



# Public Service Commission

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RECORDS AND REPORTING

**DATE:** OCTOBER 5, 2000

**TO:** DIRECTOR, DIVISION OF RECORDS AND REPORTING (BAYO)

**FROM:** DIVISION OF ECONOMIC REGULATION (CASEY, RENDELL, T. DAVIS, WETHERINGTON) *RC*  
DIVISION OF LEGAL SERVICES (BRUBAKER) *JSB S.M.C.*

**RE:** DOCKET NO. 000090-SU - APPLICATION FOR A LIMITED PROCEEDING BY USEPPA ISLAND UTILITY, INC. TO INCREASE WASTEWATER RATES  
COUNTY: LEE

**AGENDA:** 10/17/00 - REGULAR AGENDA - PROPOSED AGENCY ACTION, EXCEPT ISSUES NOS. 13 AND 14 - INTERESTED PERSONS MAY PARTICIPATE

**CRITICAL DATES:** NONE

**SPECIAL INSTRUCTIONS:** NONE

**FILE NAME AND LOCATION:** S:\PSC\ECR\WP\000090.RCM

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FPSC-RECORDS/REPORTING

**TABLE OF CONTENTS**

<b><u>ISSUE</u></b>	<b><u>DESCRIPTION</u></b>	<b><u>PAGE</u></b>
-	Case Background	2
	<b><u>QUALITY OF SERVICE</u></b>	
1	Quality of Service (T. DAVIS)	4
	<b><u>RATE BASE</u></b>	
2	Appropriate Test Year (CASEY, RENDELL)	8
3	Growth Allowance (T. DAVIS)	9
4	Used and Useful Percentages (T. DAVIS)	10
5	Test Year Rate Base (CASEY, RENDELL, DAVIS)	17
	<b><u>COST OF CAPITAL</u></b>	
6	Rate of Return on Equity, Overall Rate of Return (CASEY, RENDELL)	20
	<b><u>NET OPERATING INCOME</u></b>	
7	Test Year Revenues (CASEY, RENDELL)	21
8	Operating Expenses (CASEY, RENDELL, DAVIS)	22
	<b><u>REVENUE REQUIREMENT</u></b>	
9	Revenue Requirement (CASEY, RENDELL)	29
10	Excess Earnings (CASEY, RENDELL)	30
	<b><u>OTHER ISSUES</u></b>	
11	Limited Proceeding (CASEY, RENDELL)	33
12	Wastewater Rates (CASEY, RENDELL)	34
13	Billing Practices (CASEY, RENDELL)	37
14	NARUC Conformity (CASEY, RENDELL)	39
15	Close Docket (BRUBAKER, CASEY, RENDELL, T. DAVIS)	41
	<b><u>SCHEDULES DESCRIPTION</u></b>	<b><u>PAGE</u></b>
1-A	Water Rate Base	42
1-B	Wastewater Rate Base	43
1-C	Adjustments to Rate Base	44
2	Capital Structure	45
3-A	Water Operating Income	46
3-B	Wastewater Operating Income	47
3-C	Adjustments to Operating Income	48
3-D	Water Operation and Maintenance Expenses	50
3-E	Wastewater Operation & Maintenance Expenses	51

CASE BACKGROUND

Useppa Island Utility, Inc. (Useppa or utility) is a class C water and wastewater utility located in Lee County, off the coast of North Fort Myers. The island covers approximately 100 acres which offers over two miles of waterfront. The utility serves a membership of clients known as the Useppa Island Club. Members of the Useppa Island Club create a seasonal customer base that visits the island for holidays and special events. Only a limited number of the utility's customers are year-round residents. The utility is a 100% owned subsidiary of the Useppa Inn and Dock Company. The following was obtained from the utility's 1999 annual report:

	<u>Number of Customers</u>	<u>Operating Revenues</u>	<u>Operating Expenses</u>	<u>Net Operating Income</u>
Water	150	\$165,009	\$115,763	\$49,247
Wastewater	150	\$ 82,021	\$109,148	(\$27,128)

Lee County became jurisdictional in February, 1970. This utility was organized in 1981 and the Commission granted it Certificates Nos. 354-W and 310-S by Order No. 10900, issued June 16, 1982, in Docket No. 810268-WS.

The utility has had three staff assisted rate cases (SARCs), Docket No. 850206-WS (Order No. 16104 issued May 13, 1986), Docket No. 921049-WS (Order No. PSC-93-0930-FOF-WS, issued June 21, 1993), and Docket No. 960975WS (Order No. PSC-97-0930-FOF-WS, issued August 5, 1997). The utility has also received rate adjustments through the application of a 1990 pass-through and a 1992 price index.

The Florida Department of Environmental Protection (DEP) mandated Useppa to increase its wastewater treatment facilities to meet current as well as all future demand. The project has now been completed. On January 25, 2000, the utility applied for this Limited Proceeding (LIMP) pursuant to Section 367.0822, Florida Statutes, and has paid the appropriate filing fee.

In preparation for this recommendation, the engineering staff has conducted a field investigation, which included a visual inspection of the new wastewater treatment facilities along with the service area. The utility's actual costs were reviewed by examining all invoices for work involving this upgrade.

Lee County is located in the South Florida Water Management District (SWFWMD). The utility is located in a critical use county on environmentally sensitive land.

The utility's 1999 annual report was received April 4, 2000. A preliminary review of the report showed possible overearnings of the utility's water system resulting in overearnings on an overall basis. Staff requested an audit of the utility books and records to determine if the utility experienced actual overearnings in 1999, and whether it should be allowed a limited proceeding for wastewater. This recommendation addresses the utility's request for a rate increase and staff's investigation of overearnings in the water system.

A customer meeting for this utility was held April 6, 2000 on Useppa Island. Quality of Service and Customer Service issues are discussed in Issue No. 1.

The Commission has the authority to consider this application under Section 367.0822, Florida Statutes.

**ISSUE 1:** Is the quality of service provided by Useppa considered satisfactory?

**RECOMMENDATION:** The quality of service provided by Useppa should be considered satisfactory. (T.DAVIS)

**STAFF ANALYSIS:** Rule 25-30.433(1), Florida Administrative Code, states that:

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

Staff's analysis below addresses each of these three components.

Useppa is located off the coast of North Fort Myers in the waters of Pine Island Sound which is about two miles south of Boca Grande Pass at marker 63 on the Intracoastal Waterway. There is no bridge to the island making access exclusive to air or sea. The island is reported to be a shell mound created by native Americans thousands of years ago and covers approximately 100 acres which offers over two miles of beach. The utility serves a selective membership of clients known as the Useppa Island Club. Members of the Useppa Island Club create a seasonal customer base that visits the island for vacations, holidays and special events. Only a limited number of the utility's customers are year round residents.

#### QUALITY OF UTILITY'S PRODUCT

In Lee County, the potable water program is regulated by the Environmental Engineering Division of the Lee County Health Public Health Unit (LCPHU). According to the LCPHU, the utility is currently up-to-date with all chemical analysis and all test results have been satisfactory for the past three years. The utility's testing program indicates that it serves water which

meets or exceeds all standards for safe drinking water and the water quality is considered satisfactory.

Jurisdiction over wastewater facilities in Lee County is directly under the DEP. During the last rate case in 1996, the DEP drafted a Consent Order (CO) against Useppa to correct violations concerning the treatment and disposal of Useppa's domestic wastewater. According to the DEP, the effluent being discharged did not meet standards, causing the disposal ponds to deteriorate. In order to correct the violations listed in the CO, the utility constructed a new wastewater treatment plant. Those violations which were an issue in the last rate case are now considered corrected. Currently, the DEP has no violations or corrective orders pending against the utility, and the quality of the wastewater effluent should be considered satisfactory.

#### OPERATIONAL CONDITIONS AT THE PLANT

The quality of the utility's plant-in-service is generally reflective of the quality of the utility's product. The water plant was upgraded just prior to the last rate case to increase water production from 30,000 gallons per day (gpd) to 60,000 gpd. The utility's engineer certified the construction with the LCPHU, and the new reverse/osmosis units were installed within the frame building as a direct replacement of the existing water filtration system. The latest inspection of the water treatment system noted the plant was primarily satisfactory with the exception of no auxiliary power generator, and no cross-connection control program which was listed as deficiencies. Also noted in LCPHU's compliance inspection report dated July 12, 2000, was that "one well is not sufficient." The need for a power generator will be discussed further in the customer satisfaction portion of this issue. The other concerns are considered plant-in-service issues that do not impact the operational conditions at the plant. Generally, the overall conditions at the water plant should be considered satisfactory.

As discussed above, in 1996 the DEP drafted a CO against Useppa to correct violations concerning the wastewater treatment and disposal plant. According to the DEP, the effluent being discharged was so severely deficient of regulatory standards that solids were forming a layer of organic matter on the bottom of the ponds, preventing percolation. The wastewater treatment plant was a 15,000 gpd plant experiencing average flows around 24,500 gpd while growing at a rate of 6 Equivalent Residential Connections (ERCs) per year. In order to correct the violations listed in the CO, the utility hired the engineering/consulting firm of Q. Grady

Minor & Associates, P.A. to do a capacity analysis. The result of that study predicted that the future population (at build-out) based upon 100% occupancy for any given holiday or event would require a plant capable of handling 44,975 gpd. The utility has since completed the construction of a 45,000 gpd wastewater treatment plant. Since this is a new plant, the operational conditions of the wastewater treatment plant should be considered satisfactory.

