



Public Service Commission

CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD
TALLAHASSEE, FLORIDA 32399-0850

-M-E-M-O-R-A-N-D-U-M-

RECEIVED-FPSC
00 DEC - 7 AM 10: 50
RECORDS AND REPORTING

DATE: DECEMBER 7, 2000

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

FROM: DIVISION OF ECONOMIC REGULATION (RENDELL, BUTTS, LINGO, TED DAVIS) *RTT ee*
DIVISION OF LEGAL SERVICES (BRUBAKER) *JB dl m*

RE: DOCKET NO. 000467-WU - APPLICATION FOR STAFF-ASSISTED RATE CASE IN PASCO COUNTY BY GEM ESTATES UTILITIES, INC.
COUNTY: PASCO

AGENDA: 12/19/00 - REGULAR AGENDA - PROPOSED AGENCY ACTION, EXCEPT ISSUES NOS. 12 AND 13 - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: 15-MONTH EFFECTIVE DATE: 9/25/01 (SARC)

SPECIAL INSTRUCTIONS: NONE

FILE NAME AND LOCATION: S:\PSC\ECR\WP\000467.RCM

DOCUMENT NUMBER-DATE

15677 DEC-78

FPSC-RECORDS/REPORTING

TABLE OF CONTENTS

<u>ISSUE</u>	<u>DESCRIPTION</u>	<u>PAGE</u>
-	Case Background	3
	<u>QUALITY OF SERVICE</u>	
1	Quality of Service (DAVIS)	4
	<u>RATE BASE</u>	
2	Used and Useful Percentages (DAVIS)	7
	Attach. A Water Plant Used and Useful	9
	Attach. B Water Distribution Used and Useful	10
3	Rate Base (BUTTS)	11
	<u>COST OF CAPITAL</u>	
4	Rate of Return (BUTTS)	14
	<u>NET OPERATING INCOME</u>	
5	Test Year Operating Revenue (BUTTS)	15
6	Operating Expenses (BUTTS, DAVIS)	16
	<u>REVENUE REQUIREMENT</u>	
7	Revenue Requirement (BUTTS)	22
	<u>RATES AND CHARGES</u>	
8	Conservation Rate Structure (LINGO)	23
9	Repression Adjustment (LINGO)	26
10	Billing Period (BUTTS)	28
11	Rates (LINGO, BUTTS)	30
	<u>OTHER ISSUES</u>	
12	Rates in Event of Protest (BRUBAKER, BUTTS)	32
13	NARUC Conformity (BRUBAKER, BUTTS)	34
14	Close Docket (BRUBAKER, BUTTS)	36
	<u>SCHEDULES DESCRIPTION</u>	
1	Water Rate Base	37
1-A	Adjustments to Rate Base	38
2	Capital Structure	39
3	Water Operating Income	40
3-A	Adjustments to the Operating Statement	41-42
3-B	Water Operation & Maintenance Expenses	43

CASE BACKGROUND

Gem Estates Utilities, Inc. (Gem Estates or utility) is a Class C water utility operating in Pasco County. The utility provides water service to 223 mobile home residents and 1 general service customer, which is estimated to be 180 Equivalent Residential Connection (ERCs). On April 20, 2000, the utility applied for this staff assisted rate case (SARC). The utility's service area is not located in a water use caution area in the Southwest Florida Water Management District (SWFWMD).

Staff audited the utility's records for compliance with Commission rules and orders and examined all components necessary for rate setting. The staff engineer also conducted a field investigation, which included a visual inspection of the water facilities along with the service area. The utility's operating expenses, maps, files, and rate application were also reviewed to determine reasonableness of maintenance expenses, regulatory compliance, utility plant in service and quality of service. Staff has selected a historical test year ended May 31, 2000.

A customer meeting was conducted on October 19, 2000 at the Gem Estates Clubhouse in Zephyrhills, Florida. Approximately 101 customers attended the meeting. The owner/sole trustee of the utility was also present at the meeting, along with a representative of the SWFWMD. Five customers gave comments regarding the utility's quality of service, the proposed rate increase and other issues related to the case. Quality of service and customer service issues are discussed in Issue No. 1.

The Commission has the authority to consider this application pursuant to Section 367.0814, Florida Statutes.

QUALITY OF SERVICE

ISSUE 1: Is the quality of service provided by Gem Estates Utilities, Inc. satisfactory?

RECOMMENDATION: Yes. The quality of service provided by Gem Estates Utilities, Inc. should be considered to be 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 utility's product (water and wastewater); operational conditions of 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 county health departments or lack thereof over the proceeding 3-year period shall also be considered. DEP and health officials' comments and testimony concerning quality of service as well as the comments and testimony of the utility's customers shall be considered.

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

The utility's service area is located along North Avenue on the north east side of Zephyrhills, Florida, which is in Pasco County. The utility provides water service to 223 mobile home residents and 1 general service customer, which is estimated to be 180 ERCs. The customers of Gem Estates are not metered and are charged a flat rate for water service. The water service to these customers is obtained from 2 wells in the area surrounding the water plant. The water treatment includes disinfection and pressure equalization in a hydropneumatic tank.

QUALITY OF UTILITY'S PRODUCT

In Pasco County, the potable water program is regulated by the Southwest District of the Florida Department of Environmental Regulation (DEP) located in Tampa. According to the DEP, the utility is currently up-to-date with all chemical analyses and the

results of those tests are satisfactory. For the past three years, the utility has not been consistent with its testing program. The last inspection of the utility's water treatment plant was conducted on May 31, 2000, which makes note that the utility was in violation of bacteriological sampling. The utility has corrected this violation. Several testing parameters are due in the year 2000. Current test results indicate that the utility's treated water meets or exceeds all standards for safe drinking water and the water quality is considered satisfactory.

OPERATIONAL CONDITIONS AT THE PLANT

According to records provided by DEP, over the last three years operational conditions at the plant have undergone several changes. The original owners of the utility are deceased and Ms. Cahill (one of two daughters) is the trustee of the utility. The quality of the utility's plant-in-service deteriorated as the trustee became less responsive to regulatory requirements including plant maintenance, customer complaints, revenue collections, annual reports, and regulatory assessment fees. As the situation became more critical, the second daughter, Ms. Malberg, became the sole trustee of Gem Estates by circuit court order issued on April 16, 1999. Since becoming sole trustee, Ms. Malberg has worked with the DEP, Commission staff, and customers to ensure the plant is operating in compliance with regulatory standards.

Maintenance of the pump house and plant site grounds were satisfactory during the engineering field inspection. The operator's work space inside the building is tidy. The DEP's plant-in-service deficiencies over the last three years have been corrected. Currently, all outstanding violations, citations, or corrective orders have been satisfied. During the staff engineer's review of water usage, it was noted that the daily flow readings of treated water leaving the plant were suspiciously low when compared with the average customer demand. The master meter at the plant has subsequently been tested by the Florida Rural Water Association and found to be 49% accurate (or 51% slow according to the test results report). It is recommended in Issue No. 3 that a Pro Forma allowance be granted to replace the four inch master meter at the plant. The operational conditions of the water treatment plant are not affected by the inaccurate master meter and should be considered satisfactory.

