the lot rent, the utility was exempt from the Commission's jurisdiction. In 1985, Mr. Bishop proposed to install meters and initiate separate charges. Therefore, Mr. Bishop applied for water and wastewater certificates, and requested that the Commission establish a rate base and set rates and charges for Water Oak Utilities Co., Inc. (Water Oak). During the pendency of the certification docket, negotiations led to the signing of a contract for the sale of Water Oak Estates to Water Oak. Pursuant to that sales contract, the portion of the purchase price specifically allocated to the sale of the utility's gross utility plant at completion, was $345,592. By Order No. 16150, issued May 23, 1986, in Docket No. 850517-WS, the Commission granted certificates to Water Oak authorizing it to operate its existing water and wastewater systems. However, the docket remained open in order for the Commission to establish rate base and set rates and charges.

Subsequently, Order No. 16528, issued on August 27, 1986, established rate base and set rates and charges. Order No. 16528 approved system capacity charges in the amount of $200 for water and $200 for wastewater. These charges were based upon projected plant at build out of $437,766 for water and $637,798 for wastewater and would result in CIAC levels of 75% for water and 62% for wastewater for 2,000 equivalent residential connections (ERCs) upon project completion. By Order No. 16977, issued December 18, 1986, the Commission approved the transfer of majority organizational control (TMOC). On February 4, 1987, the new owners filed a request for "cancellation of the plant capacity charges in view of a bargain purchase agreement" between the new owners and the former owner.

The Commission first addressed the request to rescind the requirement for collection of plant capacity charges in Order No. 17651, issued on June 3, 1987. That Order stated that the utility

argued that meters had been installed to promote conservation, not to achieve compensatory earnings. The utility stated that even if its CIAC charges were canceled, resulting in a large, uncontributed rate base, it has no present or future intentions of seeking a full rate of return. The Commission rejected the utility's argument, stating that "through a change in ownership, management, or policy, the utility could bring a rate case before the Commission and ask for a full rate of return." The Commission denied the utility's request to cancel CIAC charges because the utility had not met its burden of proving that cancellation of these charges was in the best interest of its customers, pursuant to Rule 25-30.580, Florida Administrative Code.

On June 22, 1987, the utility protested Order No. 17651. On August 11, 1987, the utility filed a proposed offer of settlement. On October 6, 1987, Order No. 18255 was issued approving the settlement proposal. Pursuant to the settlement, the utility would book total estimated gross utility plant of $1,075,564, ($437,766 for water and $637,798 for wastewater). For clarification, this amount of plant was projected through completion of the project to serve approximately 2,000 ERCs and included $60,000 for a 25 acre sprayfield in the wastewater amount. The difference between the gross projected plant and the purchase price of $345,592 ($111,268 for water and $234,324 for wastewater) was to be booked as a negative acquisition adjustment. This amount of $729,972 ($326,498 for water and $403,474 for wastewater), along with the gross estimated plant would be booked as of December 31, 1987.

According to Order No. 18255, this negative acquisition adjustment was allowed because of the existence of extraordinary circumstances. The Commission, under the given facts, found that it would be in the best interests of the customers to waive the requirements of Rule 25-30.580, Florida Administrative Code. However, the Order goes on to state that:

> It is only due to the extraordinary circumstances of this case that we approve this acquisition adjustment. However, any change in the circumstances, as set forth herein, could have a drastic impact on this utility's rate base and rates. Therefore, [the Commission] caution[s] the utility that any change in circumstances will result in a full investigation into its rate base and CIAC policy.

On January 9, 1996, Water Oak applied for a transfer of the water and wastewater system to Sun Communities. By Order No. PSC-97-0034-FOF-WS, issued on January 7, 1997, in Docket No. 960040-WS,

the Commission approved the transfer and addressed this negative acquisition adjustment. Specifically, the Order corrected the amount of the negative acquisition adjustment by stating:

> Unfortunately, an error in the proposed stipulation produced an incorrect provision for the negative acquisition adjustment. Instead of the $588,370 properly stated difference between the projected construction cost ($767,500) and the utility's contribution ($179,130), Order 18255 incorrectly specified that a $729,972 credit acquisition adjustment should be recorded.

The Order continues by stating that a correcting "journal entry that adds $588,370 ($282,678 for water and $305,692 for wastewater) to plant with a matching $588,370 ($282,678 for water and $305,692 for wastewater) entry to negative acquisition adjustment account" should be made. Further, the Commission found that "[t]hese offsetting accounts have no impact on the rate base determination." Staff has concerns with this journal entry, and believes that this finding was made in error.

According to the current staff audit, the utility did not record these negative acquisition adjustments and projected UPIS as required by Order No. PSC-97-0034-FOF-WS. However, a closer examination of the circumstances surrounding the existence of this previously approved negative acquisition adjustment and the subsequent transfer to Sun Communities is warranted. As determined in Audit Exception No. 3, staff recommends that the Commission find that the circumstances as set forth in Order No. 18255 cited above have significantly changed as described below and that the issue of acquisition adjustment and service availability policy be reexamined.

Circumstantial Changes:

1) The utility's former owners and the original developer who were parties to the approved stipulation agreement are no longer involved in the operations of the utility or mobile home community.

2) The stipulated agreement as approved was based upon a projected construction cost of $1,075,565 for 2,000 ERCs at completion with $345,592 of that cost allocated to gross utility investment, at build out. Audit staff calculated a $687,674 gross utility investment as of December 31, 1998, for approximately 760 ERCs.

3) The stipulated agreement as approved was designed to protect the interests of Water Oak's customers in absence of the protection afforded by Rule 25-30.580, Florida Administrative Code. Staff believes that this situation no longer exists as a result of the recent transfer.

4) Acquisition adjustments do not survive subsequent purchases. This is further discussed below.

Further, staff does not believe that it was appropriate to require the utility to book projected plant costs in its current plant-in-service accounts at the time the original stipulated agreement was approved. However, staff realizes that the Commission was approving an offer of settlement and thus avoided the expense of the hearing process. Nonetheless, now that the utility has been transferred, has requested a rate increase, and a complete audit by staff has been performed, it is the appropriate time to address the appropriate treatment of this previous adjustment. As stated in staff's audit, the utility has not booked the projected plant nor the negative acquisition adjustment.

It should be noted that acquisition adjustments are determined by comparing the purchase price to the net original cost of the property when first devoted to service. Therefore, the comparison would be made between the purchase price paid by Sun Communities and the net original cost of the assets. Acquisition adjustments do not survive subsequent purchases of the utility's assets. When Sun Communities purchased the utility, the accounting methodology for acquisition adjustments would not allow any further recognition of prior acquisition adjustment amounts. To do this would harm the utility customers by increasing rate base.

In determining the appropriate treatment of this adjustment, staff is faced with the dilemma of ensuring that the interests of the customers are protected by making sure they remain in the same position after the recent transfer as they were in before the transfer occurred. Order No. PSC-97-0034-FOF-WS states that Sun Communities provided a statement that it will fulfill the commitments, obligations, and representations of the transferor. Staff believes that this includes the obligation to protect the interests of the utility's customers by recognition of a negative acquisition adjustment, in lieu of collecting service availability charges.

Staff believes that the best methodology to protect the utility's customers, by keeping them whole, is as follows. Sun Communities should be required to convert the previously approved

negative acquisition adjustment to CIAC. This would lower the utility's rate base thus protecting the customers' interests. Therefore, the utility should be required to record CIAC in the amount of $117,170 for water and $117,844 for wastewater to reflect an amount equal to the obligation agreed upon by the former owner, Water Oak. As stated earlier, the main reason the Commission accepted the previous owner's offer of settlement, was that the interests of the customers would still be protected. Therefore, the Commission canceled the utility's previously-approved CIAC charges.

To determine the appropriate amount that should be booked to CIAC, staff recommends making a pro-rata adjustment similar to a used and useful adjustment. This would be accomplished as follows: the 2,000 ERCs at project build out, previously approved by the Commission, would be compared to the current number of ERCs. There were approximately 829 water ERCs and 771 wastewater ERCs being served at the end of the test period ending December 31, 1998. Therefore, by applying this ratio to the previously approved negative acquisition adjustment would result in CIAC in the amount of $117,170 for water and $117,844 for wastewater, for the test year ending December 31, 1998. However, as discussed below, staff is recommending that service availability charges be reinstated. Therefore, the amount of CIAC associated with the prior negative acquisition adjustment should be updated up until the date the new service availability charges are placed into effect. This would include a calculation to include all ERCs connected in the year 1999 and all ERCs connected in the year 2000 up until the effective date on the approved service availability charges tariff.

Finally, service availability charges should be reinstated equal to the amount of the remaining prior negative acquisition. This equates to $141 for water and $153 for wastewater. Also, meter installation charges should be reinstated. This will be specifically addressed in Issue No. 26. As stated earlier, in Order No. 18255, the Commission waived the requirements of Rule 25-30.580, Florida Administrative Code. Staff believes that the circumstances have changed dramatically since the Commission accepted the settlement. Therefore, staff believes that the Commission has an obligation to adhere to the provisions as set forth in Rule 25-30.580, Florida Administrative Code. By reinstating the service availability charges, the utility customers' interests will continue to be protected, and there is no longer a need to waive the provisions of Rule 25-30.580, Florida Administrative Code.

Based upon the foregoing reasons, staff recommends that an acquisition adjustment is no longer an appropriate component of rate base for this utility. However, Sun Communities should be required to convert the previously approved negative acquisition adjustment to CIAC. Therefore, for the period ending December 31, 1998, the utility should be required to record CIAC in the amount of $117,170 for water and $117,844 for wastewater to reflect obligations previously approved by the Commission, as addressed in the staff analysis. Service availability charges should be reinstated equal to the amount of the remaining prior negative acquisition adjustment. This will be specifically addressed in Issue No. 28.

ISSUE 9: What are the appropriate amounts of contributions in aid of construction and amortization of contributions in aid of construction for water and wastewater for the test period ending December 31, 1998?

RECOMMENDATION: If the Commission approves staff's recommendation in Issue 8, the appropriate amount of CIAC associated with the reclassification of the negative acquisition adjustment as of December 31, 1998 is $117,170 for water and $207,844 for wastewater. The associated average amount of amortization of CIAC is $41,595 for water and $53,095 for wastewater for the test period ending December 31, 1998. (REHWINKEL, RENDELL)

STAFF ANALYSIS: If the Commission approves staff's recommendation in Issue 8, the appropriate amount of CIAC associated with the reclassification of the negative acquisition adjustment as of December 31, 1998 is $117,170 for water and $117,844 for wastewater. The associated average amount of amortization of CIAC is $41,595 for water and $53,095 for wastewater for the test period ending December 31, 1998.

The utility recorded zero amount of CIAC for water and wastewater. The staff audit recommended imputation of CIAC based upon the previously approved service availability charges. This was recommended in lieu of discontinuing the negative acquisition adjustment as a component of rate base. As stated in Issue 8, the main reason the Commission accepted the previous owner's offer of settlement, was that the interests of the customers would still be protected. Therefore, the Commission canceled the utility's previously approved CIAC charges. The staff auditor calculated the imputation of CIAC by using the previously approved charge of $200 water system capacity charge, $200 wastewater system capacity charge, and $100 meter installation charge. The utility was serving 245 ERCs at the time Order No. 16528 was issued on August 27, 1986. The utility's annual reports indicate an addition of 515 water and wastewater customers from August 27, 1986, through the test period ending December 31, 1998. Therefore, the amount of CIAC that would have been collected, if the Commission had not canceled the charges, would have been $154,500 for water and $103,000 for wastewater. However, staff is not recommending the imputation of CIAC based upon these charges.

The utility filed a letter responding to this imputation by stating that previous Commission orders specifically prohibited collection of service availability charges. The utility stated that it would be wholly inappropriate to tell a utility it may not

collect a service availability charge, and then later impute CIAC to the utility as though it had collected the charges. Staff agrees and believes that the best methodology to recognize CIAC is staff's recommendation in Issue 8. Therefore, staff has made adjustments to recognize the reclassification of the previously approved negative acquisition adjustment.

Staff increased the wastewater CIAC by $90,000 to reflect the value of the developer donated land discussed in Issue 6. Therefore, the appropriate amount of contributions in aid of construction and amortization of contributions in aid of construction for water is $117,170 and $41,595 and for wastewater is $207,844 and $53,095 for wastewater, test period ending December 31, 1998. The amount of the recommended amortization includes an averaging adjustment as shown on Schedule No. 1A.

Further, pursuant to Rule 25-30.140(8)(a), Florida Administrative Code, the amount of spray field ($90,000) should be separately identified to prevent amortization of the land CIAC from occurring.

Staff's calculated balance of CIAC and the adjustments are shown on Schedules Nos. 1 and 1A.

ISSUE 10: What is the appropriate amount of Accumulated Depreciation for the water and wastewater systems for this utility during the test year?

RECOMMENDATION: The appropriate amount of Accumulated Depreciation for the water and wastewater systems for this utility during the test year are $115,084 and $253,775, respectively. (REHWINKEL)

STAFF ANALYSIS: The utility recorded accumulated depreciation in the amount of $142,320 for the water system and $256,165 for the wastewater system. Staff calculated accumulated depreciation using the rates prescribed by Rule 25-30.140, Florida Administrative Code, for the period between the last rate case and the test period ending December 31, 1998. Staff included in these calculations the retirements for both water and wastewater.

Staff reduced the utility's balance by $10,000 and $17,927 for the water system to reflect accumulated depreciation at December 31, 1998. The $10,000 reduction represents the retirement of a hydropneumatic tank as discussed in Issue 4. A further adjustment in the amount of $691 increases the balance for the water system. This adjustment is necessary to reflect the averaging adjustment. The total net adjustment for the water system is a decrease of $27,236.

Staff increased the utility's balance by ($17,983) and reduced the utility's balance by $12,000 for the wastewater system to reflect accumulated depreciation at December 31, 1998. The $12,000 reduction represents the retirement of a lift station as discussed in Issue 5. A further reduction for the wastewater system in the amount of $8,373 was necessary to reflect the averaging adjustment. The total adjustment for the wastewater system is a decrease of $2,390. The resulting accumulated depreciation balances are $115,084 for water and $253,775 for wastewater.

ISSUE 11: What is the appropriate working capital?

RECOMMENDATION: The appropriate working capital is $7,864 for the water system and $11,357 for the wastewater system. (REHWINKEL)

STAFF ANALYSIS: Consistent with Rule 25-30.433(2), Florida Administrative Code, staff recommends that the one-eighth of operation and maintenance expense formula approach be used for calculating working capital allowance. Applying that formula, staff recommends a working capital allowance of $7,864 for water and $11,357 for wastewater.

ISSUE 12: What is the appropriate total rate base for the water and wastewater system for the test period?

RECOMMENDATION: The appropriate total rate base for the water system is $53,045 and $74,013 for the wastewater system. (REHWINKEL)

STAFF ANALYSIS: If the Commission approves the issues associated with rate base components, the resulting total rate base for the test period ending December 31, 1998, is $53,045 for the water system and $74,013 for the wastewater system.

COST OF CAPITAL

ISSUE 13 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 8.93% with a range of 7.93% - 9.93% and the overall rate of return is 8.93 with a range of 7.93% - 9.93%. (REHWINKEL)

STAFF ANALYSIS: The utility recorded long term debt in the amount of $623,155 and common equity in the amount of $94,123. No cost is assigned to the long term debt and no debt instrument was available. The debt is from the utility's parent company. Therefore, staff believes that it is appropriate to characterize the long term debt as other common equity rather than long-term debt given the related party status of the "debt."

Staff believes the appropriate capital structure for this utility is 100% equity. Based on Order No. PSC-99-1224-PAA-WS, issued June 21, 1999, in Docket No. 990006-WS, the appropriate return on equity is calculated to be 8.93% for this utility. 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 8.93%, with a range of 7.93% - 9.93%.

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

NET OPERATING INCOME

ISSUE 14: What are the appropriate test year revenues for the water and wastewater systems, respectively?

RECOMMENDATION: The appropriate test year revenues are $121,731 for the water system and $163,288 for the wastewater system. (LINGO)

STAFF ANALYSIS: According to the utility's 1998 annual report, the utility reported water system revenues of $75,671 and wastewater system revenues of $109,705 as of the end of the test year. A staff audit revealed 535 residential customers who were metered and billed for service during 1998. However, there are also 201 residential customers who did not receive a monthly bill for utility service; rather, these customers' water and wastewater service was included as part of their lot rental fees. The audit also uncovered additional customers (all affiliated with the utility) who were not billed for service: 1) 14 general service customers; and 2) several model homes in the development. Each of these customer groups, and their associated impact on test year revenues, will be discussed separately below.

Billed Residential Customers

There were 535 residential customers as of the end of the test year who were billed monthly for their water and wastewater service. Based upon a comprehensive billing analysis of these customers, the appropriate revenues generated by this group are $74,110 for the water system and $112,510 for the wastewater system.

Unbilled Residential Customers

Before this utility became certificated to provide water and wastewater service, the utility had been in operation for several years, providing service to a mobile home community under the landlord/tenant exemptions (Section 367.022(5), Florida Statutes). At the time the certificates were granted in Docket No. 850517-WS, the Commission noted in Order No. 16528, issued on August 27, 1986, ". . . that only future customers will be subject to the rates and charges determined herein; present customers are under long-term leases which include the provision of water and sewer service without compensation."

