

FLORIDA PUBLIC SERVICE COMMISSION

Fletcher Building
101 East Gaines Street
Tallahassee, Florida 32399-0850

M E M O R A N D U M

October 7, 1993

TO : DIRECTOR, DIVISION OF RECORDS AND REPORTING
FROM : DIVISION OF WATER AND WASTEWATER (LINGO, RIEGER) *503*
DIVISION OF LEGAL SERVICES (JABER) *[Handwritten initials]*
RE : UTILITY: SHADY OAKS MOBILE-MODULAR ESTATES, INC. *[Handwritten initials]*

DOCKET NO.: 900025-WS
COUNTY: PASCO
CASE: STAFF-ASSISTED RATE CASE

AGENDA: OCTOBER 19, 1993 - REGULAR AGENDA - CONTROVERSIAL -
PROPOSED AGENCY ACTION EXCEPT FOR ISSUE 6 - INTERESTED
PARTIES MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: THIS DECISION SHOULD BE HEARD BY THE
ASSIGNED PANEL

RECOMMENDATION FILE NAME: I:\PSC\WAW\WP\900025.RCM

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FPSC-RECORDS/REPORTING

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CASE BACKGROUND

Shady Oaks Mobile-Modular Estates, Inc. (Shady Oaks or utility) is a Class C water and wastewater utility located in Pasco County. It is a 242 lot mobile-modular home park developed in 1971. Its service area is approximately 1 1/2 miles south of the City of Zephyrhills. Based on information contained in the utility's 1992 annual report, the water system generated operating revenues of \$21,899 and incurred operating expenses of \$35,756, resulting in a net operating loss of \$13,857. The wastewater system generated operating revenues of \$43,467 and incurred operating expenses of \$38,899, resulting in a net operating income of \$4,568.

On March 7, 1989, the utility signed a Consent Final Judgement (CFJ) with the Department of Environmental Protection (DEP). The utility agreed to construct an additional effluent disposal system to eliminate discharge from the plant, including constructing a new percolation pond. The utility was to submit an application for a construction permit within 60 days of the date of the order.

On January 10, 1990, Shady Oaks applied for the instant staff-assisted rate case. On February 8, 1991, the Commission issued as proposed agency action Order No. 24084, which approved a rate increase and required the utility to do the following:

- 1) File a request for acknowledgement of a restructure and a name change.
- 2) Bring the quality of service to a satisfactory level.
- 3) Spend at least 85% of the allowance for preventative maintenance, or submit a written schedule showing what monthly maintenance will be implemented, along with a statement of the reasons such funds were not spent for preventative maintenance.
- 4) Install meters for all of its customers.
- 5) Escrow a certain portion of the monthly rates.

The utility was also authorized to charge flat rates for six months, at the end of which time the base facility charge (BFC) rate structure became effective. In this case, the BFC rates automatically became effective on October 1, 1991.

On March 1, 1991, several utility customers timely filed a protest to Order No. 24084. In their protest, the customers objected to the location of the percolation pond proposed by the utility. Because we have no jurisdiction to dictate the location of the proposed percolation pond, by Order No. 24409, issued April 22, 1991, the Commission dismissed the protest and revived Order No. 24084, making it final and effective.

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On June 24, 1991, in response to a suit filed by the homeowners, Judge Lynn Tepper with the Circuit Court of the Sixth Judicial Circuit in and for Pasco County, Florida, granted an emergency temporary injunction enjoining and restraining the utility from charging or attempting to collect the new utility rates.

On July 5, 1991, Judge Wayne L. Cobb with the Circuit Court of the Sixth Judicial Circuit in and for Pasco County, Florida, issued an Order to Show Cause why Shady Oaks should not be punished for contempt of Court for willfully and deliberately violating a 1983 order of the Court that prohibited the utility from charging more than \$25 per month as a service maintenance fee (which included the provision water and wastewater service). The July 5, 1991 order further enjoined the utility from collecting the utility rates established by this Commission and ordered that the \$25 per month service maintenance fee be tendered to the Clerk of the Circuit Court. In August 1991, both injunctions were lifted and the utility was able to begin collecting revenues.

The utility never applied for its construction permit as required by the CFJ. Therefore, on July 8, 1991, as a result of a stipulated settlement to a motion for contempt brought against the utility by the DEP, Judge Lynn Tepper ordered the utility to interconnect its wastewater system with Pasco County, rather than construct new disposal facilities. The utility was given six months from the date of the order to complete the interconnection. The utility has failed to interconnect its wastewater system to Pasco County; therefore, it is in violation of a court order. In addition, the utility is operating without a permit from the DEP.

On November 4, 1991, the Commission issued Order No. 25296, which determined the utility's noncompliance with Order No. 24084. Order No. 25296 reiterated Order No. 24084 by requiring the utility to:

- 1) Submit all necessary information for changing its certificated name, or revert to operating under its currently certificated name.
- 2) Immediately place in the escrow account all funds necessary to bring said account to its proper balance.
- 3) Install water meters for all of its customers.
- 4) Improve the quality of service and interconnect with the Pasco County wastewater treatment system.

Because numerous customers did not pay their utility bills as a result of a court dispute over the utility's rates, Order No. 25296 allowed the utility to charge the flat rates for an additional five months. Beginning in December 1991, the utility

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once again began charging flat rates.