UTILITY'S ATTEMPT TO ADDRESS CUSTOMER SATISFACTION

A customer meeting was held on October 19, 2000, at 6:00 pm in the Gem Estates Clubhouse which is within the Gem Estates Mobile Home Park in Zephyrhills. From a customer base of 224 connections, there were 101 customers and 1 utility representative at the meeting. Five of the customers came forward to express concerns and make comments on the rate case. Their concerns were primarily over the proposed rates being higher than those charged by the City of Zephyrhills. There were no quality of service issues raised by those customers at the customer meeting. Neither were there any complaints registered with the PSC's Division of Consumer Affairs. However, staff met with the president and other members of the homeowners' association in an earlier meeting at 2:00 pm, the same day. At that meeting, the issue of low water pressure was raised and discussed.

It was noted during the engineering field investigation that the relay switch controlling the on/off cycle for the well pump was set at 20/40 pounds per square inch (psi). In accordance with DEP Rule 62-555.320(7), Florida Administrative Code, the minimum pressure allowed throughout the distribution lines is 20 psi. Since the field investigation and prior to the customer meeting, the utility replaced the relay, which is now set to cut on/off at 38/50 psi. This new relay will maintain system pressure within the DEP required standards.

The utility appears to be putting forth a sufficient good faith effort to provide satisfactory quality of service. After considering the three components discussed above, it is recommended that the quality of service provided by Gem Estates be considered satisfactory.

USED AND USEFUL

ISSUE 2: What portions of Gem Estates' water treatment plant and distribution system are used and useful?

RECOMMENDATION: Both the water treatment plant and the water distribution system should be considered 100% used and useful. (T. DAVIS)

STAFF ANALYSIS: Water Treatment Plant - The water treatment plant is a closed system with two wells. The primary well is a 6" well equipped with a 10-horsepower (hp) vertical turbine pump that extracts ground water at a rate of 200 gallons per minute (gpm). The secondary well is a four inch well with a 5-hp submersible pump that yields 70 gpm. The total capacity is 270 gpm, which can not support fire flow requirements. The firm reliable capacity of the system, with the highest capacity well removed from the calculation, is only 53,400 gallons (70 gpm X 12 hour day + 3,000 gallons in storage).

There has been no growth at Gem Estates over the last five years. The certificated territory encompasses an area of approximately 46.4 acres, which is land-locked by the Seaboard Coastline Railroad along its east/southeast boundary, and developed neighborhoods on each of the other boundaries. The existing mobile home park was founded in 1974, and was noted "completed as shown" in June 1977, on the engineering plans. The territory is strictly a retirement community where the residents have purchased their lots from the original owner/developer to establish individual residences. All lots offered for sale by the original owner have been sold. Therefore, it is recommended that no growth allowance be considered in the used and useful calculation.

Voluntary irrigation restrictions have been imposed by the utility to insure sufficient flow for everyday use. The utility is constantly on self-imposed irrigation restrictions. The average for the peak five days was 46,400 gpd, which was measured through a master meter that has been diagnosed as reading 51% slow. This diagnosis was performed by the Florida Rural Water Association just prior to the customer meeting. After the flows are adjusted for the slow readings, the actual average for the peak five days is 94,694 gpd. The measured average daily flow of 27,365 gpd, when adjusted, is raised to 55,847 gpd, which indicates that both wells are required to meet demand. Customer growth has been static over the last five years with no average growth rate. To calculate the used and useful, the average of the five highest days (94,694 gpd) are added to the calculated growth (-0-) plus fire flow requirement

(-0-), and divided by the firm reliable capacity of 53,400 gpd. As noted in the calculation sheet (Attachment "A", Sheet 1 of 2), the used and useful is 100%. Since the average daily flow exceeds the firm reliable capacity, it should be noted that the utility is interconnected with the City of Zephyrhills where drinking water can be purchased on an "as needed" basis. The percentage of useful plant is calculated to be 100%.

Water Distribution System

The water distribution system has the potential of serving 224 customers (estimated to be 180 ERCs) in a subdivision that has reached its potential customer capacity. The average number of customers served during the test year was 224 customers (estimated to be 180 ERCs). Growth over the past five years has been static with no average growth rate. By the formula approach, the number of customers (180 ERCs) are added to the estimated growth for the statutory growth period (-0-), and divided by the capacity of the system (180 ERCs). The staff engineer calculates the distribution system to be 100% used and useful (See Attachment "A", Page 2 of 2).

WATER TREATMENT PLANT - USED AND USEFUL DATA

Docket No. 000467-WU - Gem Estates Utilities, Inc.

1)	Firm Reliable Capacity of Plant	53,400	gallons per day
2)	Average of 5 Highest Days From Maximum Month	94,694	gallons per day
3)	Average Daily Flow	55,847	gallons per day
4)	Fire Flow Capacity	0	gallons per day
5)	Growth	0	gallons per day
a)	Test year Customers in ERCs:		
		Begin	180
		End	180
		Average	180
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	N/A	gallons per day
a)	Total Unaccounted for Water	N/A	gallons per day
	Percent of Average Daily Flow	N/A	
b)	Reasonable Amount	N/A	gallons per day
	(10% of average Daily Flow)		
c)	Excessive Amount	N/A	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. 000467-WU - Gem Estates Utilities, Inc.

- | | | | |
|----|-------------------------------------------------------------------------------------------|-----|-------|
| 1) | Capacity of System (Number of Potential ERCs) | 180 | ERCs |
| 2) | Test year connections | | |
| | a) Beginning of Test Year | 180 | ERCs |
| | b) End of Test Year | 180 | ERCs |
| | c) Average Test Year | 180 | ERCs |
| 3) | Growth | 0 | ERCs |
| | (Due to plant additions in 1999, Use end of year customer count) | | |
| | a) customer growth in ERCs for last 5 years including Test Year using Regression Analysis | 0 | ERCs |
| | b) Statutory Growth Period | 5 | Years |
| | (a)x(b) = 0 ERCs allowed for growth | | |

USED AND USEFUL FORMULA

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

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

RECOMMENDATION: The appropriate average amount of rate base should be \$61,840 for the test year. Pro forma plant, as outlined in the staff analysis, should be completed within six months of the effective date of the Commission Order. (BUTTS, DAVIS)

STAFF ANALYSIS: Gem Estates came under the Commission's jurisdiction on November 20, 1992. By Order No. PSC-94-1472-FOF-WU, issued November 30, 1994, in Docket No. 921206-WU, the Commission granted the utility a certificate. On April 20, 2000, the utility filed the application for this SARC. Rate base for this utility was established in the above-mentioned docket by an outside consultant who assisted the utility in the certification docket. Staff reviewed the consultant's analysis of the utility and agreed that it was reasonable and prudent. The appropriate components of the utility's rate base include utility-plant-in-service (UPIS), land, non-used and useful plant, 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 May 31, 2000 for this rate case. Adjustments have been made to adjust rate base component balances and updated rate base through May 31, 2000. The utility's failure to maintain its books and records in conformance with the NARUC USOA is addressed in Issue 14. A summary of each component and the adjustments follows:

Utility Plant-In-Service: The utility books reflected a water UPIS balance of \$0 at the beginning of the test year. Staff made an adjustment of \$69,094 to reflect the amount of water plant per the study completed by the staff engineer. According to Order No. PSC-94-1472-FOF-WU, issued November 30, 1994, in Docket No. 921206-WU, the Commission approved continuation of the utility's current flat rate structure of \$14.13 per quarter because the utility indicated that it intended to apply for this staff assisted rate case; therefore, metered rates and cost would be considered then. A pro forma adjustment was made to reflect \$22,176 for the installation of water meters. As a result of the customer meeting and a diagnosis performed by the Florida Rural Water Association, the master meter (Turbine Flow Meter) for this utility was diagnosed as reading 51% slow. Staff has made a pro forma adjustment to reflect replacing the flow meter for the amount of \$920. Staff also made an adjustment of (\$13,667) for an averaging adjustment. Staff recommends a water UPIS balance of \$78,523.

