State of Florida

Public Service Commission

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

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

DATE: MAY 20, 1999

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

FROM: DIVISION OF WATER AND WASTEWATER (REHWINKEL, BUTTS, DAVIS, GOLDEN)
DIVISION OF LEGAL SERVICES (CIBULA) S.M.C.

RE: DOCKET NO. 981198-WS - APPLICATION FOR STAFF-ASSISTED RATE CASE IN HIGHLANDS COUNTY BY DAMON UTILITIES, INC.

AGENDA: 06/01/99 - REGULAR AGENDA - PROPOSED AGENCY ACTION EXCEPT ISSUES 13, 14, AND 16 - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: 15 MONTH EFFECTIVE DATE - FEBRUARY 22, 2000 - STAFF ASSISTED RATE CASE

SPECIAL INSTRUCTIONS: NONE

FILE NAME AND LOCATION: S:\PSC\LEG\WP\981198.RCM

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CASE BACKGROUND

Damon Utilities, Inc., (utility or Damon) is a Class C water and wastewater utility located in Highlands County. The utility provides water service to approximately 218 customers (215 residential and 3 general service) and wastewater service to approximately 77 customers (75 residential and 2 general service). The utility was granted Water Certificate No. 499-W and Wastewater Certificate No. 433-S, pursuant to Order No. 19655, issued July 11, 1988.

On February 24, 1992, in Docket No. 910690-WS, the Commission issued Order No. 25789 which established rate base for the utility for the test period ended June 30, 1991.

On September 22, 1998, Damon applied for this staff assisted rate case (SARC) pursuant to Section 367.0814, Florida Statutes. Staff determined eligibility for the utility's request by letter dated October 26, 1998. The utility paid its filing fee on November 23, 1998.

In its application, the utility requested an increase in water and wastewater rates. In preparation for this recommendation, staff audited the utility's records for compliance with Commission rules and orders and examined all components necessary for rate setting. The staff engineer has also conducted a field investigation, which included a visual inspection of the water plant and distribution system, and wastewater plant and collection system, along with the service area. The utility's operating expenses, maps, files, and rate application were also reviewed to determine reasonableness of maintenance expenses, regulatory compliance, utility plant in service and quality of service.

Staff conducted a customer meeting on March 24, 1999 in the service territory for the purposes of obtaining information concerning quality of service and allowing customers an opportunity to speak directly with Commission staff regarding any complaints that they were experiencing. Information regarding this meeting is discussed in Issue 1.

Staff selected a historical test year ended June 30, 1998, for this case. Staff's adjusted test year revenues are $36,230 for the water system and $21,475 for the wastewater system. Staff's adjusted operating expenses are $34,092 for the water system and $24,265 for the wastewater system. These amounts result in an adjusted net income of $2,138 for the water system and net loss of $2,790 for the wastewater system. This level of income for the

water system allows the utility a 5.51% return on its investment which is less than staff's recommended return of 9.21%.

QUALITY OF SERVICE

ISSUE 1: Is the quality of service provided by Damon satisfactory?

RECOMMENDATION: Yes. The quality of service for the water system should be considered satisfactory. The quality of service for the wastewater system should also be considered satisfactory. (DAVIS)

STAFF ANALYSIS: Staff's recommendation on the overall quality of service provided by the utility is derived from the evaluation of three separate components of water and wastewater utility operations:

(1) Quality of Utility's Product (compliance with drinking water standards),
(2) Operational Conditions of Utility's Plant or Facility, and
(3) Customer Satisfaction of services rendered.

QUALITY OF UTILITY'S PRODUCT

In Highlands County, the potable water program is regulated by the South Florida District of the Florida Department of Environmental Protection (DEP). According to the DEP, the utility is currently up-to-date with all chemical analysis and all test results are satisfactory. The utility provides water which meets or exceeds all standards for safe, potable water.

Jurisdiction over wastewater facilities is also regulated by the South Florida District of the DEP. The utility's operating permit expired on December 22, 1998. That permit was reissued on February 25, 1999 and is valid until February 24, 2004. There are no outstanding violations or citations, and the utility has complied with all testing/analysis. The quality of wastewater service meets or exceeds regulatory standards, and should be considered satisfactory.

