State of Florida

Public Service Commission

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

DATE: JUNE 18, 2001

TO: DIRECTOR, DIVISION OF COMMISSION CLERK AND ADMINISTRATIVE SERVICES (BAYÓ)

FROM: DIVISION OF ECONOMIC REGULATION (LINGO)
DIVISION OF REGULATORY OVERSIGHT (RIEGER)
DIVISION OF LEGAL SERVICES (BRUBAKER)

RE: DOCKET NO. 981147-WS - HIGHLANDS RIDGE ASSOCIATES, INC. INVESTIGATION INTO POSSIBLE OVEREARNINGS
COUNTY: HIGHLANDS

AGENDA: 06/25/01 - REGULAR AGENDA - PROPOSED AGENCY ACTION EXCEPT FOR ISSUE 12 - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: NONE

FILE NAME AND LOCATION: S:\PSC\ECR\WP\981147C.RCM

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CASE BACKGROUND

Highlands Ridge Associates, Inc. (Highlands Ridge, HRA or utility) is a Class C water and wastewater utility located in Avon Park in Highlands County. The utility served approximately 396 water customers and 384 wastewater customers at December 31, 2000. According to the utility's 2000 Annual Report, the revenues were $122,731 for the water system and $108,628 for the wastewater system. The corresponding net operating income (loss) was $14,887 for the water system and ($3,486) for the wastewater system.

The utility was granted water and wastewater certificates in September 1992. The development served by the utility consists of site-built manufactured homes, single-family detached homes, a clubhouse, several golf courses and a pro shop. The utility has been in operation since October 1990, providing service without compensation to approximately 35 connections. By Order No. PSC-92-0954-FOF-WS, issued September 9, 1992, the utility was granted Certificates Nos. 544-W and 474-S, and had rates and charges established for its water and wastewater systems. The utility has never filed a rate case, but it has received price index rate adjustments for the years 1994-1998.

On February 3, 1998, staff received from the utility a request for a refund of a portion of the regulatory assessment fees (RAFs) paid during the years 1994-1996, as well as corrected RAF returns for those corresponding years. The utility stated in its request that certain connection and meter installation fees were incorrectly recorded as revenues during those years, and that those fees are not subject to RAFs. As a result, the utility contends that it overpaid its RAFs during those years. (The utility subsequently withdrew its refund request on February 6, 2001.)

On February 19, 1998, staff also received from the utility an application for a 1998 price index. As part of the index application review process, staff contacted the utility, which stated that the Southwest Florida Water Management District (SWFWMD or District) had contacted the utility about the high per capita consumption of the utility's customers. According to the utility, the District indicated that the utility's Consumptive Use Permit (CUP) would be reviewed 18 months early for the primary purpose of requiring the utility to implement a conservation-oriented rate structure.

Staff proceeded to review certain information from the utility's 1997 Annual Report to determine, on a preliminary basis,

the utility's average monthly water consumption per customer. During this review, staff discovered that the utility, while indicating the number of general service (GS) customers at the beginning of the year, failed to account for those GS customers at the end of the year. When staff called the utility to inquire about the GS customers, we were told that all GS customers were related parties to the utility and, therefore, were not billed. Therefore, although the utility's 1997 Annual Report did not indicate that the utility achieved a return greater than what was authorized, due to the number of customers who had not been billed, staff began an informal investigation into the potential overearnings of this utility.

Consequently, staff requested an audit of the utility's rate base, capital structure and operating position for the test period ended December 31, 1997. During the course of the informal investigation, staff learned that, in addition to the customers who are metered but not billed, the utility also has several unmetered customers. Based on this new information, staff conducted two field investigations, during which a comprehensive billing analysis was performed for the year ended December 31, 1997. Based on the results of staff's preliminary analysis, by Order No. PSC-98-1623-FOF-WS, issued December 7, 1998, the Commission ordered a full investigation of the utility's earnings for water and wastewater service. In the aforementioned Order, the Commission ordered that the utility shall guarantee funds collected subject to refund in the amount of $18,576. The utility subsequently provided a letter of credit to guarantee the potential refund. In addition, by Order No. PSC-99-2164-PCO-WS, issued November 8, 1999, the Commission ordered that the utility guarantee additional funds collected subject to refund in the amount of $22,937.

A customer meeting was held on June 19, 2000, to inform the customers of the overearnings investigation and the impending change in rate structure. Approximately 55 customers attended the meeting, which focused on discussions of the implications of the instant rate investigation and reducing water consumption. The customer meeting will be discussed in greater detail in Issue 1.

On October 12, 2000, Highlands Ridge Associates, Inc. filed an application for the sale/transfer of its water and wastewater certificates to 27/SSH Corporation. In the transfer application, the utility states that this transfer of ownership is necessary due to the acquisition of all other assets, primarily undeveloped real property, of the Villages of Highlands Ridge (the development served by the utility) by 27/SSH Corp. A new entity, Highlands Ridge Utilities, LLC, has been created to own and manage the

utility. The staff recommendation addressing the transfer application is scheduled to be filed on June 28, 2001, for the Commission's consideration at the July 10, 2001 Agenda Conference.

For the purpose of this recommendation, staff has selected a test period ended December 31, 2000. We performed an audit of all rate base, capital structure and operating statement items as of December 31, 1997. Two additional staff audits, one of rate base and the other of operating statement items, were performed for the year ended December 31, 2000. Staff recommends that the utility is not overearning on a combined basis. In addition, at the request of the SWFWMD, staff has reviewed the utility's rate structure, and recommends the implementation of a conservation pilot program. Finally, staff makes recommendations concerning other issues, including revising the utility's service availability charges and the disposition of monies held subject to refund. The Commission has jurisdiction pursuant to Sections 367.081 and 367.082, Florida Statutes.

DISCUSSION OF ISSUES

QUALITY OF SERVICE

ISSUE 1: What is the quality of service rendered to the customers of the utility?

RECOMMENDATION: The quality of service provided to the customers is satisfactory. (RIEGER)

STAFF ANALYSIS: A quality of service determination is derived by evaluating the quality of utility product, the operational condition of the existing facilities, customer satisfaction, and compliance with the Department of Environmental Protection (DEP) and the SWFWMD.

Although the utility is presently in compliance with the DEP, it is exceeding permit withdrawal limits with the SWFWMD. Excessive residential irrigation has been identified as the main source of the problem. As reported in the District's 2000 Public Supply Per Capita Water Use Survey, the average consumption for this utility is 223 gallons per day per capita (gpdpc). The SWFWMD believes that this is inconsistent with the desired level of 150 gpdpc as reflected in the present water use permit. The utility is located within a water use restrictive area designated by the SWFWMD known as the Highlands Ridge Water Use Caution Area (HRWUCA). Water use is restricted on a per capita basis. This includes irrigating no more than twice per week. In addition to the above restrictions, recent drought conditions have caused yard irrigation to be further restricted to one day per week. As part of its permit, the utility is required to incorporate best water management practices which includes irrigation limitations, implementation of a leak detection and repair program, and evaluating the feasibility of improving the efficiency of the current irrigation system. The plan will include a strategy as to how the current amount of water used can be reduced. In addition to the above, a conservation oriented rate structure is considered by the utility and the SWFWMD as a key component to reduce usage in this case. The development of such a rate structure will be further discussed in Issue 10 of this recommendation.

On June 19, 2000, a customer meeting was held in the utility's service area at the Grand Ballroom at Highlands Ridge. Approximately 55 customers attended the meeting. In addition to representatives of the utility and Commission staff, three representatives from the SWFWMD were also in attendance. The SWFWMD personnel presented an informative program about water supply and usage, and the need for conservation. They also answered specific questions from the customers about local water use restrictions and the utility's permit compliance problems.

Most of the questions asked at the customer meeting were directed towards the SWFWMD.

In addition to the above water use concerns, several questions were asked about possible rate reductions and refunds. Staff explained that the main reason for the meeting was to hear and respond to customer comments on the quality of service provided by the utility, the utility's earnings, and water conservation issues. In writing, one customer stated that most of the water used is for the benefit of the developer to make further sales, and that the customers are paying more than a fair rate for the water and sewage services used. Staff was not prepared at the time of the meeting to give details on rate restructuring or refunding. When asked if another meeting would be held to discuss details, the customers were informed that there were no plans to do so. However, they would have the opportunity to voice any opposition at agenda conference.

Also, concerns over the existing sewer cap were raised at the meeting and in the form of letters to the Commission from two customers. The customers indicated that the sewer cap at 10,000 gallons is not reflective of actual usage since the majority of the water purchased is used for irrigation and is not returned back as wastewater. They requested that the cap be lowered. Wastewater rates are billed based on the amount of water used. The rates are designed to allow the utility to recover its prudent operational expenses and to have the opportunity to earn a fair return on its investment. Generally the Commission considers that approximately 80% of the residential customers' water usage is returned to the wastewater treatment plant. If the customers so choose, they may request the installation of a second meter to account for irrigation. The amount used through that meter would be considered as water usage only, and would not be used for wastewater considerations. However, it must be made clear that the applicable charges include the Commission approved charges for meter installation, as well as the base facility and gallonage charges.

Staff believes that the quality of service provided by the utility is satisfactory. Although the customers have concerns about the sewer cap, staff believes that the option discussed above concerning the installation of a second water only meter used for irrigation is the most appropriate solution in this case. Also staff believes that the utility is appropriately working with the water management district to address permit requirements. Therefore, no adjustments are recommended.

RATE BASE

ISSUE 2: What portions of water and wastewater plants-in-service are used and useful?