Pro forma water plant should be completed within six months of the effective date of the Commission Order.

Land: The utility books reflected a land balance of \$0 at the end of the test year. The original cost study for Docket No. 921206-WU established a value of \$743 for land. There were no adjustments made to this amount; therefore, staff recommends that the land value is \$743.

Non-Used and Useful Plant: As discussed in Issue No. 2, the water treatment plant and the water distribution system should be considered 100% used and useful.

Contributions-in-Aid-of-Construction (CIAC): The utility recorded no CIAC on its books at the end of the test year. The audit staff could not establish water CIAC because of inadequate utility records. Rule 25-30.570(1), Florida Administrative Code, states:

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

Because the utility did not have adequate books to provide CIAC balances, staff imputed (\$9,533) at the end of the test year to reflect the water transmission and distribution lines. Staff also made an averaging adjustment of \$155 to water CIAC. Staff recommends water CIAC of (\$9,378) during the test year.

Accumulated Depreciation: The utility books reflected no accumulated depreciation balances for water at the end of the test year. Staff calculated accumulated depreciation using 2.5% depreciation rate from 1974 through March 1984, then calculated depreciation using rates set forth in Rule 25-30.140, Florida Administrative Code, through the test year.

Staff's calculation for water accumulated depreciation is (\$21,572) as of May 31, 2000. Accumulated depreciation on pro forma plant for the meters and for the flow meter is (\$652) and (\$23), respectively. Staff made an adjustment of \$1,415 for an averaging adjustment. Staff recommends water accumulated depreciation of (\$20,832).

Accumulated Amortization of CIAC: The utility recorded no accumulated amortization of CIAC at the end of the test year. Staff calculated accumulated amortization using the composite plant amortization rate pursuant to Rule 25-30.140(8), Florida Administrative Code. Staff's calculation for water accumulated amortization is \$6,810 as of May 31, 2000. The averaging adjustment is (\$149). Staff recommends accumulated CIAC amortization of \$6,661 for the test year.

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 \$6,128 for water (based on water operation and maintenance of \$49,022.)

Rate Base Summary: Based on the foregoing, the appropriate rate base balance for rate setting purposes is \$61,845 during the test year.

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

COST OF CAPITAL

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

RECOMMENDATION: The appropriate rate of return on equity should be 9.94% with a range of 8.94% to 10.94% and the appropriate overall rate of return should be 10.28% with a range of 9.59% to 10.96%. (BUTTS)

STAFF ANALYSIS: Gem Estates operates as a Florida Corporation that is controlled by Ms. Hollis J. Malberg. Ms. Malberg is the sole trustee of the Marjorie Hill Trust which is responsible for all operations at the utility's mobile home community other than operations. Based on the staff audit, the trust paid approximately \$34,136 of obligations incurred for utility operations. The utility believes that this amount should be treated as a loan to the utility from the trust.

Staff recommends that the \$34,136 paid on behalf of the utility's operation by the Marjorie Hill Trust should be treated as other common equity because there is no debt instrument or interest cost associated with this loan. By Order No. PSC-00-1165-PAA-WS, issued June 27, 2000, in Docket No. 990243-WS, the Commission ordered that when no cost is assigned to long term debt and no debt instrument is available, it is appropriate to characterize the debt as other common equity given the related party status to the debt.

Therefore, the utility's capital balance is reconciled directly with the staff recommended rate base. The utility's pro forma is estimated at \$22,176, and Gem Estates has stated that it needs to take out a loan for the pro forma plant with the cost of the loan at 1 1/2% over the prime rate with the prime rate being 9.50% at the time of this filing.

The rate of return on equity, using the most recent leverage formula approved by Order No. PSC-00-1162-PAA-WS, issued June 26, 2000, in Docket No. 000006-WS, is 9.94% with a range of 8.94% - 10.94% and the overall rate of return is 10.28% with a range of 9.59% to 10.96%. Staff made pro rata adjustments to reconcile the capital structure downward to match the recommended rate base.

Gem Estates' return on equity and overall rate of return are shown on Schedule No. 2.

NET OPERATING INCOME

ISSUE 5: What is the appropriate test year revenue for this utility?

RECOMMENDATION: The appropriate test year revenue should be \$12,660. (BUTTS)

STAFF ANALYSIS: The utility's revenue for the 12-month period ended May 31, 2000, is not properly recorded. However, the utility did provide staff with access to utility records to calculate its revenue for this rate case proceeding.

During the test year the utility provided water services to an average 224 customers. Based on the audit, the revenue check completed by staff's auditor showed test year revenues of \$12,434 for this utility, using approximately 220 customers during the test year. Per utility's personnel, there are (4) four vacant lots connected to the utility in the mobile home subdivision. These lots are connected to the utility's lines; therefore, they should be considered as four additional customers. Staff imputed revenues of \$226, which includes the flat rate charge of \$14.13 per quarter for the four additional connected vacant lots during the test year. Staff recommends test year revenue of \$12,660.

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

ISSUE 6: 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 \$56,281. (BUTTS, DAVIS)

STAFF ANALYSIS: Gem Estates has no records that completely separate or specifically identify its operating expenses. The utility provided staff with access to all invoices, canceled checks, and other utility records to assemble its operating expenses for this rate case proceeding. Staff has adjusted operating expense to include the appropriate annual amounts for operation and maintenance expenses, depreciation expense (net of CIAC amortization), and taxes other than income.

OPERATION AND MAINTENANCE EXPENSE

Salaries and Wages-Employees: The trustee of the utility is the sole administrator for this utility. She acts as secretary, bookkeeper, billing clerk, regulatory liaison, general maintenance person, and chief maintenance supervisor. The utility recorded employee salaries and wages of \$0 for the test year.

Staff completed an analysis of necessary labor hours and duties based on the size of this utility. Based on that analysis, staff's recommended amount includes the following:

a). An owner/manager/supervisor of utility to supervise all aspects of the utility (10 hours per week @ \$25 per hour for \$13,000). Staff recommends test year salary expense of \$13,000 for this utility.