There are 201 such residential customers who were not billed during 1998. Further, these customers were unmetered for a portion of the test year. Although these customers were not billed for utility service, we nevertheless believe it is appropriate to impute the revenues that these customers would have generated. Failure to impute these revenues would result in an inaccurate picture of the utility's operations for the purpose of regulation and rate-making. In addition, failure to include these customers would result in the billed customers bearing the entire burden of the revenue requirement, despite the fact that the unbilled customers are responsible for causing a portion of the total cost incurred to the utility.

Meters were installed in 1998 to help address the overall high per capita consumption of the customers of this utility. Once meters were installed for these customers, staff was able to obtain consumption information for each customer for the last three months of 1998. Based on this information, the appropriate revenues for this three-month period are $8,717 for the water system and $11,473 for the wastewater system. A discussion of the imputation of revenues associated with the first nine months of 1998 is detailed later in this issue.

Unbilled Model Homes

Whenever the developer connects a model home to the utility system for advertisement purposes, it is not billed for utility services. Based on information provided by the utility, we believe an appropriate imputation of revenues is $767 for the water system and $513 for the wastewater system.

Unbilled General Service Customers

The audit also uncovered 14 general service customers, all affiliated with the utility. An analysis of the consumption information for these customers revealed that there were inconsistencies in recording the meter readings which render the usage information suspect. Rather than rely on this data, staff believes in the alternative it is appropriate to impute usage and revenues for all twelve months of 1998. The discussion of this process is detailed below.

Imputation of Additional 1998 Revenues

Because staff did not have consumption data for all customers for each month during 1998, we were confronted with designing an appropriate method of imputing customers' revenues in months during

which no such information was available. This method is presented on Attachment E.

We believe the most reasonable approach to this situation is to use the 1998 Monthly Operating Reports the utility submitted to the DEP as a starting point. These reports contain the total number of gallons that the utility pumped and treated in each month. As shown on Attachment E, the appropriate number of accounted-for gallons (twelve months of consumption for the billed residential customers and three months of consumption for the heretofore unmetered residential customers) was subtracted from the gallons of treated water figure in each corresponding month. The difference between the treated gallons and the accounted-for gallons, less an appropriate allowance for unaccounted-for water, represents our imputation of the remaining gallons sold to other customers (specifically the 201 residential and 14 general service customers).

By the end of 1998, 5/8" x 3/4" meters had been installed for the 201 residential customers and four general service customers; 2" meters were installed for the remaining ten general service customers. The base facility charges for the residential customers must be imputed for the first nine months of 1998, while the corresponding charges for the general service customers must be imputed for all twelve months of 1998.

The revenues imputation calculations are shown in columns (h) through (r) of Attachment E. Based on these calculations, staff recommends that the appropriate revenues to be imputed to the unbilled residential and general service customers are $38,136 for the water system and $38,791 for the wastewater system.

Summary

Based on the foregoing, staff recommends that the appropriate test year revenues are $121,731 for the water system and $163,288 for the wastewater system.

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

ISSUE 15: What is the appropriate amount of operating and maintenance expenses for the water system?

RECOMMENDATION: The appropriate amount of operating and maintenance expenses is $62,910 for the water system. (REHWINKEL, EDWARDS)

STAFF ANALYSIS: The utility recorded water operating and maintenance expenses for the test period in the amount of $34,514. Based on the adjustments that follow, staff believes the operating and maintenance expenses should be increased by $28,396.

1) Salaries and Wages - Employees (601) - The utility recorded $6,151 as total water system salaries expense for the test period. According to the audit, all of the recorded expense is associated with the utility's part-time maintenance person. The annual salary for this employee should be $11,922. Staff believes a 40/60 allocation between the water and wastewater system is appropriate based on time spent for each system. Therefore, staff is recommending that $4,769 be allowed for maintenance personnel. The difference between the recorded amount and the recommended amount is $1,382.

   The utility also shares administrative and support staff with its parent company. Based on information provided by the utility and the audit, the appropriate annual salary for these employees is $24,122. Staff believes a 50/50 allocation between the water and wastewater systems is appropriate. The resulting salary expense for administrative and support staff is $12,061 for the water system. The net adjustment for this account is an increase of $10,679.

3) Purchased Power (615) - The utility recorded purchased power expense of $12,292. The utility provided electric bills for the test period. From the test year's bills, staff was able to determine that of the $12,292 recorded purchased power for the water system, $6,362 should be reclassified to the wastewater system reflecting misclassified electric service to lift stations. The utility did not record purchased power for the water system in the amount of $16,986. Staff increased the purchased power account by this amount. Finally, a reduction to reflect non-utility expense in the amount of $5,532 was made by staff. The resulting purchased

power expense for the water system is $17,384 based on the audit and the engineer's recommendations.

4) Chemicals (618) - The utility recorded chemicals expense in the amount of $2,603. Of this amount, staff reclassified $965 to the wastewater chemicals expense. Staff also decreased this account balance by $33 to reflect non-utility expense. The result is a decrease to the water system chemicals account of $998 to reflect the appropriate test year chemicals expense of $1,605.

6) Materials and Supplies (620) - The utility recorded a balance of $2,291 for materials and supplies. Staff reduced this account by $468 to reflect the appropriate test year materials and supplies expense. The resulting test period expense for materials and supplies is $1,823.

7) Contractual Service - Billing (630) - The utility recorded a balance of $11,117 for this account during the test year. However, according to the audit, all of the recorded amount was misclassified. Therefore, staff has reduced this account by $11,117. The billing and meter reading service is contracted by the utility. According to the audit and to the utility's response to the audit, the charge for this service is $.85 per bill. Staff divided this charge by 2 to represent the charge per bill for each system. Staff has determined that the utility served approximately 759 water customers during the test period. The resulting expense associated with the billing and meter reading service for the water customers is $3,870. The net adjustment is a reduction of $7,247 to this account.

8) Contractual Services - Professional (631) - The utility incurred legal expenses during the test period apart from this proceeding. These expenses were in the amount of $155. Since the utility recorded a $0 balance for this account, staff has adjusted this expense by $155 to record the test period legal expense.

9) Contractual Services - Testing and Operations (635) - The utility recorded a $0 balance for this account. According to the audit and the engineer, the proper amount of testing expense is $960. Staff has increased this account by $960 to reflect the appropriate testing costs. Staff has also increased this account by $3,331 to reflect the contracted operations expense. The

contract operator works with the utility's maintenance personnel, providing general maintenance and repairs along with testing and sampling. Staff has included an additional allowance in this account to reflect costs associated with preparing a required DEP report. According to the utility's response to the audit, DEP is requiring all utilities to provide a mailing to all customers with information concerning the quality of the water. The requirement is called a Customer Confidence Report. The costs associated with the report are $973. Therefore, the total adjustment to this account is $5,264.

10) Contractual Services - Other (Repairs and Maintenance (636) - According to the audit and the engineer, the utility incurred repairs expense during the test year in the amount of $571. Staff has increased this account by $571 to reflect these costs. Staff has also increased this account by $1,680 to reflect an annual allowance for mowing and groundskeeping for the water system as performed by a lawn-care company which serves the entire development. The utility did not record any expense associated with groundskeeping. However, the utility provided in its response to the audit, the contract with the lawn-care company. This matter is discussed in further detail in Issue 16. Based on the utility's response and staff's thorough review of the lawn-care contract along with staff's conversations with the lawn-care company owner, an allowance for groundskeeping in the amount of $1,680 for the water system is fair. Staff's total adjustment to this account is an increase of $2,251.

11) Rents (640) - The utility recorded $0 for this expense. Based on information received from the utility, staff is including an allowance for rent expense. The amount allowed is based on rental expense per square foot for commercial properties located near and around the utility. A rental cost per square foot was quoted by an ERA real estate office in the utility's vicinity. Staff has considered this information, verified the quoted cost and believes that an allowance of $200 per month for rent expense is appropriate for this utility. Therefore, the total annual rent expense is $2,400 for the water system.

12) Transportation Expense (650) - The utility recorded no transportation expense on its books. However, in its

response to the audit, the utility submitted its request for an annual allowance of $2,085. The utility states that the plant operator uses his own personal vehicle to travel to the water and wastewater plants and lift stations. He submits a travel expense report each month and is reimbursed for mileage at a rate of 31.5 cents per mile. During the test period, the utility contends that the total actual expense for the plant operator is in the amount of $714.58. The utility has requested a budget of $720 per year on an forward-going basis which amounts to $60.00 per month for the plant operator. In addition to this amount, the utility has submitted additional transportation expense information regarding the Country Club vehicles which are also used for utility purposes. The utility has not been recording this expense. However, based on the response to the audit, on a forward-going basis, the utility will be allocated 15% of the transportation costs which have been routinely charged to the Country Club. The allocated annual cost to operate/maintain these vehicles is $3,450, which includes gas, repairs and insurance. The total amount submitted by the utility is $4,170 per year split between the water and wastewater system. Staff agrees that the expenses included in the utility's response to the audit are fair and reasonable. Therefore, the allowance recommended by staff for transportation expense is $2,085 for the water system.

13) Insurance Expense (655) - The utility recorded no insurance expense. However, the utility maintains two insurance policies. The associated annual expense for insurance is $432. Staff believes that this amount is appropriate for the utility.

14) Regulatory Commission Expense (665) - Staff has increased this account by $3,822 to reflect rate case expense amortized over 4 years. However, this matter will be discussed further in Issue 17.

15) Miscellaneous Expense (675) - The utility recorded $61 in this account for the test year. Staff has increased this amount by $4,786 to record costs associated with consumptive use permit. Staff has further increased this account by $142 to reflect costs associated with Florida Rural Water Association fees. Therefore, the total adjustment to this account is an increase of $4,928.

Staff recommends a total water operating and maintenance expense adjustment of $28,396. The resulting total test year operating and maintenance expense for the water system is $62,910.

ISSUE 16: What is the appropriate amount of operating and maintenance expenses for the wastewater system?

RECOMMENDATION: The appropriate amount of operating and maintenance expenses is $90,854 for the wastewater system. (REHWINKEL, EDWARDS)

STAFF ANALYSIS: The utility recorded wastewater operating and maintenance expenses for the test period in the amount of $50,971. Based on the adjustments that follow, staff believes the operating and maintenance expenses should be increased by $39,883.

1) Salaries and Wages - Employees (701) - The utility recorded $5,771 as total wastewater system salaries expense for the test period. According to the audit, all of the recorded expense is associated with the utility's part-time maintenance person. As discussed in Issue 15, the annual salary for this employee should be $11,923. Staff believes a 40/60 allocation between the water and wastewater system is appropriate based on time spent for each system. Therefore, staff is recommending that $7,154 be allowed for maintenance personnel for wastewater. The difference between the recorded amount and the recommended amount is $1,383. This amount was misclassified as water system salaries. Staff is reclassifying this amount as wastewater system salaries.

   As discussed in Issue 15, the utility shares administrative and support staff with its parent company. Based on information provided by the utility, the appropriate annual salary for these employees is $24,122. Staff believes a 50/50 allocation between the water and wastewater systems is appropriate. The resulting salary expense for administrative and support staff is $12,061 for the water system. The net adjustment for this account is an increase of $13,444. The resulting total recommended wastewater system salaries is $19,221.

2) Sludge Removal (711) - The utility recorded sludge removal expense of $12,906. Based on test period invoices, the appropriate amount should be $12,066. The resulting adjustment is a decrease of $840.

3) Purchased Power (715) - The utility recorded purchased power expense of $13,016. The utility provided electric bills for the test period. From the test year's bills, staff was able to determine that $6,362 was misclassified

to the water system and should be reclassified to the wastewater system reflecting electric service to lift stations. The utility did not record additional purchased power expense in the amount of $1,371. Staff increased the purchased power account by this amount. Finally, a reduction to reflect non-utility expense in the amount of $3,261 was made by staff. The resulting purchased power expense for the wastewater system is $17,488 based on the audit and the engineer's recommendations.

4) Chemicals (718) - The utility recorded chemicals expense in the amount of $613. As stated in Issue 15, staff reclassified $965 from the water system chemicals expense to the wastewater chemicals expense. Staff further increased this account by $178 to reflect the appropriate test period chemicals expense based on the invoices provided in the audit by the utility. The resulting adjustment is an increase to the wastewater system chemicals account of $1,142 to reflect the appropriate test year chemicals expense of $1,755.

6) Materials and Supplies (720) - The utility recorded a balance of $975 for materials and supplies. Staff increased this account balance by $602 to reflect the appropriate test year materials and supplies expense. The resulting test period expense for materials and supplies is $1,577.

7) Contractual Service - Billing (730) - The utility recorded a balance of $17,498 for this account during the test year. However, according to the audit, all of the recorded amount was misclassified. Therefore, staff has reduced this account by $17,498. As stated in Issue 15, the billing and meter reading service is contracted by the utility. According to the audit and to the utility's response to the audit, the charge for this service is $.85 per bill. Staff divided this charge by 2 to represent the charge per bill for each system. Staff has determined that the utility served approximately 750 wastewater customers during the test period. The resulting expense associated with the billing and meter reading service is $3,825. The net adjustment is a reduction of $13,673 to this account.

8) Contractual Services - Professional (731) - The utility incurred legal expenses during the test period apart from

this proceeding. These expenses were in the amount of $75 for the wastewater system. Since the utility recorded a $0 balance for this account, staff has adjusted this expense by $75 to record the test period legal expense.

9) Contractual Services - Testing and Operations (735) - The utility recorded a $0 balance for this account. According to the audit and the engineer, the proper amount of testing expense for wastewater is $6,404. Staff has increased this account by $6,404 to reflect the appropriate testing costs. Staff has also increased this account by $3,050 to reflect the contracted operations expense. As stated in Issue 15, the contract operator works with the utility's maintenance personnel, performs testing and sampling and general repairs. Therefore, the total adjustment to this account is $9,454.

10) Contractual Services - Other (Repairs and Maintenance (736) - According to the audit and the engineer, the utility incurred repairs expense during the test year for the wastewater system in the amount of $3,568. Staff has increased this account by $3,568 to reflect these costs. Further, based on the utility's response to the audit, a mowing and groundskeeping expense should be allowed for this utility. The utility's response included a signed contract with a lawn-care and maintenance company which performs these services for the entire development. Mowing and groundskeeping services are performed for both the water and wastewater plant areas. However, the spray fields are included for the wastewater system only. The cost pursuant to the contract is $1,400 per month for the utility. Approximately 90 percent of this amount is for the wastewater system plant and spray fields. Staff has thoroughly reviewed this cost and believes that given the signed contract, the utility should be assigned this cost. Therefore, staff is recommending a mowing and groundskeeping expense for this utility in the amount of $15,420. This amount includes the 90 percent of the monthly charge plus an annual allowance of $300 for sprayfield sprinkler head replacements. The total adjustment for this account is an increase of $18,988.

10) Rents (740) - The utility recorded $0 for this expense. Based on information received from the utility, staff is including an allowance for rent expense. As stated in Issue 15, the allowed amount is based on rental expense

per square foot for commercial property located near the utility as quoted by a nationally recognized real estate company. Staff is recommending that an allowance of $200 per month for rent expense is appropriate for this utility. Therefore, the total annual rent expense is $2,400 for the wastewater system.

11) Transportation Expense (750) - The utility recorded no transportation expense on its books. However, as stated in Issue 15, staff believes that a transportation expense in the amount of $2,085 is appropriate for this utility.

13) Insurance Expense (755) - The utility recorded no insurance expense. However, the utility maintains two insurance policies. The associated annual expense for insurance is $648. Staff believes that this amount is appropriate for the utility.

14) Regulatory Commission Expense (765) - Staff has increased this account by $248 to reflect rate case expense for the wastewater system. However, this matter will be discussed further in Issue 17.

15) Miscellaneous Expense (775) - The utility recorded $193 in this account for the test year. Staff has increased this amount by $838 to record costs associated with the DEP permit for the wastewater treatment facility. The balance for this account during the test period should be $1,031. Therefore an increase of $838 is allowed for this account for this utility during the test period.

Staff recommends a total wastewater operating and maintenance expense adjustment of $39,883. The resulting total test year operating and maintenance expense for the wastewater system is $90,854.

ISSUE 17: Should the utility's proposed rate case expense be allowed, and if so, what are the appropriate amounts for the water and wastewater systems?

RECOMMENDATION: Rate case expense should be allowed in the amount of $13,304 for the water system and $992 for the wastewater system, which results in annual amortization over four years of $3,822 for water and $248 for wastewater. (REHWINKEL, LINGO, RENDELL)

STAFF ANALYSIS: As discussed in Issue 21, the utility is earning a rate of return which exceeds staff's recommended rate of return. Under the Commission's rate setting authority, a utility seeking a change in rates must demonstrate that its present rates are unreasonable. The utility proposed a rate increase along with rate restructuring. However, for purposes of this proceeding, staff does not believe that a change in rates or rate structure is appropriate, as discussed in Issue 27. Therefore, staff recommends that it is also inappropriate to approve all of the rate case expense associated with this proceeding.

In the utility's application, the utility states that the purpose of the limited proceeding is to achieve a fair return on the two new hydropneumatic tanks and to implement a conservation rate structure. Staff has included the costs for the two new hydropneumatic tanks in our calculations along with most of the utility's proposed operation and maintenance expenses with only the exclusion of total rate case expense. Given these considerations and the fact that our adjusted revenue requirements show that the utility is earning a rate of return above the range that staff is recommending in Issue 13, we believe that a portion of the rate case expense should be disallowed. Staff believes that a fair portion to disallow is 50%.