OPERATIONAL CONDITIONS AT THE PLANT

The quality of the utility's plant-in-service is generally reflective of the quality of the utility's product. The water plant has just been upgraded to include an auxiliary power generator in case of emergency outages. Maintenance of the building which houses the primary well and pump at the water treatment plant is satisfactory. The building itself is showing

signs of age and recently required roof reconstruction. The operator's work space inside the building is somewhat tidy, but, could use general cleaning and painting. The quality of the water treatment plant-in-service should be considered satisfactory.

The wastewater plant-in-service is also reflective of the product provided by the utility. The overall capacity of the wastewater plant is sufficient to process the typical flows of a customer base the size of Damon's. The wastewater plant is located behind shrubs and hedges to obstruct its view from the public. Behind the shrubs, the plant appears well maintained with the exception of the grated cat walk over the sand filter reservoirs which is rusted and appears unable to support the weight of an average person. With this exception, appearances at the plant were satisfactory and no foul or obnoxious odors were detected during the engineering investigation. The quality of the wastewater plant in service should be considered satisfactory.

CUSTOMER SATISFACTION

Two customer meetings were held on March 23, 1999, in Damon's service territory at the River Greens Club House. The meetings were held at 2:00 pm, and 6:30 pm. The President of the Homeowners Association and two other customers attended the earlier meeting while there were about 20 customers from the service area present at the 6:30 meeting. The customers appear to be satisfied with the water system. Dissatisfaction with quality of service of the wastewater system centered around excessive odors at the plant and the continuance of service during an emergency.

Odor at the wastewater treatment plant was a problem that the Department of Environmental Protection (DEP) cited during an inspection on April 16, 1998. After an analysis by McDonald Group International, Inc., consulting engineers for the utility, it was determined the utility needed to increase the air flow capacity to the aeration tanks. The utility refurbished the air header pipes which has improved the air supply and allows both blowers to be used during peak flow periods. This refurbishment was completed prior to the staff engineer's field investigation. The utility's operating permit was issued in February, 1999, which required evaluation during the winter of 1998-1999, the peak season for the utility. Since odor was a prior citation with DEP, it had to be resolved before the permit could be issued. Staff considers the problem with odor resolved.

The concern about plant odors also rendered customer suspicions that a sludge truck was coming and going at the plant in

lieu of proper treatment at the plant. This is inconsistent with the normal process of wastewater treatment. In the normal treatment of wastewater, the activated sludge process is a cultivation of zoogleal bacteria and other organisms in the presence of dissolved oxygen. When these organisms reach their life's span they become accumulated solids that are separated from wastewater during the treatment process. This is a normal by-product of the activated sludge process and all wastewater plants must routinely eliminate sludge as part of their regular maintenance program. According to DEP rules, the operator can discharge sludge from the plant only under the most strict regulatory standards. For a utility the size of Damon, the most economical way to waste its sludge is via a sludge hauling service. Sludge hauling services are licensed and permitted to dispose of sludge in a manner that is safe and free of health hazards to the general public. It was noted that the utility was not disposing of its sludge at regular time intervals. A sufficient allowance for sludge hauling services has been included in this rate case which will allow the utility to dispose of sludge every three months.

One customer was extremely concerned that the water treatment plant had an auxiliary power generator, but the master lift station located at Casa Del Lago was not required to have emergency back-up. The water system serves more than 350 people and is required by DEP rules to have an auxiliary power supply. The wastewater system, on the other hand, serves 79 connections that is estimated to be 63 ERCs which is less than 350 persons, and is not required to provide back-up power. Geographic specifics of the service area is such that the elevation of the wastewater plant is higher than the elevation of the master lift station, and several homes are constructed near or equal to the same elevation as the master lift station. Since the probability is high for this area of Florida to have outages due to tornados and hurricanes, the customers request that some protection be provided.

Staff investigated the possibility of having the utility obtain a portable generator specifically for providing back-up power for the lift stations. Cost estimates of several thousand dollars ($6,000 to $7,000) for a three phase generator and associated wiring were considered to be excessive. The utility suggested two courses of action: first, they pointed out that they can have the sludge hauling contractor pump out the lift stations as necessary during power outages; and second, they can use the existing generator assigned to the water plant. The auxiliary power unit at the water treatment plant is a Kohler 20RZ LP gas generator mounted on a skid equipped with wheels. This will allow

it to be relocated. The generator is attached to a 100 gallon capacity LP gas tank, but, can easily be disconnected. The utility keeps a portable LP gas tank for emergencies that will allow the generator to be relocated and used at the lift stations and/or the wastewater plant. While the customers' concerns were valid, it is staff's belief that the two above mentioned solutions are more prudent ways of resolving the expense of two generators when a second generator is not required by rule.