RECOMMENDATION: The water treatment plant should be considered 68% used and useful and the distribution system should be considered 92% used and useful. The wastewater treatment plant should be considered 34% used and useful and the wastewater collection system should be considered 92% used and useful. (RIEGER)

STAFF ANALYSIS: Staff's analysis of the various components is discussed below.

Water Treatment Plant: As reflected in the calculation sheet appended to this recommendation as page 1 of Attachment A, the water treatment plant is 68% used and useful. The water treatment plant has two wells that generate 850 gpm each. For the purpose of the used and useful calculation, one of the wells is considered as backup and is not part of the used and useful determination. This is necessary because DEP rules require that a second well be provided if a water system serves 350 or more people. Also, in consideration of normal residential usage, a 16 hour operating day is employed. Therefore the plant capacity with one of the wells operating is 816,000 gallons per day.

Maximum Daily Flow - An average of the 5 days with the highest pumpage rate from the month with the highest pumpage rate during the test year is used. That number is 414,000 gallons per day.

Fire flow - In recognition of the utility's ability to furnish fire protection, 120,000 gallons per day is considered. This is in compliance with the four hour duration 500 gpm minimum requirement of the local fire marshall.

Growth Allowance - Consideration was made to afford the utility the ability to accept additional connections/ERCs within a reasonable time frame. To reflect residential use, it has been determined that residential usage is 80% of the total recorded flow. In this case it is anticipated that another 25 connections/ERCs will be made. A growth allowance of 22,375 gallons per day using a regression analysis calculation was determined. It was calculated by using a growth allowance of 18 months for the water treatment plant. This was done in accordance with Commission policy based on Section 367.081 (2)(a) and (b), Florida Statutes (1997), the law that was in effect at the time

this case was docketed, as the current statute does not apply to rate cases which were pending on March 11, 1999. 1999 Fla. Laws Ch. 99-319(2).

Excessive Unaccounted for Water - A review of accounted for water has been made. No problems have been found.

Wastewater Treatment Plant: Plant Capacity - As reflected in the calculation sheet appended to this recommendation as page 2 of Attachment A, the wastewater treatment plant has a designed/permitted capacity of 95,000 gallons per day based on a peak three-month average daily flow. This plant is an extended aeration secondary treatment facility with effluent sent to percolation ponds. The peak three-month average daily flow during the test year was 30,000 gallons per day.

Growth Allowance - Consideration was made to afford the utility the ability to accept additional connections within a reasonable time frame. By using a regression analysis calculation, it is anticipated that another 25 connections will be made with an additional 2,027 gallons per day added. It was calculated by using a growth allowance of 18 months for the wastewater treatment plant. This was done in accordance with Commission policy based on Section 367.081 (2)(a) and (b), Florida Statutes (1997), the law that was in effect at the time this case was docketed. This is because the current statute does not apply to rate cases which were pending on March 11, 1999. 1999 Fla. Laws Ch. 99-319(2).

Excessive Infiltration - No indication of excessive infiltration was found during staff's review.

Water Distribution and Wastewater Collection System: As reflected in the calculation sheets appended to this recommendation as pages 3 and 4 of Attachment A, the water distribution and wastewater collection systems are 92% used and useful. Serving 377 residential connections at the end of the test year, both systems have a build out (without expansion) capacity of 429 residential connections.

Growth Allowance - Consideration was made to afford the utility the ability to accept additional connections within a reasonable time frame. By using a regression analysis calculation, it is anticipated that another 17 connections will be made. It was calculated by using a growth allowance of 12 months for the water distribution and wastewater collection systems. This was done in accordance with Commission policy based on Section 367.081 (2)(a) and (b), Florida Statutes (1997), the law that was in effect at the

time this case was docketed. This is because the current statute does not apply to rate cases which were pending on March 11, 1999. 1999 Fla. Laws Ch. 99-319(2).

WATER TREATMENT PLANT — USED AND USEFUL DATA

Docket No. 981147-WS Utility Highlands Ridge Assoc. Date May,01

1) Capacity of Plant 816,000 gallons per day
* (1-850 gpm well @ 16 hr. day. 2nd well is backup and not used in calc.) (For growth use Res.flow est. at 80% of total flows.)
2) Maximum Daily Flow ^331,200 414,000 gallons per day

3) Average Daily Flow 235,100 gallons per day

4) Fire Flow Capacity 120,000 gallons per day

a) Needed Fire Flow 120,000 gallons per day

5) Growth Allowance 22,375 gallons per day

a) Test Year Customers in ERCs Begin 363 End 377 Av. 370

b) Customer Growth Using Regression Analysis in ERCs for Most Recent 5 Years Including Test Year 25 ERCs

c) Construction Time for Additional Capacity 1.5 Years
(Reg. Anal.@ 1.5 yrs. =25 con.) (b) x (e) x $\left[\frac{2}{(a)}\right]$ 22,375 gallons per day

6) Excessive Unaccounted for Water none gallons per day

a) Total Amount _____ gallons per day _____% of Av.Daily Flow

b) Reasonable Amount _____ gallons per day _____%of Av.Daily Flow

c) Excessive Amount _____ gallons per day _____% of Av.Daily Flow

PERCENT USED AND USEFUL FORMULA

$$\left[\frac{(2 + 5) + 4a - 6}{1}\right] = \underline{\quad 68 \quad}\% \text{ Used and Useful}$$

WASTEWATER TREATMENT PLANT — USED AND USEFUL DATA

Docket No. 981147-WS Utility Highlands Ridge Date May,01

1) Capacity of Plant 95,000 gallons per day

2) Maximum Daily Flow 48,000 gallons per day

3) Average Daily Flow (3 mo. avg.) 30,000 gallons per day

4) Fire Flow Requirements NOT APPLICABLE gallons per day

5) Growth Allowance 2,027 gallons per day
*Not to exceed 20% of present customers

a) Test Yr.Cust.in ERCs - Begin 363 End 377 Av. 370

b) Customer Growth Using Regression Analysis in ERCs for Most Recent 5 Years Including Test Year 17 ERCs

c) Construction Time for Additional Capacity 1.5 Years

(Reg. Anal.@ 1.5 yrs. =25 con.) (b) x (e) x [3 / (a)] = 2,027 gallons per day

6) Excessive Infiltration none found gallons per day

a) Total Amount ____ gallons per day ____% of Av. Daily Flow

b) Reasonable Amount ____ gallons per day ____% of Av. Daily Flow

c) Excessive Amount ____ gallons per day ____% of Av. Daily Flow

PERCENT USED AND USEFUL FORMULA

$$\frac{[(3) + (5)] - 6}{1} = 34\%$$ Used and Useful

WATER DISTRIBUTION SYSTEM USED AND USEFUL DATA

Docket No. 981147-WS Utility HIGHLANDS RIDGE. Date May,01

1) Capacity 429 ERCs (Number of potential customers without expansion)

2) Number of TEST YEAR END Connections 377 ERCs
* Residential customers only
a) Begin Test Year 363 ERCs

b) End Test Year 377 ERCs

c) Average Test Year 370 ERCs

3) Growth Allowance @ 1yr = 17 ERCs

a) Customer Growth Using Regression Analysis in ERCs for Most Recent 5 Years Including Test Year 17 ERCs

c) Construction Time for Additional Capacity 1 Years

(a) x (b) = 17 ERCs Margin Reserve

PERCENT USED AND USEFUL FORMULA

$$\frac{(2 + 3)}{1} = 92\ \%$$ Used and Useful

WASTEWATER COLLECTION SYSTEM USED AND USEFUL DATA

Docket No. 981147-WS Utility HIGHLANDS RIDGE. Date May,01

1) Capacity 429 ERCs (Number of potential customers without expansion)

2) Number of TEST YEAR END Connections 377 ERCs
* Residential customers only
a) Begin Test Year 363 ERCs

b) End Test Year 377 ERCs

c) Average Test Year 370 ERCs

3) Growth Allowance 17 ERCs
*Not to exceed 20% of present customers

a) Customer Growth Using Regression Analysis in ERCS's for Most Recent 5 Years Including Test Year 17 ERCs

c) Construction Time for Additional Capacity 1 Years

(a) x (b) = 17 ERCS's Margin Reserve

PERCENT USED AND USEFUL FORMULA

$$\frac{(2 + 3)}{1} = 92\ \%$$ Used and Useful

ISSUE 3: What is the appropriate average amount of rate base for the water and wastewater systems, respectively?

RECOMMENDATION: The appropriate average amount of rate base is $85,056 for the water system and $51,128 for the wastewater system. (LINGO, RIEGER)

STAFF ANALYSIS: Although rate base has never been set for this utility, rate base for the purpose of estimating possible overearnings was calculated for both the water and wastewater systems as of December 31, 1997. A discussion of each rate base component, the related adjustments and our recommended balances follows.

Plant in Service

The plant in service balances per the utility's books at December 31, 1997 were $529,042 for the water system and $596,630 for the wastewater system. Several adjustments to the utility's plant accounts were made in the December 1997 audit to correct for improperly recorded Allowance for Funds Used During Construction (AFUDC) and improperly recorded plant additions, and to reflect 1997 averaging adjustments. Staff made additional adjustments to remove a nonutility well from the water system and to remove disallowed unnecessary project additions from the wastewater system. The resulting average balances for utility plant in service at December 31, 1997 were $451,679 for the water system and $534,305 for the wastewater system.

Reversal of the 1997 averaging adjustment plus plant additions for the years 1998 through 2000 increased the water system balance to $481,483 as of December 31, 2000. A 2000 averaging adjustment of $1,636 reduces the balance to $479,849.

Reversal of the 1997 averaging balance and plant additions for the years 1998 through 2000 increased the wastewater system balance to $560,205 as of December 31, 2000. A 2000 averaging adjustment of $1,050 reduces the balance to $559,155.