On May 14, 1992, the Commission issued two additional orders in this case. By Order No. PSC-92-0367-FOF-WS, the Commission: 1) imposed a \$2,000 fine that had been previously suspended; and 2) ordered the utility to show cause why it should not be fined for each item of noncompliance with Orders Nos. 24084 and 25296. At the utility's request, these matters were set for hearing. By Order No. PSC-92-0356-FOF-WS, the Commission ordered the utility to issue credits to those customers who had paid a delinquent purchased power bill for the utility.

In June 1992, the utility completed the installation of all required water meters. By Order No. PSC-92-0723-FOF-WS, issued July 28, 1992, the Commission ordered the utility to implement the base facility and gallonage charge rates that had been approved in Order No. 24084. Staff verified that the utility's proposed customer notice and revised tariff sheets were consistent with the Commission's decision; therefore, the customer notice and tariff sheets were approved. The utility implemented the new rates effective September 25, 1992.

In July 1992, the utility requested that the escrow requirements set forth in Orders Nos. 24084 and 25296 be suspended for a period of several months. The utility's request was not submitted in the form of a formal, written motion in conformity with Rule 25-22.037, Florida Administrative Code. Rather, the request came in the form of a memorandum to Staff. Although the utility's request did not meet the requirements of a formal motion, Staff brought the utility's request before the Commission.

By Order No. PSC-92-1116-FOF-WS, issued October 5, 1992, the Commission denied the utility's request for relief from the prior Commission orders regarding the escrow requirements. On October 26, 1992, the utility timely filed a protest to that order. The presiding prehearing officer decided that any escrow proceeding resulting from the protest should be scheduled after the hearing relating to the utility's noncompliance with prior Commission orders. Consequently, the escrow hearing was set for June 4, 1993.

A hearing regarding the utility's noncompliance with Orders Nos. 24084 and 25296 was held on January 7, 1993 in Zephyrhills, Florida. The utility, although it requested the hearing, did not attend the hearing. As a result of that hearing, by Order No. PSC-93-0542-FOF-WS, issued April 9, 1993, the Commission:

- 1) fined the utility in the amount of its rate base;
- 2) ordered that a proceeding be initiated to reduce the utility's rates by the amount of pro forma plant not

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- constructed and the amount of preventative maintenance not spent; and
- 3) ordered that revocation proceedings be initiated.

The utility filed a Motion for Reconsideration, but by Order No. PSC-93-1396-FOF-WS, issued September 27, 1993, the utility's Motion for Reconsideration was denied. Therefore, pursuant to Order No. PSC-93-0542-FOF-WS, Staff has opened a docket (No. 930944-WS) to initiate proceedings to revoke the utility's water and wastewater certificates.

In preparation for the prehearing relating to the escrow requirements, Staff met with the utility in an attempt to resolve certain concerns of the utility. Specifically, the utility contended that it was unable to meet its escrow requirements due to a shortfall in revenues collected. Staff agreed to review the utility's contended revenue shortfall within the context of the proceeding to reduce the utility's rates. Consequently, the utility withdrew its escrow-related protest. Therefore, by Order No. PSC-93-0777-PCO-WS, issued May 20, 1993, the prehearing and hearing were cancelled.

Pursuant to Order No. PSC-93-0542-FOF-WS, Staff has prepared this recommendation to address the issues involved with removing from the utility's rates all pro forma plant not constructed and preventative maintenance not spent. Additionally, this recommendation will address the appropriate disposition of all escrow-related monies.

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ISSUE 1: What is the appropriate amount of rate base for each system?

RECOMMENDATION: The appropriate amount of rate base is \$32,663 for the water system and \$30,760 for the wastewater system. (LINGO, RIEGER)

STAFF ANALYSIS: As discussed in the case background, one of the requirements of Order No. PSC-93-0542-FOF-WS is that the Commission initiate a proceeding to reduce the utility's rates in part by the amount of pro forma plant not constructed. As a result, Staff made several adjustments to the pro forma allowances reflected in Order No. 24084. A discussion of the adjustments for each system follows.

Water System - By Order No. 24084, the Commission-approved balance for the water system was \$29,812. This balance included an allowance of \$18,500 in plant in service for the pro forma installation of water meters, and an allowance of \$1,092 for the additional accumulated depreciation associated with those meters.

The water meters were installed in June 1992. Based upon Staff's review of the contracts associated with the meter installations, the actual cost of the water meters was \$21,530. Therefore, Staff recommends that an adjustment of \$3,030 (\$21,530 - \$18,500) be made to plant in service to reflect the additional cost of the meters, and that a corresponding adjustment of \$179 be made to the accumulated depreciation account. Staff recommends no other adjustments; therefore, the appropriate rate base balance is \$32,663.

Wastewater System - By Order No. 24084, the Commission-approved balance for the wastewater system was \$204,157. This balance included a net pro forma allowance of \$173,397, itemized as follows: 1) \$127,265 for pro forma plant additions; 2) \$50,841 for a pro forma land addition; and 3) \$4,709 for the additional accumulated depreciation associated with the pro forma plant in service allowance.