All things considered, the quality of service for the water system should be considered to be satisfactory. The quality of service for the wastewater system should also be considered to be satisfactory.

USED AND USEFUL

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

RECOMMENDATION: The water treatment plant should be considered 100% used and useful. The water distribution system should be considered 79.18% used and useful with the exception of Account Number 334, which should be 100% used and useful. The wastewater plant should be considered 38.1% used and useful. The collection system should be 72.63% used and useful with the exception of Account Number 363, which should be 100% used and useful. (DAVIS)

STAFF ANALYSIS: The water treatment plant is a closed system of operation that currently relies on two wells to meet instantaneous fluctuations in flow demands. The total capacity of the two wells is 200 gpm. During the last case, the used and useful percentage was evaluated to be 100%. This calculation was achieved by a comparison study of the minimum standard of 1.1 gpm in accordance with General Waterworks Design Criteria to the number of customer connections. This American Water Works Association (AWWA) backed standard is recommended to be met by the lowest capacity well. To evaluate this, the actual capacity of both wells (200 gpm) was compared to the minimum requirements for the number of customer connections. This same comparison is being used in this rate case to form the base data for the approved formula, used as an indicator of useful plant. Customer growth has occurred since the last rate case while changes/upgrades to the water plant did not alter the pumping capacity. By the formula, the water plant is still 100% used and useful. It is recommended that the water treatment plant be considered 100% used and useful without a margin reserve (See Attachment "A", Sheet 1 of 2).

During the last rate case, the distribution system was considered to be 60.22% used and useful. By formula approach (See Attachment "A", Sheet 2 of 2), staff recommends the distribution system be considered 79.18% used and useful for this rate proceeding. There is an exception to this: Meters and meter installations (Account No. 334). It is staff's recommendation that this account (No. 334) be considered 100% used and useful.

The wastewater treatment plant was constructed to process 50,000 gallons per day (gpd). During the last rate case, the DEP gave the utility permission to reduce rated capacity of the plant to 20,000 gpd. However, it was deemed necessary for the used and useful to be based on the plant's full capacity, due to the original investment for a 50,000 gpd plant. Since flows were low,

this resulted in a used and useful of 15.08 percent. Today, the constructed capacity of the wastewater treatment plant is still 50,000 gpd. Flows are measured by lapse-time meters in the master lift station which is not an accurate method of determining flows. Average daily flows during the months of November, 1997; January, 1998; March, 1998; and April, 1998; were recorded on the Monthly Operation Report (MOR) having daily readings that exceeded the plant's capacity. Many factors (rags, toys, and other objects flushed into the system) will clog/restrict pumping capacity causing lapse-time meters to register false flows. The flows registered during the test year appears "out-of-line" with physical appearances at the plant, as well as, the size of the customer base being served. A 50,000 gpd plant, by design is expected to service 178 Equivalent Residential Connections (ERC) (50,000/280 gpd per ERC). Currently, the utility provides wastewater service to 79 customers (63 ERCs) with an average of 62 ERCs during the test year. For calculation purposes, the average daily flow of 17,360 gpd (62 ERCs X 280 gpd/ERC) will be considered reasonable and prudent for the used and useful formula. The results of that calculation, used as an indicator of used and useful plant, was 38.1 percent. Therefore, it is recommended that the wastewater treatment plant be considered 38.1% used and useful (See Attachment "B", Sheet 1 of 2).

The collection system was originally designed to service only the Casa del Lago subdivision with a gravity system that fed one lift station. From that lift station, all raw wastewater was piped by a force main into the treatment plant. In 1991, a gravity system and a second lift station was added to accommodate a thirteen lot subdivision called Village Green. A force main transports the flows from Village Green directly to the first lift station at Casa del Lago. In 1993, a new clubhouse was constructed, and a lift station was also constructed to transport wastewater from the clubhouse to the plant. This is accomplished by a force main from the clubhouse lift station to the Village Green lift station. The collection system appears adequately designed and constructed to serve the existing potential customer base. Each phase of development appears to have been constructed with the appropriate size gravity lines along with prudent placement of lift stations. The formula approach, used as an indicator, was used to calculate a 72.63% used and useful which should be applied to the utility's collection accounts. The one exception would be account number 363 (Services) which are installed upon request, and should be considered 100% used and useful. It is recommended that the collection system be considered 72.63% used and useful with the exception of account number 363,

which should be considered 100% used and useful (See Attachment "B", Sheet 2 of 2).