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

A customer meeting was held on April 6, 2000, in the Collier Inn Conference Facility on Useppa Island. From a customer base of 225 ERCs, there were 14 customers and 3 utility personnel at the meeting. The quality of service issues raised by those customers were primarily concerned with water outages and inconsistent water pressure. One customer pointed out the extensive irrigation that takes place at residences on the island. Mr. Formosa, the general manager of the utility, stated that he was aware of the problem, and was looking into ways to better cope with the situation.

The utility does not deny that there are fluctuations in water pressure during the day, but believes this condition is caused by irrigation of residential tropical landscaping. It appears that voluntary restrictions for irrigation are not being observed, and the capacity of the water storage tanks are being taxed. Subsequent to the customer meeting, Mr. Formosa provided staff with the utility's proposed solution to the water shortage problem. The utility is in the process of reviewing bids to construct a second well and install an additional storage tank to eliminate the problem.

Useppa is an island which is supplied electric power via a sub-aqueous cable from the mainland. During thunder storms and other adverse weather conditions, electric power is often interrupted on the island. During power outages, the water treatment plant does not have an auxiliary power generator to continue water service until power is restored. This places the utility at risk of water pressure falling below the minimum requirement of 20 psi. During the last inspection by the LCPHU, the lack of a power generator in accordance with Rule 62-555.320(6), Florida Administrative Code, was cited as a deficiency. The utility is making arrangements to install an auxiliary power generator as soon as possible to meet the demands of Rule 62-555.320(6), Florida Administrative Code.

By all appearances, the utility appears to be putting forth a sufficient good faith effort in its attempts to provide satisfactory quality of service. After considering the three components discussed above, it is recommended that the quality of service provided by Useppa Island Utility, Inc. should be considered satisfactory.



**ISSUE 2:** Should the Commission approve a year-end rate base for Useppa for purposes of this investigation?

**RECOMMENDATION:** Yes, the Commission should approve a year-end rate base for Useppa to allow it an opportunity to earn a fair return on the utility investment made during the test year and to insure compensatory rates on a prospective basis. (CASEY, RENDELL)

**STAFF ANALYSIS:** The utility was required to make major wastewater plant additions of \$186,834 during the test year ending December 31, 1999. The upgrade represents over 44% of its total test year wastewater plant. To allow the utility an opportunity to recover the amount spent on plant improvements, the utility should be allowed a year-end rate base.

The Commission has the authority to apply a year end rate base. Citizens of Florida v. Hawkins, 356 So. 2d 254, (Fla. 1978). Historically, it has only been applied in extraordinary circumstances. Id. Staff believes that extraordinary circumstances do exist in this docket because the utility has made major wastewater system improvements mandated by DEP representing over 44% of its total wastewater utility plant for the test year. See Order No. PSC-96-1147-FOF-WS, issued September 12, 1996, in Docket. No. 951258-WS (DEP requirements requiring upgrade of wastewater treatment plant deemed extraordinary circumstances), and Order No. PSC-98-0763-FOF-SU, issued June 3, 1998 in Docket No. 971182-SU (Improvements representing 36.07% of total plant deemed extraordinary circumstances).

The utility made test year water system additions totaling \$2,634. Although there were no extenuating circumstances or major plant additions to the water system during the test year, staff believes a year-end rate base should also be used for the water system to prevent a mismatch in rates and rate bases which would result if the Commission approved year-end treatment for wastewater and simple average for water. Use of the year-end treatment for wastewater and simple average for water would also result in a mismatch in the determination of the overall cost of capital.

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

**ISSUE 3:** Should a growth allowance be included in the calculations of used and useful plant?

**RECOMMENDATION:** No. Staff recommends that no growth be considered for the water and wastewater systems. (T. DAVIS)

**STAFF ANALYSIS:** Section 367.081(2)(b), Florida Statutes, requires that the Commission consider utility property needed to serve customers 5 years after the end of the test year used and useful in the Commission's final order on a rate request. Because the customer growth for this utility has reached its build-out, Section 367.081(2)(b), Florida Statutes, does not apply, and a 5-year growth allowance should not be used in staff's calculations as an approved construction period.

The growth at Useppa Island has reached its build-out. At the end of the last rate case, there were 29 vacant lots. Those 29 lots have now been sold to members of the Useppa Island Club. Upon the sale of each of these future home sites, a lateral from a nearby main was extended to the property and a meter/meter box was installed. The utility then began collecting base facility charges for both water and wastewater from these customers. With the metering and charging of utility fees to these home sites, the island has reached its potential for customer growth.

Therefore, it is recommended that the 5-year growth allowance not be considered in the used and useful calculation for Useppa's water and wastewater systems.

**ISSUE 4:** What portions of water and wastewater systems are used and useful?

**RECOMMENDATION:** The water treatment plant, water distribution system, wastewater treatment plant, and wastewater collection system should all be considered 100% used and useful. (T. DAVIS)

**STAFF ANALYSIS:** Water Treatment Plant - The water treatment plant is a reverse osmosis (R/O) open system operation that serves a barrier island with very seasonal customers. During the last two rate cases, the water treatment plant was considered 100% used and useful. Previous to each of the last two rate cases, the utility has made upgrades to the plant to accommodate the existing customer base plus a reasonable allowance for growth. Today, the utility is concerned with low water pressure and has proposed additions to the plant (discussed in Issue 1 concerning quality of service). Those additions are being considered as pro forma projects to address specific use patterns of the Island Club membership.

The total rated capacity of the R/O filters by the LCPHU is 56,000 gpd on a daily basis. This is apparently based on the filtration capacity of 90 gallons per minute (gpm) calculated on a twelve hour day minus 8,800 gpd in head loss due to friction during transport of treated water to the ground storage units. The utility serves 179 active connections (estimated to be 225 ERCs) that on any given weekend, holiday, or special event would demand quality water service. The peak month for water use during the test year was June, 1999. During the peak month, the average of the five highest maximum days (treated water leaving the plant) was 63,257 gpd with a yearly average of 42,433 gpd. With a rated 56,000 gpd and a maximum day usage of 63,257 gpd, the system is forced to rely on the 61,000 gallons of stored capacity to meet peak use periods. Fortunately, the peak use periods are short in duration due to the highly seasonal usage patterns.

By the formula method of calculating used and useful, it is recommended that the water treatment plant be considered 100% used and useful. This is calculated by taking the five maximum days average flow of 63,257 gpd, considering zero growth and zero fire flow, subtracting zero unaccounted for water, and dividing by the plant capacity of 56,000 gpd. The calculation is summarized in Attachment A, sheet 1 of 4, to this issue, which should be applied to the following accounts:

- 303 Land and Land Rights
- 304 Structures and Improvements
- 307 Wells and Springs

- 309 Supply Mains
- 310 Power Generation Equipment
- 311 Pumping Equipment
- 320 Water Treatment Equipment

Water Distribution System - During the last rate case in 1996, the used and useful percentage applied to the distribution system in the final recommendation was 91.22% used and useful. As noted above, between the last rate case and now, all available lots have been sold and metered service has been provided. There are 179 connections which is estimated to be 225 ERCs with no further growth potential. In accordance with the formula method for calculating used and useful, 225 ERCs is the potential customer base, as well as the average customer count in ERCs for the test year. By the formula method, it is recommended that the water distribution system be considered 100% used and useful (See Attachment A, sheet 2 of 4), with that percentage applied to the following accounts.

- 330 Distribution Reservoirs and Standpipes
- 331 Transmission and Distribution Mains
- 333 Services
- 334 Meters and Meter Installations
- 336 Backflow Prevention Devices
- 339 Other Plant and Miscellaneous Equipment

Wastewater Treatment Plant - During the last rate case, used and useful was calculated to be 100% which was based on the prior capacity of 15,000 gpd. As stated in Issue 1 concerning quality of service, the utility was having capacity problems with the plant, and the DEP had drafted a CO against Useppa to correct violations concerning the treatment and disposal of their domestic wastewater. It was the CO that necessitated hiring consultants (Q. Grady Minor & Associates) to do a capacity analysis report, draft plans, prepare the permit application and oversee the construction of a new facility.

The design capacity of the new wastewater treatment plant is 45,000 gpd. When Q. Grady Minor & Associates did their capacity analysis report, they included a careful study of population and flow. In that study it was determined that the utility's total future population along with the anticipated flow based upon 100% occupancy on any given day or event would require a plant capacity of 44,975 gpd. It was this analysis that influenced the utility into constructing a plant at 45,000 gpd, in order to have sufficient capacity to handle the island's total potential demand during peak use.

Considering the used and useful for the wastewater treatment plant, the 45,000 gpd plant capacity is compared with the anticipated peak demand of 44,975 gpd. Once again, the extreme seasonal nature of the service area is illustrated by the average daily flow of 18,027 gpd during the test year. However, with no potential for future growth, the formula method of calculating used and useful yields 100% used and useful (See Attachment A, sheet 3 of 4).

It is recommended that the wastewater treatment plant be considered 100% used and useful which should be applied to the following accounts.

- 355 Power Generation Equipment
- 364 Flow Measuring Devices
- 365 Flow Measuring Installations
- 380 Treatment and Disposal Equipment
- 381 Plant Sewers
- 382 Outfall Sewer Lines
- 489 Other Plant and Miscellaneous Equipment

#### Wastewater Collection System

The collection system on Useppa Island was constructed to employ numerous lift stations for the transport of raw influent into the plant. During the last rate case, the used and useful percentage applied in the final recommendation was 91.22% used and useful. As noted above, the utility's potential customer base is 225 ERCs with 225 ERCs connected to the system, and no future growth potential. In accordance with the formula method for calculating used and useful, the used and useful is calculated to be 100%. By the formula method, it is recommended that the wastewater collection system be considered 100% used and useful (See Attachment A, sheet 4 of 4), and that percentage be applied to the following accounts.