The utility has failed to construct any of the wastewater pro forma additions allowed in Order No. 24084. Therefore, pursuant to Order No. PSC-93-0542-FOF-WS, Staff has removed each of the aforementioned items from the rate base calculation. Staff recommends no other adjustments; therefore, the appropriate rate base balance is \$30,760.

Rate base is shown on Schedule No. 1; the related adjustments are shown on Schedule No. 1A.

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ISSUE 2: What are the appropriate rates for each system?

PRIMARY RECOMMENDATION: The appropriate rates are base facility and gallonage charges of \$5.82 and \$0.97, respectively, for the water system, and corresponding charges of \$5.17 and \$2.35, respectively, for the wastewater system. (LINGO, RIEGER)

ALTERNATIVE RECOMMENDATION: The appropriate rates are base facility and gallonage charges of \$5.78 and \$0.82, respectively, for the water system, and corresponding rates of \$10.76 and \$0.87, respectively, for the wastewater system. (LINGO, RIEGER)

STAFF ANALYSIS - PRIMARY RECOMMENDATION: Staff believes that reducing the utility's rates based on a strict adherence to Order No. PSC-93-0542-FOF-WS (that is, calculating the appropriate rates based on the revenues, expenses and estimated consumption amounts reflected in Order No. 24084) would jeopardize the financial viability of the utility. In addition, it is important that the utility recover revenues sufficient to provide for the health, safety and welfare of its customers. Staff believes the primary recommendation adequately addresses these concerns.

As discussed in the case background, one of the requirements of Order No. PSC-93-0542-FOF-WS is that the Commission initiate a proceeding to reduce the utility's rates by the amount of pro forma plant not constructed and the amount of preventative maintenance not spent. As also discussed in the case background, the utility contended that it was unable to meet its escrow requirements due to a shortfall in revenues collected.

Staff agreed to review the utility's contended revenue shortfall within the context of this proceeding. However, Staff believes it is inappropriate to review the utility's revenues without also reviewing the utility's expenses. Therefore, Staff's primary recommendation is based on a review of the utility's revenues, expenses and consumption data for the most recent 12-month period available (June 1992 - May 1993).

Based on Staff's review, several adjustments were made to the allowances reflected in Order No. 24084, and the resulting rates calculated. A discussion of the adjustments follows.

Operating Revenues - For the period of June 1992 through May 1993, the utility's revenues were \$18,960 for the water system and \$36,144 for the wastewater system. These amounts are less than the corresponding amounts of \$32,639 and \$62,779, respectively, that were contemplated in Order No. 24084.

This revenue shortfall is attributable to conversion from a

flat rate structure to a base facility and gallonage rate structure. Since the utility did not have metered consumption at the time the rates were set in Order No. 24084, Staff estimated the annual consumption based on standard engineering criteria. However, the actual consumption is approximately 1/2 less than what was projected, which has led to the utility collecting less revenues than was anticipated.

Due to this revenue shortfall, Staff believes it is reasonable to consider the actual revenues collected by the utility for the purpose of this recommendation. Therefore, Staff recommends that the appropriate revenues are \$18,960 for the water system and \$36,144 for the wastewater system.

Operating Expenses - As previously discussed, Staff believes it is inappropriate to review the utility's revenues/cash inflows without also reviewing the utility's expenses/cash outflows. Staff reviewed the utility's expenses for the period of June 1992 through May 1993, and made numerous adjustments to those amounts recorded by the utility. A discussion of the adjustments follows.

Operation and Maintenance (O&M) Expenses - The utility recorded water system expenses of \$21,568 and wastewater system expenses of \$30,075 during the period, for a combined systems total of \$51,643. Staff examined each O&M expense account, and compared the utility's allocations to those approved in Order No. 24084. There were numerous adjustments that were necessary to be consistent with the allocations in that order. In addition, Staff reviewed and reclassified all expenses related to prior periods, and disallowed all nonutility expenses.

Based upon a review of these expenses, Staff believes it is appropriate to reclassify a combined systems total of \$20,811 of these expenses as either nonutility or prior period expenses. Staff also made other adjustments and reclassifications to the various O&M expense accounts, most notably to the salaries accounts for the respective systems.

The utility recorded salaries of employees and officers of \$7,418 for the water system and \$7,388 for the wastewater system during the period. However, these amounts reflect the net, rather than gross, salaries amounts. Staff adjusted these totals to reflect the proper gross salaries for each system.

In addition, the utility also recorded a combined systems total of \$5,716 as owner's draws. The majority of this amount (90%) represents checks that were made out either to cash or to Mr. Sims, the owner of the utility. Staff believes the entire amount classified as owner's draws should be reclassified to salaries for

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both the water and wastewater systems.

The adjustments and reclassification result in salaries expenses of \$10,576 for the water system and \$9,946 for the wastewater system. However, the total salaries for both employees and officers allowed in Order No. 24084 are \$6,000 for the water system and \$4,800 for the wastewater system. Therefore, Staff reduced the total salaries amounts recorded by the utility by a total of \$9,722 to reflect the allowances in the order.

As a result of the adjustments and reclassifications to the various O&M accounts, the resulting O&M expense balances are \$14,418 for the water system and \$12,796 for the wastewater system. Based on information obtained from the utility, these balances (which are less than the balances in Order No. 24084 even if all preventative maintenance allowances are excluded) do not include any preventative maintenance expenses. Therefore, no further adjustments were made to these expenses.