Land

The utility had not recorded land on its books. The auditor made adjustments of $443 to the water system and $4,434 to the wastewater system to reflect the appropriate values at December 31, 1997. There have been no changes to either system; therefore,

there is no change in staff's recommended land values for the year ended December 31, 2000.

Nonused and Useful Plant

As discussed in Issue 2, the water treatment plant should be considered 68% used and useful, and the water distribution plant should be considered 92% used and useful. As also discussed in Issue 2, the wastewater treatment plant should be considered 34% used and useful, and the wastewater collection system should be considered 92% used and useful. This results in corresponding nonused and useful percentages of 32% and 8% for the water system and 66% and 8% for the wastewater system.

As discussed in greater detail below and in Issue 11, staff recommends that total contributions in aid of construction (CIAC) be capped at a net contribution level of 75% for each system. Neither the water distribution system nor the wastewater collection system are 100% used and useful. Based upon staff's analysis, the lines for each system are 100% contributed; therefore, no used and useful adjustment is appropriate.

The effect of removing the investment in one well from used and useful calculations, plus offsetting the net remaining water system CIAC against the corresponding net depreciable treatment plant accounts, results in net water system plant subject to a used and used adjustment of $11,463. Applying the 32% nonused and useful adjustment results in water system net nonused and useful plant of $3,668.

The effect offsetting the net remaining wastewater system CIAC against the corresponding depreciable treatment plant accounts results in net wastewater system plant subject to a used and used adjustment of $79,817. Applying the 66% nonused and useful adjustment results in wastewater system net nonused and useful plant of $52,679.

Contributions in Aid of Construction

The CIAC associated with the water system per the utility's books at December 31, 1997 was ($16,298). This balance was increased by ($218,160) to record imputed, uncollected CIAC prior to 1998 per the utility's tariff. A 1997 averaging adjustment of $19,762 reduced the balance to ($198,398) at December 31, 1997. Reversing the averaging adjustment plus the imputation of additional uncollected CIAC associated with utility connections in the years 1998 through 2000 would have resulted in a contribution

level of 90%. However, Rule 25-30.580(1), Florida Administrative Code, states that:

> (1) The maximum amount of contributions-in-aid-of-construction, net of amortization, should not exceed 75% of the total original cost, net of accumulated depreciation, of the utility's facilities and plant when the facilities and plant are at their designed capacity.

As stated previously, the CIAC was imputed, and never collected from customers. Therefore, in conformity with the above-referenced rule, staff believes it is appropriate to cap the net imputation of CIAC at 75% of the corresponding net water system plant. This results in capped additional CIAC of ($50,579). Because CIAC was capped, there were no CIAC additions, and, therefore, no averaging adjustments necessary for the year 2000. Therefore, the appropriate balance of CIAC for the water system is ($285,037).

The CIAC associated with the wastewater system per the utility's books at December 31, 1997 was $0. This balance was increased by ($272,025) to record imputed, uncollected CIAC prior to 1998 per the utility's tariff. A 1997 averaging adjustment of $24,785 reduced the balance to ($247,241) at December 31, 1997. Reversing the averaging adjustment plus the imputation of additional uncollected CIAC associated with utility connections in the years 1998 through 2000 would have resulted in a contribution level of 80%. For the reasons stated above, staff believes it is appropriate to cap the wastewater system CIAC at a net contribution level of 75%. This results in capped additional CIAC of ($63,157). Because CIAC was capped, there were no CIAC additions, and, therefore, no averaging adjustments necessary for the year 2000. Therefore, the appropriate balance of CIAC for the wastewater system is ($335,182).

Accumulated Depreciation

The accumulated depreciation associated with the water system per the utility's books at December 31, 1997 was ($200,093). Staff recalculated accumulated depreciation to reflect the depreciation rates prescribed in Rule 25-30.140, Florida Administrative Code, and removed the accumulated depreciation associated with the nonutility well. This adjustment of $76,827 reduced the balance at December 31, 1997 to ($123,266). A 1997 averaging adjustment of $8,952 reduced the balance to ($114,314). Reversing the 1997 averaging adjustment plus recording additions to the account for the years 1998 through 2000 increased the December 31, 2000 balance

to ($179,383). The 2000 averaging adjustment of $9,442 reduces the balance to ($169,941).

The accumulated depreciation associated with the wastewater system per the utility's books at December 31, 1997 was ($258,687). Staff recalculated accumulated depreciation to reflect the depreciation rates prescribed in Rule 25-30.140, Florida Administrative Code, and removed the accumulated depreciation associated with the disallowed additions. This adjustment of $119,117 reduced the balance at December 31, 1997 to ($139,570). A 1997 averaging adjustment of $9,885 reduced the balance to ($129,685). Reversing the 1997 averaging adjustment plus recording additions to the account for the years 1998 through 2000 increased the December 31, 2000 balance to ($200,704). The 2000 averaging adjustment of $10,202 reduces the balance to ($190,502).

Accumulated Amortization of CIAC

The accumulated amortization of CIAC associated with the water system per the utility's books at December 31, 1997 was $1,719. Staff adjusted this balance by $23,695 to reflect the accumulated amortization associated with the uncollected CIAC prior to 1998. This adjustment increased the balance at December 31, 1997 to $25,414. A 1997 averaging adjustment of $4,047 reduced the balance to $21,367. Reversal of the 1997 averaging adjustment plus recording additions to the account for the years 1998 through 2000 increased the balance at December 31, 2000 to $57,860. A 2000 averaging adjustment of $5,587 reduces the balance to $52,273.

The accumulated amortization of CIAC associated with the wastewater system per the utility's books at December 31, 1997 was $0. We increased this balance to $26,248 to reflect the accumulated amortization associated with the uncollected CIAC prior to 1998. A 1997 averaging adjustment of $4,352 reduced the balance to $21,897. Reversal of the 1997 averaging adjustment plus recording additions to the account for the years 1998 through 2000 increased the balance at December 31, 2000 to $60,841. A 2000 averaging adjustment of $6,084 reduces the balance to $54,757.

Working Capital

The utility recorded working capital balances of $0 for both its water and wastewater systems at December 31, 1997. Staff calculated working capital at December 31, 1997 using the 1/8th of Operating and Maintenance (O&M) expenses formula method, which is consistent with Rule 25-30.433(2), Florida Administrative Code.

This resulted in working capital allowances of $3,758 for the water system and 4,264 for the wastewater system.

As will be discussed in greater detail in Issue 6, staff recommends that the appropriate level of O&M expenses for the year 2000 is $89,101 for the water system and $89,161 for the wastewater system. Therefore, using the formula method, our recommended working capital balances at December 31, 2000 are $11,138 for the water system and $11,145 for the wastewater system, resulting in adjustments of $7,380 and $6,881, respectively.

Summary

Based on the foregoing, the appropriate average rate base balances for the water and wastewater systems as of December 31, 2000 are $85,056 and $51,128, respectively. Water rate base is shown on Schedule No. 1-A, wastewater rate base is shown on Schedule No. 1-B, and the adjustments for the respective systems are included on Schedule No. 1-C.

COST OF CAPITAL

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

RECOMMENDATION: The appropriate rate of return on equity is 9.94% with a range of 8.94% - 10.94% and the appropriate overall rate of return is 9.00%. (LINGO)

STAFF ANALYSIS: In Order No. PSC-92-0954-FOF-WS, the Commission found it appropriate to establish a return on equity of 12.44% for the utility, with a range of 11.44%-13.44%, to be used in future proceedings. However, staff believes it is appropriate to update the utility's return on equity using the current leverage graph formula approved by Order No. PSC-00-1299-CO-WS, issued on July 18, 2000, in Docket No. 000006-WS.

The utility's capital structure consists of a negative common equity balance of $71,521, and a loan from First Union Bank at a stated interest rate of 9.00%. Because including a negative common equity balance in the capital structure would penalize the utility by understating the overall rate of return, staff has adjusted the negative common equity balance to zero. Because the equity ratio in the utility's capital structure is less than 40%, per the above-referenced Order, it is appropriate to limit the authorized return on common equity to a maximum of 9.94%.

Because the utility has no equity in its capital structure, and because the only other instrument in the capital structure is a loan at 9.00%, the overall rate of return is 9.00%.

The capital structure has been adjusted on a prorata basis to reconcile to the utility's total rate base. The return on equity and overall rate of return are shown on Schedule No. 2.

NET OPERATING INCOME

ISSUE 5: What are the test year revenues for the water and wastewater systems, respectively?

RECOMMENDATION: The test year revenues are $123,027 for the water system and $109,122 for the wastewater system. (LINGO)

STAFF ANALYSIS: In its 2000 Annual Report, the utility reported $122,731 in water system revenues and $108,628 in wastewater system revenues. Staff performed a comprehensive billing analysis for the year ended December 31, 2000. Based on the information gathered, staff calculated revenues of $123,027 for the water system and $109,122 for the wastewater system. The resulting adjustments are increases to the utility's reported revenues of $296 and $494, respectively.

ISSUE 6: Should a pro forma allowance for a pilot conservation program be included in operation and maintenance expenses, and, if so, what is the appropriate amount?