Purchased Water: The utility recorded test year purchased water expense of \$295. The utility has interconnected with the City of Zephyrhills for emergency purposes only. However, the utility has not purchased any water from the city as of the filing of this recommendation. The fee for this interconnection is \$27 a month. Staff made an adjustment of \$324 to allow the utility this expense for 12-months (\$27 X 12). Therefore, staff recommends test year purchased water expense of \$619.

Purchased Power: The utility recorded purchased power expense of \$1,235 during the test year. Staff made an adjustment of \$165 to this account to include \$13.75 which is the monthly charge by Florida Power Corporation for a security light at the water treatment plant. Issue No. 9 includes a repression adjustment to recognize that consumption levels will decrease once new rates are

effective. With a decrease in consumption, there will be a decrease in purchased power expense due to having to pump less water. Staff recommends a repression adjustment of (\$624) to reflect the estimated decrease in purchased power expense. Staff recommends test year purchased power expense of \$776.

Chemicals: The utility recorded test year chemical expense of \$123 for the test year. The utility uses liquid chlorine and a hypo mechanical pump for disinfection and treatment of raw water. Staff increased the expense by \$12 to reflect the proper annual allowance for chemical expense to treat the potable water served to the customers of this utility. In normal circumstances, staff would make a repression adjustment to chemical expense due to having to treat less water; however, the adjustment in this rate proceeding is immaterial because staff's recommended amount for chemical expense is a low amount for this utility. Therefore, staff recommends no considerable repression adjustment and a chemical expense of \$135 for the test year.

Materials and Supplies: The utility recorded test year materials and supplies expense of \$2. Staff made an adjustment of \$887 to the materials and supplies account to allow for postage associated with billing each customer monthly. Staff recommends a materials and supplies expense of \$889 for the test year.

Contractual Services - Professional: The utility recorded test year contractual services-professional expense of \$2,100. The utility is now required to follow the NARUC uniform system of accounts as outlined in Rule 25-30.115, Florida Administrative Code. Staff has allowed a reasonable and prudent amount in this rate case proceeding for this expense. Staff is recommending initial NARUC set-up fees for this utility of \$2,800, amortized over five years at \$560 ($\$2,800/5$ years). The amount is consistent with amounts used in other cases with similar circumstances. The utility paid a C.P.A., as referenced above, \$2,100 for accounting services in preparation of its 1999 annual report. Staff is recommending that this amount be allowed during the test year as well as \$1,500 in expenses to cover the utility's remaining annual accounting services for preparation of regulatory assessment fee forms, preparation of monthly payroll tax returns, quarterly payroll tax returns, and other monthly accounting duties. Staff increased the utility's test year recorded amount by \$2,060 to allow for the contractual services-professional expense.

The utility has requested to hire additional employees to help assist with the day-to-day operation of its facilities. The utility requested an office person to answer phone calls, do

general filing, bookkeeping, billing, collections, handle complaints, maintain the complaint log, and other utility related duties (20 hours per week @ \$7.50 per hour for \$7,800).

The utility requested a general maintenance person to perform general system repairs, act as a liaison between the customers and the utility, pick up parts, investigate complaints, perform regular maintenance checks of the water plant and distribution system, and assist/supervise contract services (20 hours per week @ \$10.00 per hour for \$10,400).

Staff analyzed the amounts that the utility requested for these employees, and staff believes that the amounts are consistent with past cases of similar-size utilities. The utility has provided staff with signed contracts for these additional employees. Staff therefore recommends contractual services-professional expense of \$22,360 for the test year.

Contractual Services - Testing: The utility recorded contractual services-testing expense of \$1,211 during the test year. State and local authorities require that several analyses be submitted in accordance with Rule 62-550, Florida Administrative Code. A schedule of the required water, frequency, and costs are as follows:

---WATER---

<u>Description</u>	<u>Frequency</u>	<u>Annual Cost</u>
Microbiological	Monthly	\$576
Primary Inorganics	36 Months	Group
Secondary Inorganics	36 Months	Group
Nitrate & Nitrite	12 Months	Group
Radionuclides	36 Months	Group
Volatile Organics	qtr'ly/1st yr/ 36 Months Subsequent/Annual	<u>Group</u> \$412/yr
Asbestos	N/A	-0-
Pesticides & PCB	36 Months	232/yr
Unregulated Organics Group I	qtr'ly/1st yr/9 yr	112/yr
Group II	36 Months	18/yr
Group III	36 Months	83/yr
Lead & Copper	Biannually	<u>250/yr</u>
	Total Amount	<u>\$1,683/yr</u>

Staff made adjustments of \$472 to the contractual services-testing to allow for the recommended testing expense. Staff therefore recommends contractual services-testing expense of \$1,683 for the test year.

Contractual Services - Other - The utility recorded \$5,674 in this account for the test year. Based on staff's analysis, the utility contracts its operator services through Suncoast Environmental Services, Inc., a company that specializes in operating and maintaining water utility plants in accordance with federal, state, and local regulatory standards. For this service, the utility pays \$145 per month or \$1,740 per year. This expense is included in the utility's test year amount. Staff made an adjustment of \$76 to reflect painting of the hydropneumatic tank, amortized over 5 years. Staff also made adjustments of \$1,212 for a meter reader to read the meters on a monthly basis (\$101 per month). Staff removed (\$1,836) of utility's recorded expense in this account which consists of the following: \$725 for three water heater elements and accessories; \$260 for installation of a concrete slab; \$651 of amortization for a 10hp pump replacement (\$3,257/5 years); and \$200 for valve and well repairs. These amounts were included in utility plant in service. Staff recommends contractual services-other expense of \$5,126 for the test year.

Rents - The utility did not record any rent expense for the test year. The utility office is located in the personal residence of Ms. Hollis Malberg. The office is approximately 200 sq. ft. and contains standard office equipment such as a computer, printer, fax machine, copier, desk, and filing cabinets. Staff made an office allocation based on discussions with Ms. Malberg that the office area is used for 50% of the utility operations, 35% based on trust operations, and 15% for personal family. Staff recommends \$2,275 to include annual rental cost during the test year for this utility.

Transportation Expense - The utility recorded \$0 of transportation expense for the test year. In the performance of utility duties, the utility's owner uses her personal vehicle to tour the service area, attend meetings with regulatory personnel, run errands, make bank deposits, pick up parts for repairs, and transport supplies, etc. It is estimated that a reasonable and prudent average of miles driven during any given week is 100 miles per week. In accordance with allowances for state travel, an allowance of twenty-nine cents per mile is considered reasonable. This expense has been increased by \$1,508 (100 miles x 52 weeks x \$.29) for the utility owner. Staff recommends an annual transportation expense of \$1,508 for the test year.

Insurance Expense - The utility recorded no insurance expense for the test year. Staff made an adjustment of \$192 to reflect insurance expense for the utility's asset and general liability coverage. Staff recommends insurance expense of \$192 for this utility during the test year.

Miscellaneous Expense - The utility recorded \$360 in this account during the test year. Staff decreased this amount during the test year by (\$107) for postage and allowed for postage expense in Account No. 620 materials & supplies. Staff recommends miscellaneous expense of \$253 for the test year.