- 360 Collection Sewers - Force
- 361 Collection Sewers - Gravity
- 362 Special Collecting Structures
- 363 Services to Customers
- 370 Receiving Wells

**WATER TREATMENT PLANT - USED AND USEFUL DATA**

Docket No. 000090-SU - Useppa Island Utility, Inc.

- |  |         |                 |
|--|---------|-----------------|
| 1) Rated Capacity of Plant   | 56,000  | gallons per day |
| 2) Average of 5 Highest Days From<br>Maximum Month   | 63,257  | gallons per day |
| 3) Average Daily Flow  | 42,433  | gallons per day |
| 4) Fire Flow Capacity  | -0-     | gallons per day |
| a) Required Fire Flow: Utility has its own volunteer fire<br>department that accesses alternate water sources. |         |                 |
| 5) Growth  | -0-     | gallons per day |
| a) Test year Customers in ERCs:  | Begin   | 225             |
|  | End     | 225             |
|  | Average | 225             |
| (Due to plant additions in 1999, Use end of year customer count).  |         |                 |
| b) Customer Growth in ERCs   | -0-     | ERCs            |
| c) Statutory Growth Period   | 5       | Years           |
| (b)x(c)x [3\ (a)] = 0 gallons per day for growth   |         |                 |
| 6) Excessive Unaccounted for Water   | 0       | gallons per day |
| a) Total Unaccounted for Water   | 452     | gallons per day |
| Percent of Average Daily Flow  | 6       |                 |
| b) Reasonable Amount   | 4,243   | gallons per day |
| (10% of average Daily Flow)  |         |                 |
| c) Excessive Amount  | 0       | gallons per day |

**USED AND USEFUL FORMULA**

$$[(2)+(4)+(5)-(6)]/(1) = 100\% \text{ Used and Useful}$$

**WATER DISTRIBUTION SYSTEM - USED AND USEFUL DATA**

Docket No. 000090-SU - Useppa Island Utility, Inc.

- |   |                                |       |
|---|--------------------------------|-------|
| 1) <b>Capacity of System</b> (Number of ERCs Without Expansion) | 225                            | ERCs  |
| 2) <b>Test year connections</b>                                 |                                |       |
| a) Beginning of Test Year                                       | 225                            | ERCs  |
| b) End of Test Year   | 225                            | ERCs  |
| c) Average Test Year  | 225                            | ERCs  |
| 3) <b>Growth</b>  |                                |       |
| a) customer growth in connections or ERCs has reached Potential | 0                              | ERCs  |
| b) Statutory Growth Period                                      | 5                              | Years |
| (a)x(b) = 0   | connections allowed for growth |       |

**USED AND USEFUL FORMULA**

$$[(2b+(3))]/(1) = 100\% \text{ Used and Useful}$$

**WASTEWATER TREATMENT PLANT - USED AND USEFUL DATA**

**Docket No. 000090-SS - Useppa Island Utilities, Inc.**

1) Capacity of Plant (based on built-out need)	45,000	gallons per day
2) Maximum Daily Flow	44,975	gallons per day
3) Average Daily Flow	18,027	gallons per day
4) Growth		
a) Test year Customers in ERCs:	Beginning	225
	Ending	225
	Average	225
b) Customer Growth in ERCs has reached Potential.	0	ERCs
c) Statutory Growth Period	5	Years
(b)x(c) x [3\ (a)] =	0	gallons per day for growth
5) Excessive Infiltration or Inflow (I&I)	N/A	gallons per day
a) Total I&I:	N/A	gallons per day
Percent of Average Daily Flow	0.00%	
b) Reasonable Amount (10% of average Daily Flow)	N/A	gallons per day
c) Excessive Amount	N/A	gallons per day

**USED AND USEFUL FORMULA**

$$[(3)+(4)-(5)]/(1) = 100\% \text{ Used and Useful}$$



**WASTEWATER COLLECTION SYSTEM - USED AND USEFUL DATA**

**Docket No. 000090-SU - Useppa Island Utilities, Inc.**

- |  |     |       |
|--|-----|-------|
| 1) Capacity of System in ERCs without expansion. | 225 | ERCs  |
| 2) Test year connections                         |     |       |
| a) Beginning of Test Year                        | 225 | ERCs  |
| b) End of Test Year                              | 225 | ERCs  |
| c) Average Test Year                             | 225 | ERCs  |
| 3) Growth  |     |       |
| a) customer growth has reached Potential.        | 0   | ERCs  |
| b) Statutory Growth Period                       | 5   | Years |
| (a)x(b) = 165 connections allowed for growth     |     |       |

**USED AND USEFUL FORMULA**

$$[(2)+(3)]/(1) = 100\% \text{ Used and Useful}$$

**ISSUE 5:** What is the utility's appropriate amount of year-end rate base?

**RECOMMENDATION:** The appropriate amount of year-end test year rate base should be \$113,559 for the water system and \$199,389 for the wastewater system. The utility should be required to provide deeds showing the correct description of land owned and used by the utility within 90 days of the effective date of the Commission order issued in this matter. (CASEY, RENDELL, DAVIS)

**STAFF ANALYSIS:** The appropriate components of the utility's rate base include utility plant in service (UPIS), land, contributions-in-aid-of-construction (CIAC), accumulated depreciation, amortization of CIAC, and a working capital allowance. A discussion of each component follows.

Staff selected a test year ended December 31, 1999 for this rate case. By Order No. PSC-97-0930-FOF-WS, issued August 5, 1997, in Docket No. 960975-WS, the Commission established rate bases of \$101,752 for water and \$24,583 for wastewater. Staff started its analysis using balances established in that Order and made adjustments through the test year. A summary of each component and the adjustments follows:

**Utility Plant In Service:** The utility books reflected plant balances of \$286,660 for water and \$408,131 for wastewater for the test year. Audit exception #1 states the utility did not update its books to reflect the plant balances established by Order PSC-97-0930-FOF-WS. Staff made an adjustment of \$67,123 to water and \$9,050 to wastewater to reflect Commission-approved plant balances from that Order. Staff also made adjustments of \$2,634 to water and \$6,794 to wastewater to bring the utility's balances to the staff-calculated test year amounts.

Staff recommends test year plant balances of \$356,417 for water and \$423,975 for wastewater.

**Land:** The utility books did not reflect a land balance at the end of the test year. Order No. PSC-97-0930-FOF-WS established a land value of \$10,463 for water and \$3,487 for wastewater. Accordingly, staff made an adjustment of \$10,463 to water and \$3,487 to wastewater to reflect the original cost of the land when dedicated to public service. Staff recommends a land value of \$10,463 for water and \$3,487 for wastewater.

The company provided the Commission two deeds in 1992 as proof that Useppa Inn and Dock Company had transferred ownership of the

utility property to Useppa Utility Company, Inc. Staff discovered that these deeds were never recorded and that they had a discrepancy in their descriptions. At the time of the audit the utility was taking action to correct the descriptions and record the proper deeds. Rule 25-30.433(10), Florida Administrative Code states:

A utility is required to own the land upon which the utility treatment facilities are located, or possess the right to the continued use of the land, such as a 99-year lease.

Staff recommends the utility be required to provide deeds showing the correct description of land owned and used by the utility within 90 days of the effective date of the Commission Order issued in this matter.

**Contributions-in-Aid-of-Construction (CIAC):** The utility books reflected a CIAC balance of \$58,326 for water and \$60,713 for wastewater for the test year. Audit exception #1 states the utility did not update its books to reflect the CIAC balances established by Order PSC-97-0930-FOF-WS. Staff made an adjustment of (\$165,804) to water and (\$169,474) to wastewater to show Commission-approved CIAC balances from that order.

Seven new connections were made since the utility's staff assisted rate case in 1996. However, the utility's books did not show that the utility collected the \$220 per connection Commission-approved service availability charge from these seven connections. Staff made an adjustment of (\$1,540) to water CIAC to impute CIAC for seven new connections (\$220 x 7). Staff recommends water CIAC of (\$225,670), and wastewater CIAC of (\$230,187).

**Accumulated Depreciation:** The utility books reflected accumulated depreciation balances of (\$211,442) for water and (\$91,300) for wastewater for the test year. Audit exception #1 states the utility did not update its books to reflect the accumulated depreciation balances established by Order PSC-97-0930-FOF-WS. Staff made an adjustment of \$74,430 to water and (\$74,077) to wastewater to show Commission-approved accumulated depreciation balances from that Order. Staff also made adjustments of (\$23,721) to water and (\$7,580) to wastewater to bring the utility's balances to the staff-calculated test year amounts. Staff recommends test year accumulated depreciation of (\$160,733) for water and (\$172,957) for wastewater.

**Accumulated Amortization of CIAC:** The utility recorded no accumulated amortization of CIAC at the end of the test year. Audit exception #1 states the utility did not update its books to reflect the accumulated amortization balances established by Order PSC-97-0930-FOF-WS. Staff made an adjustment of \$90,503 to water and \$135,239 to wastewater to reflect Commission-approved accumulated amortization balances from that Order. Staff also made adjustments of \$28,513 to water and \$32,272 to wastewater to bring the utility's balances to the staff calculated test year amounts. Staff recommends test year accumulated amortization of \$119,016 for water and \$167,511 for wastewater.

**Working Capital Allowance:** Working Capital is defined as the investor-supplied funds necessary to meet operating expenses or going-concern requirements of the utility. Pursuant to Rule 25-30.433, 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 \$14,066 for water and \$7,560 for wastewater (based on water operation and maintenance expenses of \$112,524, and wastewater operation and maintenance expenses of \$60,480).

**Rate Base Summary:** Based on the foregoing, the appropriate rate base balance for rate setting purposes is \$113,559 for the water system and \$199,389 for the wastewater system.