Staff believes there are inadequacies in the utility's filing sufficient to support our recommendation that there has been misspent time on this case by the utility and its consultants. Expenditures for misspent time were imprudent as a result and staff believes they should be disallowed. See Order No. 18960, issued March 7, 1988, in Docket No. 861338-WS (disallowing a portion of rate case expense because of misspent time attributed to the utility and its consultants).

The utility included six tables in support of its application for a limited proceeding rate increase and rate restructuring. Staff believes that at least a portion of time spent on each of the above-mentioned tables represents misspent time and/or created incomplete and misleading information. Our explanations follow.

Table 1 is a summary of customer water usage data. There are two aspects of this table which we believe are unnecessary or misleading. First, the utility provided, in addition to 1998 test year consumption data, comparable data for the 1997 year. The 1997 data was not used in the filing, and, therefore, the time spent providing the 1997 data was unnecessary. Second, the number of customers included in the table of usage data represents only those residential customers who were metered and billed during 1998. However, the table leaves out information regarding two additional customer groups. There was no information provided relating to the 201 residential customers who were not metered for the majority of the 1998 test year. There was also no information provided regarding fourteen general service customers, all of which are related parties to the utility. Therefore, the customer water usage data that was provided in Table 1 (which was for only one segment of its customer base) was incomplete and, therefore, misleading.

Table 2 is a water billing summary which provides a billing analysis showing consumption at the utility's three proposed consumption usage blocks for the 1998 calendar year, the number of bills in each category, and the revenue derived therefrom. The preparation of this billing summary in Table 2 represents misspent time as the analysis included in the table does not contain data relating to the 201 residential customers discussed in the preceding paragraph. If these additional customers had been included in the table, the information and resulting analysis in Table 2 would be different.

Table 3 represents a calculation of the additional requested revenue requirements which the utility claims it must recover in order to recover the costs related to this proceeding, water use permitting, and recovery of the costs related to the new hydropneumatic tanks. However, as discussed above, the utility failed to consider the consumption and associated revenues generated by an additional 215 customers (201 residential customers + 14 general service customers). Had these revenues been considered, the utility would have realized that it was, in fact, generating sufficient revenues which would have obviated its requested rate increase.

Table 4 is the water billing summary for 1998. This table purports to show information which includes, but is not limited to, the actual consumption, number of bills at various consumption levels, and the revenue derived from each. It also calculates reduced consumption and revenues derived under the various consumption levels based upon price elasticity assumptions. For

the same reasons discussed in the paragraph regarding Table 2 above, staff believes the preparation of Table 4 represents misspent time as the analysis included in the table does not contain data relating to the 201 residential customers. If these additional customers had been included in the table, the information and resulting analysis in Table 4 would be different.

Table 5 is the utility's proposed rate restructuring schedule, which is based on information contained in the preceding tables. However, as each of the preceding tables in the utility's filing contains misleading and/or inaccurate data, the calculations contained in Table 5 are inaccurate as well.

Finally, Table 6 contains a comparison of typical monthly water bills under the utility's present and proposed rates. However, as the information in this table is also based on preceding tables, the information in Table 6 is also inaccurate.

Due to the inaccuracies contained in Tables 1-6, the utility had to substantially amend its initial filing. Staff believes these problems indicate inadequate preparation on the part of the utility and its consultants, and, therefore, are sufficient to prove the misspent time in this proceeding. Staff believes that a 50% overall reduction to rate case expense is a reasonable measure of excessive expenses in this case.

Based on the audit and the utility's subsequent response to the audit, supporting invoices reflect total rate case expense associated with legal and consulting fees, including proposed pro forma amounts, in the amount of $28,592. Pursuant to Section 367.081(6), Florida Statutes, rate case expense should be amortized over four years. Therefore, this amount amortized over four years and divided by 2 results in an allowed rate case expense of $3,574. In addition, staff believes that the costs associated with noticing the utility's customers for the customer meeting and the Commission's subsequent decision should also be allowed for both the water and the wastewater system. The total noticing expense is $1,984 (amortized by 4 years), or $248 for the water system and $248 for the wastewater system.

The Commission has previously disallowed rate case expense in a limited proceeding where the rate increase was denied. See Order No. PSC-99-1917-PAA-WS, issued on September 28, 1999, in Docket Nos. 970536-WS and 980245-WS. This PAA order was consummated by Order No. PSC-99-2083-CO-WS, issued on October 21, 1999. The Commission enjoys broad discretion with respect to the allowance of rate case expense. Meadowbrook Utility Systems, Inc. v. FPSC, 518

So. 2d 326 (Fla. 1st DCA 1988); but see Florida Crown Utility Services, Inc. v. Utility Regulatory Board of the City of Jacksonville, 274 So.2d 597 (Fla. 1st DCA 1973)(stating that whether a rate increase is granted is not the sole criteria on which that discretion rests).

Based on the above, staff recommends that rate case expense should be allowed in the amount of $13,304 for the water system and $992 for the wastewater system, which results in annual amortization over four years of $3,822 for water and $248 for wastewater.

ISSUE 18: What is the appropriate depreciation expense associated with the water and wastewater systems for this utility during the test period?

RECOMMENDATION: The appropriate depreciation expense associated with the water and wastewater systems for this utility during the test period is $7,641 and $9,112, respectively. (REHWINKEL)

STAFF ANALYSIS: Test year depreciation expense has been calculated using the rates prescribed by Rule 25-30.140, Florida Administrative Code, and applying the appropriate used and useful adjustments. Test year depreciation is $8,618 for the water system and $16,746 for the wastewater system. Staff has reduced these amounts by $977 for the water system and $7,634 for the wastewater system to reflect the non-used and useful adjustment. The utility recorded depreciation expense in the amount of $13,507 for the water system and $9,769 for the wastewater system. The net adjustment for this expense is a decrease of $5,866 for the water system and a decrease of $657 for the wastewater system to reflect staff's calculated depreciation expense.

Therefore, staff recommends that the appropriate depreciation expense associated with the water and wastewater systems for this utility during the test period is $7,641 and $9,112, respectively.

ISSUE 19: What are the appropriate amounts of taxes other than income for the utility during the test year?

RECOMMENDATION: The appropriate test year amounts of taxes other than income for the utility are $19,984 for the water system and $17,285 for the wastewater system. (REHWINKEL)

STAFF ANALYSIS: The utility recorded taxes other than income in the amount of $10,560 for the water system and $12,759 for the wastewater system. Taxes other than income for this utility are comprised of Tangible taxes, Real Estate taxes, Regulatory Assessment Fees (RAFs), Payroll taxes, and miscellaneous other taxes. The utility recorded tangible taxes in the amount of $6,411 for water and $6,789 for wastewater. Staff has increased each of these amounts by $387 and $877 for water and wastewater, respectively.

The utility recorded no real estate taxes on its books. Staff has increased this account by $299 for the water system and $541 for the wastewater system to reflect the appropriate test year real estate taxes. Additionally, the utility recorded RAFs in the amount of $3,212 and $4,818 for the water and wastewater systems, respectively. To reflect the RAFs associated with the recommended test year revenues, staff has increased this account by $2,266 for the water system and by $2,530 for the wastewater system.

Payroll taxes were recorded in the amount of $412 for the water system and $597 for the wastewater system. According to the audit, some of the payroll taxes were not recorded. The resulting adjustment is an increase in payroll taxes of $1,120 for the water system and $1,120 for the wastewater system. The audit further reveals that this utility has to pay a water use tax to the Town of Lady Lake. These taxes were not recorded by the utility. Staff increased taxes other than income by $5,863 for the water system only to reflect the water use tax.

The miscellaneous other taxes were not recorded by the utility. According to the audit, this amounts to an increase of $13 for the water system and $13 for the wastewater system. Finally, according to the audit, a decrease for taxes other than income is appropriate in the amount of $525 for the water system and $555 for the wastewater system to reflect non-utility expenses.

The appropriate test year amounts of taxes other than income for this utility are $19,984 for the water system and $17,285 for the wastewater system.

ISSUE 20: What is the appropriate amount of test year net operating income for the water and wastewater system?

RECOMMENDATION: The appropriate amount of test year net operating income is $31,195 for the water system and $46,037 for the wastewater system. (REHWINKEL)

STAFF ANALYSIS: Staff's adjusted test year revenues are $121,731 for the water system and $163,288 for the wastewater system. Staff's adjusted operating expenses are $90,535 for the water system and $117,251 for the wastewater system. These amounts result in an adjusted net operating income of $31,195 for the water system and $46,037 for the wastewater system for the test period.

REVENUE REQUIREMENT

ISSUE 21: What is the appropriate revenue requirement for each system?

RECOMMENDATION: The appropriate revenue requirement is $94,025 for the water system and $122,002 for the wastewater system. (REHWINKEL)

STAFF ANALYSIS: Based on staff's calculated revenue requirement, the utility earned in excess of the recommended rate of return. The utility is overearning and a revenue decrease is normally the appropriate action under these conditions. However, this matter will be discussed further in Issues 25 and 26. According to our calculations, the appropriate revenue decrease is in the amount of $27,705 (22.76%) for the water system and $41,286 (25.28%) for the wastewater system. This decrease will allow the utility the opportunity to recover its expenses and earn an 8.93% return on its investment.

	Water	Wastewater
Adjusted rate base	$ 53,045	$ 74,013
Rate of return	x .0893	x .0893
Return on investment	$ 4,737	$ 6,609
plus		
Adjusted O&M expense	62,910	90,854
Depreciation expense	7,641	9,112
Amortization expense	(0)	(0)
Taxes other than income	18,738	15,427
Revenue requirement	$ 94,025	$122,002
Test year revenue	(121,731)	(163,288)
Decrease in revenue	$(27,705)	$(41,286)
Percentage decrease	22.76%	25.28%
	($27,705/$121,731)	($41,286/$163,288)

The revenue requirement is shown on Schedule No. 3.

ISSUE 22: Should the utility's request for a limited proceeding for its water system be approved?

RECOMMENDATION: No, the utility's request for a limited proceeding for its water system should be denied. (REHWINKEL)

STAFF ANALYSIS: In determining whether a rate increase is warranted for this proceeding, staff calculated the rate of return for the water system and the wastewater system for the test period. Staff has incorporated all of the adjustments as discussed in this recommendation. Based on our analysis, the utility is earning in excess of the range of staff's recommended rate of return. As such, staff does not believe that a rate increase is warranted for this limited proceeding and the request for a limited proceeding for the water system should be denied.

ISSUE 23: In order to determine the appropriate level of overearnings on a prospective basis, are any changes necessary to staff's calculations of revenue requirement as previously discussed, and, if so, what are the appropriate changes?

RECOMMENDATION: Yes. The calculation of used and useful should be revised to reflect current applicable law. (FUDGE, EDWARDS)

STAFF ANALYSIS: On April 10, 2000, upon discovering the utility was overearning, staff initiated an overearnings investigation and expanded this docket to include the investigation. As discussed in Issue 3, Section 367.081(2)(a), Florida Statutes, was amended after the filing of the application for a limited proceeding increase in water rates, but before the initiation of the overearnings investigation. Therefore, staff recommends that used and useful for the overearnings investigation be recalculated to reflect currently applicable law, which requires a minimum growth calculation of five years for both water and wastewater treatment plant and distribution and collection systems.

In addition, Section 367.081(2)(a)2.c., Florida Statutes, was amended after the filing of the application for a limited proceeding increase in water rates, but before the initiation of the overearnings investigation. Section 367.081(2)(a)2.c., Florida Statutes, requires the Commission to

> approve rates for service which allow a utility to recover from customers the full amount of environmental compliance costs. . . . "environmental compliance costs" includes all reasonable expenses and fair return on any prudent investment incurred by a utility in complying with the requirements or conditions contained in any permitting, enforcement, or similar decisions of the United States Environment Protection Agency, the Department of Environmental Protection, a water management district, or any other governmental entity with similar regulatory jurisdiction.

As discussed in Issue 2, the utility installed a new hydropneumatic tank to replace the tank that ruptured. The utility also installed a second hydropneumatic tank required by DEP. Under the current applicable law, the two hydropneumatic tanks are 100% used and useful, since the cost of these tanks was required by DEP.

Based on this change, the appropriate used and useful percentages for the water treatment and distribution plants, respectively, are now 96% and 100%. (See Attachment B, pp. 1 - 2)

The appropriate used and useful percentages for the wastewater treatment and collection plant, respectively, are now 44% and 100%. (See Attachment B, pp. 3 - 4)

ISSUE 24: Based on staff's analysis in Issue 23, what is the appropriate revenue requirement, on a prospective basis, for each system?

RECOMMENDATION: The appropriate revenue requirement, on a prospective basis, for the water system is $95,879 and for the wastewater system is $125,617.

STAFF ANALYSIS: The appropriate revenue requirements of the respective water and wastewater systems, based on the effects of the changes to used and useful discussed in Issue 23, are shown below:

	Water	Wastewater
Adjusted rate base	$ 63,456	$ 92,643
Rate of return	x .0893	x .0893
Return on investment	$ 5,667	$ 8,273
plus		
Adjusted O&M expense	62,910	90,854
Depreciation expense	8,482	10,900
Amortization expense	(0)	(0)
Taxes other than income	18,821	15,589
Revenue requirement	$ 95,879	$125,617
Test year revenue	(121,731)	(163,288)
Decrease in revenue	$(25,851)	$(37,671)
Percentage decrease	21.24% ($25,851/$121,731)	23.07% ($37,671/$163,288)

The schedules reflecting the above items are presented as:

PART II - OVEREARNINGS SCHEDULES

Description	Schedule No.
Water and Wastewater Rate Base	1
Adjustments to Rate Base	1-A
Capital Structure	2
Water and Wastewater Operating Income	3
Adjustments to Operating Income	3-A
Water and Wastewater Operations and Maintenance Expenses	3-B

DISPOSITION OF OVEREARNINGS

ISSUE 25: Should the Commission approve water pro forma conservation expenditures, and if so, what amounts should be approved?

RECOMMENDATION: Yes. The Commission should approve the conservation program and expenditures discussed in the staff analysis. The utility should be required to implement the recommended conservation program and at a minimum spend the recommended amounts for the first and second years. The Commission should also require the utility to file semiannual reports with the Commission on its conservation program for two years following issuance of the final order in this docket. These reports should list the conservation measures that were performed during the period and the amounts expended. (BETHEA)

STAFF ANALYSIS: In 1991, the Commission entered into a Memorandum of Understanding (MOU) with the five Water Management Districts (WMDs), in which the agencies recognize that a joint cooperative effort is necessary to implement an effective, state-wide water conservation policy. Since that time, staff has increased its efforts in assisting the WMDs in achieving conservation goals. More recently, staff has been working with the SJRWMD in tailoring conservation programs for jurisdictional utilities that are designed to achieve significant and lasting water use reductions. Staff believes that reasonable expenses for such programs should be included in utility rates, because the WMDs hold the utilities, not the consumers, responsible for reductions in water use.

Sun Communities' residential customers are using excessive amounts of water for irrigation. In its last consumptive use permit (CUP) application, Sun Communities reported that daily per capita household use was 331 gallons, far exceeding its previous CUP allocation of 150 gallons per capita. Staff believes there are two main reasons for the excessive residential usage. First, the utility's rates are extremely low. In fact, the rates are the lowest in Lake County and among the lowest in the state. Currently, customers pay only $11.47 monthly for 10,000 gallons of usage. Second, a significant portion of the customer base has never, until recently, been metered and billed for service.

Sun Communities served approximately 736 residential water customers during the 1998 test year. While approximately 535 of those customers have always been metered and billed for service, the remaining 201 customers, until recently, have been unmetered,

because water and wastewater service was included in their lot rent. The utility began billing this latter group in March 2000; however, meters have been installed since 1998, and the utility has been tracking usage since that time.

As would be expected, the previously unbilled customers have been using substantially more water than the billed customers. Test year monthly residential water consumption averaged 10,870 gallons per customer for the billed customers. Average monthly consumption for the unbilled customers was 12,699 gallons, or 17% higher than the billed group. However, staff believes that consumption for the formerly unbilled customers will decline now that they will pay separately for service. Additionally, consumption should decline even further for both groups if the Commission approves the conservation program expenses recommended below.

Sun Communities is located within the SJRWMD. The entire District has been designated a water resource caution area, and for over five years the District has advocated rate structures that provide pricing incentives to conserve. Sun Communities received a new CUP, issued January 4, 1999, with conditions that the utility implement an inclining block rate structure within one year of permit issuance. The CUP also mandates progressively higher usage reductions each year through the year 2002. Further, the CUP requires the utility to implement the conservation measures proposed in its CUP application.

Staff believes that whenever feasible, inclining block rates should be established when they are required by the utility's CUP. However, as discussed in Issue 27, staff is not recommending a change in rate structure at this time. Instead, staff will readdress rate structure when the utility files its reuse plan as recommended in Issue 26. As discussed in that issue, staff is recommending that wastewater overearnings be deferred and disposed of when the utility files and obtains Commission approval for its reuse project plan. At that time, staff anticipates recommending the allocation of a portion of reuse cost recovery to water customers in order to allow the design of meaningful inverted block rates. Staff ran various inclining block rate scenarios in this case and found that monthly bills would be reduced for customers in the lower usage blocks, due to the low revenue requirement.