MARGIN RESERVE

ISSUE 3: Should margin reserve be allowed in the calculation of used and useful for the water and wastewater plants-in-service?

RECOMMENDATION: Yes. The margin reserve for the water distribution system should be nine Equivalent Residential Connections (ERCs). The margin reserve for the wastewater treatment plant and wastewater collection system should be six ERCs. (DAVIS)

STAFF ANALYSIS: Since this is a staff assisted rate case, a request by the utility is not required for margin reserve to be calculated in the used and useful formula. Growth, over the last five years, of water system customers totaled 50. By linear regression, it was calculated that next year's growth would be seven customers, estimated as six ERCs. The growth of six ERCs was used in the calculation of the water distribution system used and useful to obtain a margin reserve of nine ERCs.

Growth, over the last five years, of customers for the wastewater system totaled 38, an average of eight ERCs. By linear regression, it was calculated that next year's growth would be three customers less than currently exist. Growth for the wastewater system has been declining over the last three years, yet, actual customers have increased. Due to the small potential customer base of 95 ERCs, the calculation was skewed into the negative. Staff does not believe this is a true picture of the system's future growth. There are 16 remaining home sites and growth in this area of Florida appears to be increasing. After careful consideration of the actual potential growth vs. the projection by linear regression, it is estimated that the actual growth will be four ERCs per year which calculates to a margin reserve of six ERCs. It is recommended that the margin reserve for the wastewater system should be six ERCs.

RATE BASE

ISSUE 4: What is the utility's appropriate average amount of rate base for ratesetting purposes?

RECOMMENDATION: The appropriate average amount of test year rate base should be $38,768 for the water system and $25,861 for the wastewater system. (REHWINKEL, BUTTS, DAVIS)

STAFF ANALYSIS: The appropriate rate base components for this utility include utility plant-in-service (UPIS), non-used and useful plant, contributions-in-aid-of-construction (CIAC), accumulated depreciation, accumulated amortization of CIAC and a working capital allowance.

Staff selected a test year ended June 30, 1998 for this rate case. The utility's rate base was last established by Order No. 25789, issued February 24, 1992 in Docket No. 910690-WS using a test year ended June 30, 1991. According to the audit, Damon's general ledgers are maintained internally on a cash basis for income tax purposes and do not readily reconcile to the NARUC Uniform System of Accounts "because of multiple differences in accounting methods and treatments." Therefore, staff's recommendation reflects the utility's beginning balances for rate base components, which are $0. Adjustments have been made to agree rate base component balances with the prior Commission Order and to update rate base through June 30, 1998. A summary of each component and the adjustments follows:

Utility Plant-in-Service (UPIS) - The utility's books reflected a plant balance of $0 at the beginning of the test year. Staff adjusted this balance in the amount of $96,449 for the water system and $179,562 for the wastewater system to reconcile the utility's books with Order No. 25789. Staff increased UPIS accounts for both water and wastewater to reflect additions that were made to plant since the utility's last rate case. These additions were in the amount of $13,596 for the water plant accounts and $34,964 for the wastewater plant accounts.

Further, adjustments were made to reflect test year additions to the water plant in the amount of $12,460 and to the wastewater plant in the amount of $850. Staff has included in the test year as an addition, an allowance in the amount of $850 for each system to reflect a "Y2K ready" computer. The utility has requested the computer allowance be included in this rate proceeding and has submitted supporting documentation for the associated cost. Staff agrees that this amount should be included in the utility's rate base as UPIS.

The above additions to plant result in a total water and wastewater plant balance of $122,505 and $215,376, respectively. Staff has reduced the plant balances to reflect an averaging adjustment in the amount of $6,230 for the water system and $425 for the wastewater system. The resulting UPIS is $116,275 for water and $214,951 for wastewater.