Rate base is shown on Schedules Nos. 1-A and 1-B; the related adjustments are shown on Schedule No. 1-C.

**COST OF CAPITAL**

**ISSUE 6:** 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 should be 9.94% with a range of 8.94% to 10.94% and the appropriate overall rate of return should be 9.67% with a range of 9.55% to 9.79%. (CASEY, RENDELL)

**STAFF ANALYSIS:** Based on the staff audit, the utility's capital structure consists of \$71,604 of common equity (\$1,000 of common stock, \$149,00 of paid in capital, and negative retained earnings of \$78,396), a \$33,240 note at 9.00% cost, a \$158,011 note at 9.00% cost, and a \$324,639 note at 10.00% cost.

Using the current leverage formula approved by Order No. PSC-00-1162-PAA-WS, issued June 26, 2000, in Docket No. 000006-WS, the rate of return on common equity should be 9.94% with a range of 8.94% - 10.94%. Applying the weighted average method to the total capital structure yields an overall rate of return of 9.67% with a range of 9.55% - 9.79%. Staff made pro rata adjustments to reconcile the capital structure to match the recommended rate bases.

Useppa's return on equity and overall rate of return are shown on Schedule No. 2.

**NET OPERATING INCOME**

**ISSUE 7:** What is the appropriate test year revenue for this utility?

**RECOMMENDATION:** The appropriate test year revenue should be \$165,009 for the water system and \$80,917 for the wastewater system. (CASEY, RENDELL)

**STAFF ANALYSIS:** During the test year the utility provided water and wastewater services to an average 150 customers. The utility records show revenues of \$165,009 for water and \$82,021 for wastewater. Audit Exception #9 states that the utility's test year wastewater revenue was overstated by \$1,104. Staff made an adjustment of (\$1,104) to wastewater revenue to bring test year revenue to the proper amount. Staff recommends test year revenue of \$165,009 for water, and \$80,917 for wastewater.

Test year revenues are shown on Schedules Nos. 3-A and 3-B, and adjustments are shown on Schedule No. 3-C.

**ISSUE 8:** What is the appropriate amount of operating expenses for rate setting purposes?

**RECOMMENDATION:** The appropriate amount of operating expenses for rate making purposes should be \$133,569 for the water system and \$71,855 for the wastewater system. (CASEY, RENDELL, DAVIS)

**STAFF ANALYSIS:** The components of the utility's operating expenses include operation and maintenance expenses, depreciation expense (net of CIAC amortization), and taxes other than income taxes.

**Test Period Operating Expenses**

The utility recorded test year water system operating expenses of \$115,763, and wastewater system operating expenses of \$109,148. Staff made several adjustments to the utility's operating expenses. A summary of adjustments to operating expenses are as follows:

**OPERATION AND MAINTENANCE EXPENSE**

**Salaries and Wages-Employees** - The utility recorded salaries and wages of \$33,645 for water and \$33,630 for wastewater for the test year. There are six employees of the utility, two of which are full time and four which split their duties between the utility and Useppa Inn and Dock Company, the management company for the island. Staff completed an analysis of hours and duties based on the percentage of time spent on utility work. Based on that analysis, staff determined the following utility labor costs:

<u>Title</u>	<u>% of Time</u>	<u>Hourly Rate</u>	<u>Utility Salary</u>	<u>Water</u>	<u>Wastewater</u>
General Manager	25%	\$33.66	\$17,503	\$ 8,752	\$ 8,752
Accounting Supr.	10%	\$20.00	\$ 4,160	\$ 2,080	\$ 2,080
Secy/Meter Reader	20%	\$10.00	\$ 4,160	\$ 2,080	\$ 2,080
Plant Employee Mgr.	20%	\$15.87	\$ 6,602	\$ 4,951	\$ 1,650
Licensed Operator	100%	\$17.55	\$36,504	\$27,378	\$ 9,126
Utility Manager	100%	\$10.75	<u>\$22,360</u>	<u>\$16,770</u>	<u>\$ 5,590</u>
			\$91,289	\$62,011	\$29,278

The utility also included \$316 of water and \$300 of wastewater part time workers during the test year. Staff made an adjustment of \$28,682 to water and (\$4,052) to wastewater to reflect salaries of utility employees based on the amount of time spent on utility work. A new larger wastewater plant was installed during the test year. Staff made an adjustment of \$1,080 to wastewater salaries to reflect the additional labor needed to operate the larger plant. Staff believes these salaries are reasonable and prudent for the

workload required of the utility staff and the special problems incurred with a reverse osmosis water plant, and wastewater plant which discharges effluent into environmentally sensitive areas. Accordingly, staff recommends employee salaries and wages of \$62,327 for water and \$30,658 for wastewater.

Employee Pensions and Benefits - The utility recorded employee pensions and benefits expenses of \$4,060 for water and \$4,516 for wastewater. Staff made adjustments of (\$2,614) to water and (\$3,029) to wastewater to reclassify payroll taxes to Account #408, taxes other than income. Staff also made adjustments of \$3,817 to water and \$499 to wastewater to reflect health insurance based on the percentages of time employees spend on each system as established in employee salaries and wages. Staff recommends employee pensions and benefits of \$5,263 for water and \$1,986 for wastewater.

Purchased Power - The utility recorded test year purchased power expense of \$10,438 for water and \$6,395 for wastewater. Staff made an adjustment of \$3,199 to water and \$131 to wastewater to annualize the cost of purchased power and include electric bills which were paid by the parent company. Staff also made adjustments of (\$247) to water to reclassify a miscellaneous expense to Account #675, and \$724 to wastewater to reclassify a purchased power expense from miscellaneous expenses.

A new wastewater plant which requires additional electric power was installed during the test year. Staff made an adjustment of \$2,690 to wastewater purchased power to annualize the cost of the additional purchased power expense. Adjustments total \$2,952 for water and \$3,545 for wastewater. Therefore, staff recommends purchased power expense of \$13,390 for water, and \$9,940 for wastewater for the test year.

Chemicals - The utility recorded test year chemical expense of \$2,684 for water and \$2,325 for wastewater. Staff made an adjustment of (\$250) to water and (\$197) to wastewater to reclassify transportation expenses to Account #650 and #750 respectively. Staff recommends chemical expenses of \$2,434 for water, and \$2,128 for wastewater.

Materials and Supplies - The utility recorded test year materials and supplies expense of \$2,706 for water and \$3,085 for wastewater. Staff made an adjustment of (\$2,634) to water materials and supplies expense to reclassify utility plant to Account #331, and made an adjustment of (\$3,085) to the wastewater materials and supplies expense to reclassify utility plant to Account #360.



These reclassified amounts have been included in staff's test year rate base. Staff recommends test year materials and supplies expense of \$72 for water and \$-0- for wastewater.

Contractual Services - Professional - The utility recorded test year contractual services-professional expense of \$725 for water and \$725 for wastewater. By Order PSC-97-0930-FOF-WS, the Commission approved a five year amortization of non-recurring expenses for engineering studies, legal costs, and a reverse osmosis discharge study. The total annual amount of amortization approved was \$3,372 for water and \$743 for wastewater. The utility did not include these expenses during the test year. Therefore, staff made adjustments of \$3,372 to water and \$743 to wastewater to reflect the Commission-approved amortization of expenses. Staff recommends contractual services-professional expense of \$4,097 for water and \$1,468 for wastewater.

Contractual Services - Testing - The utility recorded test year contractual services-testing expense of \$4,533 for water and \$1,225 for wastewater. State and local authorities require that several analyses for water testing be submitted in accordance with Rule 62-550, F.A.C. The utility's monthly monitoring is a routine program that includes sampling and testing for bacteria, chlorides, sodium and hydrogen sulfides. Other, less frequent tests required by DEP are:

**Water Testing and Laboratory Expenses**

<u>Rule</u>	<u>Description</u>	<u>Frequency</u>	<u>Cost</u>
62-550.518	F.A.C. Microbiological	monthly	\$360/yr
62-550.310(1)	F.A.C. Primary Inorganics	36 mos.	93/yr
62-550.320(1)	F.A.C. Secondary "	36 mos.	65/yr
62-550.511	F.A.C. Asbestos	1/9yrs.	25/yr
62-550.512(1)	F.A.C. Nitrate & Nitrite	12 mos.	35/yr
62-550.515	F.A.C. Volatile Organics	qtr'ly/1st yr 36 mos. Subsequent/Annual	350/yr
62-550.516 -	F.A.C. Pesticides & PCB	36 mos.	570/yr
62-550.519(1)	F.A.C. Radionuclides		
	Group I	36 mos.	117/yr
	Group II	"	250/yr
62-550.521	F.A.C. Unregulated Organics		
	Group I	qtr'ly/1st yr/9 yr.	275/yr
	Group II	36 mos.	50/yr
	Group III	36 mos.	83/yr
62-551	F.A.C. Lead & Copper	biannual	475/yr
	Total		<u>\$2,748/yr</u>

In addition to potable water testing, the utility also must perform certain tests on the backwash (reject water) from the RO filters at the water treatment plant. These tests are required by specific conditions listed in the body of the five year industrial waste permit, and are:

**Backwash (Reject Water) Testing**

<u>Description</u>	<u>Frequency</u>	<u>Cost</u>
Flow	once/day	\$ N/A
Fluoride	once/quarter	60/yr
Gross Alpha Part. Activity	once/quarter	180/yr
Combined Radium 226 and 228	once/quarter	864/yr
Hydrogen Sulfide	once/month	216/yr
Dissolved Oxygen	once/day	1,825/yr
pH	once/day	1,825/yr
Whole Effluent Toxicity	yearly	\$ 304/yr
Total		<u>\$5,274/yr</u>

**Wastewater Testing and Laboratory Expenses**

By the new conditions of the utility's current operating permit, DEP requires the utility to submit the following chemical analysis.