In order to address the high residential usage absent rate increases, staff is recommending that the utility implement an aggressive, proactive conservation program that will achieve significant and lasting usage reductions, and thereby satisfy many of the CUP requirements. Should the recommended program

expenditures not be approved, rate reductions will be necessary to avoid future overearnings. Rate reductions might stimulate consumption and therefore be counterproductive to conservation goals. Furthermore, following rate reductions with increases for the reuse plan will be contrary to the goals of rate stability and customer understanding.

The Commission has taken a similar approach in prior cases involving excess earnings, extremely low rates and high consumption. Order No. 23809, issued November 27, 1990, required Sanlando Utilities Corporation to set aside $25,008 in annual revenues for future expenses specifically related to water conservation. Additionally, by Order No. PSC-93-1771-FOF-WS, issued on December 10, 1993, in Docket No. 930256-WS, the Commission approved an inclining block rate structure for Sanlando for the purpose of funding future capital investment related solely to conservation. We find similar circumstances in the instant proceeding. Although the recommended conservation program comes at some material cost for a utility this size, staff believes the circumstances in this case warrant the type of program recommended.

By Order No. PSC-96-1132-FOF-WS, issued September 10, 1996, in Docket No. 96305-WS, the Commission established an inclining block rate structure for Little Sumter Utility Company, a brand-new utility, in order to create a fund for a conservation program. It should be noted that one Commissioner dissented in that case, offering a separate opinion. The dissenting Commissioner noted that in the 1993 Sanlando case, he "supported the rate structure-based departure from cost based ratemaking because of the difficulties the long-time company was having with water conservation." He dissented in Little Sumter because no customers were yet being served, and therefore no usage patterns were established. Furthermore, he noted that, unlike Sanlando, the Commission had no experience with Little Sumter's management such that a pattern of reliability could be established for proper management of a conservation plan utilizing excess revenues.

Unlike Little Sumter, Sun Communities is an established utility with usage patterns consistently showing excess usage. Furthermore, staff believes the utility is able to comply with District and Commission requirements and implement the recommended conservation measures. The utility has expressed its willingness to implement an aggressive and comprehensive conservation program and is already proceeding with its reuse project. Additionally, as discussed below, staff proposes to monitor the utility's progress on a semiannual basis in order to ensure compliance with the Commission order. Staff believes these factors provide sufficient

assurance that the recommended conservation program will be implemented.

In settling on an appropriate program for this utility, staff spoke and met with the SJRWMD on several occasions in order to obtain measures that would best achieve the above stated goals. After assessing the consumption habits and needs of the utility's customers, the District provided staff with a list of recommended conservation measures and associated costs (Attachment C). Staff forwarded the District's recommendations to the utility requesting that it consider which of the recommendations could be included in its conservation program.

The utility responded by submitting the conservation program proposal and projected costs shown on Attachment D. The proposal contained several of the District's recommendations and would cost $30,000 in the first year and $22,500 annually thereafter. In the first year, the conservation program would increase water expenses by $25,000 and wastewater plant by $5,000. The following year costs would be booked entirely to water expenses. Some of the more notable elements of the program are:

- Xeriscape consulting and rebates at an annual cost of $5,000;
- distribution of low flow shower kits at a one-time cost of $2,500;
- installation of moisture sensors for irrigation at an annual cost of $1,500; and
- low flow toilet rebates at an annual cost of $1,000.

Although these are excellent measures that will help achieve the above stated goals, staff believes that the utility left out essential measures; a meter replacement program and landscape irrigation audits, that are needed to monitor and reduce residential irrigation. Upon discussing this with the utility, staff discovered that the utility was, in fact, implementing a meter replacement program and already had an established program of providing irrigation audits upon customer request.

In its meter replacement program, the utility plans to replace approximately 15 meters per month at a cost of $80 per meter, or $14,400 annually. As to the irrigation audits, staff found that because past conservation costs were not being booked to the utility, the annual cost of the irrigation audits could not be obtained. However, based on conversations with utility personnel, staff believes it is reasonable to estimate that at least five irrigation audits will be done per month at an annual cost of $5,000. Staff believes the costs of the meter replacements and

irrigation audits should be included in the utility's conservation program. By adding these measures, the conservation program would increase the utility's water expenses by $30,000 in the first year, and by $27,500 in the following year. The utility's first year water and wastewater plant would increase by $14,400 and $5,000, respectively. Thereafter, water plant would increase by $14,400 until the meter replacement program was complete.

Staff recommends that the Commission approve the utility's conservation program as modified above. Staff also recommends that the Commission require the utility to implement the recommended conservation measures and at a minimum spend the recommended amounts for the first and second years.

Staff also recommends that the utility be required to file semiannual reports on its conservation program with the Commission for two years following issuance of the final order in this docket. These reports should list the conservation measures that were performed during the period and the amounts expended. Staff will confer with the District in reviewing the reports in order to evaluate the effectiveness of the program and ensure that the program and amounts spent are consistent with the Commission order.

ISSUE 26: What is the appropriate disposition of the overearnings associated with the utility's wastewater system?

RECOMMENDATION: The utility should be allowed to defer all overearnings associated with its wastewater system, to be applied to the cost of its future reuse system. Accordingly, the utility should be ordered to file a reuse project plan pursuant to Section 367.0817, Florida Statutes, within six months of the final order in this docket. Upon issuance of the final order, the utility should defer 23.07% of monthly wastewater billings and include the deferred revenues as a separate line item in its capital structure with a cost rate equal to the thirty-day commercial paper rate. Once the Commission approves the utility's reuse project plan, the deferred earnings and accrued interest should be booked to CIAC. (BETHEA, RENDELL)

STAFF ANALYSIS: Staff has determined that the amount of potential overearnings associated with the utility's wastewater system is $37,671, or 23.07% for the 1998 calendar year test period. However, overearnings for this utility are temporary. Sun Communities is in the process of constructing a reuse system estimated to cost $350,000 over the next three years. Once the projected reuse costs are included, the utility's future earnings should be within or even below a fair rate of return. Furthermore, Sun Communities has good customer service and low service rates due, in part, to a small rate base.

Therefore, staff does not believe the utility should be required to reduce rates or make refunds. A prospective rate reduction is not warranted, as it will be more beneficial to customers to apply present overearnings to the reuse project, thereby lessening the future rate increase staff believes will be needed to pay for the project. Staff believes a more reasonable alternative is to defer present overearnings to offset the reuse costs which the utility will incur. It should be noted that when the reuse plan is filed staff anticipates recommending the allocation of a portion of cost recovery to water customers in order to allow the design of inclining block rates.

Accordingly, the utility should be ordered to file a reuse project plan for Commission approval pursuant to Section 367.0817, Florida Statutes. The utility should also be ordered to defer revenues associated with overearnings until the Commission approves the reuse plan. All deferred revenues should be included in the capital structure, as a separate line item, with interest accrued at the thirty-day commercial paper rate. Upon Commission approval

of the reuse project, the revenue deferrals and accrued interest should be booked to CIAC.

Revenue deferrals were first addressed by the Commission in other industries. By Proposed Agency Action (PAA) Order No. PSC-95-0580-FOF-EI, issued May 10, 1995 in Docket No. 950379-EI, the Commission allowed Tampa Electric Company to defer its 1995 and 1996 excess revenues until 1997. Revenues above its authorized return on equity (ROE) were deferred and included in the capital structure as a separate line item. By PAA Order No. PSC-95-0160-FOF-GU, issued February 6, 1995, in Docket No. 950016-GU, the Commission authorized Chesapeake Utilities Corporation to defer its 1994 excess revenues to 1995. In PAA Order No. PSC-93-1572-FOF-TL, the Commission authorized Gulf Telephone Company to defer its 1992 excess revenues to 1993 to correct certain anticipated reserve deficiencies.

The Commission has addressed revenue deferrals in the water and wastewater industry on two other occasions. By Order No. PSC-98-1384-FOF-SU, issued October 14, 1998, in Docket No. 970991-SU, the Commission allowed Florida Cities Water Company (FCWC), the South Ft. Myers wastewater system, to defer its 1996 and 1997 revenues until 2000. In that case the Commission found no material differences between the cases cited above and the FCWC case. Therefore, the Commission found that water and wastewater utilities shall be afforded the opportunity to defer excess revenues, especially when long-term benefits exceed the short-term benefits of refunds and temporary rate reductions. By Order No. PSC-99-1742-PAA-WS, issued September 7, 1999, in Docket No. 981258-WS, the Commission also allowed Lake Wales Utility Company, Ltd. to defer 1998 overearnings to offset potential future underearnings.

Staff has researched the cases listed above and was unable to find any measurable differences between these cases and the instant case. Therefore, staff believes that Sun Communities should be afforded the opportunity to defer excess revenues, especially when the long-term benefits exceed the short-term benefits of temporary rate reductions. Deferring revenues to offset future reuse costs aids in keeping rates levelized. Stable rates are normally less confusing to ratepayers than fluctuating rates.

For the foregoing reasons, staff recommends that the utility should be allowed to defer all overearnings associated with its wastewater system, to be applied to the cost of its future reuse system. Accordingly, the utility should be ordered to file a reuse project plan pursuant to Section 367.0817, Florida Statutes, within six months of the final order in this docket. Upon issuance of the

final order, the utility should defer 23.07% of monthly wastewater billings and include the deferred revenues as a separate line item in its capital structure with a cost rate equal to the thirty-day commercial paper rate. Once the Commission approves the utility's reuse project plan, the deferred earnings and accrued interest should be booked to CIAC.

RATES AND TARIFF CHARGES

ISSUE 27: What is the appropriate rate structure for this utility for water and wastewater service, and what are the appropriate respective monthly rates for service?

RECOMMENDATION: The appropriate rate structure for water and wastewater service is a continuation of the traditional base facility and uniform gallonage charge rate structure. Staff recommends that no change be made to the utility's rates at this time. These rates, as shown on Schedule Nos. 4-A and 4-B, produce water system revenues of $121,731, and wastewater system revenues of $163,288. This issue should be revisited in the proceeding arising from the utility's filing of its proposed reuse plan discussed in Issue 26. In order to monitor the effects of the conservation programs on consumption, the utility should be ordered to file monthly reports detailing the number of bills rendered, the consumption billed and the revenue billed. These reports should be provided, by customer class and meter size, on a quarterly basis for a period of two years, beginning with the first billing period after the increased rates go into effect. (LINGO)

STAFF ANALYSIS: The utility's current rate structure for both its water and wastewater systems consists of a traditional base facility and uniform gallonage charge rate structure. According to the utility's application, it was determined by the SJRWMD during the consumptive use permit renewal process, that the utility has excessive water usage on a per capita basis within its certificated service territory. Consequently, one condition of the utility's consumptive use permit is that the utility must implement an inclining-block rate structure.

The utility has proposed a three-tier inclining block water rate structure, to be applicable to the residential class, with usage blocks for monthly consumption set: (1) at 0-5,000 gallons; (2) at 5,001 - 10,000 gallons; and (3) for consumption in excess of 10,000 gallons. An additional element of the utility's proposal is that the rates have been calculated based upon recovery of the utility's final revenue requirement (which includes the revenue requirement related to its two new hydropneumatic tanks) within the first and second blocks. The utility proposed that all revenues derived from the third block of the rate structure be deposited and held in a separate account and utilized only for conservation measures. The utility has proposed maintaining its base facility and uniform gallonage charge water rate structure for the general service class. The utility has proposed no change to the base

facility and uniform gallonage charge rate structure for its wastewater system.

The SJRWMD advocates the water system rate structure change, due to the high per capita consumption of the utility's customers. In addition, the entire District has been designated a water resource caution area, and for over the past five years the District has advocated rate structures that provide pricing incentives to conserve.

As discussed in Issue 22, staff is recommending that the utility's request for a revenue requirement increase be denied. Further, as discussed in Issue 25, staff recommends that the utility be ordered to implement an aggressive water conservation program. This program is expected to have a material effect on consumption. We believe that if a change in rate structure or rates is concurrently initiated, customers' subsequent consumption habits will be affected both by the conservation program and by price changes. By continuing the utility's current rates during the introduction of the recommended conservation program, we will be better able to isolate the effects of the program on consumption. This information would then be considered in designing consumption charges when this issue is subsequently revisited.

In addition, we do not believe it is possible to appropriately quantify the magnitude of the conservation programs' effects on consumption at this time. The conservation programs recommended in Issue 25 are by far the most aggressive ever recommended by staff. Although there are ranges of consumption reductions that might reasonably be expected to occur, since we lack any historical information in this regard, we believe a change in rates is inappropriate at this time.

Furthermore, if a change to an inclining-block rate structure were to be initiated at this time, customers at consumption levels of 10,000 gallons per month (gpm) or less would experience overall price decreases in their water bills. We believe these decreases in price might stimulate consumption at levels below 10,000 gpm, which would be counterproductive to our overall conservation goals.

It is also possible that water rate structure and rates will change as a result of the utility's upcoming reuse filing. If this happens, then the customers might be subject to three different rate structures (and rates) within a twelve-month period. This is contrary to rate design goals of rate stability and customer understanding.

Finally, the utility metered 201 residential customers and 14 general service customers during the test period. Postponing any rate structure or rate change at this time allows for additional monthly consumption information to be gathered for these customers. We believe this information is critical in order to appropriately design rates.

Therefore, staff recommends that the appropriate rate structure for water and wastewater service is a continuation of the traditional base facility and uniform gallonage charge rate structure. Staff recommends that no change be made to the utility's rates at this time. The recommended rates, as shown on Schedule Nos. 4-A and 4-B, produce water system revenues of $121,731, and wastewater system revenues of $163,288. Staff further recommends that this issue should be revisited in the proceeding which arises when the utility files its proposed reuse plan.

In order to monitor the effects of the conservation program on consumption, the utility should be ordered to file monthly reports detailing the number of bills rendered, the consumption billed and the revenue billed. These reports should be provided, by customer class and meter size, on a quarterly basis for a period of two years, beginning with the first billing period after the increased rates go into effect. The provision of this reporting requirement applies to all customers receiving service.

A comparison of the utility's original rates, requested rates and staff's recommended rates is shown on Schedule Nos. 4-A and 4-B in the Part II - Overearnings Schedules section of this recommendation.

ISSUE 28: Should the Commission reinstate service availability charges for Sun Communities, and if so, what amounts?

RECOMMENDATION: Yes, the Commission should reinstate service availability charges for Sun Communities as addressed in staff analysis. (RENDELL)

STAFF ANALYSIS: As discussed in Issues 8 & 9, the Commission previously discontinued service availability charges for this utility. This action was taken with an abundance of caution based upon a set of criteria previously agreed to by a prior owner. Staff believes that the circumstances have changed significantly and is recommending that this decision be revisited.

Staff has recommended an amount of CIAC equal to a pro-rata share of the previously approved negative acquisition adjustment. Staff believes that the remaining amount should be spread among the future ERCs to be connected. Therefore, staff recommends the following service availability charges:

Water

Plant Capacity Charges	$140
Meter Installation charge	$100

Wastewater

Plant Capacity Charges	$150

It should be noted that the previously approved service availability charges were a water system capacity charge of $200 and a wastewater system capacity charge of $200. There was also a meter installation charge of $100. Staff believes that the recommended service availability charges are reasonable and should be approved.

ISSUE 29: In the event of a protest, should the utility be required to hold water and wastewater revenues subject to refund?

RECOMMENDATION: Yes, the utility should be allowed to continue charging its existing water and wastewater rates on a temporary basis in the event of a timely protest. The utility should be required to hold water and wastewater revenues subject to refund in the amount of 21.24% for the water system and 23.07% for the wastewater system. (REHWINKEL, FUDGE)

STAFF ANALYSIS: This recommendation proposes no increase in water and wastewater rates and contends that the utility is presently overearning. However, staff is recommending in Issues 25 and 26 allowing costs and expenses which will virtually remove any overearnings. Staff is concerned that, should the utility delay implementation of staff's recommendation, a refund may be necessary. Therefore, in the event of a timely protest filed by a substantially affected person, staff recommends that the utility should be allowed to continue charging its existing water and wastewater rates on a temporary basis. The utility should be required to hold water and wastewater revenues subject to refund in the amount of 21.24% for the water system and 23.07% for the wastewater system.

ISSUE 30: In the event of a protest of the PAA portions of the Order, what is the appropriate security to guarantee the amount subject to refund?

RECOMMENDATION: The security should be in the form of a bond or letter of credit in the amount of $27,350 for the water system and $39,856 for the wastewater system. Alternatively, the utility could establish an escrow agreement with an independent financial institution. If security is provided through an escrow agreement, the utility should escrow 22.47% of its monthly water revenues and 24.41% of its monthly wastewater revenues as detailed in Issue No. 29. (RENDELL, REHWINKEL)

STAFF ANALYSIS: Pursuant to Section 367.082, Florida Statutes, when revenues are held subject to refund, the utility is authorized to continue collecting the previously authorized rates. The utility should be authorized to collect the existing rates upon the staff's approval of the security for potential refund. The security should be in the form of a bond or letter of credit in the amount of $27,350 for the water system and $39,856 for the wastewater system. Alternatively, the utility could establish an escrow agreement with an independent financial institution.

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

1) The Commission approves the rate increase; or

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

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

ISSUE 31: Should Sun Communities be ordered to show cause, in writing within 21 days, why it should not be fined up to $5,000 per day for non-payment of regulatory assessment fees (RAFs) in apparent violation of Rule 25-30.120, Florida Administrative Code, and should the utility be required to remit the appropriate past due RAFs with penalties and interest?