Non-Used and Useful Plant - As discussed in Issue 2, the staff engineer has determined the used and useful percentage for all water and wastewater plant accounts. The non-used and useful percentages times the appropriate accounts reflect average non-used and useful plant of $11,466 for water and $94,518 for wastewater. The average accumulated non-used and useful depreciation on this plant is $3,060 for water and $52,645 for wastewater. The net non-used and useful plant is $8,406 for water and $41,873 for wastewater. Net non-used and useful plant has a negative impact on rate base. Therefore, water rate base has been decreased by $8,406 and wastewater rate base has been decreased by $41,873.

Contribution-in-Aid-of-Construction (CIAC) - Pursuant to Order No. 25789, issued February 24, 1992, the utility's water system was 78% contributed. The Commission ordered the utility to discontinue collecting the $575 plant capacity charge for water. However, the Commission ordered no change to the $75 water meter installation charge or to the $465 wastewater plant capacity charge.

The utility failed to abide by the above-referenced order regarding its service availability charges. This situation and recommended action regarding the utility's failure is discussed further in Issue 14. In spite of the utility's actions, for rate base purposes, staff has calculated the appropriate CIAC balances as though the utility proceeded accordingly per Order No. 25789.

While the utility recorded no CIAC on its books, detailed records exist which enabled staff to determine the appropriate amount of CIAC (cash and lines). With a utility balance of $0, staff adjusted CIAC by $46,250 for water and by $6,045 for wastewater to reflect the appropriate balances as stated in Order No. 25789 for the period ending June 30, 1991. Staff has increased these amounts by $5,850 for water to reflect the meter installation charges. Staff also increased CIAC by $54,496 for wastewater to reflect plant capacity charges which should have been collected and additions to lines, both considered CIAC. The resulting total CIAC balances for the test period are $52,100 for water and $60,541 for wastewater.

Staff decreased the total amount of CIAC to reflect an averaging adjustment of $413 for water and $1,163 for wastewater. Further, staff has increased the total amount of CIAC to reflect margin reserve in the amount of $1,395 for the wastewater system.

Therefore, the calculated average CIAC balances included in rate base are $51,688 for water and $60,774 for wastewater.

Accumulated Depreciation - According to the audit, the utility's accounting records did not specifically identify UPIS and the associated accumulated depreciation balances for water and wastewater operations. However, the utility provided sufficient historical records and supporting source documentation for staff to assemble UPIS and associated accumulated depreciation. Staff has calculated the appropriate balances based on depreciation rates in conformity with Rule 25-30.140, Florida Administrative Code. The appropriate balance including the effect of an averaging adjustment, is $37,332 for water and $101,259 for wastewater.

Amortization of CIAC - Amortization of CIAC has been calculated consistent with staff's calculation of accumulated depreciation. The resulting accumulated amortization is $17,247 and $13,690 for water and wastewater, respectively. An averaging adjustment decreased these balances by $990 for water and $1,354 for wastewater. The margin reserve adjustment in the amount of $32 for wastewater only increases this balance slightly. Therefore, the resulting average balance of amortization of CIAC through June 30, 1998 is $16,257 for water and $12,368 for wastewater.

Working Capital Allowance - Consistent with Rule 25-30.443, Florida Administrative Code, staff recommends that the one-eighth of operation and maintenance expense (O&M) formula approach be used for calculating working capital allowance. Applying that formula, staff recommends a working capital allowance of $3,661 (based on water O&M expense of $29,289) and $2,447 (based on wastewater O&M expense of $19,572) for water and wastewater, respectively. Working capital has been increased by $3,661 for water and $2,447 for wastewater to reflect one-eighth of staff's recommended O&M expense.

Rate Base Summary - Applying all of the above adjustments results in a year end rate base of $38,768 for the water system and $25,861 for the wastewater system.

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

COST OF CAPITAL

ISSUE 5: 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 9.85% with a range of 8.85% - 10.85% and the overall rate of return is 9.21%. (REHWINKEL, BUTTS)

STAFF ANALYSIS: The utility's capital structure includes long term debt which consists of two separate notes payable in the amount of $86,157 and $10,926, for total capital of $97,084.

This utility recorded no common equity. Order No. PSC-98-0903-FOF-WS, issued July 6, 1998, in Docket No. 980006-WS, capped the rate of return on equity at 9.85% for all water and wastewater utilities having equity ratios of less than 40%. Since the utility's equity ratio is zero, the appropriate return on equity is 9.85%. However, since equity has a $0 balance, the 9.85% return on equity is not included in calculating the overall rate of return.