<u>Rule</u>	<u>Description</u>	<u>Frequency</u>	<u>Cost</u>
62-600	F.A.C. pH	5 days/wk	In-house
62-600	F.A.C. Total Residual Chlorine	5 days/wk	In-house
62-600	F.A.C. Total Suspended Solids	3 days/wk	In-house
62-600	F.A.C. Fecal Coliform	3 days/wk	\$2,340/yr
62-600	F.A.C. Biochemical Oxygen Demand (includes Nitrate, Nitrite)	monthly	\$ 660/yr
Landfill Required	Sludge Analysis	yearly	\$ 350/yr
			<u>\$ 3,350/yr</u>

Total required testing costs are \$8,022 for water and \$3,350 for wastewater. Staff made adjustments of \$5,789 to water and \$2,125 to wastewater to reflect testing required on an annual basis. Staff also made an adjustment of (\$2,300) to water contractual services testing to reclassify the cost of a DEP wastewater permit to miscellaneous expenses. Staff recommends contractual services-testing expense of \$8,022 for water and \$3,350 for wastewater.

Contractual Services - Other - The utility recorded \$4,791 for the water system and \$3,152 for the wastewater system in this account

for the test year. Staff made adjustments of (\$204) to water and (\$1,305) to wastewater to reclassify engineering costs for the new wastewater treatment plant to Account #354. Staff also made adjustments to water of (\$2,200) to reclassify utility plant to Account #370, and \$171 to reclassify a consulting fee from Account #675. Staff recommends contractual services-other expense of \$2,558 for water and \$1,847 for wastewater.

Rents - The utility did not record any rent expense for the test year. The utility office is shared with the island management company. Staff determined the amount of space used for utility duties and is recommending a test year rent expense of \$1,800 for water and \$1,800 for wastewater.

Transportation Expense - The utility recorded transportation expense of \$850 for water and \$1,100 for wastewater for the test year. Staff made adjustments of \$250 to water and \$197 to wastewater to reclassify transportation expenses from Account #618. Adjustments of \$3,725 to water and \$928 to wastewater were also made to reflect the cost of transportation for the utility employees who must use a shuttle boat to and from the island. An adjustment of \$53 was also made to wastewater transportation expense to reclassify a transportation expense from Account #675. Total adjustments are \$3,975 for water and \$1,178 for wastewater. Staff recommends test year transportation expense of \$4,825 for water and \$2,278 for wastewater.

Regulatory Commission Expense - The utility did not record any regulatory commission expense during the test year. Staff made an adjustment of \$25 to wastewater regulatory commission expense to reflect the limited proceeding filing fee of \$100 amortized over a four year period in accordance with Section 367.0816, Florida Statutes.

Miscellaneous Expenses - The utility recorded miscellaneous expenses of \$43,568 for water and \$45,232 for wastewater during the test year. Staff made the following adjustments to miscellaneous expenses for the test year:

To reclassify T.O.T.I. to Acct. No. 408.	(\$6,651)	(\$3,452)
To remove loan payment.	( 1,346)	( 2,314)
To remove loan payment.	(13,200)	(14,400)
To remove loan payment.	(14,801)	(20,238)
To reclassify repair & maintenance (R&M) expense from Acct. No. 615.	247	-0-
To reclassify consulting fee to Acct. No. 636.	( 171)	-0-
To reclassify expense to Acct. No. 750.	( 53)	-0-
To reclassify electric expense to Acct. No. 715.	-0-	( 724)
To reclassify R & M expense from payroll taxes.	-0-	103

Miscellaneous Expense Adjustments (continued)

To reclassify R & M exp. from capital improvements.	-0-	190
To reclassify WW DEP license from Acct. No. 635.	-0-	2,300
To amortize WW DEP license over 5 year period.	-0-	(1,840)
	<u>(\$35,975)</u>	<u>(\$40,375)</u>

Total staff recommended adjustments to miscellaneous expenses amount to (\$35,975) for water and (\$40,375) for wastewater for the test year. Staff recommends test year miscellaneous expenses of \$7,593 for water and \$4,857 for wastewater.

**Operation and Maintenance Expenses (O & M) Summary:** Total O & M adjustments are \$4,381 for water and (\$41,048) for wastewater. Staff recommends O & M expenses of \$112,524 for water and \$60,480 for wastewater, which is a 1.6% increase over total O & M expenses approved in 1997 by Order PSC-97-0930-FOF-WS. O & M expenses for water are shown in Schedule No. 3D and O & M expenses for wastewater are shown in Schedule No. 3E.

**Depreciation Expense (Net of Amortization of CIAC):** The utility recorded depreciation expense of \$7,620 for water and \$7,620 for wastewater for the test year. Consistent with Commission practice, staff calculated test year depreciation expense using the rates prescribed in Rule 25-30.140, Florida Administrative Code. Staff made adjustments of \$10,908 to water and \$6,197 to wastewater to reflect staff's calculated test year depreciation expense. CIAC amortization adjustments amounted to (\$9,037) for water and (\$8,998) for wastewater. Staff recommends depreciation expenses net of CIAC of \$9,491 for water and \$4,819 for wastewater for the test year.

**Taxes Other Than Income Taxes:** The utility did not record any amounts in this account for the test year. Staff made the following adjustments to taxes other than income for the test year:

To reclassify taxes & license expenses from misc. expenses.	\$6,651	\$3,452
To reclassify payroll taxes from employee p & b.	2,614	2,926
To reflect utility property taxes paid by parent company.	201	67
To reflect payroll taxes based on company percentages.	2,130	(686)
To reflect test year regulatory assessment fees.	879	337
	<u>Total</u>	<u>\$12,475</u>
		<u>\$6,096</u>

Total staff recommended adjustments to taxes other than income amount to \$12,475 for water and \$6,096 for wastewater for the test year. Staff recommends test year taxes other than income of \$12,475 for water and \$6,096 for wastewater.

Taxes other than income taxes would decrease by \$921 for water and increase by \$460 for wastewater to reflect the additional regulatory assessment fees associated with the increases/decreases required to allow the utility the opportunity to earn staff's recommended overall rate of return of 9.67%.

**Income Taxes:** The utility is a part of Useppa Inn and Dock Company which is an 1120 corporation. Because of continuing net operating losses on a consolidated company basis, no income taxes have ever been paid by the utility and no income tax liability is anticipated in the future. Therefore, no income taxes have been included in this analysis.

**Operating Revenues:** Revenues have been adjusted by (\$20,462) for the water system and \$10,213 for the wastewater system to reflect the increases/(decreases) in revenue required to cover expenses and allow the utility the opportunity to earn the recommended rate of return on investment.

**Operating Expenses Summary:** The application of staff's recommended adjustments to the utility's test year operating expenses results in staff's recommended operating expenses of \$133,569 and \$71,855 for water and wastewater, respectively.

Operating expenses for water are shown on Schedule No. 3-A and operating expenses for wastewater are shown on Schedule No. 3-B. Adjustments are shown on Schedule No. 3-C.

**ISSUE 9:** What are the appropriate revenue requirements for Useppa?

**RECOMMENDATION:** The appropriate revenue requirements should be \$144,547 for water and \$91,130 for wastewater. (CASEY, RENDELL)

**STAFF ANALYSIS:** The appropriate revenue requirements should be \$144,547 for water and \$91,130 for wastewater. These revenue requirements would allow the utility the opportunity to recover its expenses and earn a 9.67% return on its water and wastewater rate base.

The calculations are as follows:

	<u>Water</u>	<u>Wastewater</u>
Adjusted Rate Base	\$113,559	\$ 199,389
Rate of Return	x <u>.0967</u>	x <u>.0967</u>
Return on Investment	\$ 10,978	\$ 19,275
O & M Expenses	112,524	60,480
Depreciation Expense (Net)	9,491	4,819
Taxes Other Than Income Taxes	<u>11,554</u>	<u>6,556</u>
Revenue Requirement	\$144,547	\$ 91,130
Annual Revenue Increase/(Decrease)	\$(20,462)	\$ 10,213
Percentage Increase/(Decrease)	<u>(12.40%)</u>	<u>12.62%</u>

The revenue requirements and resulting annual increases/(decreases) are shown on Schedules Nos. 3-A and 3-B.

**ISSUE 10:** Did Useppa earn in excess of its authorized return on equity on an overall basis for the test year ended December 31, 1999, and if so, how should the overearnings be handled on a prospective basis?

**RECOMMENDATION:** Yes. Useppa's water system had excess earnings of \$20,462 and its wastewater system had \$10,213 in underearnings for the test year ended December 31, 1999. Overall, the utility overearned by \$10,249 in 1999. For purposes of administrative efficiency, the utility should be allowed to defer all overearnings to 2001. Upon issuance of the final order, the utility should defer 6.21% (\$10,249 overearnings/\$165,009 test year water revenue) of monthly water 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. (CASEY, RENDELL)

**STAFF ANALYSIS:** Useppa's water system had excess earnings of \$20,462 and its wastewater system had \$10,213 in underearnings for the test year ended December 31, 1999. Overall, the utility overearned by \$10,249 in 1999. However, overearnings for this utility are temporary. Useppa is in the process of making improvements to its water system totaling \$182,618. The utility provided staff with contracts showing costs for three water projects which the utility needs to complete. The pro forma water plant includes a water tank expansion for \$124,690, installation of an emergency generator for \$13,308, and installation of a back-up well for \$44,620. Per the utility's engineering firm, the improvements will be complete in 2001. Staff believes these projects are necessary and the costs are reasonable and prudent.