RECOMMENDATION: Yes, a pro forma allowance for a pilot conservation program in the amount of $11,000 should be included in operation and maintenance expenses. The conservation program should conform to the specifications discussed in the Staff Analysis and on pages 2 and 3 of Attachment A. The Commission should require the utility to file quarterly reports with the Commission on its conservation program for two years following initiation of the conservation program. These reports, to begin within three months of the issuance of the Consummating Order, should list the conservation measures that were implemented during the period and the amounts expended. Staff should confer with the SWFWMD in reviewing the reports in order to evaluate the effectiveness of the program and ensure that the program and amounts spent are consistent with the Commission order. Moreover, to monitor the effects of the conservation programs on consumption, 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 initial conservation program monies are expended. (LINGO)

STAFF ANALYSIS: In 1991, the Commission entered into a Memorandum of Understanding (MOU) with the five Water Management Districts (WMDs), in which the agencies recognized that it is in the public interest to engage in a joint goal to ensure the efficient and conservative utilization of water resources in Florida, and that a joint cooperative effort is necessary to implement an effective, state-wide water conservation policy. Since that time, staff has increased its efforts in assisting the WMDs in achieving conservation goals. More recently, staff has worked with the St. Johns River Water Management District (SJRWMD) and the SWFWMD in tailoring conservation programs for jurisdictional utilities that are designed to achieve significant and lasting reductions in water use. The Commission has found in several prior cases that reasonable expenses for such programs should be included in utility rates, because the WMDs hold the utilities, rather than the utilities' customers, responsible for reductions in water use.

The Commission has taken a similar approach in prior cases involving excess earnings, low rates and high consumption. Order No. 23809, issued November 27, 1990, in Docket No. 900338, required

Sanlando Utilities Corporation to set aside $25,008 in annual revenues for future expenses specifically related to water conservation. Additionally, by Order No. PSC-93-1771-FOF-WS, issued on December 10, 1993, in Docket No. 930256-WS, the Commission approved an inclining block rate structure for Sanlando for the purpose of funding future capital investment related solely to conservation.

The Commission has made two similar findings in cases involving low rates and high consumption, both involving utilities in Lake County. First, in Order No. PSC-00-1165-PAA-WS, in Docket No. 990243, issued June 27, 2000, the Commission required Sun Communities Finance Limited Partnership (Sun Communities) to implement a conservation program funded by its overearnings and developed in conjunction with the utility, staff and the SJRWMD. Specifically, the Commission approved an aggressive conservation program which included such items as xeriscape consulting and rebates, installation of moisture sensors, meter replacements and irrigation audits.

Second, in Order No. PSC-01-1246-PAA-WS, issued June 4, 2001, in Docket No. 001382, the Commission required Pennbrooke Utilities, Inc. (Pennbrooke) to implement a conservation program developed in conjunction with the utility, staff and the SJRWMD. The Commission approved an aggressive conservation program which included such items as system audits and leak detection programs for both the utility's transmission/distribution and irrigation systems. This conservation program is also funded by the utility's overearnings.

Staff believes that there are similar circumstances regarding the need for conservation in the instant proceeding. The District's concern in the HRWUCA focuses on lake levels and excessive water withdrawals, which affects the salt water intrusion experienced along the coast. Therefore, the District has set a per capita use rate goal in the HRWUCA of 150 gallons per capita per day (gpcd).

HRA is an established utility with usage patterns showing excess consumption. As stated in a letter from the SWFWMD,

> Highlands Ridge is an excellent example of a utility in need of water conservation measures. This development historically has had a very high per capita water use rate which is well in excess of regulatory per capita use rates in the area **and is almost double the per capita use rate goals of the HRWUCA**....[B]ased on our research, we

> feel that the focus of conservation efforts should be on better management of irrigation system. (emphasis added)

In addition, due to its historically high per capita use rates, the SWFWMD has placed the following requirements in HRA's recently issued Water Use Permit:

> Standard Conditions
>
> 10. The Permittee shall practice water conservation to increase the efficiency of transport, application, and use, as well as to decrease waste and to minimize runoff from the property.
>
> Special Conditions
>
> 13. Since the Highlands Ridge Associates, Inc., has not achieved a gross/compliance water use rate of 150 callons per capita per day (gpcd), phased reductions in the gpcd will be required and the corresponding public supply withdrawal quantities in gallons per day (gpd) will prorated accordingly. The phased reductions in withdrawal qualtities will be such that the per capita use will be: 180 gpcd for the calendar year 2000; and, 150 gpcd for the calendar year 2001.

Staff called upon the technical expertise of the SWFWMD to design a conservation program that is applicable to HRA's specific circumstances. As discussed in its attached letter,

> [I]t appears that the per capita problem in the Highlands Ridge Associates service area is primarily related to irrigation use....**We would suggest that the utility provide a professional audit service to all customers who wish to participate and initiate a pilot no-maintenance soil moisture sensor program to demonstrate their effectiveness and reliability.** (emphasis added)

Based on information contained in the District's letter, the costs of providing quality irrigation audits range from $150 to $200 per residence, and the costs of installing soil moisture sensors range from $200 to $300 per residence. Based on the above-referenced cost figures, staff recommends that $11,000 be approved as a proforma water conservation program expense:

Conservation Program:

1.	Pilot program for no-maintenance soil sensors: 20 homes x $250 average cost per home =	$5,000
2.	Irrigation audits: 34 homes x $175 average cost per home =	5,950
	TOTAL (rounded) =	**$11,000**

Based on these figures, the 20 homes included in the pilot sensor program represent approximately 10% of the utility's residential customer base. The remaining funds should pay for approximately 34 homes, or 10% of the remaining residential customers. The irrigation audits would be supplied on a first come, first served basis.

Due to both the utility's excessive per capita usage and that specific withdrawal reductions are conditions of the utility's Water Use Permit, staff believes it is appropriate to allow proforma expenses for an ongoing conservation program. Furthermore, staff believes the utility is able to implement conservation measures to comply with District and Commission requirements. Additionally, staff proposes to closely monitor the utility's progress on a quarterly basis to ensure compliance with the Commission order. Staff believes these factors provide sufficient assurance that the conservation program will, in fact, be implemented. This program will cost each customer less than $2.50 per year, and, given the circumstances in this case, staff recommends that such a program is warranted.

Based on the foregoing, a proforma allowance for a pilot conservation program in the amount of $11,000 should be included in operation and maintenance expenses. The conservation program should conform to the specifications discussed in the Staff Analysis and on pages 2 and 3 of Attachment A. The Commission should require the utility to file quarterly reports with the Commission on its conservation program for two years following initiation of the conservation program. These reports, to begin within three months of the issuance of the Consummating Order, should list the conservation measures that were implemented during the period and the amounts expended. Staff should confer with the SWFWMD in reviewing the reports in order to evaluate the effectiveness of the program and ensure that the program and amounts spent are consistent with the Commission order. Moreover, to monitor the effects of the conservation programs on consumption, 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 initial conservation program monies are expended.

Southwest Florida Water Management District

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January 31, 2001 **VIA FAX**

Ms. Jennie Lingo
Economic Analyst
Division of Economic Regulation
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

Subj: Funding of Water Conservation Measures at Highlands Ridge Associates Utility

Dear Ms. Lingo:

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

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

and achieve significant water savings. Therefore it is in the public interest to allow the utility to increase its rates and to fund, from the sale of water, conservation.

Highlands Ridge Associates, a retirement development in Highlands County, is located within both the District's Highlands Ridge Water Use Caution Area (HRWUCA) and Southern Water Use Caution Area (SWUCA). Highlands Ridge is an excellent example of a utility in need of water conservation measures. This development historically has had a very high per capita water use rate which is well in excess of regulatory per capita use rates in the area and is almost double the per capita use rate goals of the HRWUCA. The District recommends that Highlands Ridge Associates be allowed to have water rates and a water conservation rate structure which will provide sufficient earnings to pay for the below described conservation measures.

Based on the high per capita water usage, low persons per household, and the fact that the service area was established after 1984 when more water conserving plumbing codes were enacted, it appears that the per capita problem in the Highlands Ridge Associates service area is primarily related to irrigation use. Furthermore, the population is highly seasonal and it is likely that irrigation is not actively managed during the period when seasonal residents are absent. This results in excessive irrigation. While additional indoor conservation efforts may reduce per capita use somewhat, based on our research, we feel that the focus of conservation efforts should be on better management of irrigation systems. Irrigation audits to improve the efficiency of existing systems and the addition of virtually no maintenance soil moisture sensors to residential irrigation systems to better manage irrigation would likely be the two most effective means to reduce per capita usage in this service area.

We would suggest that the utility provide a professional audit service to all customers who wish to participate and initiate a pilot no-maintenance soil moisture sensor program to demonstrate their effectiveness and reliability. The audit service should be made available to all willing customers as soon as financially possible. The developer/permittee has already expressed an interest in installing sensors on the common area irrigation systems as the water used in the common areas will now have to be metered and paid for. We would suggest that the utility also provide free soil moisture sensor installation and monitoring for a number of residences in the first year, again to document their effectiveness and reliability. It may be desirable that the virtually no-maintenance sensors be used in place of tensiometers because of the seasonal nature of the service area population and the lack of maintenance that may occur during their absence.

Revenue would also be needed to document the results of the pilot program. We would suggest that the sensor pilot programs be packaged as a study or demonstration program. It is important that we demonstrate that the sensors provide satisfactory results under normal conditions (2 day per week irrigation). By packaging the program as a pilot demonstration project during the first year or two, it may be possible to obtain

a variance from the current one day per week restrictions for participants if the restrictions are maintained for a long period of time.

Subsequent successful completion of a pilot project, the utility could then proceed to a cost sharing program with customers to provide sensors to the maximum number of customers possible, focusing initially on seasonal residents. This program should be on-going to keep irrigation systems and system management efficient and maintain per capita reductions over time by addressing resident turnover.