RECOMMENDATION: No. A show cause proceeding should not be initiated. However, Sun Communities should be ordered to immediately remit $4,484 in outstanding regulatory assessment fees. Also, the utility should be required to remit a statutory penalty in the amount of $1,121 and $627.76 in interest for its apparent violation of Sections 350.113 and 367.145, Florida Statutes, and Rule 25-30.120, Florida Administrative Code, for failure to pay regulatory assessment fees in 1998. Furthermore, Sun Communities should amend its 1999 annual report to include the unreported revenue and pay the RAFs on that amount. (FUDGE, RENDELL, REHWINKEL)

STAFF ANALYSIS: In establishing rates, the Commission includes in its determination of the revenue requirements the utility's obligation to pay regulatory assessment fees.

Section 367.145, Florida Statutes, states that:

> (1) The commission shall set by rule a regulatory assessment fee that each utility must pay once a year in conjunction with filing its annual report required by commission rule.
>
> (b) In addition to the penalties and interest otherwise provided, the commission may impose a penalty upon a utility for failure to pay regulatory assessment fees in a timely manner in accordance with Section 367.161, Florida Statutes.

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 pay RAFs on unbilled revenues, 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 the utility's failure to pay the total RAFs due is an apparent violation of Rule 25-30.120, Florida Administrative Code, staff believes that a show cause proceeding is not warranted and should not be initiated at this time. Staff does not believe that the apparent violation of Rule 25-30.120, Florida Administrative Code, under these circumstances rises to the level that warrants the initiation of a show cause proceeding. Therefore, staff recommends that the Commission not order the utility to show cause for its apparent violation of Sections 350.113 and 367.145, Florida Statutes, and Rule 25-30.120, Florida Administrative Code, for failure to pay regulatory assessment fees in 1998.

Rule 25-30.120, Florida Administrative Code, in conjunction with Section 350.113, Florida Statutes, provides that each utility shall remit a regulatory assessment fee based upon its gross operating revenue. Pursuant to Section 350.113(4), Florida Statutes, and Rule 25-30.120(7)(a), Florida Administrative Code, a statutory penalty plus interest shall be assessed against any utility that fails to timely pay its regulatory assessment fees, in the following manner:

1. 5 percent of the fee if the failure is for not more than 30 days, with an additional 5 percent for each additional 30 days or fraction thereof during the time in which failure continues, not to exceed a total penalty of 25 percent.

2. The amount of interest to be charged is 1% for each 30 days or fraction thereof, not to exceed a total of 12% per annum.

According to the staff audit, there are residential as well as commercial customers that were unbilled at the time of the audit. Audit Exception No. 5 provides that the utility has 200 customers that are not billed for water and wastewater usage as stated in its prospectus. Audit Exception No. 6 provides that there are 14 general service customers inside the development that are unbilled.

The company that owns the utility also owns the development, and in the event the development connects a model to the utility for advertisement, it is not billed for utility services. As addressed in Issue 14, staff calculated revenues associated with these unbilled customers. Based upon staff's calculation, the unrecorded revenues were $46,060 for water and $53,584 for wastewater. Accordingly, the outstanding RAFs for 1998 total $4,484 for water and wastewater.

Staff calculated the penalty and interest based on the number of days elapsed since the respective RAFs were due and the date of this agenda. The date of this agenda is included in computing the amount of time elapsed. The Commission may impose lesser or greater penalties, pursuant to Rule 25-30.110(6)(c), Florida Administrative Code.

Based upon the total amount of unreported revenues for 1998, the utility owes $4,484 in outstanding RAFs; $1,121 in penalties and $627.76 in interest.

Pursuant to Rule 25-30.110(3)(a), Florida Administrative Code, an annual report for the period ending December 31, 1999, shall be filed with the Commission on or before March 31, 2000. The utility has filed for and has been granted an extension. Staff recommends that if the utility has not included the revenue associated with the unbilled customers in its 1999 annual report, then it should be ordered to include the unreported revenue. Moreover, the utility should remit the RAFs associated with the unreported 1999 revenue.

ISSUE 32: Should the utility be required to show cause, in writing within 21 days, why it should not be fined up to $5,000 per day for its apparent violation of Rule 25-30.115, Florida Administrative Code, for its failure to maintain its books and records in conformance with the National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts (USOA)?

RECOMMENDATION: No. A show cause proceeding should not be initiated. However, the utility should be ordered to maintain its books and records in conformance with the 1996 NARUC USOA, and submit a statement from its accountant by March 31, 2001 along with its 2000 annual report, stating that its books are in conformance with the NARUC USOA and have been reconciled with the Commission Order. (FUDGE, REHWINKEL)

STAFF ANALYSIS: During the staff audit, the auditors discovered that the utility did not maintain its accounts and records in conformance with the NARUC USOA. Despite the state of the utility's books and records, staff was able to perform the audit. The errors determined by the auditors constitute apparent violations of Rule 25-30.115, Florida Administrative Code, "Uniform System of Accounts for Water and Wastewater Utilities," which provides:

> 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 conformance 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 the utility's failure to keep its books and records in conformance with the NARUC 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 at this time. Staff does not believe that the apparent violation of Rule 25-30.115, Florida Administrative Code, under these circumstances rises to the level that warrants the initiation of a show cause proceeding. Therefore, staff recommends that the Commission not order the utility to show cause for failing to keep its books and records in conformance with the NARUC USOA. However, the utility should be ordered to maintain its books and records in conformance with the 1996 NARUC USOA, and submit a statement from its accountant by March 31, 2001 along with its 2000 annual report, stating that its books are in conformance with the NARUC USOA and have been reconciled with the Commission Order.

ISSUE 33: Should this docket be closed?

RECOMMENDATION: Yes. If no timely protest is received upon expiration of the protest period, the Order will become final and this docket will be closed, upon the issuance of a Consummating Order. (FUDGE, REHWINKEL, BETHEA)

STAFF ANALYSIS: Yes. If no timely protest is received upon expiration of the protest period, the Order will become final and this docket will be closed, upon issuance of a Consummating Order.

PART I - LIMITED PROCEEDING SCHEDULES

SUN COMMUNITIES FINANCE, LTD. PARTNERSHIP
SCHEDULE OF WATER RATE BASE
TEST YEAR ENDED DECEMBER 31, 1998

SCHEDULE NO. 1
DOCKET NO. 990243-WS
PAGE 1 OF 2

	BALANCE PER UTILITY		STAFF ADJ. TO UTIL. BAL.		BALANCE PER STAFF
UTILITY PLANT IN SERVICE	$ 367,846	$	(124,081)	A	$ 243,765
LAND/NON-DEPRECIABLE ASSETS	3,050		0		3,050
NON-USED AND USEFUL PLANT	0		(10,975)	C	(10,975)
ACQUISITION ADJUSTMENT	(238,662)		238,662	D	0
CWIP	0		0		0
CIAC	0		(117,170)	E	(117,170)
ACCUMULATED DEPRECIATION	(142,320)		27,236	F	(115,084)
AMORTIZATION OF ACQUISITION ADJUSTMENT	57,905		(57,905)	G	0
AMORTIZATION OF CIAC	0		41,595	H	41,595
WORKING CAPITAL ALLOWANCE	0		7,864	I	7,864
WATER RATE BASE	$ 47,819	$	5,227		$ 53,045

SUN COMMUNITIES FINANCE, LTD. PARTNERSHIP
SCHEDULE OF WASTEWATER RATE BASE
TEST YEAR ENDED DECEMBER 31, 1998

SCHEDULE NO. 1
DOCKET NO. 990243-WS
PAGE 2 OF 2

	BALANCE PER UTILITY	STAFF ADJUSTMENTS TO UTILITY BALANCE		BALANCE PER STAFF
UTILITY PLANT IN SERVICE	$ 352,266	$ 20,542	A	$ 372,808
LAND/NON-DEPRECIABLE ASSETS	30,580	89,920	B	120,500
NON-USED AND USEFUL PLANT	0	(22,128)	C	(22,128)
ACQUISITION ADJUSTMENT	(258,093)	258,093	D	0
CWIP	0	0		0
CIAC	0	(207,844)	E	(207,844)
ACCUMULATED DEPRECIATION	(256,165)	2,390	F	(253,775)
AMORTIZATION OF ACQUISITION ADJUSTMENT	62,620	(62,620)	G	0
AMORTIZATION OF CIAC	0	53,095	H	53,095
WORKING CAPITAL ALLOWANCE	0	11,357	I	11,357
WASTEWATER RATE BASE	$ (68,792)	$ 142,805		$ 74,013

SUN COMMUNITIES FINANCE, LTD. PARTNERSHIP
ADJUSTMENTS TO RATE BASE
TEST YEAR ENDED DECEMBER 31, 1998

SCHEDULE NO. 1A
DOCKET NO. 990243-WS

		WATER	WASTEWATER
A.	UTILITY PLANT IN SERVICE		
1.	To reconcile utility's records with Order No. PSC-97-0034-FOF-WS	$ (13,189)	$ (21,748)
2.	To remove misclassifications	(58,489)	(1,275)
3.	To remove non-recurring expenses	(33,031)	0
4.	To remove unsupported capital additions	(13,265)	(2,924)
5.	To record retirements	(10,000)	(12,000)
6.	To add misclassified plant	1,275	58,489
7.	To add unrecorded capital additions	40,169	0
8.	To reduce plant by averaging adjustment	(37,551)	0
		$ (124,081)	$ 20,542
B.	LAND		
1.	To reflect the appropriate land balance per Order No. 18255		$ (80)
2.	To reflect the addition of 30 acre sprayfield		90,000
			$ 89,920
C.	NON-USED AND USEFUL PLANT		
1.	To reflect non-used and useful average plant	$ (28,044)	$ (152,137)
2.	To reflect non-used and useful average accumulated depreciation	17,069	130,009
		$ (10,975)	$ (22,128)
D.	ACQUISITION ADJUSTMENT		
1.	To remove the recorded positive acquisition adjustment	$ 238,662	$ 258,093
E.	CONTRIBUTIONS IN AID OF CONSTRUCTION(CIAC)		
1.	To record converted acquisition adjustment	$ (117,170)	$ (117,844)
2.	To record donated land (sprayfield)		(90,000)
		$ (117,170)	$ (207,844)
F.	ACCUMULATED DEPRECIATION		
1.	To remove retired plant from accumulated depreciation	$ 10,000	$ 12,000
2.	To reflect accumulated depreciation at 12/31/98	17,927	(17,983)
3.	To reflect averaging adjustment	(691)	8,373
		$ 27,236	$ 2,390
G.	ACCUMULATED AMORTIZATION OF ACQUISITION ADJUSTMENT		
1.	To remove accumulated amortization of acquistion adjustment	$ (57,905)	$ (62,620)
H.	ACCUMULATED AMORTIZATION OF CIAC		
1.	To reflect accumulated amortization of CIAC at 12/31/98	$ 43,388	$ 55,740
2.	To reflect averaging adjustment	(1,793)	(2,645)
		$ 41,595	$ 53,095
I.	WORKING CAPITAL ALLOWANCE		
1.	To reflect 1/8 of operation and maintenance expense	$ 7,864	$ 11,357

SUN COMMUNITIES FINANCE, LTD. PARTNERSHIP
SCHEDULE OF CAPITAL STRUCTURE
TEST YEAR ENDED DECEMBER 31, 1998

SCHEDULE NO. 2
DOCKET NO. 990243-WS

	PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	ADJUSTED BALANCE PER STAFF	PRO RATA ADJUST. PER STAFF	RECONCIL-IATION TO RATE BASE	PERCENT OF TOTAL	COST	WEIGHTED COST
COMMON EQUITY	$ 94,123	$ 0	$ 94,123	$ (77,450)	16,673	13.12%	8.93%	1.17%
OTHER EQUITY	623,155	0	623,155	(512,770)	110,385	86.88%	8.93%	7.76%
PREFERRED STOCK	0	0	0	0	0	0.00%	0.00%	0.00%
LONG-TERM DEBT	0	0	0	0	0	0.00%	0.00%	0.00%
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	$ 717,278	$ 0	717,278	$ (590,220)	127,058	100.00%		8.93%

RANGE OF REASONABLENESS	LOW	HIGH
RETURN ON EQUITY	7.93%	9.93%
OVERALL RATE OF RETURN	7.93%	9.93%

SUN COMMUNITIES FINANCE, LTD. PARTNERSHIP
SCHEDULE OF WATER OPERATING INCOME
TEST YEAR ENDED DECEMBER 31, 1998

SCHEDULE NO. 3
DOCKET NO. 990243-WS
PAGE 1 OF 2

	TEST YEAR PER UTILITY	STAFF ADJ. TO UTILITY BALANCE		STAFF ADJUSTED TEST YEAR	ADJUST. FOR NCREASE	TOTAL PER STAFF
OPERATING REVENUES	$ 75,671	$ 46,060	A	$ 121,731	$ (27,705) F	$ 94,025
					-22.76%	
OPERATING EXPENSES:						
OPERATION AND MAINTENANCE	$ 34,514	$ 28,396	B	$ 62,910	$ 0	62,910
DEPRECIATION (NET)	13,507	(5,866)	C	7,641	0	7,641
AMORTIZATION (CIAC)	0	0	D	0	0	0
TAXES OTHER THAN INCOME	10,560	9,424	E	19,984	(1,247) G	18,738
INCOME TAXES	0	0		0	0	0
TOTAL OPERATING EXPENSES	$ 58,581	$ 31,954		$ 90,535	$ (1,247)	$ 89,288
OPERATING INCOME/(LOSS)	$ 17,090			$ 31,195		$ 4,737
WATER RATE BASE				$ 53,045		$ 53,045
RATE OF RETURN				58.81%		8.93%

SUN COMMUNITIES FINANCE, LTD. PARTNERSHIP
SCHEDULE OF WASTEWATER OPERATING INCOME
TEST YEAR ENDED DECEMBER 31, 1998

SCHEDULE NO. 3
DOCKET NO. 990243-WS
PAGE 2 OF 2

	TEST YEAR PER UTILITY	STAFF ADJ. TO UTILITY BALANCE		STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE		TOTAL PER STAFF
OPERATING REVENUES	$ 109,704	$ 53,584	A	$ 163,288	$ (41,286)	F	$ 122,002
					-25.28%		
OPERATING EXPENSES:							
OPERATION AND MAINTENANCE	$ 50,971	$ 39,883	B	$ 90,854	$ 0		90,854
DEPRECIATION (NET)	9,769	(657)	C	9,112	0		9,112
AMORTIZATION (CIAC)	0	0	D	0	0		0
TAXES OTHER THAN INCOME	12,759	4,526	E	17,285	(1,858)	G	15,427
INCOME TAXES	0	0		0	0		0
TOTAL OPERATING EXPENSES	$ 73,499	$ 43,752		$ 117,251	$ (1,858)		$ 115,393
OPERATING INCOME/(LOSS)	$ 36,205			$ 46,037			$ 6,609
WASTEWATER RATE BASE				$ 74,013			$ 74,013
RATE OF RETURN				62.20%			8.93%

SUN COMMUNITIES FINANCE, LTD. PARTNERSHIP
ADJUSTMENTS TO OPERATING INCOME
TEST YEAR ENDED DECEMBER 31, 1998

SCHEDULE NO. 3A
PAGE 1 OF 2
DOCKET NO. 990243-WS

		WATER	WASTEWATER
A.	OPERATING REVENUES		
1.	To record utility's test year revenues based on billing audit and appropriate annualization	$ 46,060	$ 53,584
B.	OPERATION AND MAINTENANCE EXPENSES		
1.	Salaries and Wages - Employees		
a.	To reflect salaries and wages associated with operations and maintenance personnel (40/60)	$ (1,382)	$ 1,383
b.	To reflect salaries and wages associated with administrative and support staff	12,061	12,061
		$ 10,679	$ 13,444
2.	Sludge Removal Expense		
a.	To record sludge expense for the test year per the audit	$ 0	$ (840)
3.	Purchased Power		
a.	To reclassify electric expense	$ (6,362)	$ 6,362
b.	To reflect unrecorded electric expense	16,986	1,371
c.	To reflect non-utility expense	(5,532)	(3,261)
		$ 5,092	$ 4,472
4.	Chemicals		
a.	To reclassify chemicals to appropriate system	$ (965)	$ 965
b.	To reflect appropriate chemicals balance	(33)	178
		$ (998)	$ 1,142
5.	Material and Supplies		
a.	To record materials and supplies purchased during the test year	$ (468)	$ 602
6.	Contractual Services (Billing)		
a.	To remove misclassified contractual expense	$ (11,117)	(17,498)
b.	To record billing and meter reading contract ($.85/bill split 50/50)	3,870	3,825
		$ (7,247)	$ (13,673)
7.	Contractual Services (Professional)		
a.	To record legal expense during test period	$ 155	$ 75
8.	Contractual Services (Testing and Operations)		
a.	To record testing expense per test period invoices	$ 960	$ 6,404
b.	To record expense associated with DEP required report to customer re: water testing	973	0
c.	To reflect annual operations fee	3,331	3,050
		$ 5,264	$ 9,454
9.	Contractual Services (Other - Repairs and Maintenance)		
a.	To record repairs expense during test year	$ 571	$ 3,568
b.	To reflect mowing and groundskeeping expense as reflected by contract	1,680	15,420
		2,251	18,988
10.	Rents		
a.	To reflect rental expense allocation for utility's office space	$ 2,400	$ 2,400