Depreciation Expense (Net of CIAC Amortization) - The amount allowed in Order No. 24084 for the water system is \$1,533. As discussed in Issue 1, Staff recommends that the water system plant in service balance be increased by \$3,030 to reflect the additional cost of meters not reflected in Order No. 24084. Therefore, depreciation expense for the water system as reflected in Order No. 24084 must be increased by \$179 to reflect the corresponding expense associated with the additional recommended meters allowance. The resulting depreciation expense for the water system is \$1,712.

The amount allowed in Order No. 24084 for the wastewater system is \$6,233. As also discussed in Issue 1, Staff recommends that the wastewater system plant in service balance be reduced by \$127,265 to remove pro forma plant additions not yet constructed. Therefore, depreciation expense for the wastewater system as reflected in Order No. 24084 must be decreased by \$4,709 to reflect the corresponding expense associated with the recommended reduction to plant in service. The resulting depreciation expense for the wastewater system is \$1,524.

Amortization Expense - In Order No. 24084, it was contemplated that the utility would retire the land associated with the existing percolation pond, and would recognize an amortized gain of \$2,386 for rate setting purposes. However, since the utility has neither constructed new facilities nor retired its existing facilities, the gain should be removed from the revenue requirement calculation.

Taxes Other Than Income Taxes - The amount allowed in Order No. 24084 for the water system was \$2,090. Staff removed the

regulatory assessment fees associated with the revenue requirement reflected in the order, and added the corresponding fees associated with Staff's recommended revenues. Therefore, the recommended balance for the water system is \$1,474.

The amount allowed in Order No. 24084 for the wastewater system was \$5,318. Staff removed the regulatory assessment fees associated with the revenue requirement reflected in the order, and added the corresponding fees associated with Staff's recommended revenues. Staff then reduced the balance by the amount of fees associated with Staff's recommended revenue reduction. Therefore, the recommended balance for the wastewater system is \$1,728.

Revenue Requirement - Based on the foregoing, Staff recommends that the appropriate revenue requirement is \$18,960 for the water system and \$22,366 for the wastewater system. The recommended revenue requirement for the water system will allow the utility the opportunity to recover its utility-related operating expenses and earn a 4.15% return on its investment. The recommended revenue requirement for the wastewater system will allow the utility the opportunity to recover its utility-related operating expenses and earn a 20.54% return on its investment. The revenue requirements for the respective systems, on a combined basis, will allow the utility the opportunity to recover its utility-related operating expenses and earn its authorized return of 12.10%.

The calculations for both systems are as follows.

	<u>Water</u>	<u>Wastewater</u>
Adjusted Rate Base	\$ 32,663	\$ 30,760
Rate of Return	x 4.15%	x 20.54%
Return on Investment	\$ 1,356	\$ 6,318
Adjusted O&M Expenses	14,418	12,796
Depreciation Expense (net)	1,712	1,524
Amortization Expense	0	0
Taxes Other Than Income Taxes	1,474	1,728
Income Tax Expense	<u>0</u>	<u>0</u>
Revenue Requirement	<u>\$ 18,960</u>	<u>\$ 22,366</u>
Annual Revenue Decrease	\$ 0	\$ 13,778
Percentage Decrease	<u>0.0%</u>	<u>38.1%</u>

Rates - Consistent with the use of current revenues and expenses during the most recent 12-month period, Staff recommends that the rates be based on factored equivalent residential connections (ERCs) and actual gallons sold to customers during the same period.

Approximately 67% (or \$12,642) of the water revenue

requirement is associated with the fixed costs of providing service. These fixed costs are recovered through the base facility charge based on the annualized number of factored ERCs (2,172). The remaining 33% (or \$6,317) of the water revenue requirement represents the variable costs of providing service, which are recovered through the consumption charge based on 6,497,300 gallons sold during the 12-month period.

Approximately 50% (or \$11,100) of the wastewater revenue requirement is associated with the fixed costs of providing service. These fixed costs are recovered through the base facility charge based on the annualized number of factored ERCs (2,148). The remaining 50% (or \$11,266) of the wastewater revenue requirement represents the variable costs of providing service, which are recovered through the consumption charge based on 4,802,875 gallons treated during the 12-month period.

Therefore, based on the foregoing, Staff recommends that the appropriate rates are base facility and gallonage charges of \$5.82 and \$0.97, respectively, for the water system, and corresponding charges of \$5.17 and \$2.35, respectively, for the wastewater system.

STAFF ANALYSIS - ALTERNATIVE RECOMMENDATION: The rates in Staff's alternative recommendation are based on a strict adherence to the provisions of Order No. PSC-93-0542-FOF-WS; that is, rather than calculate the appropriate rates based on a review of the most recent 12 months of revenues, expenses and consumption data, this alternative recommendation is based on the revenues, expenses and estimated consumption amounts reflected in Order No. 24084.