The cost of implementing the recommended conservation practices will vary depending on current conditions and the details of how the recommendations are implemented. However, based on the costs of providing quality irrigation audits ($150 - $200 per residence), installing soil moisture sensors ($200 - $300 per residence), and administering a pilot project and educational efforts, the District recommends that all over-earnings by the utility be dedicated to conservation efforts.

FPSC authorization of water rates and a conservation rate structure that will allow for implementation of water conservation measures at Highlands Ridge Associates is in the best interest of water utility customers since conserving Florida's water resources assures that higher quality water will be available to them for a longer time at a relatively lower price. If existing water sources are not used wisely and efficiently, alternative and more costly sources will have to be developed sooner.

This is a very important opportunity for the FPSC and the District to work cooperatively on a meaningful conservation program and to demonstrate the practical use of very effective conservation tools. If you should have any questions or any suggestions as to how we can further this effort, please do not hesitate to call me at (800) 423-1476, extension 4406 or Suncom 628-4406.

Sincerely,

Jay W. Yingling
Senior Economist
Planning Department

cc: Bill Bilenky, Richard Owen, Brian Starford, Mike Balser, Kathy Foley, Said Abusada, Joanne McClellan, Albert Bond

ISSUE 7: What are the test year amounts of operating expenses for the water and wastewater systems?

RECOMMENDATION: The test year amounts of operating expenses are $110,961 for the water system and $108,161 for the wastewater system. (LINGO, RIEGER)

STAFF ANALYSIS: Our analysis of those expenses reported in the utility's 2000 Annual Report, the operating expenses based on our audit of 2000 operating expenses, plus our recommended adjustments and proforma allowances follow.

Operating and Maintenance Expenses

The utility reported 2000 operating and maintenance (O&M) expenses of $85,865 for the water system and $91,094 for the wastewater system. However, based on staff's audit of 2000 expenses, we make the following adjustments and recommendations.

Salaries and Wages - Employees (601)/(701): In its 2000 Annual Report, the utility recorded water system expenses of $22,611 and wastewater system expenses of $21,989. As mentioned in the case background, the utility was sold in 2000 and a new company, Highlands Ridge Utilities, LLC has been created to own and manage the utility. As a result, the utility's reported expenses in its 2000 Annual Report of $22,611 for the water system and $21,989 for the wastewater system no longer represent employees expense on a prospective basis and have been removed.

The utility now has no employees. Instead, utility employee functions are carried out by employees of affiliated companies, and a portion of the related salaries and wages expense for each employee is allocated to the utility based on the time spent working on utility-related matters. Staff has reviewed these allocations and related expenses and believe they are reasonable. Annualization of the expenses incurred in 2000 results in our recommended salaries and wages - employees expense of $43,320 for the water system and $39,145 for the wastewater system.

Staff's recommended expenses are substantially greater than those reported in the utility's 2000 Annual Report. Our analysis indicates that the utility, under its prior ownership, did not record all salaries for employees performing utility duties.

Salaries and Wages - Officers (603)/(703): Staff removed the expenses related to the utility's prior owners of $3,281 for each

system. Consistent with our recommended treatment of salaries and wages - employees expense, we have reviewed the allocations of officers expense to the utility. Based upon our review and information contained in the 2000 Annual Report, the duties are carried out by one individual. Therefore, staff removed the allocation associated with the second individual, and believe the remaining allocation is reasonable. Therefore, staff recommends annualized salaries and wages - officers expense of $3,894 for each system.

Employee Pensions and Benefits (604)/(704): Consistent with our treatment of salaries and wages expense for employees and officers, we have removed the pensions and benefits amounts as recorded in the 2000 Annual Report of $61 for the water system and $67 for the wastewater system. Based on staff's recommended treatment of salaries and wages expenses, we have calculated annualized pensions and benefits expense of $2,969 for the water system and $2,892 for the wastewater system.

Sludge Removal (711): The utility recorded sludge removal expense of $8,594 in its 2000 Annual Report. Although we were unable to locate the invoices to support the level of expense, staff reviewed the expense and compared it to the audited 1997 expense. Based on the increase in wastewater treatment plant flows between 1997 and 2000, we believe the utility's recorded expense is reasonable and should be allowed.

Purchased Power (615)/(715): The utility recorded expenses of $5,585 for the water system and $6,586 for the wastewater system in the year 2000. However, staff's review revealed that the expenses were based on less than a full year of invoices. In addition, the utility had not been billed for one of its lift stations during 2000. Annualization of the reported expenses, plus an estimate of the purchased power associated with lift station no. 4, results in recommended expenses of $5,595 for the water system and $6,980 for the wastewater system.

Chemicals (618)/(718): In its 2000 Annual Report, the utility reported expenses of $2,699 for the water system and $4,755 for the wastewater system. Staff's review indicated that these expenses were based on less than a full year of invoices. Annualization of the reported expenses results in our recommended expenses of $2,776 for the water system and $4,626 for the wastewater system.

Materials and Supplies (620)/(720): The utility reported $0 expense for its water and wastewater systems for the year 2000. A review of invoices for the water system indicates that the utility

typically has eight meters plus the related valves in inventory. In addition, staff included an allowance for each system to reflect billing expenses (envelopes, stamps, etc.) and other miscellaneous office supplies on hand. This results in staff's recommended expense of $4,108 for the water system and $2,355 for the wastewater system.

Contractual Services - Professional (631)/(731): In its 2000 Annual Report, the utility reported expenses of $29,862 for the water system and $30,222 for the wastewater system. Staff removed these expenses and recalculated them based on our review and analysis of accounting and legal invoices provided by the utility for the test year. This review results in our recommended balances of $3,984 for the water system and $4,404 for the wastewater system.

Contractual Services - Testing (635)/(735): The utility reported expenses in its 2000 Annual Report of $3,030 for the water system and $3,827 for the wastewater system. All testing services are provided by the contract operator. A review of the contract operator invoices indicates that annualized testing expenses for 2000 are $960 for the water system and $4,313 for the wastewater system.

Contractual Services - Other (636)/(736): The utility's 2000 Annual Report indicated expenses of $4,909 for the water system and $4,910, with explanations that these represent legal expenses. However, these expenses are misclassified and were therefore removed, as staff has included our recommended allowance for legal expenses in the contractual services - professional accounts. Contractual services - other includes such items as expenses associated with the water and wastewater plant contract operator, plus other utility operations that are contracted out (e.g., mowing of the treatment plant sites). The contract operator charges $250 per month per system. In addition, we believe a reasonable mowing allowance of $100 per month for the water system and $250 per month for the wastewater system should be included. This results in staff's recommended expenses of $4,200 for the water system and $6,000 for the wastewater system.

Rents Expense (640)/(740): The utility did not record rents expense during 2000. However, the utility shares office space in two buildings with its affiliated companies. Staff believes a reasonable allocation is $500 per month, or an annual expense of $3,000 per system.

Transportation Expense (650)/(750): The utility recorded no transportation expense in its 2000 Annual Report. However, we

believe a mileage allowance is appropriate. Staff believes a reasonable estimate of utility-related mileage is 50 miles per week, plus two trips to Lakeland annually at 120 miles per trip. Based on cost recovery at $.29 per mile, the total annual transportation expense is $824, or $412 per system.

Insurance Expense (655)/(755): The utility recorded expenses of $1,022 for the water system and $1,021 for the wastewater system. Staff made no adjustments to this account.

Regulatory Commission Expense (665)/(765): The utility recorded no expense in this account during 2000. However, based on invoices related to this case, plus an estimate of expenses through the completion of this case, staff recommends a four-year amortized expense allowance of $1,225 per system.

Water Resource Conservation (668): As discussed in Issue 6, staff recommends that an appropriate proforma allowance for this expense is $11,000.

Miscellaneous Expense (675)/(765): The utility recorded 2000 expenses of $12,194 for the water system and $5,842 for the wastewater system. However, these amounts were largely unsupported. Therefore, staff removed all but $637 associated with the water system and $300 associated with the wastewater system.

Operating and Maintenance Expenses Summary: Based on the foregoing, staff recommends that the appropriate O&M expenses for 2000 are $89,101 for the water system and $89,161 for the wastewater system. O&M expenses for the water system are shown on Schedule No. 3-D, and the corresponding expenses for the wastewater system are shown on Schedule No. 3-E.

Depreciation Expense (Net of CIAC)

Based on HRA's 2000 Annual Report, depreciation expense, net of annual CIAC amortization, was $7,004 for the water system. Staff's recalculated depreciation expense, based on our recommended water plant in service balance, using the rates prescribed in Rule 25-30.140, Florida Administrative Code, net of annual CIAC amortization was $7,711. We reduced this amount by $136 to reflect the depreciation expense associated with net nonused and useful plant, resulting in our recommended balance of $7,575 for the water system.

Based on HRA's 2000 Annual Report, depreciation expense, net of annual CIAC amortization, was $6,689 for the wastewater system.

Staff's recalculated depreciation expense, based on our recommended wastewater plant in service balance, using the rates prescribed in Rule 25-30.140, Florida Administrative Code, net of annual CIAC amortization was $8,237. We reduced this amount by ($2,059) to reflect the depreciation expense associated with net nonused and useful plant, resulting in our recommended balance of $6,178 for the wastewater system.

Taxes Other Than Income Taxes

In 2000, the utility recorded taxes other than income in the amount of $14,975 for the water system and $14,331 for the wastewater system. Staff reduced these balances to reflect the nonused and useful portion of property taxes paid, and increased the balances to reflect the addition in regulatory assessment fees associated with our recommended revenue adjustments. Therefore, staff's recommended balances for the water and wastewater systems are $14,284 and $12,822, respectively.