According to documentation presented in the audit, the utility's cost of debt is 9.50% for the $86,157 loan and 7.00% for the $10,926 loan. The utility's capital structure has been reconciled with staff's recommended rate base. Applying the cost times the pro rata share of each capital component results in an overall rate of return of 9.21%.

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

NET OPERATING INCOME

ISSUE 6: What is the appropriate test year revenue?

RECOMMENDATION: The appropriate test year revenue is $36,230 for the water system and $21,475 for the wastewater system. (REHWINKEL, BUTTS)

STAFF ANALYSIS: During the test year the utility provided water service to approximately 218 water customers (215 residential and 3 general service) and 77 wastewater customers (75 residential and 2 general service). The utility reported revenues for the test year ended June 30, 1998 in the amount of $39,042 and $19,328 for the water and wastewater systems, respectively. Per the audit, the utility recorded as water revenue, service availability charges and meter installation charges totaling $3,900. Staff removed the $3,900 amount from the utility's recorded revenue resulting in a balance of $35,142 for water and $19,328 for wastewater.

The selected test year for this rate case includes the 12 month period from July 1, 1997 through June 30, 1998. Annualized revenues have been calculated using test year number of bills and gallons billed times the existing rates. Annualized revenue for the water system is $36,230 and for the wastewater system is $21,475.

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

ISSUE 7: What is the appropriate amount of operating expenses?

RECOMMENDATION: The appropriate amount of operating expenses is $34,160 for the water system and $24,509 for the wastewater system. (REHWINKEL, BUTTS, DAVIS)

STAFF ANALYSIS: As stated earlier, the utility did not maintain its books and records in conformity with NARUC Uniform System of Accounts. According to the audit, "the utility's operating and maintenance expenses for the test year were undeterminable using the utility's general ledgers." However, the utility provided access to all invoices, canceled checks and other records which were utilized to calculate expenses for the test year. Operating expenses for this utility include operation and maintenance expense, depreciation expense, amortization of CIAC, and taxes other than income. Adjustments have been made to reflect annual operating costs on a going forward basis. A summary of adjustments follows:

1) Salaries and Wages - Employees (601/701) - The utility employs a maintenance person and a bookkeeper/receptionist. The maintenance person oversees general matters related to utility operations, acts as liaison between the customers and the utility, signs invoices related to maintenance repairs and performs general repairs of meters/lines which are not specified in the utility's agreement with the contract operator. Staff is recommending an allowance in the amount of $4,771 for water and $2,045 for wastewater be included as salaries expense for maintenance personnel.

   Staff is also recommending a salary allowance for the receptionist/bookkeeper. The duties for this position include answering phone calls related to utility matters, transcribing meter readings for billing, mailing bills to customers, receiving and posting payments, along with general bookkeeping related to paying bills and posting dispersement and revenues. Staff believes a salary allowance in the amount of $5,045 for the water system and $2,162 for the wastewater system is appropriate for the duties that are performed by the receptionist/bookkeeper for this utility.

   Therefore, the total recommended salary allowance for this utility is in the amount of $9,816 for the water system and $4,207 for the wastewater system.

2) Sludge Removal Expense (711) - The utility must regularly pump out and dispose of excess sludge. According to the

engineer, on three occasions during the test year, the utility called for sludge removal. The total cost for these services was $1,275. An additional load of sludge was removed one month after end of the test year. It is staff's belief that four loads should be considered reasonable for this utility given the wastewater treatment plant and the three lift stations. It is estimated that the utility should remove four loads of sludge each year resulting in sludge hauling expense of $1,660 ($415/load x 4 loads).

3) Purchased Power (615/715) - The utility provided electric bills for the test year. Based on these records, staff is recommending a purchased power allowance in the amount of $2,361 for the water system and $2,292 for the wastewater system.

4) Fuel for Power Production (616) - Staff is recommending an allowance for this expense in the amount of $150 for the water system. According to the engineer, during the test year, the utility "filled the fuel tank for the auxiliary power generator" at a cost of $89.98. Due to "periodic start-ups and idling which are necessary for proper maintenance," additional fuel was purchased in the amount of $32.95. Staff believes that an emergency would exhaust most, if not all, of this fuel.