Operation and Maintenance Expenses (O & M) Summary - Total operation and maintenance adjustments resulted in an increase of \$37,816. Staff recommends O&M expenses of \$49,022. O&M expenses are shown on Schedule No. 3-B.

Depreciation Expense (Net of Amortization of CIAC) - Staff calculated test year depreciation expense using the rates prescribed in Rule 25-30.140, Florida Administrative Code. Staff's calculated test year depreciation expense is \$2,154. Test year amortization of CIAC is (\$297). Staff also made adjustments of \$675 to include depreciation on pro forma plant. Therefore, staff recommends net depreciation expense of \$2,532 for the test year.

Taxes Other Than Income Taxes - The utility did not record an amount in this account for the test year. Staff made adjustments of \$569 to include regulatory assessment fees on test year revenue, and made an adjustment of \$116 for personal property tax. Staff also made adjustments of \$1,766 to allow for payroll taxes on staff's recommended salaries, and made adjustments of \$63 for tangible personal property. Staff recommends taxes other than income expense of \$2,514 for the test year.

Operating Revenues - Revenues have been increased by \$50,014 to \$62,674 to reflect the increase in revenue required to cover expenses and allow the utility the opportunity to earn the recommended rate of return on investment.

Taxes Other Than Income Taxes - This expense has been increased by \$2,251 to reflect the regulatory assessment fee of 4.5% on staff's recommended increase in revenue.

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 \$56,319.

DOCKET NO. 000467-
DATE: DECEMBER 7, 2000

Operating expenses for water are shown on Schedule No. 3B.
Adjustments are shown on Schedule No. 3A.

REVENUE REQUIREMENT

ISSUE 7: What is the appropriate revenue requirement for each system?

RECOMMENDATION: The appropriate revenue requirement should be \$62,674 for the test year. (BUTTS)

STAFF ANALYSIS: The utility should be allowed an annual increase in revenue of \$50,014 (395%). This will allow the utility the opportunity to recover its expenses and earn the recommended 10.28% return on its investment. The calculation is as follows:

	<u>Water</u>
Adjusted Rate Base	\$ 61,845
Rate of Return	<u>x .1028</u>
Return on Investment	\$ 6,357
Adjusted O & M Expenses	49,022
Depreciation Expense (Net)	2,532
Taxes Other Than Income Taxes	<u>4,765</u>
Revenue Requirement	<u>\$ 62,674</u>
Annual Revenue Increase	\$ 50,014
Percentage Increase/(Decrease)	<u>395%</u>

The revenue requirement and resulting annual increase are shown on Schedule No. 3.

RATES AND CHARGES

ISSUE 8: Is a continuation of the utility's current flat rate structure for its water system appropriate in this case, and, if not, what is the appropriate rate structure?

RECOMMENDATION: No, a continuation of the utility's current flat rate structure for its water system is not appropriate in this case. The water system rate structure should be changed to a traditional base facility charge (BFC)/gallonge charge rate structure with a 10% conservation adjustment. (LINGO)

STAFF ANALYSIS: The utility's current water system rate structure consists of a quarterly unmetered flat rate of \$14.13. This rate structure is considered nonusage sensitive because it discourages conservation at all levels of consumption. The Commission's preferred rate structure is the traditional BFC/gallonge charge rate structure, because it is designed to provide for the equitable sharing by the rate payers of both the fixed and variable costs of providing service. This rate structure is also considered usage sensitive because customers are charged for all water consumed. Therefore, customers are able to reduce their total bill by reducing their water consumption.

As discussed in Issue No. 3, staff is recommending that meters be installed. Therefore, staff recommends that the current flat rate structure be discontinued in favor of a traditional BFC/gallonge charge rate structure, to be consistent not only with Commission practice, but with the overall statewide goal of eliminating conservation-discouraging water rate structures.

Staff used data obtained from the DEP Monthly Operating Reports (MORs) during the test year, in conjunction with a master meter flow analysis from the Florida Rural Water Association, to estimate customers' average monthly consumption of 6,796 gallons (6.796 kgal), which is less than the 7.800 kgal benchmark SWFWMD would use for this type of mobile housing development (130 gallons per day per capita x 2 persons x 30 days). Further, the estimated average consumption exceeds the SWFWMD benchmark in only three months during the test year. Based on this information, staff believes the traditional BFC/gallonge charge rate structure, rather than a more aggressive conservation rate structure, is appropriate in this case.

However, based on staff's preliminary allocation of fixed versus variable allocation of revenue requirement recovery, the utility is recovering 58% (\$36,757) in the BFC charge and the

remaining 42% (\$26,579) in the gallonage charge. This revenue recovery allocation is outside the rate design guidelines of SWFWMD, which prefers that a greater percentage of revenues be recovered through the gallonage charge rather than through the BFC. In fact, barely one-third of the water utilities permitted within SWFWMD still have revenue recovery allocations in which the fixed charges (the BFC) represent 50% or more of revenue recovery. Therefore, staff believes that a conservation adjustment is appropriate, in order to shift more of the revenue recovery to the gallonage charge. This would accomplish one of staff's rate design goals of minimizing, to the extent possible, the price increases at extremely low usage levels.

To accomplish this goal, conservation adjustments were tried, in increments of 5%, from a low of 10% to a high of 30%. The results of this analysis, including making a 0% conservation adjustment, are shown in the following table:

PRELIMINARY PRICE INCREASES AT VARIOUS CONSERVATION ADJUSTMENTS						
	Conservation Adjustment Percentages					
Monthly Consumption	0%	10%	15.0%	20.0%	25.0%	30.0%
0 kgal	190.2%	161.4%	146.7%	132.3%	117.8%	103.2%
1 kgal	221.0%	196.6%	184.1%	171.8%	159.4%	146.9%
2 kgal	251.8%	231.8%	221.4%	211.3%	201.1%	190.7%
3 kgal	282.6%	267.1%	258.8%	250.7%	242.7%	234.4%
4 kgal	313.4%	302.3%	296.2%	290.2%	284.3%	278.1%
5 kgal	344.2%	337.6%	333.5%	329.7%	325.9%	321.9%
10 kgal	498.1%	513.8%	520.4%	527.2%	534.0%	540.6%
15 kgal	652.0%	690.0%	707.2%	724.6%	742.0%	759.2%
20 kgal	805.9%	866.2%	894.1%	922.1%	950.1%	977.9%
25 kgal	959.9%	1042.5%	1080.9%	1119.5%	1158.2%	1196.6%

As shown above, the 30% conservation adjustment (relative to the other adjustments) accomplishes two things. First, it minimizes the price increases for monthly consumption at 5 kgal or less, resulting in price increases ranging from 22 to 87 percentage points less than the corresponding increases with no conservation

adjustment. Second, it results in greater percentage increases at usage levels of 10 kgal or more.

However, staff does not believe a 30% conservation adjustment is appropriate in this instance. When converting from flat to metered rates, there is typically a substantial reduction in consumption. As will be discussed in a subsequent issue, staff is recommending a 44% repression adjustment to mitigate this problem. However, until historical data is obtained on the actual response of the customers of Gem Estates to staff's recommended change in rate structure, staff believes it is important, for revenue stability purposes, to recover no less than 50% of the revenues through fixed charges (i.e., the BFC).