Summary

Based on the foregoing, staff recommends that the appropriate level of test year operating expenses is $110,961 for the water system and $108,161 for the wastewater system. Operating expenses for the respective systems are shown on Schedules Nos. 3-A and 3-B, the related adjustments are shown on Schedule No. 3-C, and O&M expenses for the respective systems are shown on Schedules Nos. 3-D and 3-E.

ISSUE 8: What is the appropriate amount of test year net operating income (loss) before any revenue increase or decrease for the respective systems?

RECOMMENDATION: The appropriate amount of test year net operating income (loss) before any revenue increase or decrease is $12,066 for the water system and $961 for the wastewater system. (LINGO)

STAFF ANALYSIS: As discussed in Issue 5, staff's adjusted test year revenues are $123,027 for the water system and $109,122 for the wastewater system. As discussed in Issue 7, staff's adjusted operating expenses are $110,961 for the water system and $108,161 for the wastewater system. These adjustments result in net operating incomes before any revenue increase or decrease of $12,066 for the water system and $961 for the wastewater system.

REVENUE REQUIREMENT

ISSUE 9: What are the appropriate revenue requirements for the water and wastewater systems, respectively?

RECOMMENDATION: The appropriate revenue requirements are $118,408 for the water system and $112,934 for the wastewater system. (LINGO)

STAFF ANALYSIS: Based on staff's calculated revenue requirement, the utility earned in excess of our recommended rate of return for the water system, while operating at a slight revenue deficiency for the wastewater system. According to our calculations, the appropriate revenue adjustments are a decrease in the amount of $4,619, or (3.75%) for the water system and an increase of $3,812, or 3.49% for the wastewater system. These adjustments will allow the utility the opportunity to recover its expenses and earn a 9.00% return on its investment.

	Water	Wastewater
Adjusted rate base	$ 85,056	$ 51,128
Rate of return	x .0900	x .0900
Return on investment	$ 7,655	$ 4,601
plus		
Adjusted O&M expense	89,101	89,161
Depreciation expense	7,575	6,178
Amortization expense	(0)	(0)
Taxes other than income	14,077	12,993
Revenue requirement	$118,408	$112,934
Test year revenue	(123,027)	(109,122)
Decrease in revenue	$(4,619)	$ 3,812
Percentage incr. (decr).	(3.75)%	3.49%

Staff's recommended adjustments result in a revenue excess of $4,619 for the water system, but a revenue deficiency of $3,812 for the wastewater system.

In Order No. PSC-96-1205-FOF-WS, issued on September 23, 1996, the Commission found that it was appropriate to combine the earnings of Indiantown Company, Inc.'s water and wastewater systems for the purpose of establishing overearnings, since the effect of netting was small, both systems had a common service area and, for the most part, common customers. In that case, the water system was overearning, while the wastewater system was underearning. In

Order No. PSC-97-1501-FOF-WS, issued on November 25, 1997, the Commission found that similar circumstances existed in the overearnings investigation of Lindrick Service Corporation. In that case, the water system was operating at a deficiency while the wastewater system was overearning, resulting in a revenue deficiency on a combined basis. In its Order, the Commission found that, because of the virtually identical customer base, the netting of water and wastewater system earnings was appropriate and in the best interests of both the utility and its customers.

Staff believes a similar situation exists in the instant case. HRA's water and wastewater systems operate under common management in identical service areas. The utility also has virtually the same number of water and wastewater customers. Based on Commission decisions in prior similar situations, staff recommends that the utility be allowed to net its water and wastewater earnings. On a combined basis, Highlands Ridge overearns by $807 annually. However, this amount is immaterial as it does not cause the utility to exceed its recommended rate of return of 9.00% on a combined basis.

The revenue requirement for the water system is shown on Schedule No. 3-A, the corresponding revenue requirement for the wastewater system is shown on Schedule No. 3-B, and the adjustments made to each system's operating statement are shown on Schedule No. 3-C.

RATES AND CHARGES

ISSUE 10: What is the appropriate rate structure for this utility for water and wastewater service?

RECOMMENDATION: The appropriate rate structure for water and wastewater service is a continuation of the traditional base facility and uniform gallonage charge rate structure. The utility should be ordered to file a rate restructuring case with the Commission no earlier than one year but no later than two years after the implementation of the utility's conservation program, at which time the rate structure issue should be revisited. (LINGO)

STAFF ANALYSIS: The utility's current rate structure for both its water and wastewater systems consists of a traditional base facility and uniform gallonage charge rate structure. Due to the high per capita consumption of the utility's customers, the SWFWMD advocates a water system rate structure change to an inclining-block rate structure. The District has advocated rate structures that provide pricing incentives to conserve for a number of years.

Highlands Ridge is located in Highlands County within the SWFWMD. Much of the District has been designated a water use caution area, and for many years the District has advocated rate structures that provide pricing incentives to conserve. HRA is located in both the Highlands Ridge Water Use Caution Area (HRWUCA) and the Southern Water Use Caution Area (SWUCA), and, according to the District, HRA's high per capita water use has well exceeded the regulatory per capita use rates in the area. Therefore, the District has asked the Commission to allow the utility water rates and a water conservation rate structure which will provide earnings sufficient to pay for the District's recommended conservation measures.

Staff's analysis of HRA's residential customers' consumption data during the test year indicates that they are using excessive amounts of water. The overall average residential consumption is approximately 10,500 gallons per month, with 43% of residential bills and 29% of the residential gallons reflecting consumption of 10,000 gallons (10 kgal) per month and above. Under normal circumstances, staff would use the water system revenue requirement increase to design an inclining-block rate structure. However, this case does not present staff with a normal set of circumstances, as the water system appears to be overearning. If a change to an inclining-block rate structure is initiated at this time, many customers would experience overall price decreases in

their water bills. These decreases might stimulate consumption, which would not only be counterproductive to conservation goals, but might exacerbate the overearnings for the water system.

Therefore, in order to address the high residential usage, and absent an increase in water system revenue requirement, staff is recommending that the utility implement a proactive water conservation program. If conservation expenditures are not approved, rate reductions will be necessary to avoid future overearnings. And, as discussed above, rate reductions might actually stimulate consumption.

As discussed in Issue 6, staff recommends that the utility be ordered to implement water conservation programs which specifically targets residential irrigation. These programs are expected to have an effect on consumption. We believe that if a change in rate structure is concurrently initiated, customers' subsequent consumption habits will be affected both by the conservation programs and by price changes resulting from the change in rate structure. By continuing the utility's current rate structure during the introduction of the recommended conservation programs, we will be better able to isolate the effects of the conservation programs on consumption. This information would then be considered in designing consumption charges when this issue is subsequently revisited.

In addition, we do not believe it is possible to appropriately quantify the magnitude of the conservation programs' effects on consumption at this time. There are ranges of consumption reductions that might reasonably be expected to occur, and we believe this information is critical in order to appropriately design rates. However, since we lack any historical information in this regard, we believe a change in rate structure is inappropriate at this time.

Therefore, the appropriate rate structure for water and wastewater service is a continuation of the traditional base facility and uniform gallonage charge rate structure. The utility should be ordered to file a rate restructuring case with the Commission no earlier than one year but no later than two years after the implementation of the utility's conservation program, at which time the rate structure issue should be revisited.

ISSUE 11: Should the utility's service availability charges be revised, and, if so, how?

RECOMMENDATION: Yes, the utility's service availability charges should be discontinued. However, the meter installation charges as reflected in the water system's tariff should be continued. If approved, the utility should be required to file revised tariff sheets within thirty days of the issuance date of the Consummating Order which are consistent with the Commission's vote. Staff should be given administrative authority to approve the revised tariff sheets upon staff's verification that the tariffs are consistent with the Commission's decision. If the revised tariff sheets are filed and approved, the discontinued service availability charges should become effective for connections made on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(2), Florida Administrative Code. (LINGO)

STAFF ANALYSIS: Highlands Ridge provides service to a developing retirement community, and its residential customers are all single family homes.

Rule 25-30.580(1), Florida Administrative Code, states that:

> (1) The maximum amount of contributions-in-aid-of-construction, net of amortization, should not exceed 75% of the total original cost, net of accumulated depreciation, of the utility's facilities and plant when the facilities and plant are at their designed capacity.

As discussed in Issue 3, staff has capped each system's net CIAC contribution level at 75%, in conformity with the above-referenced rule. Furthermore, as discussed in Issue 9, staff recommends that the utility's water system is overearning. The utility's customer base is growing, and by allowing the water system's service availability charges to continue (with no anticipated plant additions), its rate base will erode, exacerbating the overearnings for the water system. Therefore, staff recommends that the service availability charges be discontinued for the water system. However, the meter installation charges as reflected in the water system's tariff should be continued.

Like the water system, allowing the wastewater system's service availability charges to continue (with no anticipated plant additions) will have an eroding effect on its rate base. This has

the potential of reducing the wastewater system's revenue deficiency, thereby exacerbating the net overearnings for the combined systems. Therefore, staff recommends that the service availability charges for the wastewater system also be discontinued.

Although staff recommends that the utility's service availability charges should be discontinued, the meter installation charges as reflected in the water system's tariff should be continued. If approved, the utility should be required to file revised tariff sheets within thirty days of the issuance date of the consummating order which are consistent with the Commission's vote. Staff should be given administrative authority to approve the revised tariff sheets upon staff's verification that the tariffs are consistent with the Commission's decision. If the revised tariff sheets are filed and approved, the discontinued service availability charges should become effective for connections made on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(2), Florida Administrative Code.

ISSUE 12: Should this docket be closed and the letters of credit be released?