However, although Staff has provided this alternative recommendation as an option for the Commission based on the language in Order No. PSC-93-0542-FOF-WS, the consumption data relied on in Order No. 24084 is not reflective of the actual consumption experienced by the utility over the most recent 12-month period. As discussed previously, since the utility did not have metered consumption at the time the rates were set in Order No. 24084, Staff estimated the annual consumption based on standard engineering criteria. However, based on consumption data during the period under review, the actual consumption is approximately 1/2 less than what was projected in Order No. 24084. Therefore, a gallonage charge calculated based on the estimated consumption in Order No. 24084 would be understated.

As discussed in the case background, one of the requirements of that order is that the Commission initiate a proceeding to reduce the utility's rates by the amount of pro forma plant not constructed and the amount of preventative maintenance not spent.

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As a result, Staff made several adjustments to the pro forma allowances reflected in Order No. 24084. A discussion of the allowances and adjustments for each system follows.

Operating Revenues - The operating revenues as reflected in Order No. 24084 are \$32,639 for the water system and \$62,779 for the wastewater system. No adjustments were made to these amounts.

Operating Expenses - The operating expenses as reflected in Order No. 24084 are \$29,031 for the water system and \$38,070 for the wastewater system. A discussion of the adjustments follows.

Operation and Maintenance (O&M) Expenses - The O&M expenses reflected in Order No. 24084 are \$25,408 for the water system and \$28,905 for the wastewater system.

Based upon a review of the utility's expenditures, as well as information obtained from the utility, Staff believes it is appropriate to remove from the rates all of the additional preventative maintenance allowances reflected in Order No. 24084. This results in a reduction to water system O&M expenses of \$8,958, and a reduction to wastewater system O&M expenses of \$8,500.

As a result of these adjustments, Staff recommends that the appropriate O&M expense balances are \$16,450 for the water system and \$20,405 for the wastewater system.

Depreciation Expense (Net of CIAC Amortization) - The amount allowed in Order No. 24084 for the water system is \$1,533. As discussed in Issue 1, Staff recommends that the water system plant in service balance be increased by \$3,030 to reflect the additional cost of meters not reflected in Order No. 24084. Therefore, depreciation expense for the water system as reflected in Order No. 24084 must be increased by \$179 to reflect the corresponding expense associated with the additional recommended meters allowance. The resulting depreciation expense for the water system is \$1,712.

The amount allowed in Order No. 24084 for the wastewater system is \$6,233. As also discussed in Issue 1, Staff recommends that the wastewater system plant in service balance be reduced by \$127,265 to remove pro forma plant additions not yet constructed. Therefore, depreciation expense for the wastewater system as reflected in Order No. 24084 must be decreased by \$4,709 to reflect the corresponding expense associated with the recommended reduction to plant in service. The resulting depreciation expense for the wastewater system is \$1,524.

Amortization Expense - In Order No. 24084, it was contemplated

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that the utility would retire the land associated with the existing percolation pond, and would recognize an amortized gain of \$2,386 for rate setting purposes. However, since the utility has neither constructed new facilities nor retired its existing facilities, the gain should be removed from the revenue requirement calculation.

Taxes Other Than Income Taxes - The amount allowed in Order No. 24084 for the water system was \$2,090. Staff removed the regulatory assessment fees associated with the revenue requirement reflected in the order, and added the corresponding fees associated with Staff's recommended revenues. Staff then reduced the balance by the amount of fees associated with Staff's recommended revenue reduction. Therefore, the recommended balance for the water system is \$1,692.

The amount allowed in Order No. 24084 for the wastewater system was \$5,318. Staff removed the regulatory assessment fees associated with the revenue requirement reflected in the order, and added the corresponding fees associated with Staff's recommended revenues. Staff then reduced the balance by the amount of fees associated with Staff's recommended revenue reduction. Therefore, the recommended balance for the wastewater system is \$1,965.

Revenue Requirement - Based on the foregoing, Staff recommends that the appropriate revenue requirement is \$23,807 for the water system and \$27,616 for the wastewater system. The recommended revenue requirements for each system will allow the utility the opportunity to recover its utility-related operating expenses and earn its authorized return of 12.10%.

The calculations for both systems are as follows.

	<u>Water</u>	<u>Wastewater</u>
Adjusted Rate Base	\$ 32,663	\$ 30,760
Rate of Return	x 12.10%	x 12.10%
Return on Investment	\$ 3,952	\$ 3,722
Adjusted O&M Expenses	16,450	20,405
Depreciation Expense (net)	1,712	1,524
Amortization Expense	0	0
Taxes Other Than Income Taxes	1,692	1,965
Income Tax Expense	<u>0</u>	<u>0</u>
Revenue Requirement	<u>\$ 23,807</u>	<u>\$ 27,616</u>
Annual Revenue Decrease	\$ 8,832	\$ 35,163
Percentage Decrease	<u>27.1%</u>	<u>56.0%</u>

Rates - Consistent with the use of revenues and expenses as

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reflected in Order No. 24084, Staff recommends that the rates be based on factored equivalent residential connections (ERCs) and estimated number of gallons to be sold.

Approximately 54% (or \$12,840) of the water revenue requirement is associated with the fixed costs of providing service. These fixed costs are recovered through the base facility charge based on the annualized number of factored ERCs (2,220). The remaining 46% (or \$10,965) of the water revenue requirement represents the variable costs of providing service, which are recovered through the consumption charge based on an estimate of 13,320,000 gallons to be sold.