Staff added this pro forma plant to the 1999 test year figures and determined the utility's water system would not be overearning on a prospective basis after installation of this pro forma plant. The calculations are as follows:

	<u>Water</u>
Adjusted Rate Base	\$269,605
Rate of Return	<u>x .0967</u>
Return on Investment	\$ 26,063
O & M Expenses	113,344
Depreciation Expense (Net)	15,703
Taxes Other Than Income Taxes	<u>12,596</u>
Revenue Requirement	\$167,707
Annual Revenue Increase/(Decrease)	\$ 2,698
Percentage Increase/Decrease	<u>1.68%</u>

Based on staff's analysis, the utility would underearn by \$2,698 on an annual basis after completion of the pro forma plant. 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 defer present overearnings to 2001, thereby lessening the future rate increase staff believes will be needed to pay for the water projects. 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.

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 three 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. By Order No. PSC-00-1165-PAA-WS, issued June 27, 2000, in Docket No. 990243-WS, the Commission also allowed Sun Communities Finance, L.P. 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 Useppa 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 level. 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 water system to 2001. Upon issuance of the final order, the utility should defer 6.21% of monthly water 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.

**ISSUE 11:** Should the utility's request for a limited proceeding for its wastewater system be approved?

**RECOMMENDATION:** Yes, the utility's request for a limited proceeding for its wastewater system should be approved. However, the new wastewater rates should not be effective until the pro forma water plant has been completed and verified by staff. (CASEY, RENDELL)

**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. As stated in Issue No. 10, the utility's water system is overearning by \$20,462 on an annual basis. Staff also determined the wastewater system is underearning by \$10,213 annually. Therefore, the utility is earning in excess of the range of staff's recommended rate of return by \$10,249 on an overall basis. As such, staff does not believe that a wastewater rate increase is warranted for this limited proceeding until the pro forma water plant has been completed and verified by staff. Approving a wastewater rate increase prior to completion of the water pro forma plant would only exacerbate the overearnings situation. Once the pro forma water plant is completed and verified by staff, the utility will not be overearning and the new wastewater rates should become effective.

Staff could have recommended outright denial of this limited proceeding due to overearnings on an overall basis, but in the interest of administrative efficiency, staff believes approving the new wastewater rates but holding the effective date subject to completion of the pro forma water plant is a more efficient way to handle this petition. If staff recommended denial, the utility could refile next year once the pro forma is complete and a new audit would be required, and another customer meeting would have to be scheduled.

**ISSUE 12:** What are the appropriate wastewater rates for this limited proceeding?

**RECOMMENDATION:** The recommended rates should be as shown in the staff analysis. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet. The stamped approval date should be the date the water system pro forma plant has been completed and verified by staff. The rates should not be implemented until notice has been received by the customers. The utility should provide proof of the date notice was given within 10 days after the date of the notice. Staff recommends the utility provide staff with a copy of the new monthly utility bills within 90 days of the effective date of this order to verify the utility is complying with the rule. (CASEY, RENDELL)

**STAFF ANALYSIS:** During the test year, Useppa provided wastewater service to an average of 150 customers. Some customers at the customer meeting complained that the utility's monthly bills did not show actual gallonage used with previous and current meter readings. Rule 25-30.335(1), Florida Administrative Code, states:

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

The utility was notified at the customer meeting that it was not following proper billing procedures and that it should revise its billing procedures immediately. This was followed-up with an April 12, 2000 letter to the utility explaining what billing procedures are required by Rule 25-30.335(1), Florida Administrative Code. Staff recommends the utility provide staff with a copy of the new monthly utility bills within 90 days of the effective date of this Order to verify the utility is complying with the rule.

Approximately 60% (or \$55,066) of the wastewater revenue requirement is associated with the fixed costs of providing service. Fixed costs are recovered through the base facility charge based on annualized number of factored ERCs. The remaining 40% (or \$36,064) of the wastewater revenue requirement represents the consumption charge based on the estimated number of gallons consumed during the test period. Rates have been calculated using the number of bills and the number of gallons of wastewater billed during the test year. Staff's recommended rates are as follows:

RESIDENTIAL WASTEWATER RATES

Base Facility Charge <u>Meter Size</u>	Existing Monthly <u>Rate</u>	Recommended Monthly <u>Rate</u>
All meter sizes	\$ 23.29	\$ 26.07
Gallonge Charge Per 1,000 gallons (6,000 gallon/month maximum)	\$ 6.42	\$ 6.65

GENERAL SERVICE WASTEWATER RATES

Base Facility Charge <u>Meter Size</u>	Existing <u>Rate</u>	Recommended Monthly <u>Rate</u>
5/8" x 3/4"	\$ 23.29	\$ 26.07
3/4"	34.94	39.10
1"	58.23	65.17
1-1/2"	116.46	130.34
2"	186.34	208.55
3"	372.67	417.10
4"	582.30	651.71
6"	1,164.61	1,303.42
Gallonge Charge Per 1,000 gallons (No Maximum)	\$ 7.70	\$ 7.98

Using the test year residential wastewater customers, who have an average use of 4,557 gpm per customer, an average residential monthly wastewater bill comparison would be as follows:

	Average Monthly Bill Using Existing <u>Rates</u>	Average Monthly Bill Using Recommended <u>Rates</u>	<u>Percent Increase</u>
Base Facility Charge	\$23.29	\$ 26.07	
Gallonge Charge	<u>29.26</u>	<u>\$ 30.30</u>	
Total	\$52.55	\$ 56.37	7.30%

Pursuant to Section 25-30.475, Florida Statutes, the approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet. The stamped approval

DOCKET NO 000090-SU  
October 5, 2000

date will be the date the water system pro forma plant has been completed and verified by staff. The rates should not be implemented until notice has been received by the customers. The utility should provide proof of the date notice was given within 10 days after the date of the notice.

**ISSUE 13:** 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 25-30.335(1), Florida Administrative Code, for its failure to issue bills showing the beginning and ending meter readings?

**RECOMMENDATION:** No. A show cause proceeding should not be initiated because the utility has corrected the problem and has been in compliance since becoming aware of the violation. (BRUBAKER, CASEY, RENDELL)

**STAFF ANALYSIS:** At the April 6, 2000 customer meeting, staff was advised that the utility was not showing the beginning and ending meter readings on its monthly bills. The general manager of the utility was at the customer meeting and was informed by staff that the utility was in apparent violation of Rule 25-30.335, Florida Administrative Code, which provides in part:

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

As a follow-up to the customer meeting, a letter explaining the correct billing procedures was sent to the utility April 12, 2000, with an attached copy of Rule 25-30.335, Florida Administrative Code.

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 issue bills showing beginning and ending meter readings, 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).

The utility's failure to render bills showing the beginning and ending meter readings is an apparent violation of Rule 25-30.335(1), Florida Administrative Code. However, there are mitigating circumstances in this instant case. Once the utility was advised that it was in violation of the billing procedures rule, it took immediate action to correct the violation.

Based on the foregoing, staff does not believe that the apparent violation of Rule 25-30.335(1), 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 issue bills showing the beginning and ending meter readings.

**ISSUE 14:** Should Useppa be ordered to show cause, in writing within 21 days, why it should not be fined up to \$5,000 per day for failure to maintain its accounts and records in conformance with the National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts (USOA), in apparent violation of Rule 25-30.115(1), Florida Administrative Code?

**RECOMMENDATION:** No. A show cause proceeding should not be initiated. However, the utility should be ordered to maintain its accounts and records in conformance with the 1996 NARUC USOA, and submit a statement from its accountant with its 2000 annual report, stating that its books are in conformance with the NARUC USOA and have been reconciled with the Commission Order. (BRUBAKER, CASEY, RENDELL)

**STAFF ANALYSIS:** The utility did not maintain its books and records per Commission rules during the test year. Useppa maintains its books and records using its own account numbers and does not use the prescribed accounts and accounting format as required by the USOA. The company has also not posted adjustments from prior Commission orders and is not using the prescribed asset lives for depreciation set out in Rule 25-30.140, Florida Administrative Code.

Rule 25-30.115(1), Florida Administrative Code, states "Water and wastewater utilities shall, effective January 1, 1998, maintain their accounts and records in conformity with the 1996 NARUC Uniform Systems 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 per day for each offense, if a utility is found to have knowingly refused to comply with, or to have willfully violated any Commission rule, order, or provision of Chapter 367, Florida Statutes. Utilities are charged with the knowledge of the Commission's rules and statutes. 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). Thus, any intentional act, such as the utility's failure to maintain its accounts and records in conformance with the USOA, would meet the standard for a "willful violation." In 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., Order No. 24306, issued April 1, 1991, in Docket No. 890216-TL, 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 "'willful' implies an intent to do an act, and this is distinct from an intent to violate a statute or rule." Id. at 6.

Although the utility did not maintain its accounts and records in accordance with Commission rule, staff believes that the utility books can be converted using in-house personnel at no additional cost. The utility's failure to maintain its books and records is an apparent violation of Rule 25-30.115, Florida Administrative Code. However, there are mitigating circumstances in the instant rate case, because auditors were still able to complete an audit of the utility's books and records. Staff does not believe that the apparent violation of Rule 25-30.115, Florida Administrative Code, under the circumstances rises to the level that would warrant the initiation of a show cause proceeding. However, based on the foregoing, staff recommends that the utility be ordered to maintain its accounts and records in conformance with the 1996 NARUC USOA, and submit a statement from its accountant 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 15:** Should this docket be closed?