A 10% conservation adjustment results in a preliminary 52%/48% BFC/gallage charge split, which is still outside SWFWMD's guidelines in this regard. We recognize that this agency has a Memorandum of Understanding (MOU) with SWFWMD, with a stated common objective to foster conservation through a variety of measures, including conservation-promoting rate structures. However, staff believes that we have complied with the spirit of the MOU, despite not recommending a rate structure which strictly conforms to SWFWMD's preferred rate structure guidelines. We believe this is necessary in order to satisfy an equally important rate design goal -- that of revenue stability.

Therefore, to mitigate our revenue stability concerns, staff is recommending a 10% conservation adjustment. When compared to a 0% conservation adjustment, our recommended 10% adjustment still results in lesser price increases at usage levels of 5 kgal or less, while resulting in greater price increases at usage levels of 10 kgal or more.

Based on the foregoing, staff recommends that a continuation of the utility's current flat rate structure for its water system is not appropriate in this case. The water system rate structure should be changed to a traditional base facility charge (BFC)/gallage charge rate structure with a 10% conservation adjustment.

ISSUE 9: Is an adjustment to reflect repression of consumption due to the rate structure and price changes appropriate in this case, and, if so, what is the appropriate repression adjustment?

RECOMMENDATION: Yes, a repression adjustment of 8,913 kgal is appropriate in this case. In order to monitor the effects of both the change in rate structure and the recommended revenue increase, the utility should be ordered to prepare 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: Based on information contained in our database of utilities receiving rate increases and decreases, there were four water utilities that converted from a flat rate structure to a traditional BFC/gallonage charge rate structure. The specific consumption reductions were 60%, 60%, 50% and 44%, respectively. One utility was removed from consideration because the average monthly consumption level was far greater than Gem Estates', leaving three utilities in the sample: one of the remaining utilities experienced a 60% consumption reduction, while the other utilities' corresponding consumption reductions were 50% and 44%, respectively.

Staff notes that each of the remaining utilities in the sample received concomitant wastewater increases, which, we believe, placed upward pressure on the levels of water consumption reduction levels. Staff also notes that the average monthly consumption for Gem Estates' customers is approximately 6.800 kgal, which, we believe, makes sustained repression of 60% unlikely.

However, the magnitude of the revenue requirement increase (approximately 400%) indicates that the current rates are far from compensatory. We believe that, due to the severe rate shock to be experienced by the customers, the anticipated consumption reductions will in fact be substantial. Therefore, although arguably arbitrary, staff recommends a 44% repression adjustment be made to residential consumption; the resulting recommended reduction in consumption is 8.913 kgal.

In order to monitor the effects of both the changes in rate structure and the recommended revenue increase, the utility should be ordered to prepare 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

DOCKET NO. 000467-
DATE: DECEMBER 7, 2000

quarterly basis for a period of two years, beginning with the first billing period after the increased rates go into effect.

ISSUE 10: What is the appropriate billing period for this utility?

RECOMMENDATION: The utility should convert its customers from a Commission approved quarterly billing cycle to monthly billing. This billing change should be noticed to the customers along with the other rate changes as discussed in Issue 11. (BUTTS)

STAFF ANALYSIS: Currently, the utility bills its customers on a quarterly basis for its water services. In Order No. PSC-95-0326-FOF-WU, issued March 9, 1995, in Docket No. 950062-WU, the Commission granted approval to Gem Estates to convert from monthly billing to quarterly billing. In that docket, the utility stated that the reason for its request was that the administrative cost of sending bills on a monthly basis was burdensome for such a small utility. Further, the utility stated that many of its customers consider having to pay a monthly fee of \$4.71 a nuisance, since the majority of the customers go up north for part of the year. Pursuant to the above Order, 49% of the customers have chosen either to automatically pay the annual amount due, pay half the annual amount due, or have called to request that they be allowed to do so.

Staff is recommending that this utility convert back to a monthly billing as a result of this SARC. Monthly billing is consistent with Rule 25-30.335(1), Florida Administrative Code, which requires utilities to render bills to customers at regular intervals. Rates are going to be significantly higher after this rate case than prior to this rate proceeding. Further, staff believes that switching to a monthly billing for services would produce a smaller and easier bill for customers to budget for and pay as opposed to a quarterly bill.

For example, during the test year, the customers paid a flat rate of \$14.13 per quarter. Staff has recommended in this proceeding an initial flat rate of \$23.32 per month, which results in \$69.96 per quarter until all customers have received meters. After the installation of meters, the BFC for a 5/8 x 3/4 meter is \$12.31 monthly, with a gallonage rate of \$3.16 per 1,000 gallons. Monthly bills should enable customers to more adequately budget for their service needs. Monthly billing also gives more current price signals in regard to conservation issues. Through monthly billing, if desired, the customers can use this information to adjust their consumption levels for the following month. On the other hand, the quarterly billing cycle does not enable customers to analyze this consumption information until three months after the fact. Staff believes that by receiving the information monthly, customers are better able to adjust their consumption patterns.

Therefore, monthly meter reading and billing creates a more useful water usage history since there are twelve reading periods instead of four. Further, meter readers will have the ability to find customer leaks, spot high water usage, stopped meter, etc. more often because they will visit the customer premises three times as often. This allows for the potential reduction in the number and severity of these kinds of customer problems. Finally, monthly billing provides greater and more frequent customer communication with the company.

As stated earlier, the utility has allowed its customers to remit payment for services in several different ways such as automatically paying the annual amount due, paying half the annual amount due, or calling the utility and requesting that they be allowed to do so. During the test year, and before staff made a repression adjustment, Gem Estates operated its facilities at an operating loss of (\$41,408). By converting to monthly billing, the utility would be better able to cover certain day-to-day operating expenses. In contrast, if the utility remains on a quarterly billing, staff believes that the lag between monies received for services versus day-to-day operating expenses would place this utility in financial jeopardy. Therefore, staff recommends that the utility should convert its customers from a quarterly billing cycle to monthly billing.

ISSUE 11: What are the appropriate monthly rates for service?

RECOMMENDATION: The recommended rates should be designed to produce revenue of \$62,674 as shown in the staff analysis. The approved Step I rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), Florida Administrative Code. The Step I 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 should be given administrative authority to approve the Step II tariff sheets upon staff's verification that the water meters have been installed, and that the tariffs are consistent with the Commission's decision. (LINGO, BUTTS)

STAFF ANALYSIS: Based on the audit, during the test year, the utility provided service to approximately 220 customers in the mobile home subdivision. This amount did not include four vacant lots which are connected to the utility. Staff has included these lots in its analysis of what the appropriate rates for this utility should be.

As discussed in Issue 7, the appropriate revenue requirement, excluding miscellaneous service charges, is \$62,674 for the water system. As discussed in Issue 8, staff recommends that the water system rate structure be changed to a traditional BFC/gallonage charge rate structure with a 10% conservation adjustment. As discussed in Issue 9, staff recommends that the appropriate repression adjustment is 8,913 kgal for the water system. Therefore, the resulting monthly rates for service are those shown below.