SUN COMMUNITIES FINANCE, LTD. PARTNERSHIP
ADJUSTMENTS TO OPERATING INCOME
TEST YEAR ENDED DECEMBER 31, 1998

SCHEDULE NO. 3A
PAGE 2 OF 2
DOCKET NO. 990243-WS

		WATER	WASTEWATER
continued...			
11. Transportation Expense			
a.	To reflect test year transportation expense for plant operator	$ 360	$ 360
b.	To reflect other transportation expense	1,725	1,725
		$ 2,085	$ 2,085
12. Insurance Expense			
a.	To reflect test year insurance expense (two policies)	$ 432	$ 648
13. Regulatory Commission Expense			
a.	To reflect rate case expense amortized over 4 years	$ 3,822	$ 248
14. Miscellaneous Expense			
a.	To record costs associated with consumptive use permit	$ 4,786	$
b.	To reflect costs associated with FL Rural Water Assoc fees	142	
c.	To reflect WWTF permit costs (4900/5yrs + 51)		838
		$ 4,928	$ 838
	TOTAL O & M ADJUSTMENTS	$ 28,396	$ 39,884
C. DEPRECIATION EXPENSE			
1.	To reflect appropriate test year used and useful depreciation expense	$ (5,866)	$ (657)
D. TAXES OTHER THAN INCOME			
1.	To reflect appropriate amount of tangible taxes (allocating 47%/water and 53%/wastewater)	$ 387	$ 877
2.	To record real estate taxes	299	541
3.	To adjust for appropriate amount of regulatory assessment fees @ 4.5% of test year revenues	2,266	2,530
4.	To reflect payroll taxes	1,120	1,120
5.	To record water use tax paid to Town of Lake Lake	5,863	
6.	To reflect the FL State Emergency Response Comm tax	13	13
7.	To remove misclassified expense	(525)	(555)
		$ 9,423	$ 4,526
E. OPERATING REVENUES			
1.	To reflect decrease in revenue required to cover expenses and allow recommended rate of return	$ (27,705)	$ (41,286)
F. TAXES OTHER THAN INCOME			
1.	To reflect regulatory assessment fee at 4.5% on decrease in revenue	$ (1,247)	$ (1,858)

SUN COMMUNITIES FINANCE, LTD. PARTNERSHIP
ANALYSIS OF WATER OPERATION AND
MAINTENANCE EXPENSE
TEST YEAR ENDED DECEMBER 31, 1998

SCHEDULE NO. 3B
DOCKET NO. 990243-WS

	TOTAL PER UTILITY	STAFF RECOM-MENDED ADJUSTMENT		TOTAL PER STAFF
#601 SALARIES AND WAGES - EMPLOYEES	$ 6,151	$ 10,679	[1]	$ 16,830
#603 SALARIES AND WAGES - OFFICERS	0	0		0
#604 PENSIONS AND BENEFITS	0	0		0
#610 PURCHASED WATER	0	0		0
#615 PURCHASED POWER	12,292	5,092	[2]	17,384
#616 FUEL FOR POWER PRODUCTION	0	0		0
#618 CHEMICALS	2,603	(998)	[3]	1,605
#620 MATERIALS AND SUPPLIES	2,291	(468)	[4]	1,823
#630 CONTRACTUAL SERVICES (BILLING)	11,117	(7,247)	[5]	3,870
#631 CONTRACTUAL SERVICES (PROFESSIONAL)	0	155	[6]	155
#635 CONTRACTUAL SERVICES (TESTING&OPERATIONS)	0	5,264	[7]	5,264
#636 CONTRACTUAL SERVICES (OTHER)	0	2,251	[8]	2,251
#640 RENTS	0	2,400	[9]	2,400
#650 TRANSPORTATION EXPENSE	0	2,085	[10]	2,085
#655 INSURANCE EXPENSE	0	432	[11]	432
#665 REGULATORY COMMISSION EXPENSE	0	3,822	[12]	3,822
#670 BAD DEBT EXPENSE	0	0		0
#675 MISCELLANEOUS EXPENSES	61	4,928	[13]	4,989
	$ 34,514	$ 28,396		$ 62,910

SUN COMMUNITIES FINANCE, LTD. PARTNERSHIP
ANALYSIS OF WASTEWATER OPERATION AND
MAINTENANCE EXPENSE
TEST YEAR ENDED DECEMBER 31, 1998

SCHEDULE NO. 3B
DOCKET NO. 990243-WS

	TOTAL PER UTILITY	STAFF RECOM-MENDED ADJUSTMENT		TOTAL PER STAFF
#701 SALARIES AND WAGES - EMPLOYEES	$ 5,771	$ 13,444	[1]	$ 19,215
#703 SALARIES AND WAGES - OFFICERS	0	0		0
#704 PENSIONS AND BENEFITS	0	0		0
#710 PURCHASED WASTEWATER TREATMENT	0	0		0
#711 SLUDGE REMOVAL EXPENSE	12,906	(840)	[2]	12,066
#715 PURCHASED POWER	13,016	4,472	[3]	17,488
#716 FUEL FOR POWER PRODUCTION	0	0		0
#718 CHEMICALS	613	1,142	[4]	1,755
#720 MATERIALS AND SUPPLIES	975	602	[5]	1,577
#730 CONTRACTUAL SERVICES (BILLING)	17,498	(13,673)	[6]	3,825
#731 CONTRACTUAL SERVICES (PROFESSIONAL)	0	75	[7]	75
#735 CONTRACTUAL SERVICES (TESTING&OPERATIONS)	0	9,454	[8]	9,454
#736 CONTRACTUAL SERVICES (other)	0	18,988	[9]	18,988
#740 RENTS	0	2,400	[10]	2,400
#750 TRANSPORTATION EXPENSE	0	2,085	[11]	2,085
#755 INSURANCE EXPENSE	0	648	[12]	648
#765 REGULATORY COMMISSION EXPENSE	0	248	[13]	248
#770 BAD DEBT EXPENSE	0	0		0
#775 MISCELLANEOUS EXPENSES	193	838	[14]	1,031
	$ 50,971	$ 39,883		$ 90,854

PART II - OVEREARNINGS SCHEDULES

SUN COMMUNITIES FINANCE, LTD. PARTNERSHIP
SCHEDULE OF WATER RATE BASE
TEST YEAR ENDED DECEMBER 31, 1998

SCHEDULE NO. 1
DOCKET NO. 990243-WS
PAGE 1 OF 2

	BALANCE PER UTILITY	STAFF ADJ. TO UTIL. BAL.		BALANCE PER STAFF
UTILITY PLANT IN SERVICE	$ 367,846	$ (124,081)	A	$ 243,765
LAND/NON-DEPRECIABLE ASSETS	3,050	0		3,050
NON-USED AND USEFUL PLANT	0	(564)	C	(564)
ACQUISITION ADJUSTMENT	(238,662)	238,662	D	0
CWIP	0	0		0
CIAC	0	(117,170)	E	(117,170)
ACCUMULATED DEPRECIATION	(142,320)	27,236	F	(115,084)
AMORTIZATION OF ACQUISITION ADJUSTMENT	57,905	(57,905)	G	0
AMORTIZATION OF CIAC	0	41,595	H	41,595
WORKING CAPITAL ALLOWANCE	0	7,864	I	7,864
WATER RATE BASE	$ 47,819	$ 15,638		$ 63,456

SUN COMMUNITIES FINANCE, LTD. PARTNERSHIP
SCHEDULE OF WASTEWATER RATE BASE
TEST YEAR ENDED DECEMBER 31, 1998

SCHEDULE NO. 1
DOCKET NO. 990243-WS
PAGE 2 OF 2

	BALANCE PER UTILITY	STAFF ADJUSTMENTS TO UTILITY BALANCE		BALANCE PER STAFF
UTILITY PLANT IN SERVICE	$ 352,266	$ 20,542	A	$ 372,808
LAND/NON-DEPRECIABLE ASSETS	30,580	89,920	B	120,500
NON-USED AND USEFUL PLANT	0	(3,498)	C	(3,498)
ACQUISITION ADJUSTMENT	(258,093)	258,093	D	0
CWIP	0	0		0
CIAC	0	(207,844)	E	(207,844)
ACCUMULATED DEPRECIATION	(256,165)	2,390	F	(253,775)
AMORTIZATION OF ACQUISITION ADJUSTMENT	62,620	(62,620)	G	0
AMORTIZATION OF CIAC	0	53,095	H	53,095
WORKING CAPITAL ALLOWANCE	0	11,357	I	11,357
WASTEWATER RATE BASE	$ (68,792)	$ 161,435		$ 92,643

SUN COMMUNITIES FINANCE, LTD. PARTNERSHIP
ADJUSTMENTS TO RATE BASE
TEST YEAR ENDED DECEMBER 31, 1998

SCHEDULE NO. 1A
DOCKET NO. 990243-WS

		WATER	WASTEWATER
A.	UTILITY PLANT IN SERVICE		
1.	To reconcile utility's records with Order No. PSC-97-0034-FOF-WS	$ (13,189)	$ (21,748)
2.	To remove misclassifications	(58,489)	(1,275)
3.	To remove non-recurring expenses	(33,031)	0
4.	To remove unsupported capital additions	(13,265)	(2,924)
5.	To record retirements	(10,000)	(12,000)
6.	To add misclassified plant	1,275	58,489
7.	To add unrecorded capital additions	40,169	0
8.	To reduce plant by averaging adjustment	(37,551)	0
		$ (124,081)	$ 20,542
B.	LAND		
1.	To reflect the appropriate land balance per Order No. 18255		$ (80)
2.	To reflect the addition of 30 acre sprayfield		90,000
			$ 89,920
C.	NON-USED AND USEFUL PLANT		
1.	To reflect non-used and useful average plant	$ (3,309)	$ (108,953)
2.	To reflect non-used and useful average accumulated depreciation	2,745	105,455
		$ (564)	$ (3,498)
D.	ACQUISITION ADJUSTMENT		
1.	To remove the recorded positive acquisition adjustment	$ 238,662	$ 258,093
E.	CONTRIBUTIONS IN AID OF CONSTRUCTION(CIAC)		
1.	To record converted acquisition adjustment	$ (117,170)	$ (117,844)
2.	To record donated land (sprayfield)		(90,000)
		$ (117,170)	$ (207,844)
F.	ACCUMULATED DEPRECIATION		
1.	To remove retired plant from accumulated depreciation	$ 10,000	$ 12,000
2.	To reflect accumulated depreciation at 12/31/98	17,927	(17,983)
3.	To reflect averaging adjustment	(691)	8,373
		$ 27,236	$ 2,390
G.	ACCUMULATED AMORTIZATION OF ACQUISITION ADJUSTMENT		
1.	To remove accumulated amortization of acquistion adjustment	$ (57,905)	$ (62,620)
H.	ACCUMULATED AMORTIZATION OF CIAC		
1.	To reflect accumulated amortization of CIAC at 12/31/98	$ 43,388	$ 55,740
2.	To reflect averaging adjustment	(1,793)	(2,645)
		$ 41,595	$ 53,095
I.	WORKING CAPITAL ALLOWANCE		
1.	To reflect 1/8 of operation and maintenance expense	$ 7,864	$ 11,357

SUN COMMUNITIES FINANCE, LTD. PARTNERSHIP
SCHEDULE OF CAPITAL STRUCTURE
TEST YEAR ENDED DECEMBER 31, 1998

SCHEDULE NO. 2
DOCKET NO. 990243-WS

	BALANCE PER UTILITY	STAFF ADJUSTMENT TO UTILITY BALANCE	ADJUSTED BALANCE PER STAFF	PRO RATA ADJUST. PER STAFF	RECONCIL-IATION TO RATE BASE	PERCENT OF TOTAL	COST	WEIGHTED COST
COMMON EQUITY	$ 94,123	$ 0	$ 94,123	$ (73,639)	20,484	13.12%	8.93%	1.17%
OTHER EQUITY	623,155	0	623,155	(487,540)	135,615	86.88%	8.93%	7.76%
PREFERRED STOCK	0	0	0	0	0	0.00%	0.00%	0.00%
LONG-TERM DEBT	0	0	0	0	0	0.00%	0.00%	0.00%
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	$ 717,278	$ 0	717,278	$ (561,179)	156,099	100.00%		8.93%

RANGE OF REASONABLENESS	LOW	HIGH
RETURN ON EQUITY	7.93%	9.93%
OVERALL RATE OF RETURN	7.93%	9.93%

SUN COMMUNITIES FINANCE, LTD. PARTNERSHIP
SCHEDULE OF WATER OPERATING INCOME
TEST YEAR ENDED DECEMBER 31, 1998

SCHEDULE NO. 3
DOCKET NO. 990243-WS
PAGE 1 OF 2

	TEST YEAR PER UTILITY	STAFF ADJUST. TO UTILITY		STAFF ADJUSTED TEST YEAR	ADJUST. FOR NCREASE	BALANCE PER STAFF
OPERATING REVENUES	$ 75,671	$ 46,060	A	$ 121,731	$ (25,851) F	$ 95,879
					-21.24%	
OPERATING EXPENSES:						
OPERATION AND MAINTENANCE	$ 34,514	$ 28,396	B	$ 62,910	$ 0	62,910
DEPRECIATION (NET)	13,507	(5,025)	C	8,482	0	8,482
AMORTIZATION (CIAC)	0	0	D	0	0	0
TAXES OTHER THAN INCOME	10,560	9,424	E	19,984	(1,163) G	18,821
INCOME TAXES	0	0		0	0	0
TOTAL OPERATING EXPENSES	$ 58,581	$ 32,795		$ 91,376	$ (1,163)	$ 90,213
OPERATING INCOME/(LOSS)	$ 17,090			$ 30,354		$ 5,667
WATER RATE BASE				$ 63,456		$ 63,456
RATE OF RETURN				47.84%		8.93%

SUN COMMUNITIES FINANCE, LTD. PARTNERSHIP
SCHEDULE OF WASTEWATER OPERATING INCOME
TEST YEAR ENDED DECEMBER 31, 1998

SCHEDULE NO. 3
DOCKET NO. 990243-WS
PAGE 2 OF 2

	TEST YEAR PER UTILITY	STAFF ADJUST. TO UTILITY		STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	BALANCE PER STAFF
OPERATING REVENUES	$ 109,704	$ 53,584	A	$ 163,288	$ (37,671) F	$ 125,617
					-23.07%	
OPERATING EXPENSES:						
OPERATION AND MAINTENANCE	$ 50,971	$ 39,883	B	$ 90,854	$ 0	90,854
DEPRECIATION (NET)	9,769	1,131	C	10,900	0	10,900
AMORTIZATION (CIAC)	0	0	D	0	0	0
TAXES OTHER THAN INCOME	12,759	4,526	E	17,285	(1,695) G	15,589
INCOME TAXES	0	0		0	0	0
TOTAL OPERATING EXPENSES	$ 73,499	$ 45,540		$ 119,039	$ (1,695)	$ 117,344
OPERATING INCOME/(LOSS)	$ 36,205			$ 44,249		$ 8,273
WASTEWATER RATE BASE				$ 92,643		$ 92,643
RATE OF RETURN				47.76%		8.93%

SUN COMMUNITIES FINANCE, LTD. PARTNERSHIP
ADJUSTMENTS TO OPERATING INCOME
TEST YEAR ENDED DECEMBER 31, 1998

SCHEDULE NO. 3A
PAGE 1 OF 2
DOCKET NO. 990243-WS

		WATER	WASTEWATER
A.	OPERATING REVENUES		
1.	To record utility's test year revenues based on billing audit and appropriate annualization	$ 46,060	$ 53,584
B.	OPERATION AND MAINTENANCE EXPENSES		
1.	Salaries and Wages - Employees		
a.	To reflect salaries and wages associated with operations and maintenance personnel (40/60)	$ (1,382)	$ 1,383
b.	To reflect salaries and wages associated with administrative and support staff	12,061	12,061
		$ 10,679	$ 13,444
2.	Sludge Removal Expense		
a.	To record sludge expense for the test year per the audit	$ 0	$ (840)
3.	Purchased Power		
a.	To reclassify electric expense	$ (6,362)	$ 6,362
b.	To reflect unrecorded electric expense	16,986	1,371
c.	To reflect non-utility expense	(5,532)	(3,261)
		$ 5,092	$ 4,472
4.	Chemicals		
a.	To reclassify chemicals to appropriate system	$ (965)	$ 965
b.	To reflect appropriate chemicals balance	(33)	178
		$ (998)	$ 1,142
5.	Material and Supplies		
a.	To record materials and supplies purchased during the test year	$ (468)	$ 602
6.	Contractual Services (Billing)		
a.	To remove misclassified contractual expense	$ (11,117)	(17,498)
b.	To record billing and meter reading contract ($.85/bill split 50/50)	3,870	3,825
		$ (7,247)	$ (13,673)
7.	Contractual Services (Professional)		
a.	To record legal expense during test period	$ 155	$ 75
8.	Contractual Services (Testing and Operations)		
a.	To record testing expense per test period invoices	$ 960	$ 6,404
b.	To record expense associated with DEP required report to customer re: water testing	973	0
c.	To reflect annual operations fee	3,331	3,050
		$ 5,264	$ 9,454
9.	Contractual Services (Other - Repairs and Maintenance)		
a.	To record repairs expense during test year	$ 571	$ 3,568
b.	To reflect mowing and groundskeeping expense as reflected by contract	1,680	15,420
		2,251	18,988
10.	Rents		
a.	To reflect rental expense allocation for utility's office space	$ 2,400	$ 2,400