Approximately 87% (or \$23,893) of the wastewater revenue requirement is associated with the fixed costs of providing service. These fixed costs are recovered through the base facility charge based on the annualized number of factored ERCs (2,220). The remaining 13% (or \$11,637) of the wastewater revenue requirement represents the variable costs of providing service, which are recovered through the consumption charge based on an estimate of 13,320,000 to be treated.

Therefore, based on the foregoing, Staff recommends that the appropriate rates are base facility and gallonage charges of \$5.78 and \$0.82, respectively, for the water system, and corresponding rates of \$10.76 and \$0.87, respectively, for the wastewater system.

The utility's current rates, Staff's primary recommended rates and Staff's alternative recommended rates are shown on the following page.

MONTHLY RATES - WATER

Residential and General Service

<u>Base Facility Charge:</u>	<u>Current</u>	<u>Staff's</u>	<u>Staff's</u>
<u>Meter Sizes:</u>	<u>Rates</u>	<u>Primary</u>	<u>Alternative</u>
		<u>Recommended</u>	<u>Recommended</u>
		<u>Rates</u>	<u>Rates</u>
5/8" x 3/4"	\$ 6.34	\$ 5.82	\$ 5.78
3/4"	9.51	8.73	8.68
1"	14.84	14.55	14.46
1 1/2"	29.01	29.10	28.92
2"	46.02	46.56	46.27
3"	91.36	93.13	92.54
4"	142.36	142.52	144.60
6"	284.05	291.03	289.19
 <u>Consumption Charge:</u>			
Per 1,000 Gallons	\$ 1.39	\$ 0.97	\$ 0.82

MONTHLY RATES - WASTEWATER

Residential and General Service

<u>Base Facility Charge:</u>	<u>Current</u>	<u>Staff's</u>	<u>Staff's</u>
<u>Meter Sizes:</u>	<u>Rates</u>	<u>Primary</u>	<u>Alternative</u>
		<u>Recommended</u>	<u>Recommended</u>
		<u>Rates</u>	<u>Rates</u>
5/8" x 3/4"	\$ 12.50	\$ 5.17	\$ 10.76
3/4"	18.75	7.75	16.14
1"	31.08	12.92	26.91
1 1/2"	62.02	25.84	53.81
2"	99.15	41.34	86.10
3"	198.16	82.68	172.20
4"	309.55	129.20	269.06
6"	618.96	258.39	538.13
 <u>Consumption Charge:</u>			
Per 1,000 Gallons			
Residential			
(6,000 gal. max)	\$ 2.63	\$ 2.35	\$ 0.87
General Service	3.15	2.81	1.05

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ISSUE 3: What is the balance in the escrow account as of June 30, 1993, what is the appropriate balance in the escrow account as of that date, and what is the appropriate balance in the escrow account as of the date of this agenda conference?

RECOMMENDATION: The balance in the escrow account as of June 30, 1993 is \$9,434, and the appropriate balance in the escrow account as of that date is \$30,450. Staff lacks the information necessary to calculate the appropriate balance in the escrow account as of the date of this agenda conference. Therefore, within 30 days of the effective date of this order, the utility should provide Staff with all documents necessary to calculate the appropriate balance in the escrow account as of the date of this agenda conference.
(LINGO)

STAFF ANALYSIS: The utility's rate increase became effective in March 1991. Since that time, the utility has collected \$133,846 in revenues, and the appropriate escrow requirement associated with those revenues is \$30,405. However, as of June 30, 1993, the balance in the utility's escrow account was \$9,434. Staff lacks the information necessary to calculate the appropriate balance in the escrow account as of the date of this agenda conference. Therefore, within 30 days of the effective date of this order, the utility should provide Staff with all documents necessary to calculate the appropriate balance in the escrow account as of the date of this agenda conference.

An analysis of the escrow account as of June 30, 1993, is shown on Schedule No. 2.

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ISSUE 4: What is the appropriate disposition of all monies related to the escrow account, and what is the appropriate escrow requirement on a prospective basis?

RECOMMENDATION: The utility should refund to its customers the entire balance of all monies currently in the escrow account within 30 days of the effective date of this order. The total calculated underfunding of the escrow account, less the pro rata share of the escrow requirement relating to the pro forma water meters, should be refunded to the utility's customers in the form of credits on the customers' bills. The refund should be paid with interest, calculated pursuant to Rule 25-30.360(4), Florida Administrative Code. The pro rata share of the escrow requirement relating to the pro forma water meters should be credited to the utility to recognize the portion of the escrow requirement relating to the pro forma water meters. The appropriate escrow requirement on a prospective basis is \$0. (LINGO)

STAFF ANALYSIS: As shown on Schedule No. 2, the utility has failed to maintain the escrow account at its proper balance. As recommended in Issue 3, the utility should provide Staff with all documents necessary to calculate the appropriate balance in the escrow account (and the total related underfunding of the escrow account) as of the date of this agenda conference. Due to the underfunding of the escrow account, Staff believes it is appropriate to order the utility to refund to its customers the entire balance of all monies currently in the escrow account within 30 days of the effective date of this order.