**RECOMMENDATION:** No. If no timely protest is received upon expiration of the protest period, the PAA Order will become final upon the issuance of the Consummating Order. However, this docket should remain open for an additional 18 months from the effective date of the Order to verify the utility has submitted deeds showing the correct description of land owned and used by the utility within 90 days of the effective date of the Order; to verify the utility has submitted its new monthly bills within 90 days of the effective date of the Order and is in compliance with Rule 25-30.335, Florida Administrative Code; to verify that the utility submitted a statement from its accountant with its 2000 annual report stating that its books are in conformance with the NARUC USOA and have been reconciled with the Commission Order; to allow staff to verify pro forma water plant has been completed within 18 months of the effective date of the Order; and to establish an effective date for wastewater rates based on completion of the pro forma water plant. (BRUBAKER, CASEY, RENDELL, T. DAVIS)

**STAFF ANALYSIS:** If no timely protest is received upon expiration of the protest period, the PAA Order will become final upon the issuance of the Consummating Order. However, this docket should remain open for an additional 18 months from the effective date of the Order to verify the utility has submitted deeds showing the correct description of land owned and used by the utility within 90 days of the effective date of the Order; to verify the utility has submitted its new monthly bills within 90 days of the effective date of the Order and is in compliance with Rule 25-30.335, Florida Administrative Code; to verify that the utility submitted a statement from its accountant with its 2000 annual report stating that its books are in conformance with the NARUC USOA and have been reconciled with the Commission Order; to allow staff to verify pro forma water plant has been completed within 18 months of the effective date of the Order; and to establish an effective date for wastewater rates based on completion of the pro forma water plant.

USEPPA ISLAND UTILITIES, INC. TEST YEAR ENDING DECEMBER 31, 1999 SCHEDULE OF WATER RATE BASE		SCHEDULE NO. 1-A DOCKET NO. 000090-SU	
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	\$286,660	\$69,757	\$356,417
2. LAND & LAND RIGHTS	0	10,463	10,463
3. NON-USED AND USEFUL	0	0	0
4. CIAC	(58,326)	(167,344)	(225,670)
5. ACCUMULATED DEPRECIATION	(211,442)	50,709	(160,733)
6. AMORTIZATION OF CIAC	0	119,016	119,016
7. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>14,066</u>	<u>14,066</u>
8. WATER RATE BASE	<u>\$16,892</u>	<u>\$96,667</u>	<u>\$113,559</u>

USEPPA ISLAND UTILITIES, INC. TEST YEAR ENDING DECEMBER 31, 1999 SCHEDULE OF WASTEWATER RATE BASE		SCHEDULE NO. 1-B DOCKET NO. 000090-SU	
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	\$408,131	\$15,844	\$423,975
2. LAND & LAND RIGHTS	0	3,487	3,487
3. NON-USED AND USEFUL	0	0	0
4. CIAC	(60,713)	(169,474)	(230,187)
5. ACCUMULATED DEPRECIATION	(91,300)	(81,657)	(172,957)
6. AMORTIZATION OF CIAC	0	167,511	167,511
7. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>7,560</u>	<u>7,560</u>
8. WASTEWATER RATE BASE	<u>\$256,118</u>	<u>(\$56,729)</u>	<u>\$199,389</u>

**USEPPA ISLAND UTILITIES, INC.**  
**TEST YEAR ENDING DECEMBER 31, 1999**  
**ADJUSTMENTS TO RATE BASE**

**SCHEDULE NO. 1-C DOCKET**  
**NO. 000090-SU**

	<u>WATER</u>	<u>WASTEWATER</u>
<b><u>UTILITY PLANT IN SERVICE</u></b>		
1. To reflect plant approved in Order PSC-97-0930-FOF-WS.	\$67,123	\$9,050
2. To reflect staff calculated utility plant.	<u>2,634</u>	<u>6,794</u>
<b>Total</b>	<b><u>\$69,757</u></b>	<b><u>\$15,844</u></b>
<b><u>LAND</u></b>		
1. To reflect original cost of land.	<u>\$10,463</u>	<u>\$3,487</u>
<b>Total</b>		
<b><u>CIAC</u></b>		
1. To reflect CIAC approved in Order PSC-97-0930-FOF-WS.	(\$165,804)	(\$169,474)
2. To impute CIAC for 7 new connections since last SARC.	<u>(\$1,540)</u>	<u>\$0</u>
<b>Total</b>	<b><u>(\$167,344)</u></b>	<b><u>(\$169,474)</u></b>
<b><u>ACCUMULATED DEPRECIATION</u></b>		
1. To reflect acc. depr. approved in Order PSC-97-0930-FOF-WS.	\$74,430	(\$74,077)
2. To reflect staff calculated accumulated depreciation.	<u>(23,721)</u>	<u>(7,580)</u>
<b>Total</b>	<b><u>\$50,709</u></b>	<b><u>(\$81,657)</u></b>
<b><u>AMORTIZATION OF CIAC</u></b>		
1. To reflect acc. amort approved in Order PSC-97-0930-FOF-WS.	\$90,503	\$135,239
2. To reflect staff calculated accumulated amortization.	<u>28,513</u>	<u>32,272</u>
	<b><u>\$119,016</u></b>	<b><u>\$167,511</u></b>
<b><u>WORKING CAPITAL ALLOWANCE</u></b>		
1 To reflect 1/8 of test year O & M expenses.	<u>\$14,066</u>	<u>\$7,560</u>

October 5, 2000

USEPPA ISLAND UTILITIES, INC. TEST YEAR ENDING DECEMBER 31, 1999 SCHEDULE OF CAPITAL STRUCTURE				SCHEDULE NO. 2 DOCKET NO. 000090-SU				
CAPITAL COMPONENT	PER AUDIT	SPECIFIC ADJUST- MENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUST- MENTS	BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST
1. COMMON STOCK	\$1,000	\$0	\$1,000					
2. RETAINED EARNINGS	(78,396)	0	(78,396)					
3. PAID IN CAPITAL	149,000	0	149,000					
4. OTHER COMMON EQUITY	<u>0</u>	<u>0</u>	<u>0</u>					
5. TOTAL COMMON EQUITY	\$71,604	\$0	71,604	(33,462)	38,142	12.19%	9.94%	1.21%
6. NOTE PAYABLE	33,240	0	33,240	(15,534)	17,706	5.66%	9.00%	0.51%
7. NOTE PAYABLE	158,011	0	158,011	(73,841)	84,170	26.90%	9.00%	2.42%
8. NOTE PAYABLE	<u>324,639</u>	<u>0</u>	<u>324,639</u>	<u>(151,710)</u>	<u>172,929</u>	<u>55.26%</u>	10.00%	<u>5.53%</u>
9. TOTAL	<u>\$587,494</u>	<u>\$0</u>	<u>\$587,494</u>	<u>(\$274,547)</u>	<u>\$312,948</u>	<u>100.00%</u>		<u>9.67%</u>
RANGE OF REASONABLENESS RETURN ON EQUITY						<u>LOW</u>	<u>HIGH</u>	
OVERALL RATE OF RETURN						<u>8.94%</u>	<u>10.94%</u>	
						<u>9.55%</u>	<u>9.79%</u>	

USEPPA ISLAND UTILITIES, INC. TEST YEAR ENDING DECEMBER 31, 1999 SCHEDULE OF WATER OPERATING INCOME			SCHEDULE NO. 3-A DOCKET NO. 000090-SU		
	TEST YEAR PER AUDIT	STAFF ADJ. TO AUDIT	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$165,009</u>	<u>\$0</u>	<u>\$165,009</u>	<u>(\$20,462)</u> -12.40%	<u>\$144,547</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	108,143	4,381	112,524	0	112,524
3. DEPRECIATION (NET)	7,620	1,871	9,491	0	9,491
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	0	12,475	12,475	(921)	11,554
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$115,763</u>	<u>\$18,727</u>	<u>\$134,490</u>	<u>(\$921)</u>	<u>\$133,569</u>
8. OPERATING INCOME/(LOSS)	<u>\$49,246</u>		<u>\$30,519</u>		<u>\$10,978</u>
9. WATER RATE BASE	<u>\$16,892</u>		<u>\$113,559</u>		<u>\$113,559</u>
10. RATE OF RETURN	<u>0.00%</u>		<u>26.88%</u>		<u>9.67%</u>

USEPPA ISLAND UTILITIES, INC. TEST YEAR ENDING DECEMBER 31, 1999 SCHEDULE OF WASTEWATER OPERATING INCOME			SCHEDULE NO. 3-B DOCKET NO. 000090-SU		
	TEST YEAR PER UTILITY	STAFF ADJUSTMENT TO AUDIT	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$82,021</u>	<u>(\$1,104)</u>	<u>\$80,917</u>	<u>\$10,213</u> 12.62%	<u>\$91,130</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	101,528	(41,048)	60,480	0	60,480
3. DEPRECIATION (NET)	7,620	(2,801)	4,819	0	4,819
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	0	6,096	6,096	460	6,556
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$109,148</u>	<u>(\$37,753)</u>	<u>\$71,395</u>	<u>\$460</u>	<u>\$71,855</u>
8. OPERATING INCOME/(LOSS)	<u>(\$27,127)</u>		<u>\$9,522</u>		<u>\$19,275</u>
9. WASTEWATER RATE BASE	<u>\$256,118</u>		<u>\$199,389</u>		<u>\$199,389</u>
10. RATE OF RETURN	<u>0.00%</u>		<u>4.78%</u>		<u>9.67%</u>