SUN COMMUNITIES FINANCE, LTD. PARTNERSHIP
ADJUSTMENTS TO OPERATING INCOME
TEST YEAR ENDED DECEMBER 31, 1998

SCHEDULE NO. 3A
PAGE 2 OF 2
DOCKET NO. 990243-WS

		WATER	WASTEWATER
continued...			
11. Transportation Expense			
a.	To reflect test year transportation expense for plant operator	$ 360	$ 360
b.	To reflect other transportation expense	1,725	1,725
		$ 2,085	$ 2,085
12. Insurance Expense			
a.	To reflect test year insurance expense (two policies)	$ 432	$ 648
13. Regulatory Commission Expense			
a.	To reflect rate case expense amortized over 4 years	$ 3,822	$ 248
14. Miscellaneous Expense			
a.	To record costs associated with consumptive use permit	$ 4,786	$
b.	To reflect costs associated with FL Rural Water Assoc fees	142	
c.	To reflect WWTF permit costs (4900/5yrs + 51)		838
		$ 4,928	$ 838
	TOTAL O & M ADJUSTMENTS	$ 28,396	$ 39,884
C. DEPRECIATION EXPENSE			
1.	To reflect appropriate test year used and useful depreciation expense	$ (5,025)	$ 1,131
D. TAXES OTHER THAN INCOME			
1.	To reflect appropriate amount of tangible taxes (allocating 47%/water and 53%/wastewater)	$ 387	$ 877
2.	To record real estate taxes	299	541
3.	To adjust for appropriate amount of regulatory assessment fees @ 4.5% of test year revenues	2,266	2,530
4.	To reflect payroll taxes	1,120	1,120
5.	To record water use tax paid to Town of Lake Lake	5,863	
6.	To reflect the FL State Emergency Response Comm tax	13	13
7.	To remove misclassified expense	(525)	(555)
		$ 9,423	$ 4,526
E. OPERATING REVENUES			
1.	To reflect decrease in revenue required to cover expenses and allow recommended rate of return	$ (25,851)	$ (37,671)
F. TAXES OTHER THAN INCOME			
1.	To reflect regulatory assessment fee at 4.5% on decrease in revenue	$ (1,163)	$ (1,695)

SUN COMMUNITIES FINANCE, LTD. PARTNERSHIP
ANALYSIS OF WATER OPERATION AND
MAINTENANCE EXPENSE
TEST YEAR ENDED DECEMBER 31, 1998

SCHEDULE NO. 3B
DOCKET NO. 990243-WS

	TOTAL PER UTILITY	STAFF RECOM-MENDED ADJUSTMENT		TOTAL PER STAFF
#601 SALARIES AND WAGES - EMPLOYEES	$ 6,151	$ 10,679	[1]	$ 16,830
#603 SALARIES AND WAGES - OFFICERS	0	0		0
#604 PENSIONS AND BENEFITS	0	0		0
#610 PURCHASED WATER	0	0		0
#615 PURCHASED POWER	12,292	5,092	[2]	17,384
#616 FUEL FOR POWER PRODUCTION	0	0		0
#618 CHEMICALS	2,603	(998)	[3]	1,605
#620 MATERIALS AND SUPPLIES	2,291	(468)	[4]	1,823
#630 CONTRACTUAL SERVICES (BILLING)	11,117	(7,247)	[5]	3,870
#631 CONTRACTUAL SERVICES (PROFESSIONAL)	0	155	[6]	155
#635 CONTRACTUAL SERVICES (TESTING&OPERATIONS)	0	5,264	[7]	5,264
#636 CONTRACTUAL SERVICES (OTHER)	0	2,251	[8]	2,251
#640 RENTS	0	2,400	[9]	2,400
#650 TRANSPORTATION EXPENSE	0	2,085	[10]	2,085
#655 INSURANCE EXPENSE	0	432	[11]	432
#665 REGULATORY COMMISSION EXPENSE	0	3,822	[12]	3,822
#670 BAD DEBT EXPENSE	0	0		0
#675 MISCELLANEOUS EXPENSES	61	4,928	[13]	4,989
	$ 34,514	$ 28,396		$ 62,910

SUN COMMUNITIES FINANCE, LTD. PARTNERSHIP
ANALYSIS OF WASTEWATER OPERATION AND
MAINTENANCE EXPENSE
TEST YEAR ENDED DECEMBER 31, 1998

SCHEDULE NO. 3B
DOCKET NO. 990243-

	TOTAL PER UTILITY	STAFF RECOM-MENDED ADJUSTMENT		TOTAL PER STAFF
#701 SALARIES AND WAGES - EMPLOYEES	$ 5,771	$ 13,444	[1]	$ 19,215
#703 SALARIES AND WAGES - OFFICERS	0	0		0
#704 PENSIONS AND BENEFITS	0	0		0
#710 PURCHASED WASTEWATER TREATMENT	0	0		0
#711 SLUDGE REMOVAL EXPENSE	12,906	(840)	[2]	12,066
#715 PURCHASED POWER	13,016	4,472	[3]	17,488
#716 FUEL FOR POWER PRODUCTION	0	0		0
#718 CHEMICALS	613	1,142	[4]	1,755
#720 MATERIALS AND SUPPLIES	975	602	[5]	1,577
#730 CONTRACTUAL SERVICES (BILLING)	17,498	(13,673)	[6]	3,825
#731 CONTRACTUAL SERVICES (PROFESSIONAL)	0	75	[7]	75
#735 CONTRACTUAL SERVICES (TESTING&OPERATIONS)	0	9,454	[8]	9,454
#736 CONTRACTUAL SERVICES (other)	0	18,988	[9]	18,988
#740 RENTS	0	2,400	[10]	2,400
#750 TRANSPORTATION EXPENSE	0	2,085	[11]	2,085
#755 INSURANCE EXPENSE	0	648	[12]	648
#765 REGULATORY COMMISSION EXPENSE	0	248	[13]	248
#770 BAD DEBT EXPENSE	0	0		0
#775 MISCELLANEOUS EXPENSES	193	838	[14]	1,031
	$ 50,971	$ 39,883		$ 90,854

SUN COMMUNITIES FINANCE LIMITED PARTNERSHIP
DOCKET NO. 990243-WU
TEST YEAR ENDED DECEMBER 31, 1998

SCHEDULE NO. 4-A

SCHEDULE OF WATER RATES

Residential and General Service	Current Rates	Proposed Rates	Recommended Rates
Base Facility Charges			
Meter Sizes			
5/8" x 3/4"	$ 6.37	$ 9.97	$ 6.37
3/4"	9.89	14.96	9.89
1"	15.95	24.93	15.95
1 1/2"	31.89	49.85	31.89
2"	51.05	79.76	51.05
3"	102.08	159.52	102.08
4"	159.51	249.25	159.51
6"	319.00	498.50	319.00
Gallonage Charges			
Usage Levels per Month			
0 - 5,000 gallons	$ 0.51	$ 0.51	$ 0.51
5,001 - 10,000 gallons	0.51	1.15	0.51
10,001 gallons and above	0.51	2.30	0.51
Typical Bills			
5/8" x 3/4" @ 5,000 gallons	$ 8.92	$ 12.52	$ 8.92
5/8" x 3/4" @ 10,000 gallons	11.47	18.27	11.47
5/8" x 3/4" @ 15,000 gallons	14.02	29.77	14.02
5/8" x 3/4" @ 20,000 gallons	16.57	41.27	16.57
2" @ 10,000 gallons	$ 56.15	$ 88.06	$ 56.15
2" @ 20,000 gallons	61.25	111.06	61.25
2" @ 50,000 gallons	76.55	180.06	76.55
2" @ 100,000 gallons	102.02	295.06	102.02
2" @ 200,000 gallons	153.05	525.06	153.05

SUN COMMUNITIES FINANCE LIMITED PARTNERSHIP
DOCKET NO. 990243-WU
TEST YEAR ENDED DECEMBER 31, 1998

SCHEDULE NO. 4-B

SCHEDULE OF WASTEWATER RATES

Residential	Current Rates	Proposed Rates	Recommended Rates
Base Facility Charges			
All Meter Sizes	$ 7.65	N/A	$ 7.65
Gallonage Charge			
Per 1,000 gallons; maximum of 6,000 gallons per month	$ 2.07	N/A	$ 2.07
General Service			
5/8" x 3/4"	$ 7.65	N/A	$ 7.65
3/4"	11.48	N/A	11.48
1"	19.12	N/A	19.12
1 1/2"	38.25	N/A	38.25
2"	61.21	N/A	61.21
3"	122.40	N/A	122.40
4"	191.26	N/A	191.26
6"	382.53	N/A	382.53
Gallonage Charges			
Per 1,000 gallons	$ 2.50	N/A	$ 2.50
Typical Bills			
Residential			
5/8" x 3/4" @ 5,000 gallons	$ 18.00	N/A	$ 18.00
5/8" x 3/4" @ 10,000 gallons	20.07	N/A	20.07
5/8" x 3/4" @ 15,000 gallons	20.07	N/A	20.07
5/8" x 3/4" @ 20,000 gallons	20.07	N/A	20.07
General Service			
2" @ 10,000 gallons	$ 86.21	N/A	$ 86.21
2" @ 20,000 gallons	111.21	N/A	111.21
2" @ 50,000 gallons	186.21	N/A	186.21
2" @ 100,000 gallons	311.21	N/A	311.21

--- PART I - LIMITED PROCEEDING ---

WATER TREATMENT PLANT — USED AND USEFUL DATA

Docket No. 990243-WU Utility SUN COMMUNITIES Date JULY 1999

1) Capacity of Plant 1,080,000 gallons per day,
2) Maximum Daily Flow 688,000 gallons per day
3) Average Daily Flow 578,400 gallons per day
4) Fire Flow Capacity 0 gallons per day
   a) Needed Fire Flow 120,000 gallons per day
5) Growth 77,336 gallons per day

   a) Test Year Customers in ERC's - Begin 798 End 829 Av. 814
   b) Customer Growth Using Regression Analysis in ERC's for Most Recent 5 Years Including Test Year 61 ERC's
   c) Statutory Growth period 1.5 Years

   (b) x (c) x $\left[\frac{2}{(a)}\right]$ 77,336, gallons per day for Growth

6) Excessive Unaccounted for Water 33,955 gallons per day
   a) Total Amount 69,324 gallons per day 19.7 % of Av. Daily Flow
   b) Reasonable Amount 35,370 gallons per day 10.0% of Av. Daily Flow
   c) Excessive Amount 33,955 gallons per day 9.7 % of Av. Daily Flow

PERCENT USED AND USEFUL FORMULA

$$\left[\frac{(2 + 5) + 4a - 6}{1}\right] = 79 \%$$ Used and Useful

_____ Engineer

WATER DISTRIBUTION SYSTEM — USED AND USEFUL DATA

Docket No. 990243-WU Utility SUN COMMUNITIES Date JULY 1999

1) Capacity 984 ERC's (Number of potential customers without expansion)

2) Number of TEST YEAR Connections 829 ERC's

a) Begin Test Year 798 ERC's

b) End Test Year 829 ERC's

c) Average Test Year 814 ERC's

3) Growth 61 ERC's

a) Customer Growth Using Regression Analysis in ERC's for Most Recent 5 Years Including Test Year 61 ERC's

c) Statutory Growth period 1 Years

(a) x (b) = 61 ERC's for Growth

PERCENT USED AND USEFUL FORMULA

$$\frac{(2 + 3)}{1} = 90\ \%\ \text{Used and Useful}$$

_____ Engineer

WASTEWATER TREATMENT PLANT — USED AND USEFUL DATA

Docket No. 990243-WU Utility SUN COMMUNITIES Date JULY 1999

1) Permitted Cap. of Plant 200,000 *(AADF) gallons per day

2) Maximum Daily Flow 110,000 gallons per day

3) Average Daily Flow 63,874 (AADF) gallons per day

4) Fire Flow Requirements NOT APPLICABLE gallons per day

5) Growth 7,478 gallons per day
*Not to exceed 20% of present customers

a) Test Year Customers in ERC's - Begin 740 End 771 Av. 756

b) Customer Growth Using Regression Analysis in ERC's for Most Recent 5 Years Including Test Year 59 ERC's

c) Construction Time for Additional Capacity 1.5 Years

(b) x (c) x $\left[\frac{3}{(a)}\right]$ 7,478 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

$$\frac{[(3) + (5)] - 6}{1} = 36\ \%$$ Used and Useful

_____ Engineer

* Annual Average Daily Flow

WASTEWATER COLLECTION SYSTEM — USED AND USEFUL DATA

Docket No. 990243-WU Utility SUN COMMUNITIES Date JULY 1999

1) Capacity 984 ERC's (Number of potential customers without expansion)

2) Number of TEST YEAR Connections 771 ERC's day

a) Begin Test Year 740 ERC's

b) End Test Year 771 ERC's

c) Average Test Year 756 ERC's

3) Growth 59 ERC's

a) Customer Growth Using Regression Analysis in ERC's for Most Recent 5 Years Including Test Year 59 ERC's

b) Construction Time for Additional Capacity 1 Years

(a) x (b) = 59 ERC's Growth

PERCENT USED AND USEFUL FORMULA

$$\frac{(2 + 3)}{1} = 84\ \%\ \text{Used and Useful}$$

_____ Engineer

--- PART II - OVEREARNINGS ---

Attachment A page 1 of 2

WATER TREATMENT PLANT — USED AND USEFUL DATA

Docket No. 990243-WU Utility SUN COMMUNITIES Date JULY 1999

1) Capacity of Plant 1,080,000 gallons per day,

2) Maximum Daily Flow 688,000 gallons per day

3) Average Daily Flow 578,400 gallons per day

4) Fire Flow Capacity 0 gallons per day

a) Needed Fire Flow 120,000 gallons per day

5) Growth 257,725 gallons per day

a) Test Year Customers in ERC's - Begin 798 End 829 Av. 814

b) Customer Growth Using Regression Analysis in ERC's for Most Recent 5 Years Including Test Year 61 ERC's

c) Statutory Growth period 5 Years

(b) x (c) x $\left[\frac{2}{(a)}\right]$ 257,725 gallons per day for Growth

6) Excessive Unaccounted for Water 33,955 gallons per day

a) Total Amount 69,324 gallons per day 19.7 % of Av. Daily Flow

b) Reasonable Amount 35,370 gallons per day 10.0% of Av. Daily Flow

c) Excessive Amount 33,955 gallons per day 9.7 % of Av. Daily Flow

PERCENT USED AND USEFUL FORMULA

$$\left[\frac{(2 + 5) + 4a - 6}{1}\right] = 96\ \%$$ Used and Useful

_____ Engineer

WATER DISTRIBUTION SYSTEM — USED AND USEFUL DATA

Docket No. 990243-WU Utility SUN COMMUNITIES Date JULY 1999

1) Capacity 984 ERC's (Number of potential customers without expansion)

2) Number of TEST YEAR Connections 829 ERC's

a) Begin Test Year 798 ERC's

b) End Test Year 829 ERC's

c) Average Test Year 814 ERC's

3) Growth 305 ERC's

a) Customer Growth Using Regression Analysis in ERC's for Most Recent 5 Years Including Test Year 61 ERC's

b) Statutory Growth Period 5 Years

(a) x (b) = 305 ERC's for Growth

PERCENT USED AND USEFUL FORMULA

$$\frac{(2 + 3)}{1} = 100\ \%$$ Used and Useful

_____ Engineer

WASTEWATER TREATMENT PLANT — USED AND USEFUL DATA

Docket No. 990243-WU Utility SUN COMMUNITIES Date JULY 1999

1) Permitted Cap. of Plant 200,000 *(AADF) gallons per day

2) Maximum Daily Flow 110,000 gallons per day

3) Average Daily Flow 63,874 (AADF) gallons per day

4) Fire Flow Requirements NOT APPLICABLE gallons per day

5) Growth 24,780 gallons per day
*Not to exceed 20% of present customers

a) Test Year Customers in ERC's - Begin 740 End 771 Av. 756

b) Customer Growth Using Regression Analysis in ERC's for Most Recent 5 Years Including Test Year 61 ERC's

c) Construction Time for Additional Capacity 5 Years

(b) x (c) x $\left[\frac{3}{(a)}\right]$ 24,780 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

$$\frac{[(3) + (5)] - 6}{1} = 44\ \%$$ Used and Useful

_____ Engineer

* Annual Average Daily Flow

WASTEWATER COLLECTION SYSTEM — USED AND USEFUL DATA

Docket No. 990243-WU Utility SUN COMMUNITIES Date JULY 1999

1) Capacity 984 ERC's (Number of potential customers without expansion)

2) Number of TEST YEAR Connections 771 ERC's day

   a) Begin Test Year 740 ERC's

   b) End Test Year 771 ERC's

   c) Average Test Year 756 ERC's

3) Growth 305 ERC's

   a) Customer Growth Using Regression Analysis in ERC's for Most Recent 5 Years Including Test Year 61 ERC's

   b) Construction Time for Additional Capacity 5 Years

   (a) x (b) = 305 ERC's Growth

PERCENT USED AND USEFUL FORMULA

$$\frac{(2 + 3)}{1} = 100\ \%$$ Used and Useful

_____ Engineer

Henry Dean, Executive Director
John R. Wehle, Assistant Executive Director

ST. JOHNS RIVER WATER MANAGEMENT DISTRICT

POST OFFICE BOX 1429 PALATKA, FLORIDA 32178-1429
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TDD 904-329-4450 TDD SUNCOM 860-4450
FAX (Executive) 329-4125 (Legal) 329-4485 (Permitting) 329-4315 (Administration/Finance) 329-4508

SERVICE CENTERS

618 E. South Street
Orlando, Florida 32801
407-897-4300
1-877-228-1658
FAX 407-897-4354
TDD 407-897-5960

7775 Baymeadows Way
Suite 102
Jacksonville, Florida 32256
904-730-6270
1-800-852-1563
FAX 904-730-6267
TDD 904-448-7900

PERMITTING:
305 East Drive
Melbourne, Florida 32904
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FAX 407-722-5357
TDD 407-722-5368

OPERATIONS:
2133 N. Wickham Road
Melbourne, Florida 32935-8109
407-752-3100
TDD 407-752-3102

February 3, 2000

D. Neil Bethea
Public Utilities Supervisor
Division of Water and Wastewater
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

RECEIVED
FEB 14 2000
Florida Public Service Commission
Division of Water and Wastewater

Re: Funding of water conservation measures at the Water Oaks Development

Dear Mr. Bethea:

In setting the water rates which the Water Oaks water utility may charge to its customers, the St. Johns River Water Management District (District) urges the Florida Public Service Commission (FPSC) to consider authorizing rates, and a water conservation rate structure, that will encourage and fund beneficial water conservation measures. The District promotes water conservation for the purpose of sustaining, or at least extending, the usefulness of existing water supply sources. This goal is supported by conservation requirements in the District's consumptive use permitting rules and by providing technical and financial assistance to permittees to help them achieve efficient water use and avoidance of water losses. However, even with assistance from the District, water supply utilities may face considerable expense in implementing conservation measures.