The total calculated underfunding of the escrow account, less the pro rata share of the escrow requirement relating to the pro forma water meters, should be refunded to the utility's customers in the form of credits on the customers' bills. The refund should be paid with interest, calculated pursuant to Rule 25-30.360(4), Florida Administrative Code. The pro rata share of the escrow requirement relating to the pro forma water meters should be credited to the utility to recognize the portion of the escrow requirement relating to the pro forma water meters.

Since all pro forma items have been removed from the rates, there is no longer a need to escrow funds. Therefore, the appropriate escrow requirement on a prospective basis is \$0.

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ISSUE 5: What is the appropriate length of time for the utility to refund the escrow account underfunding to its customers, and what documentation should the utility file to enable Staff to adequately monitor the refunds?

RECOMMENDATION: The appropriate length of time for the utility to refund the escrow account underfunding to its customers is 36 months. In order for Staff to adequately monitor these refunds, the utility should file monthly reports with the Commission, due no later than 20 days after each monthly billing. These reports should indicate the actual consumption for each customer for the most recent period, the amount credited to each customer for the most recent period, and the resulting amount actually billed to each customer. These reports should be filed each month until the appropriate total refund associated with the escrow underfunding has been made. (LINGO)

STAFF ANALYSIS: Although Staff lacks the information necessary to calculate the appropriate balance in the escrow account as of the date of this agenda conference, Staff estimates that the additional underfunding in the escrow account for the period of July 1993 to the date of this agenda conference is approximately \$3,000. Therefore, an estimate of the total underfunding in the escrow account is approximately \$24,000 (\$21,016 from Schedule 2 + \$3,000). However, as discussed in Issue 4, the pro rata share of the escrow requirement relating to the pro forma water meters should be credited to the utility to recognize the portion of the escrow requirement relating to the pro forma water meters. This will slightly reduce the total amount to be refunded to the customers.

The net operating income for the combined systems is \$7,674 (\$1,356 for the water system and \$6,318 for the wastewater system). Staff recommends that the utility be ordered to apply all of its net operating income to the customer refunds. Based on the total estimated amount the escrow account is underfunded and the net operating income available to apply toward refunds, Staff recommends that the appropriate length of time for the utility to refund is 36 months ($\$24,000 / \$7,674 * 12$).

In order for Staff to adequately monitor these refunds, the utility should file monthly reports with the Commission, due no later than 20 days after each monthly billing. These reports should indicate the actual consumption for each customer for the most recent period, the amount credited to each customer for the most recent period, and the resulting amount actually billed to each customer. These reports should be filed each month until the appropriate total refund associated with the escrow underfunding has been made.

ISSUE 6: In the event a protest is filed, should the current rates remain in effect, and if so, what is the appropriate period for the current rates to remain in effect, and what are the appropriate refund provisions?

RECOMMENDATION: Yes, in the event a protest is filed, the current rates should remain in effect pending the resolution of the protest. The portion of the current rates in excess of the rates proposed herein should be held subject to refund, with interest, on a temporary basis, pending the resolution of the protest. If the proposed rates are approved, the portion of the current rates collected by the utility in excess of the proposed rates shall be subject to the refund provisions discussed below in the Staff Analysis. (LINGO)

STAFF ANALYSIS: This recommendation proposes a decrease in water and wastewater rates. A timely protest might delay what may be a justified rate decrease resulting in an unrefundable overcharge to the customers. Therefore, in the event of a protest, Staff recommends that the current rates remain in effect pending the resolution of the protest. The portion of the current rates in excess of the rates proposed herein should be held subject to refund, with interest, on a temporary basis, pending the resolution of the protest. If the proposed rates are approved, the portion of the current rates collected by the utility in excess of the proposed rates shall be subject to the refund provisions discussed below.

The utility should be authorized to continue collecting the current rates upon the Staff's approval of security for both the potential refund and a copy of the proposed customer notice. The security should be in the form of a bond in the amount of \$9,380. The bond should contain wording to the affect that it will be terminated only under the following conditions:

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

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. An account of all monies received should be maintained by the utility. This account must specify by whom and on whose behalf such monies were paid. If a refund is ultimately required, it should be paid with interest calculated pursuant to Rule 25-30.360(4), Florida Administrative Code.

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The utility should maintain a record of the amount of the security provided, and the amount of revenues that are subject to refund. After the decreased rates are in effect, the utility should file reports with the Division of Water and Wastewater no later than 20 days after each monthly billing. These reports shall indicate the amount of revenue collected under the current rates as well as what would have been collected under the decreased rates.

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ISSUE 7: What is the appropriate effective date of the revised rates?

RECOMMENDATION: The revised rates shall be effective for meter readings taken 30 days on or after the stamped approval date on the revised tariff sheets. Tariff sheets will not be approved until Staff verifies that the tariff sheets are consistent with the Commission's decision, that the proper security for refund (if necessary) has been provided, and that the proposed customer notice is adequate. (LINGO)

STAFF ANALYSIS: The revised rates shall be effective for meter readings taken 30 days on or after the stamped approval date on the revised tariff sheets. Tariff sheets will not be approved until Staff verifies that the tariff sheets are consistent with the Commission's decision, that the proper security for refund (if necessary) has been provided, and that the proposed customer notice is adequate.

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ISSUE 8: Should this docket be closed?