RECOMMENDATION: No, this docket should not be closed, but the letters of credit should be released. 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 three months from the effective date of the Order to allow staff to verify that the utility has begun implementation of the pilot conservation program recommended in Issue 6. Once staff has verified that this work has been completed, the docket should be closed administratively. (BRUBAKER, LINGO)

STAFF ANALYSIS: No, this docket should not be closed, but the letters of credit should be released. 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 three months from the effective date of the Order to allow staff to verify that the utility has begun implementation of the pilot conservation program recommended in Issue 6. Once staff has verified that this work has been completed, the docket should be closed administratively.

HIGHLANDS RIDGE ASSOCIATES, INC.
DOCKET NO. 981147-WS
TEST YEAR ENDED DECEMBER 31, 2000
SCHEDULE OF WATER RATE BASE

Schedule No. 1-A

Description	1997 Balance per Books	Staff Adjusts		1997 Staff Adj Balance	1998-2000 Adjusts		2000 Staff Rec Balance
Utility Plant in Service	$529,042	($77,363)	A	$451,679	$28,170	G	$479,849
Land	0	443	B	443	0		443
Nonused and Useful Plant	0	0		0	(3,668)	H	(3,668)
CIAC	(16,298)	(198,398)	C	(214,696)	(70,341)	I	(285,037)
Accumulated Depreciation	(200,093)	85,779	D	(114,314)	(55,627)	J	(169,941)
Accumulated Amortization of CIAC	1,719	19,648	E	21,367	30,906	K	52,273
Working Capital	0	3,758	F	3,758	7,380	L	11,138
TOTAL	**314,370**	**($166,133)**		**$148,237**	**($ 63,181)**		**$85,056**

HIGHLANDS RIDGE ASSOCIATES, INC.
DOCKET NO. 981147-WS
TEST YEAR ENDED DECEMBER 31, 2000
SCHEDULE OF WASTEWATER RATE BASE

Schedule No. 1-B

Description	1997 Balance per Books	Staff Adjusts		1997 Staff Adj Balance	1998-2000 Adjusts		2000 Staff Rec Balance
Utility Plant in Service	$596,630	($62,325)	A	$534,305	$24,850	G	$559,155
Land	0	4,434	B	4,434	0		4,434
Nonused and Useful Plant	0	0		0	(52,679)	H	(52,679)
CIAC	0	(247,241)	C	(247,241)	(87,942)	I	(335,182)
Accumulated Depreciation	(258,687)	129,002	D	(129,685)	(60,817)	J	(190,502)
Accumulated Amortization of CIAC	0	21,897	E	21,897	32,860	K	54,757
Working Capital	0	4,264	F	4,264	6,881	L	11,145
TOTAL	**$337,943**	**($149,969)**		**$187,974**	**($295,487)**		**$ 51,128**

HIGHLANDS RIDGE ASSOCIATES, INC. **Schedule No. 1-C**
DOCKET NO. 981147-WS
TEST YEAR ENDED DECEMBER 31, 2000
SCHEDULE OF RATE BASE ADJUSTMENTS

Description	Water	Wastewater
A. Utility Plant in Service		
1. To reflect unrecorded plant additions	$49,483	$47,600
2. To remove disallowed AFUDC recorded prior to Order No. PSC-92-0954-FOF-WS	($47,307)	($51,113)
3. To remove nonutility well	(56,898)	0
4. To remove disallowed project additions		(35,012)
5. Averaging adjustment	(22,641)	(23,800)
	($77,363)	**($62,325)**
B. Land		
1. To record land	**$443**	**$4,434**
C. Contributions in Aid of Construction (CIAC)		
1. To record uncollected CIAC prior to 1998 per tariff	($218,160)	($272,025)
2. Averaging adjustment	19,762	24,785
	($198,398)	**($247,241)**
D. Accumulated Depreciation		
1. To adjust accumulated depreciation to reflect depreciation rates prescribed in Rule 25-30.140, Florida Administrative Code, including removal of accumulated depreciation associated with nonutility well and disallowed additions	$76,827	$119,117
2. Averaging adjustment	8,952	9,885
	$85,779	**$129,002**
E. Accumulated Amortization of CIAC		
1. To reflect accumulated amortization of CIAC associated with unrecorded CIAC prior to 1998	$23,695	$26,248
2. Averaging adjustment	(4,047)	(4,352)
	$19,648	**$21,897**
F. Working Capital		
1. To reflect working capital based on the 1/8 O&M formula method	**$3,758**	**$4,264**
TOTAL ADJUSTMENTS PRE-1998	**($166,133)**	**($149,969)**

HIGHLANDS RIDGE ASSOCIATES, INC. **Schedule No. 1-C**
DOCKET NO. 981147-WS
TEST YEAR ENDED DECEMBER 31, 2000
SCHEDULE OF RATE BASE ADJUSTMENTS

Description	Water	Wastewater
G. Utility Plant in Service		
1. Reverse 1997 averaging adjustment	$22,641	$23,800
2. Plant additions 1998-2000	7,164	2,100
3. Averaging adjustment	(1,636)	(1,050)
	$28,170	**$24,850**
H. Nonused and Useful Plant (NUUP)		
1. Average balance of nonused and useful plant net of accumulated depreciation	(3,668)	(52,679)
	($ 3,668)	**($ 52,679)**
I. Contributions in Aid of Construction (CIAC)		
1. Reverse 1997 averaging adjustment	($19,762)	($24,785)
2. Additional imputed CIAC 1998-2000 capped		
3. at a net contribution level of 75%	(50,579)	(63,157)
	($ 70,341)	**($ 87,942)**
J. Accumulated Depreciation		
1. Reverse 1997 averaging adjustment	($8,952)	($9,885)
2. Additional accumulated depreciation 1998-2000	(56,117)	(61,134)
3. Averaging adjustment	9,442	10,202
	($55,627)	**($56,181)**
K. Accumulated Amortization of CIAC		
1. Reverse 1997 averaging adjustment	$4,047	$4,352
2. Additional accumulated amortization 1998-2000	32,446	34,592
3. Averaging adjustment	(5,587)	(6,084)
	$30,906	**$32,860**
L. Working Capital		
1. Adjustment necessary to reflect staff's recom balance based on 1/8 O&M formula method	**$7,380**	**$6,881**
TOTAL	**($ 63,181)**	**($136,847)**

HIGHLANDS RIDGE ASSOCIATES, INC.
DOCKET NO. 981147-WS
TEST YEAR ENDED DECEMBER 31, 2000
SCHEDULE OF CAPITAL STRUCTURE

Schedule No. 2

Description	Balance per Utility	Recom Adjs	Balance per Staff	Pro Rata Adjs	Adjusted Balance per Staff	Percent of Total	Cost Rate	Average Cost of Capital
Retained Earnings	($71,521)	$71,521	0	0	0	0.00%	9.94%	0.00%
Debt: 1st Union National Bank	501,107	0	$501,107	($364,923)	$136,184	100.00%	9.00%	9.00%
TOTAL	$429,586	$71,521	$501,107	$0	$136,184	100.00%		**9.00%**

Range of	Low	High
Return on Equity	8.94%	10.94%
Overall Rate of Return	9.00%	9.00%

HIGHLANDS RIDGE ASSOCIATES, INC.
DOCKET NO. 981147-WS
TEST YEAR ENDED DECEMBER 31, 2000
SCHEDULE OF WATER OPERATING INCOME

Schedule No. 3-A

Per Utility	Per Utility	Recommended Adjs to Util Balance	Test Year Balance per Staff	Recommended Adjs for Incr (Decrease)	Balance per Staff
Operating Revenues	$122,731	$296	$123,027	($4,619) -3.75%	$118,408
Operating Expenses:					
Operation and Maintenance	85,865	3,236	89,101	0	89,101
Depreciation	7,004	571	7,575	0	7,575
Amortization	0	0	0	0	0
Taxes Other Than Income	14,975	(691)	14,284	(208)	14,077
Income Taxes	0	0	0	0	0
Total Operating Expenses	$107,844	$3,117	$110,961	($208)	$110,753
Operating Income (Loss)	$14,887	($2,821)	$12,066	($4,411)	$7,655
RATE BASE	$141,835		$85,056		$85,056
RATE OF RETURN	10.50%		14.19%		9.00%

HIGHLANDS RIDGE ASSOCIATES, INC. **Schedule No. 3-B**
DOCKET NO. 981147-WS
TEST YEAR ENDED DECEMBER 31, 2000
SCHEDULE OF WASTEWATER OPERATING INCOME

Per Utility	Per Utility	Staff Adjs to Util Balance	Test Year Balance per Staff	Staff Adjs for Incr (Decrease)	Balance per Staff
Operating Revenues	$108,628	$494	$109,122	$3,812 3.49%	$112,934
Operating Expenses:					
Operation and Maintenance	91,094	(1,933)	89,161	0	89,161
Depreciation	6,689	(511)	6,178	0	6,178
Amortization	0	0	0	0	0
Taxes Other Than Income	14,331	(1,509)	12,822	172	12,993
Income Taxes	0	0	0	0	0
Total Operating Expenses	$112,114	($3,953)	$108,161	$172	$108,332
Operating Income (Loss)	($3,486)	$4,447	$961	$3,640	$4,601
RATE BASE	$292,943		$51,128		$51,128
RATE OF RETURN	-1.19%		1.88%		9.00%

HIGHLANDS RIDGE ASSOCIATES, INC. Schedule No. 3-C
DOCKET NO. 981147-WS
TEST YEAR ENDED DECEMBER 31, 2000 Page of 2
SCHEDULE OF OPERATING INCOME