Publicly owned utilities may freely choose to raise rates to pass the cost of water conservation on to customers who are responsible for excess usage. However, investor owned utilities who are regulated by the FPSC have that option only if the FPSC allows it. In the event that the FPSC does not allow the utility to recover the costs of implementing conservation practices, it may not be able to afford to implement them without creating financial losses for its investors. By failing to allow a utility to recover the cost of implementing water conservation practices, we often miss out on the opportunity to implement very beneficial water conservation measures and achieve significant water savings. Therefore, it is in the public interest to allow the utility to increase its rates and to fund, from the sale of water, conservation.

Water Oaks, a manufactured home, retirement development in Marion County, is an excellent example of a utility in need of water conservation measures. The

William Kerr, CHAIRMAN MELBOURNE BEACH
Ometrias D. Long, VICE CHAIRMAN APOPKA
Jeff K. Jennings, SECRETARY MAITLAND
Duane Ottenstroer, TREASURER SWITZERLAND
Dan Roach FERNANDINA BEACH
William M. Segal MAITLAND
Otis Mason ST. AUGUSTINE
Clay Albright EAST LAKE WEIR
Reid Hughes DAYTONA BEACH

development historically has a very high per capita water use. The District recommends that Water Oaks be allowed to have rates and a water conservation rate structure which will provide sufficient earnings to pay for the attached conservation measures.

The cost of implementing the recommended conservation practices will vary, depending on current conditions and details of how the recommendations are implemented. Rough estimates of the costs of implementing each recommendation are included in the attachement. A survey of existing conditions will be needed to determine costs more closely. Depending on existing conditions, SJRWMD staff estimates that the first year of a thorough water conservation program for Water Oaks Utility could cost from approximately $30,000 to $250,000 and subsequent annual expense would be approximately $28,000 to $80,000.

FSPC authorization of water rates and a water conservation rate structure that will allow for implementation of water conservation measures at Water Oaks is in the best interest of water utility customers since conserving Florida's water resources assures that higher quality water will be available to them for a longer time at a relatively lower price. If existing water sources are not used wisely and efficiently, alternative and more costly sources will have to be developed sooner. If you have any questions regarding this matter, please do not hesitate to contact me at (904) 329-4491.

Sincerely,

D.T. Jenkins

Dwight Jenkins, Director
Division of Water Use Regulation
Department of Resource Management

C: Don Brandes
Hal Wilkening

RECOMMENDED CONSERVATION PRACTICES FOR WATER OAKS UTILITY

February 9, 2000

SYSTEM AUDITS

PURPOSE: Provide baseline information to identify opportunities to improve water use efficiency and reduce system losses and unnecessary or wasteful uses, and to assess progress toward improving efficiency and reducing waste.

PRACTICE: Perform annual audits of production, treatment, and distribution systems and develop measurements of end-user water use for indoor and outdoor uses. System audits are now required as part of the SJRWMD consumptive use

ESTIMATED COST: $500 to $10,000 depending on whether a consultant is needed.

METER REPLACEMENT PROGRAM

PURPOSE: Assure that water distributed through the utility system is accounted for by accurate customer meters and meter reading procedures. Accurate data utilized in synchrony with accurate billing methods should provide a methodology that will allow the utility to identify problems or losses throughout the distribution system and ultimately reduce unaccounted for water losses. It also assures that the water user is appropriately charged for the water and, thereby increasing incentive to conserve.

PRACTICE: If not already in practice, implement a periodic meter replacement or reconditioning program.

- Replace or recondition of all meters with an error rate exceeding 5%.
- Replace or recondition of all meters that have exceeded the manufacturer's recommended use volume or age.

ESTIMATED COST: $5,000 annually

UTILTIY SYSTEM LEAK DETECTION AND REPAIR

PURPOSE: Reduce loss of unused water resulting from leakage in the transmission and distribution system.

PRACTICE: If the annual water audit indicates that greater than 10% of the water leaving the treatment facility cannot be accounted for by an end use, implement a leak detection and repair program for older parts of the utility's transmission and distribution system.

ESTIMATED COST: $0 to $20,000 depending on system condition

MONTHLY CUSTOMER BILLING

PURPOSE: Allows customers the ability to associate monthly water use patterns with water use and the resulting water and sewer costs. Also, allows customer the ability to monitor the effectiveness of implemented water conservation or water use pattern changes by providing them with the tools to visualize water use reductions and reduced water charges .

PRACTICE: If not already in practice, implement an envelope style monthly billing system. Include, at a minimum, the following information in each monthly bill.

- Water conservation tip or bill stuffers
- Water use for the current billing month
- Previous month's water use
- Corresponding month's water use for the previous year
- Rate per unit volume charged for water.

ESTIMATED COST: $0 to $5,000 depending on existing procedures

WATER CONSERVATION RATE STRUCTURE

PURPOSE: Provide water customers with an economic incentive for avoiding excessive or wasteful water use while also providing an adequate quantity of water for essential needs at a reasonable price.

PRACTICE: Adopt a variable water rate schedule that provides adequate water for essential needs at a moderate base price but increases the price significantly for additional increments of water to discourage excessive or wasteful use. Such rates may vary seasonally.

ESTIMATED COST: $0 to $10,000 depending on whether a rate consultant is used.

PLUMBING RETROFITS

PURPOSE: Reduce unnecessary indoor water use by limiting flow rates.

PRACTICE: Inventory the age of homes and other structures and implement a program to retrofit older buildings with ultralow flow plumbing devices, including toilets requiring a maximum of 1.6 gallons per flush; and shower heads, kitchen sink faucets, and bathroom basin faucets with maximum flows of 2.5 gallons per minute. Include professional installation.

ESTIMATED COST: $0 to $100,000 depending on age of structures. If whole subdivision needs to be retrofited, project and cost may be spread over several years.

IRRIGATION SYSTEMS RETROFITS.

PURPOSE: Reduce landscape irrigation wastage.

PRACTICE: Inventory landscape irrigation systems and implement a program to retrofit individual landscape irrigation systems with system control overrides connected to rain sensors or soil moisture sensors to automatically turn off the system when not needed for all systems that do not currently have sych devices. Combine the distibution of these devices with educational workshops on plant irrigation needs

ESTIMATED COST: $0 to $70,000 depending on age of systems and existing compliance with law. If whole subdivision needs to be retrofited, project and cost may be spread over several years.

UTILITY OWNED IRRIGTION SYSTEMS.

PURPOSE: Reduce landscape irrigation wastage.

PRACTICE: Have all landscape irrigation equipment owned or operated by the utilitiy or its successor inspected annually by a professionally certified irrigation designer or installation contractor and correct any deficiencies found within 30 days of identification.

ESTIMATED COST: $1,000 to $5,000 annually depending on extent of area

WATER CONSERVATION EDUCATION.

PURPOSE: Enhance public consciousness on the importance of water conservation, water conservation practices, and its value of water conservation to individual home owners and business people.

PRACTICE: Paricipate in the SJRWMD cooperative water conservation education project.

1. Arrange for local broadcast of public service announcements provided by SJRWMD on local radio and TV stations.
Estimated cost: $0 to $1,000 depending on whether air time is obtained as free public service announcements or must be purchased.

2. Provide water conservation videos to local schools and community organizations.
- Purchase completed SJRWMD video from production company
- Use videos to in water conservation workshops.
- Make videos available to other organizations
- Publicize the availability of videos to the extent that it is generally known by educators and community and organization leaders and maintain a record of publicity efforts.

Estimated cost: $100

3. Construct, maintain, and publicize a water efficient landscape demonstration project in a highly visible location.
Estimated cost: $5,000 initial installation and $500 to $1,000 annual maintenance

4. Provide water conservation exhibits in public places such as trade shows, festivals, shopping malls, utility offices, and government buildings.
- Purchase completed SJRWMD exhibit from production company.
- Add local content to exhibit if desired.
- Display exhibit in prominent locations.
- Make exhibit available to other organizations
- Publicize the availability of exhibits to the extent that it is generally known by educators and community and organization leaders and maintain a record of publicity efforts.

Estimated cost: $900

5. Provide/sponsor water conservation speakers to local schools and community organizations
- Purchase SJRWMD presentation materials if desired.
- Perform water conservation presentations
- Publicize the availability of speakers and presentation materials to the extent that it is generally known by educators and community and organization leaders.

Estimated cost: $100

6. Provide water conservation articles and/or reports to local news media.
Estimated cost: $0 to $200

7. Display water conservation posters and distribute literature.
- Obtain from SJRWMD or produce posters and literature.
- Install posters and literature display racks in public buildings and other places.

Estimated cost: $0 to $500

8. Provide landscape irrigation audits and irrigation system operating instructions to local small businesses and residents.
- Offer landscape irrigation audits and irrigation system consultation to the public by an SJRWMD approved provider.
- Publicize the availability of landscape irrigation audits and irrigation system instruction to the extent that it is generally known within the community.

Estimated cost: $10,000 annually

9. Establish a water audit customer assistance program which addresses both indoor and outdoor water use.
- Implement a program to assist customers in identifying leakage and wasteful water use practices at their use sites, including indoor and outdoor uses for individual and multifamily dwellings, offices, and commercial properties.
- Publicize the availability of consumer water conservation assistance to the extent that it is generally known within the community.

Estimated cost: $10,000 annually for part time staff or contractor and materials

ESTIMATED TOTAL EDUCATION COST: $26,000 to $28,000

MAINTAINING RECORDS AND REPORTING OF ACTIVITIES: Maintain records of when and where of all conservation practices are implemented and submit activity reports annually to PSC or SJRWMD.

ESTIMATED COST: $1,000 annually

RECOMMENDED CONSERVATION PRACTICES FOR WATER OAKS UTILITY

9-Feb-00	First year	
	Min.	**Max.**
SYSTEM AUDITS	500	10,000
METER REPLACEMENT PROGRAM	5,000	5,000
UTILTIY SYSTEM LEAK DETECTION AND REPAIR	0	20,000
MONTHLY CUSTOMER BILLING	0	5,000
WATER CONSERVATION RATE STRUCTURE	0	10,000
PLUMBING RETROFITS	0	100,000
IRRIGATION SYSTEMS RETROFITS.	0	70,000
UTILITY OWNED IRRIGTION SYSTEMS.	1,000	5,000
WATER CONSERVATION EDUCATION.	21,600	23,800
MAINTAINING RECORDS AND REPORTING	1,000	1,000
	29,100	249,800

Annual	
Min.	**Max.**
500	10,000
5,000	5,000
0	0
0	500
0	0
0	20,000
0	15,000
1,000	5,000
20,800	23,800
1,000	1,000
28,300	80,300

Water Oak Utilities Company, Inc.

Schedule of Conservation Related Activities and Estimated Costs

Line No.	Description	Estimated Cost	Frequency
1	Annual Water Audit/Leak Detection	$5,000	Annually
2	Xeriscape Consulting/Rebate Program	$5,000	Annually
3	Publish Conservation Tips as Bill Stuffers	$2,500	Annually
4	Purchase Low Flow Shower Kits and Distribute	$2,500	One Time
5	Examine Water Using Data and Conservation Rates	$5,000	Annually
6	Attend Annual Conference/Seminar on Conservation	$1,500	Annually
7	Purchase/Install Rain/Moisture Sensors For Irrigation	$1,500	Annually
8	Low Flow Toilet Rebate Program	$1,000	Annually
9	Sponsor Local Education Programs @ Schools	$1,000	Annually
10	Retrofit Wastewater Plant for Washdown w/reuse	$5,000	One Time
11	**Proposed Annual Expenditure For First Year**	**$30,000**	
12	**Proposed Annual Expenditure Thereafter**	**$22,500**	
	MAJOR CAPITAL EXPENDITURES FOR DISCUSSION		
13	Upgrade Wastewater Plant to Provide Reuse to Golf Course	$300,000+	One Time
14	Provide reuse to other public access areas, if feasible	$100,000	One Time

SUN COMMUNITIES FINANCE LIMITED PARTNERSHIP
DOCKET NO. 990243-WU
TEST YEAR ENDED DECEMBER 31, 1998

ATTACHMENT E

IMPUTATION OF GALLONS SOLD AND ASSOCIATED REVENUES

1998	(a)	(b)	(c)		(d) = @sum(b)..(c)	(e) = (a)-(d)	(f)	(g) = (e)-(f)
	GALS OF	METERED GALLONS ACCOUNTED FOR			TOTAL	REMAINING	TREATED UNACCT'D	
	TREATED				METERED GALS	GALS TO	FOR GALS	GALS TO UNMETERED
MONTH	WATER	RS - Billed	RS - Unbilled		ACCT'D FOR	ACCT FOR	@ <= 10%	CUSTOMERS
January	7,760,000	4,142,157			4,142,157	3,617,843	776,000	2,841,843
February	6,329,000	3,308,743			3,308,743	3,020,257	632,900	2,387,357
March	8,532,000	4,366,015			4,366,015	4,165,985	853,200	3,312,785
April	13,281,000	2,386,971			2,386,971	10,894,029	1,328,100	9,565,929
May	14,148,000	6,049,896			6,049,896	8,098,104	1,414,800	6,683,304
June	15,255,000	7,627,510			7,627,510	7,627,490	1,525,500	6,101,990
July	11,963,000	6,856,715			6,856,715	5,106,285	1,196,300	3,909,985
August	10,027,000	7,911,685			7,911,685	2,115,315	1,002,700	1,112,615
September	7,773,000	5,881,542			5,881,542	1,891,458	777,300	1,114,158
October	11,738,000	5,277,560	3,435,287		8,712,847	3,025,153	1,173,800	1,851,353
November	11,444,000	7,669,578	3,477,600		11,147,178	296,822	296,822	0
December	10,496,000	6,109,537	2,647,649		8,757,186	1,738,814	1,049,600	689,214
TOTAL	128,746,000	67,587,909	9,560,536		77,148,445	51,597,555	12,027,022	39,570,533

(h)	(i)	(j)	(k)	(l)	(m)	(n)	(o)	(p) = [(i)*(j)*(k)]+ [(m)/1000]*(n)	(q) = [(i)*(j)*(k)]+ [(m)/1000]*(n)	(r) = (p)+(q)
Estim Meter Sizes for Unmetered Customers	Number of Customers at Meter Size	Number of Months in 1998 Custs Rec'd Service	Water BFC	Waste-water BFC	Gallons Attributed to Unmetered Customers	Water Gal Chg	Wastewater Gal Chg	Revenues Imputed to Unmetered RS + GS Customers — Water	Wastewater	Total
RS 5/8"	201	9	$6.37							
GS 5/8"	4	12	$6.37							
GS 2"	10	12	$51.05							
					39,570,533	$0.51		$38,136.06		$38,136.06
RS 5/8"	201	9		$7.65						
GS 5/8"	2	12		$7.65						
GS 2"	3	12		$61.21						
					9,942,264		$2.07			
					793,875		$2.50		$38,791.18	$38,791.18
								$38,136.06	**$38,791.18**	**$76,927.25**

Sources: (a) DEP MORs for 1998.
(b)..(c) Audit report WPs.
(f) *If col (a)*10% <= col (e), then col (f) = col (a) * 10%, else col (e).* Unaccounted for @ 10% per staff engineer.
(h)..(j) Per staff audit and staff engineer.
(k)..(l), (n)..(o) Utility's tariff sheets.
(m) Water gallons from col (g).
(m) *Wastewater gals = (5,496 avg RS ww billed Oct - Dec x 201 customers per months x 9 months Jan - Sep) + 793,875 gallons per staff engineer.*