**USEPPA ISLAND UTILITIES, INC.**  
**TEST YEAR ENDING DECEMBER 31, 1999**  
**ADJUSTMENTS TO OPERATING INCOME**

**SCHEDULE NO. 3-C**  
**DOCKET NO. 000090-SU**  
**PAGE 1 OF 2**

	<u>WATER</u>	<u>WASTEWATER</u>
<b>OPERATING REVENUES</b>		
To adjust utility revenues to audited test year amount.	<u>\$0</u>	<u>(\$1,104)</u>
<b>OPERATION AND MAINTENANCE EXPENSES</b>		
<b>1. Salaries and Wages - Employees</b>		
To reflect salaries based on company percentages.	\$28,682	(\$4,052)
To reflect ww operator increased costs due to new plant.	<u>\$0</u>	<u>\$1,080</u>
Subtotal	<u>\$28,682</u>	<u>(\$2,972)</u>
<b>2. Employee Pensions &amp; Benefits</b>		
To reclassify payroll taxes to Acct. No. 408 (TOTI).	(\$2,614)	(\$3,029)
To reflect health insurance based on company percentages.	<u>3,817</u>	<u>499</u>
Subtotal	<u>\$1,203</u>	<u>(\$2,530)</u>
<b>3. Purchased Power</b>		
To annualize test year purchased power.	\$3,199	\$131
To reclassify miscellaneous expense to Acct. No. 675.	(247)	0
To include additional purchased power cost of new ww plant.	0	2,690
To reclassify purchased power expense from Acct. No. 675.	<u>0</u>	<u>724</u>
Subtotal	<u>\$2,952</u>	<u>\$3,545</u>
<b>4. Chemicals</b>		
a. To reclassify transportation expense to Account No. 650.	<u>(\$250)</u>	<u>(\$197)</u>
<b>5. Materials and Supplies</b>		
To reclassify T & D lines to Acct. No. 331.	(\$2,634)	\$0
To reclassify plant to Acct. No. 360.	<u>0</u>	<u>(3,085)</u>
Subtotal	<u>(\$2,634)</u>	<u>(\$3,085)</u>
<b>6. Contractual Services - Professional</b>		
To reflect commission approved 5 yr amortization of expenses.	<u>\$3,372</u>	<u>\$743</u>
<b>7. Contractual Services - Testing</b>		
To reclassify WW DEP license to Acct. No. 775.	(\$2,300)	\$0
To reflect required testing on an annual basis.	<u>\$5,789</u>	<u>\$2,125</u>
Subtotal	<u>\$3,489</u>	<u>\$2,125</u>
<b>8. Contractual Services - Other</b>		
To reclassify plant to Acct. No. 370.	(\$2,200)	\$0
To reclassify plant to Acct. No. 354.	(\$204)	(1,305)
To reclassify consulting fee from Acct. No. 675.	<u>171</u>	<u>0</u>
Subtotal	<u>(\$2,233)</u>	<u>(\$1,305)</u>

(O & M EXPENSES CONTINUED ON NEXT PAGE)

USEPPA ISLAND UTILITIES, INC.  
 TEST YEAR ENDING DECEMBER 31, 1999

SCHEDULE NO. 3-C  
 DOCKET NO. 990356-WS  
 PAGE 2 OF 2

(O & M EXPENSES CONTINUED)

	<u>WATER</u>	<u>WASTEWATER</u>
<b>9. Rents</b>		
To reflect rent for office space for utility staff.	<u>\$1,800</u>	<u>\$1,800</u>
<b>10. Transportation Expense</b>		
To reclassify transportation expense from Acct. No. 618.	\$250	\$197
To reflect transportation expense of employees.	3,725	928
To reclassify transportation expense from Acct. No 675.	<u>0</u>	<u>\$53</u>
<b>Subtotal</b>	<b><u>\$3,975</u></b>	<b><u>\$1,178</u></b>
<b>11. Regulatory Commission Expense</b>		
To reflect the \$100 filing fee amortized over 4 years.	<u>\$0</u>	<u>\$25</u>
<b>12. Miscellaneous Expenses</b>		
To reclassify T.O.T.I. to Acct. No. 408.	(\$6,651)	(\$3,452)
To remove loan payment.	(1,346)	(2,314)
To remove loan payment.	(13,200)	(14,400)
To remove loan payment.	(14,801)	(20,238)
To reclassify repair and maintenance expense from Acct. No.	247	0
To reclassify consulting fee to Acct. No. 636.	(171)	0
To reclassify ww transportation expense to Acct. No. 750.	(53)	0
To reclassify purchased power expense to Acct. No. 715.	0	(724)
To reclassify R & M expense from payroll taxes.	0	103
To reclassify R & M expense from capital improvements.	0	190
To reclassify WW DEP license from Acct. No. 635.	0	2,300
To amortize WW DEP license over 5 year period.	0	(1,840)
	<u>(\$35,975)</u>	<u>(\$40,375)</u>
<b>TOTAL OPERATION &amp; MAINTENANCE ADJUSTMENTS</b>	<b><u>\$4,381</u></b>	<b><u>(\$41,048)</u></b>
<b>DEPRECIATION EXPENSE</b>		
1. To reflect test year depreciation calculated per 25-30.140,	\$10,908	\$6,197
2. To reflect test year amortization expense.	(9,037)	(8,998)
3. To include depreciation expense on pro forma plant.	<u>0</u>	<u>0</u>
<b>Total</b>	<b><u>\$1,871</u></b>	<b><u>(\$2,801)</u></b>
<b>TAXES OTHER THAN INCOME</b>		
1. To reclassify taxes & license expenses from misc. expenses.	\$6,651	\$3,452
2. To reclassify payroll taxes from employee pensions & benefits.	2,614	2,926
3. To reflect utility property taxes paid by parent company.	201	67
4. To reflect payroll taxes based on company percentages.	2,130	(686)
5. To reflect test year regulatory assessment fees.	<u>879</u>	<u>337</u>
<b>Total</b>	<b><u>\$12,475</u></b>	<b><u>\$6,096</u></b>

USEPPA ISLAND UTILITIES, INC.		SCHEDULE NO. 3-D		
TEST YEAR ENDING DECEMBER 31, 1999		DOCKET NO. 000090-SU		
ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE				
	TOTAL PER PER AUDIT	STAFF PER ADJUST.		TOTAL PER PER STAFF
(601) SALARIES AND WAGES - EMPLOYEES	\$33,645	\$28,682	[1]	\$62,327
(603) SALARIES AND WAGES - OFFICERS	0	0		0
(604) EMPLOYEE PENSIONS AND BENEFITS	4,060	1,203	[2]	5,263
(610) PURCHASED WATER	0	0		0
(615) PURCHASED POWER	10,438	2,952	[3]	13,390
(616) FUEL FOR POWER PRODUCTION	0	0		0
(618) CHEMICALS	2,684	(250)	[4]	2,434
(620) MATERIALS AND SUPPLIES	2,706	(2,634)	[5]	72
(630) CONTRACTUAL SERVICES - BILLING	0	0		0
(631) CONTRACTUAL SERVICES - PROFESSIONAL	725	3,372	[6]	4,097
(635) CONTRACTUAL SERVICES - TESTING	4,533	3,489	[7]	8,022
(636) CONTRACTUAL SERVICES - OTHER	4,791	(2,233)	[8]	2,558
(640) RENTS	0	1,800	[9]	1,800
(650) TRANSPORTATION EXPENSE	850	3,975	[10]	4,825
(655) INSURANCE EXPENSE	143	0		143
(655) REGULATORY COMMISSION EXPENSE	0	0		0
(670) BAD DEBT EXPENSE	0	0		0
(675) MISCELLANEOUS EXPENSES	<u>43,568</u>	<u>(35,975)</u>	[12]	<u>7,593</u>
	<u>\$108,143</u>	<u>\$4,381</u>		<u>\$112,524</u>

USEPPA ISLAND UTILITIES, INC. TEST YEAR ENDING DECEMBER 31, 1999 ANALYSIS OF WASTEWATER OPERATION AND MAINTENANCE EXPENSE		SCHEDULE NO. 3-E DOCKET NO. 000090-SU		
	TOTAL PER AUDIT	STAFF ADJUST- MENT		TOTAL PER STAFF
(701) SALARIES AND WAGES - EMPLOYEES	\$33,630	(\$2,972) [1]		\$30,658
(703) SALARIES AND WAGES - OFFICERS	0	0		0
(704) EMPLOYEE PENSIONS AND BENEFITS	4,516	(2,530) [2]		1,986
(710) PURCHASED SEWAGE TREATMENT	0	0		0
(711) SLUDGE REMOVAL EXPENSE	0	0		0
(715) PURCHASED POWER	6,395	3,545 [3]		9,940
(716) FUEL FOR POWER PRODUCTION	0	0		0
(718) CHEMICALS	2,325	(197) [4]		2,128
(720) MATERIALS AND SUPPLIES	3,085	(3,085) [5]		0
(730) CONTRACTUAL SERVICES - BILLING	0	0		0
(731) CONTRACTUAL SERVICES - PROFESSIONAL	725	743 [6]		1,468
(735) CONTRACTUAL SERVICES - TESTING	1,225	2,125 [7]		3,350
(736) CONTRACTUAL SERVICES - OTHER	3,152	(1,305) [8]		1,847
(740) RENTS	0	1,800 [9]		1,800
(750) TRANSPORTATION EXPENSE	1,100	1,178 [10]		2,278
(755) INSURANCE EXPENSE	143	0		143
(765) REGULATORY COMMISSION EXPENSES	0	25 [11]		25
(770) BAD DEBT EXPENSE	0	0		0
(775) MISCELLANEOUS EXPENSES	<u>45,232</u>	<u>(40,375)</u> [12]		<u>4,857</u>
	<u>\$101,528</u>	<u>(\$41,048)</u>		<u>\$60,480</u>