Staff's recommended increase in revenue requirements is \$50,014, or approximately 395.05%. The rates approved for the utility should be designed to produce revenues of \$62,674 (excluding miscellaneous service charge revenues). Approximately 53% (\$33,081) of the water system revenue requirement is recovered through the recommended base facility charge. The fixed costs are recovered through the BFC based on the number of factored ERCs. The remaining 47% of the revenue requirement (\$29,592) represents revenues collected through the consumption charge based on the number of gallons.

Rates have been calculated using the projected number of bills and the number of gallons of water billed during the test year. Step I flat rates are rates to be effective prior to installation of water meters. Step II rates will be effective once water meters

are installed. Schedules of the utility's existing rates and staff's recommended rates are as follows:

Step I Flat Water Rates

<u>Residential & General Service</u>	Existing <u>Quarterly Rate</u>	Staff's Step I Recommended <u>Monthly Rates</u>
Flat Rate	\$ 14.13	\$ 23.32

Step II Metered Water Rates

<u>Residential & General Service</u>	Existing <u>Quarterly Rates</u>	Staff's Recommended <u>Monthly Rates</u>
Base Facility Charge		
<u>Meter Size</u>		
5/8 x 3/4"	\$ N/A	\$ 12.31
3/4"	N/A	18.47
1"	N/A	30.78
1 1/2"	N/A	61.55
2"	N/A	98.48
3"	N/A	196.96
4"	N/A	307.75
6"	N/A	615.50
Gallonage Charge	\$ N/A	\$ 3.16

The recommended rates should be designed to produce revenue of \$62,674 as shown in the staff analysis. The approved Step I rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), Florida Administrative Code. The Step I 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 should be given administrative authority to approve the Step II tariff sheets upon staff's verification that the water meters have been installed, and that the tariffs are consistent with the Commission's decision.

ISSUE 12: Should the recommended rates be approved for the utility on a temporary basis in the event of a timely protest filed by a party other than the utility?

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

STAFF ANALYSIS: This recommendation proposes an increase in water rates. A timely protest might delay what may be a justified rate increase resulting in an unrecoverable loss of revenue to the utility. Therefore, in the event of a timely protest filed by a party other than the utility, staff recommends that the recommended rates be approved as temporary rates. The recommended rates collected by the utility should be subject to the refund provisions discussed below.

The utility should be authorized to collect the temporary rates upon the staff's approval of the security for potential refund and a proposed customer notice. The security should be in the form of a bond or letter of credit in the amount of \$34,632. 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 rate increase should be maintained by the utility. This account should 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 Economic Regulation no later than 20 days after each **monthly** billing. These reports should indicate the amount of revenue collected under the increased rates.

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 25-30.115, 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 reconciled with the Commission Order. (BRUBAKER, BUTTS)

STAFF ANALYSIS: During the staff audit, the auditor discovered the utility's accounting system was not maintained in conformance with the NARUC USOA. This was apparently due to the management and financial instability of the utility from 1995 through 1999. The 1999 annual report could not be relied upon during the audit because it was prepared using estimates and incomplete financial information.

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

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

Section 367.161, Florida Statutes, authorizes the Commission to assess a penalty of not more than \$5,000 for each offense, if a utility is found to have knowingly refused to comply with, or have willfully violated any Commission rule, order, or provision of Chapter 367, Florida Statutes. In failing to maintain its books and records in 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 there are factors present which mitigate the utility's apparent violation. The utility has been operating at a loss and the existing rates do not provide an allowance for accounting services. Therefore, staff believes that the utility should be given time and an accounting allowance for setting up the utility's books to conform with the NARUC USOA and to reconcile the utility's books with the Commission's Order. Further, the current trustee has demonstrated a willingness to work with staff to bring the utility's books and records into compliance.

Staff has included monies in this recommendation to have the utility's accounting, bookkeeping, and other general office duties set-up in conformance with Rule 25-30.115, Florida Administrative Code. Staff has included this cost in O&M expenses, amortizing it over five years. Therefore, staff recommends that the utility be required to maintain its books and records in conformance with the 1996 NARUC Uniform System of Accounts.

Based on the foregoing, 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 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 and effective upon the issuance of a Consummating Order. However, this docket should remain open for an additional 180 days from the effective date of the Order to allow staff to verify that the utility installed water meters for all customers. Once staff has verified that this work has been completed, the docket should be closed administratively. (BRUBAKER, BUTTS)

STAFF ANALYSIS: Staff has recommended that the utility install water meters for all customers. 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 180 days from the effective date of the Order to verify that this work has been completed, the docket should be closed administratively.

GEM ESTATES UTILITIES
 TEST YEAR ENDING MAY 31, 2000
 SCHEDULE OF WATER RATE BASE

SCHEDULE NO. 1
 DOCKET NO. 000467-WU

	<u>BALANCE PER UTILITY</u>	<u>STAFF ADJUST. TO UTIL. BAL.</u>	<u>BALANCE PER STAFF</u>
UTILITY PLANT IN SERVICE	\$ 0	\$ 78,523 A	\$ 78,523
LAND/NON-DEPRECIABLE ASSETS	0	743 B	743
NON-USED AND USEFUL PLANT	0	0	0
CIAC	0	(9,378) C	(9,378)
ACCUMULATED DEPRECIATION	0	(20,832) D	(20,832)
AMORTIZATION OF CIAC	0	6,661 E	6,661
WORKING CAPITAL ALLOWANCE	0	6,128 F	6,128
WATER RATE BASE	\$ 0	\$ 61,845	\$ 61,845

GEM ESTATES UTILITIES
 TEST YEAR ENDING MAY 31, 2000
 ADJUSTMENTS TO RATE BASE

SCHEDULE NO. 1A
 DOCKET NO. 000467-WU

A. UTILITY PLANT IN SERVICE	WATER
1. To reflect utility plant per original cost study.	69,094
2. To include pro forma meters.	22,176
3. To include pro forma Turbine Flow meter.	920
4. To reflect averaging adjustment.	(13,667)
	\$ 78,523
B. LAND	
1. To reflect original cost of land.	\$ 743
C. CIAC	
1. To impute CIAC as allowed by Rule 25-30.580(b), F.A.C.	\$ (9,533)
2. To reflect CIAC averaging adjustment.	155
	\$ (9,378)
D. ACCUMULATED DEPRECIATION	
1. To reflect accumulated depreciation 5/31/00.	\$ (21,572)
2. To reflect acc. depr. on meters and meter installation.	(652)
3. To reflect acc. depr. on the turbine flow meter.	(23)
4. To reflect averaging adjustment.	1,415
	\$ (20,832)
E. AMORTIZATION OF CIAC	
1. To reflect accumulated amortization 5/31/00.	\$ 6,810
2. To reflect averaging adjustment.	(149)
	\$ 6,661
F. WORKING CAPITAL ALLOWANCE	
1. To reflect 1/8 of test year O & M expenses.	\$ 6,128