RECOMMENDATION: No, this docket should not be closed. (LINGO)

STAFF ANALYSIS: As discussed in Issue 3, the utility must, within 30 days of the effective date of this order, provide Staff with the documentation necessary to calculate the appropriate balance in the escrow account as of the date of this agenda conference. As discussed in Issues 4 and 5, the utility must also refund the shortfall in the escrow account to its customers over the period of the next 36 months, as well as file monthly reports with the Commission regarding those refunds. Therefore, this docket should not be closed.

--- WATER SYSTEM ---

Account Title =====	Pro Forma Test Year per Order No. 24084 =====	Adjustments to Commission-- Approved-- Balance =====		Adjusted Balance per Staff =====
Depreciable Plant in Service	56,372	3,030	A	59,402
Land and Land Rights	730	0		730
Plant Held for Future Use	0	0		0
Contributions in Aid of Construction (CIAC)	(26,103)	0		(26,103)
Accumulated Depreciation	(10,028)	(179)	C	(10,207)
Accumulated Amortization of CIAC	5,665	0		5,665
Working Capital Allowance	3,176	0		3,176
	----- 29,812 =====	----- 2,851 =====		----- 32,663 =====

--- WASTEWATER SYSTEM ---

Account Title =====	Pro Forma Test Year per Order No. 24084 =====	Adjustments to Commission-- Approved Balance =====	Adjusted Balance per Staff =====
Depreciable Plant in Service	230,811	(127,265) A	103,546
Land and Land Rights	53,907	(50,841) B	3,066
Plant Held for Future Use	0	0	0
Contributions in Aid of Construction (CIAC)	(58,956)	0	(58,956)
Accumulated Depreciation	(40,701)	4,709 C	(35,992)
Accumulated Amortization of CIAC	15,483	0	15,483
Working Capital Allowance	3,613	0	3,613
	-----	-----	-----
	204,157	(173,397)	30,760
	=====	=====	=====

	WATER =====	WASTEWATER =====
A. DEPRECIABLE PLANT IN SERVICE: -----		
1. Reflect the additional cost of meters in excess of allowance in Order No. 24084	3,030	
2. Remove pro forma plant not constructed pursuant to Order No. PSC-93-0542-FOF-WS		(127,265)
B. LAND AND LAND RIGHTS: -----		
1. Remove pro forma land associated with pro forma plant not constructed pursuant to Order No. PSC-93-0542-FOF-WS		(50,841)
C. ACCUMULATED DEPRECIATION: -----		
1. Reflect additional accumulated depreciation associated with additional allowance for meters	(179)	
2. Remove accumulated depreciation associated with pro forma plant not constructed		4,709
TOTAL RATE BASE ADJUSTMENTS:	----- 2,851 =====	----- (173,397) =====

SHADY OAKS MOBILE—MODULAR ESTATES, INC.
DOCKET NO. 900025—WS
TEST YEAR ENDED JUNE 30, 1990

SCHEDULE NO. 2
ANALYSIS OF BALANCE
IN ESCROW ACCOUNT

Month/Year	Revenues Collected	Revenues Subject to Escrow	Appropriate Total Amount in Escrow	Actual Ending Monthly Balance in Escrow	Amount Over (Under) Escrowed
=====	=====	=====	=====	=====	=====
31-Mar-91	4,176	1,332	393	284	(109)
30-Apr-91	792	731	609	635	26
31-May-91	695	646	800	891	92
30-Jun-91	797	776	1,031	1,136	106
31-Jul-91	668	656	1,226	1,201	(25)
31-Aug-91	4,710	4,683	2,611	1,205	(1,406)
30-Sep-91	4,859	4,840	4,044	1,208	(2,836)
31-Oct-91	3,070	1,590	4,515	1,211	(3,304)
30-Nov-91	3,092	387	4,629	1,214	(3,415)
31-Dec-91	6,307	5,287	6,192	2,093	(4,100)
31-Jan-92	7,433	7,221	8,328	3,443	(4,884)
29-Feb-92	6,849	6,621	10,285	4,750	(5,535)
31-Mar-92	6,888	6,778	12,294	5,611	(6,683)
30-Apr-92	6,554	6,554	14,230	7,417	(6,813)
31-May-92	4,921	4,921	15,477	8,289	(7,188)
30-Jun-92	3,718	3,718	16,424	9,213	(7,211)
31-Jul-92	3,417	3,417	17,287	9,280	(8,007)
31-Aug-92	3,503	3,503	18,175	9,296	(8,879)
30-Sep-92	3,804	3,804	19,138	9,310	(9,827)
31-Oct-92	3,570	0	19,137	9,324	(9,813)
30-Nov-92	5,533	2,503	20,124	9,338	(10,786)
31-Dec-92	4,918	1,859	20,955	9,352	(11,603)
31-Jan-93	5,393	2,371	21,880	9,365	(12,515)
28-Feb-93	8,835	5,745	23,819	9,379	(14,439)
31-Mar-93	13,673	10,944	27,079	9,393	(17,686)
30-Apr-93	4,997	3,099	28,376	9,407	(18,969)
31-May-93	5,708	2,872	29,604	9,421	(20,183)
30-Jun-93	4,964	1,977	30,450	9,434	(21,016)
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	133,846	98,833			