Description	Water	Wastewater
A. Operating Revenues		
1. Adjustment necessary to reconcile 2000 revenues to comprehensive billing analysis	$296	$494
B. Operation and Maintenance Expense		
1. To remove 2000 salaries - employees expense as recorded in the Annual Report	($22,611)	($21,989)
2. To reflect staff's recommended salaries - empolyees expense	43,320	39,145
3. To remove 2000 salaries - officers expense as recorded in the Annual Report	(3,281)	(3,281)
4. To reflect staff's recommended salaries - officers expense	3,894	3,894
5. To remove pensions & benefits expense as recorded in the Annual Report	(61)	(67)
6. To reflect staff's recommended pensions & benefits expense	2,969	2,892
7. To reflect additional purchased power	10	394
8. Remove unsupported expense fuel for power production expense	(611)	
9. Adjustments to reflect staff's recommended chemicals expense	77	(129)
10. To reflect water meters in inventory plus additional materials and supplies expense	4,108	2,355
11. To remove unsupported contractual professional expense	(29,862)	(30,222)
12. To reflect staff's recommended contractual professional expense	3,984	4,404
13. Adjustments to reflect staff's recommended contractual testing expense balance	(2,070)	486
14. Adjustments to reflect staff's recommended contractual other expense balance	(709)	1,090
15. To reflect allocation for rents expense	3,000	3,000
16. To reflect allocation for transportation	412	412
17. To reflect staff's recommended regulatory commission expense	1,225	1,225
18. To include a proforma allowance for a water conservation program	11,000	
19. To remove unsupported miscellaneous	(12,194)	(5,842)
20. To reflect staff's recommended miscellaneous expense	637	300
	$3,236	($1,933)

HIGHLANDS RIDGE ASSOCIATES, INC. Schedule No. 3-C
DOCKET NO. 981147-WS
TEST YEAR ENDED DECEMBER 31, 2000 Page of 2
SCHEDULE OF OPERATING INCOME

Description	Water	Wastewater
C. Depreciation Expense		
1. Adjustment to reflect staff's recommended depreciation expense including amortization of CIAC excluding NUUP	$707	$1,548
2. To reduce depreciation expense associated with NUUP	(136)	(2,059)
	$571	($511)
D. Taxes Other Than Income		
1. Adjustment necessary to arrive at staff's recommended balance	($691)	($1,509)
E. Operating Revenues		
1. To reflect staff's recommended decrease in revenues	($4,619)	$3,812
F. Taxes Other Than Income		
1. To reflect the reduction in regulatory fees associated with staff's recommended revenue decrease	($208)	$172

HIGHLANDS RIDGE ASSOCIATES, INC. **Schedule No. 3-D**
DOCKET NO. 981147-WS
INVESTIGATION INTO POTENTIAL OVEREARNINGS
TEST YEAR ENDED DECEMBER 31, 2000

WATER SYSTEM

Acct. No.	Title	Balance per Books	Staff Recommended Adjustments	Staff Recommended Balance
601	Salaries and Wages - Employees	$22,611	$20,709	$43,320
603	Salaries and Wages - Officers	3,281	613	3,894
604	Employee Pensions and Benefits	61	2,908	2,969
610	Purchased Water	0	0	0
615	Purchased Power	5,585	10	5,595
616	Fuel for Power Production	611	(611)	0
618	Chemicals	2,699	77	2,776
620	Materials and Supplies	0	4,108	4,108
630	Contractual Services - Billing	0	0	0
631	Contractual Services - Professional	29,862	(25,878)	3,984
635	Contractual Services - Testing	3,030	(2,070)	960
636	Contractual Services - Other	4,909	(709)	4,200
640	Rents	0	3,000	3,000
650	Transportation Expenses	0	412	412
655	Insurance Expenses	1,022	0	1,022
665	Regulatory Commission Expenses	0	1,225	1,225
668	Water Resource Conservation	0	11,000	11,000
670	Bad Debt Expenses	0	0	0
675	Miscellaneous Expenses	12,194	(11,557)	637
	TOTAL	$85,865	$3,237	$89,102

HIGHLANDS RIDGE ASSOCIATES, INC. **Schedule No. 3-E**
DOCKET NO. 981147-WS
INVESTIGATION INTO POTENTIAL OVEREARNINGS
TEST YEAR ENDED DECEMBER 31, 2000

WASTEWATER SYSTEM

Acct. No.	Title	Balance per Books	Staff Recommended Adjustments	Staff Recommended Balance
701	Salaries and Wages - Employees	$21,989	$17,156	$39,145
703	Salaries and Wages - Officers	3,281	613	3,894
704	Employee Pensions and Benefits	67	2,825	2,892
710	Purchased Water	0	0	0
711	Sludge Removal Expense	8,594	0	8,594
715	Purchased Power	6,586	394	6,980
716	Fuel for Power Production	0	0	0
718	Chemicals	4,755	(129)	4,626
720	Materials and Supplies	0	2,355	2,355
730	Contractual Services - Billing	0	0	0
731	Contractual Services - Professional	30,222	(25,818)	4,404
735	Contractual Services - Testing	3,827	486	4,313
736	Contractual Services - Other	4,910	1,090	6,000
740	Rents	0	3,000	3,000
750	Transportation Expenses	0	412	412
755	Insurance Expenses	1,021	0	1,021
765	Regulatory Commission Expenses	0	1,225	1,225
770	Bad Debt Expenses	0	0	0
775	Miscellaneous Expenses	5,842	(5,542)	300
	TOTAL	$91,094	($1,933)	$89,161

ISSUE AND RECOMMENDATION SUMMARY

QUALITY OF SERVICE

ISSUE 1: What is the quality of service rendered to the customers of the utility?

RECOMMENDATION: The quality of service provided to the customers is satisfactory. (RIEGER)

RATE BASE

ISSUE 2: What portions of water and wastewater plants-in-service are used and useful?

RECOMMENDATION: The water treatment plant should be considered 68% used and useful and the distribution system should be considered 92% used and useful. The wastewater treatment plant should be considered 34% used and useful and the wastewater collection system should be considered 92% used and useful. (RIEGER)

ISSUE 3: What is the appropriate average amount of rate base for the water and wastewater systems, respectively?

RECOMMENDATION: The appropriate average amount of rate base is $85,056 for the water system and $51,128 for the wastewater system. (LINGO, RIEGER)

COST OF CAPITAL

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

RECOMMENDATION: The appropriate rate of return on equity is 9.94% with a range of 8.94% - 10.94% and the appropriate overall rate of return is 9.00%. (LINGO)

NET OPERATING INCOME

ISSUE 5: What are the test year revenues for the water and wastewater systems, respectively?

RECOMMENDATION: The test year revenues are $123,027 for the water system and $109,122 for the wastewater system. (LINGO)

ISSUE 6: Should a pro forma allowance for a pilot conservation program be included in operation and maintenance expenses, and, if so, what is the appropriate amount?

RECOMMENDATION: Yes, a pro forma allowance for a pilot conservation program in the amount of $11,000 should be included in operation and maintenance expenses. The conservation program should conform to the specifications discussed in the Staff Analysis and on pages 2 and 3 of Attachment A. The Commission should require the utility to file quarterly reports with the Commission on its conservation program for two years following initiation of the conservation program. These reports, to begin within three months of the issuance of the Consummating Order, should list the conservation measures that were implemented during the period and the amounts expended. Staff should confer with the SWFWMD in reviewing the reports in order to evaluate the effectiveness of the program and ensure that the program and amounts spent are consistent with the Commission order. Moreover, to monitor the effects of the conservation programs on consumption, 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 initial conservation program monies are expended. (LINGO)

ISSUE 7: What are the test year amounts of operating expenses for the water and wastewater systems?

RECOMMENDATION: The test year amounts of operating expenses are $110,961 for the water system and $108,161 for the wastewater system. (LINGO, RIEGER)

ISSUE 8: What is the appropriate amount of test year net operating income (loss) before any revenue increase or decrease for the respective systems?

RECOMMENDATION: The appropriate amount of test year net operating income (loss) before any revenue increase or decrease is $12,066 for the water system and $961 for the wastewater system. (LINGO)

REVENUE REQUIREMENT

ISSUE 9: What are the appropriate revenue requirements for the water and wastewater systems, respectively?

RECOMMENDATION: The appropriate revenue requirements are $118,408 for the water system and $112,934 for the wastewater system. (LINGO)

RATES AND CHARGES

ISSUE 10: What is the appropriate rate structure for this utility for water and wastewater service?

RECOMMENDATION: The appropriate rate structure for water and wastewater service is a continuation of the traditional base facility and uniform gallonage charge rate structure. The utility should be ordered to file a rate restructuring case with the Commission no earlier than one year but no later than two years after the implementation of the utility's conservation program, at which time the rate structure issue should be revisited. (LINGO)

ISSUE 11: Should the utility's service availability charges be revised, and, if so, how?

RECOMMENDATION: Yes, the utility's service availability charges should be discontinued. However, the meter installation charges as reflected in the water system's tariff should be continued. If approved, the utility should be required to file revised tariff sheets within thirty days of the issuance date of the Consummating Order which are consistent with the Commission's vote. Staff should be given administrative authority to approve the revised tariff sheets upon staff's verification that the tariffs are consistent with the Commission's decision. If the revised tariff sheets are filed and approved, the discontinued service availability charges should become effective for connections made on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(2), Florida Administrative Code. (LINGO)

ISSUE 12: Should this docket be closed and the letters of credit be released?

RECOMMENDATION: No, this docket should not be closed, but the letters of credit should be released. 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 three months from the effective date of the Order to allow staff to verify that the utility has begun implementation of the pilot conservation program

recommended in Issue 6. Once staff has verified that this work has been completed, the docket should be closed administratively. (BRUBAKER, LINGO)