GEM ESTATES UTILITIES
 TEST YEAR ENDING MAY 31, 2000
 SCHEDULE OF CAPITAL STRUCTURE

SCHEDULE NO. 2
 DOCKET NO. 000467-WU

	PER AUDIT	SPECIFIC ADJUSTMENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUSTMENTS	BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST
COMMON EQUITY	\$ 13,745	\$ 0	\$ 13,745	\$ (1,611)	\$ 12,134	19.62%	9.94%	1.95%
OTHER COMMON EQUITY	34,136	0	34,136	(4,001)	30,135	48.73%	9.94%	4.84%
LONG TERM DEBT	0	0	0	0	0	0.00%	0.00%	0.00%
LONG TERM DEBT (Pro Forma)	22,176	0	22,176	(2,600)	19,576	31.65%	11.00%	3.48%
COMMON STOCK	0	0	0	0	0	0.00%	9.94%	0.00%
CUSTOMER DEPOSITS	0	0	0	0	0	0.00%	6.00%	0.00%
TOTAL	\$ 70,057	\$ 0	\$ 70,057	\$ (8,212)	\$ 61,845	100.00%		10.28%

RANGE OF REASONABLENESS	LOW	HIGH
RETURN ON EQUITY	8.94%	10.94%
OVERALL RATE OF RETURN	9.59%	10.96%

GEM ESTATES UTILITIES
 TEST YEAR ENDING MAY 31, 2000
 SCHEDULE OF WATER OPERATING INCOME

SCHEDULE NO. 3
 DOCKET NO. 000467-WU

	TEST YEAR PER AUDIT	STAFF ADJ. TO AUDIT	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	TOTAL PER-STAFF
OPERATING REVENUES	\$ 12,434	\$ 226 A	\$ 12,660	\$ 50,014 E	\$ 62,674
				395.05%	
OPERATING EXPENSES:					
OPERATION AND MAINTENANCE	11,206	37,816 B	49,022	0	49,022
DEPRECIATION (NET)	0	2,532 C	2,532	0	2,532
AMORTIZATION	0	0	0	0	0
TAXES OTHER THAN INCOME	0	2,514 D	2,514	2,251 F	4,765
INCOME TAXES	0	0	0	0	0
TOTAL OPERATING EXPENSES	\$ 11,206	\$ 42,862	\$ 54,068	\$ 2,251	\$ 56,319
OPERATING INCOME/(LOSS)	\$ 1,228		\$ (41,408)		\$ 6,355
WATER RATE BASE	\$ 0		\$ 61,845		\$ 61,845
RATE OF RETURN	0.00%		-66.95%		10.28%

		<u>WATER</u>
A. OPERATING REVENUES		
1.	a. To adjust utility revenues to staff's test year amount.	\$ <u>226</u>
B. OPERATION AND MAINTENANCE EXPENSES		
1.	Salaries and Wages - Employees	
	a. To bring employee salaries to staff's recommended amount.	\$ <u>13,000</u>
2.	Purchased Water	
	a. To reflect monthly interconnection fee with the city.	\$ <u>324</u>
3.	Purchased Power	
	a. To reflect a security light at plant.	\$ 165
	b. To reflect repression adjustment.	(624)
	Total	\$ <u>(459)</u>
4.	Chemicals	
	b. To allow engineer recommended chemical expense.	<u>12</u>
		\$ <u>12</u>
5.	Materials and Supplies	
	a. To include postage on billing.	<u>887</u>
		\$ <u>887</u>
6.	Contractual Sevices - Professional	
	a. To allow for set up cost with NARUC USofA.	560
	b. To allow for preparation of regulatory assessment fee forms, preparation of monthly & quarterly payroll taxes, and other accounting duties.	1,500
	c. To allow for the requested office person.	7,800
	d. To allow for the requested maintenance person.	10,400
		\$ <u>20,260</u>
7.	Contractual Services - Testing	
	a. To include engineer recommended testing amount.	\$ <u>472</u>
8.	Contractual Services - Other	
	a. To amortize painting of the tank over 5 years.	76
	b. To allow engineer recommended meter reader expense.	\$ 1,212
	c. To remove expenses and classify as utility plant in service.	(1,836)
	Total	\$ <u>(548)</u>
9.	Rents	
	a. To allow for office area expense.	\$ <u>2,275</u>
10.	Transportation Expense	
	a. To allow the engineer recommended amount.	\$ <u>1,508</u>
11.	Insurance Expense	
	a. To allow for liability and asset insurance coverage.	\$ <u>192</u>

12. Miscellaneous Expense	
a. To reclassify postage expense.	\$ (107)
TOTAL O & M ADJUSTMENTS	
	\$ 37,816
C. DEPRECIATION EXPENSE	
1. To reflect test year depreciation calculated per 25-30.140, F.A.C.	\$ 2,154
2. To reflect test year amortization expense.	(297)
3. To reflect non-used and useful test year depreciation.	0
4. To include depreciation expense on pro forma plant.	675
	\$ 2,532
D. TAXES OTHER THAN INCOME	
1. To include regulatory assessment fees on test year revenue.	\$ 569
2. To reflect test year real estate taxes.	116
3. To adjust payroll tax for recommended salaries.	1,766
4. To reflect tangible personal property taxes.	63
	\$ 2,514
E. OPERATING REVENUES	
1. To reflect staff's recommended increase in revenue	\$ 50,014
F. TAXES OTHER THAN INCOME	
1. To reflect additional regulatory assessment fee associated with recommended revenue requirement	\$ 2,251

GEM ESTATES UTILITIES
 TEST YEAR ENDING MAY 31, 2000
 ANALYSIS OF WATER OPERATION AND
 MAINTENANCE EXPENSE

SCHEDULE NO. 3B
 DOCKET NO. 000467-WU

	BALANCE PER UTILITY	STAFF ADJUST.	TOTAL PER STAFF
(601) SALARIES AND WAGES - EMPLOYEES	\$ 0	\$ 13,000 [1]	\$ 13,000
(603) SALARIES AND WAGES - OFFICERS	0	0	0
(604) EMPLOYEE PENSIONS AND BENEFITS	0	0	0
(610) PURCHASED WATER	295	324 [2]	619
(615) PURCHASED POWER	1,235	(459) [3]	776
(616) FUEL FOR POWER PRODUCTION	0	0	0
(618) CHEMICALS	123	12 [4]	135
(620) MATERIALS AND SUPPLIES	2	887 [5]	889
(630) CONTRACTUAL SERVICES - BILLING	0	0	0
(631) CONTRACTUAL SERVICES - PROFESSIONAL	2,100	20,260 [6]	22,360
(635) CONTRACTUAL SERVICES - TESTING	1,211	472 [7]	1,683
(636) CONTRACTUAL SERVICES - OTHER	5,674	(548) [8]	5,126
(640) RENTS	0	2,275 [9]	2,275
(650) TRANSPORTATION EXPENSE	0	1,508 [10]	1,508
(655) INSURANCE EXPENSE	0	192 [11]	192
(665) REGULATORY COMMISSION EXPENSE	206	0	206
(670) BAD DEBT EXPENSE	0	0	0
(675) MISCELLANEOUS EXPENSES	360	(107) [12]	253
	\$ 11,206	\$ 37,816	\$ 49,022