Therefore, staff is recommending an additional 20% be added to the actual $123 expense for fuel purchases, resulting in a total fuel for power production allowance for the test year of $150.

5) Chemicals (618/718) - The utility purchases gas chlorine in 150 pound cylinders for the disinfection of raw water, according to the engineer. Staff believes that, for this plant, six cylinders each year is necessary for the water system. Therefore, staff is recommending an allowance of $720 for the test year for chemicals.

For the wastewater system, disinfection in the chlorine contact chamber is accomplished with the use of a hypo-mechanical chlorine pump along with a liquid chlorine concentrate. Additionally, lime is necessary for disinfection and "cleanup" at the wastewater plant site. Staff is recommending an allowance of $777 for chemicals for the wastewater system.

6) Materials and Supplies (620/720) - Based on the audit, invoices were provided by the utility supporting materials and supplies expense in the amount of $1,863

for the water system and $315 for the wastewater system. For purposes of this report, staff is recommending that these amounts are appropriate.

7) Contractual Service - Operator/Billing (630/730) - Based on the audit and engineering investigation, the utility employs a contract operator who specializes in operating and maintaining utility plants in accordance with federal, state and local regulatory standards. For this service the utility pays $200 per month for the water system and $200 per month for the wastewater system. Staff believes that the appropriate amount for this expense is $2,400 for the water system and $2,400 for the wastewater system.

8) Contractual Services - Professional (631/731) - During the test year, the utility paid for accounting and tax services in the amount of $525. According to the audit, the allocation between the water and wastewater system for accounting services is 90/10 based on the allocations approved in Order No. 25789. The resulting allocated accounting expense is $473 for the water system and $52 for the wastewater system.

The utility also incurred expenses associated with engineering services in the amount of $3,744. These engineering costs were for DEP required licenses and permits for the wastewater plant. Staff has amortized these costs over three years. The resulting amortized engineering expense is $1,248 for the wastewater system only.

Staff agrees with the audit; these services should be included in the amount of $473 for the water system and $1,300 for the wastewater system. Staff has reviewed the invoices and believes these expenses are reasonable. Therefore, staff is recommending an allowance of $473 for the water system and $1,300 for the wastewater system for this utility.

9) Contractual Services - Testing (635/735) - State and local authorities require that testing results and laboratory analysis be submitted in accordance with Rule 62-550, Florida Administrative Code.

A schedule of the required water and wastewater tests, frequency and costs follows:

---WATER---

Description	Frequency	Annual Cost
Microbiological	Monthly	$ 720
Primary Inorganics	36 Months	122
Secondary Inorganics	36 Months	70
Asbestos	1/ 9 Years	35
Nitrate & Nitrite	12 Months	40
Volatile Organics	36 Months	350
Pesticides & PCB	36 Months	312
Radionuclides		
Group I	36 Months	42
Group II	36 Months	250
Unregulated Organics		
Group I	1/4ly/1st yr/9 yr	275
Group II	36 Months	50
Group III	36 Months	83
Lead & Copper	Biannually	475
	Total Amount	$ 2,824

---WASTEWATER---

Description	Frequency	Annual Cost
Biochemical O2 Demand (includes Nitrate, fecal)	Monthly	$ 510
Total Suspended Solids	Monthly	360
Fecal Coliform	Monthly	396
Sludge Analysis	Yearly	360
	TOTAL	$ 1,626

10) Contractual Services - Other (636/736) - The utility recorded a $0 balance in this account. Staff has increased this account by $3,635 for the water system and $1,624 for the wastewater system. These amounts include allowances for contracted mowing and groundskeeping in the amount of $900 for the water system and $750 for the wastewater system. Also included in this account is an allowance for repairs and maintenance based on invoices received and reviewed by staff. Repairs and maintenance expenses for the test year resulted in $2,735 being allocated to the water system and $874 being allocated to the wastewater system. The total recommended amount for this expense is $3,635 for water and $1,624 for wastewater.

11) Rents (640/740) - According to Order No. 25789 and the audit, the utility leases the plant sites from River Greens Golf Course, Inc. and DDH Partnership. Order No. 25789 allowed an annual amount for the land lease in the amount of $1,200 for the water system and $1,500 for the wastewater system. Also included in the prior Order was an allowance for office space and office equipment rental in the amount of $1,296 for the water system and $144 for the wastewater system. The resulting total allowance for the land lease and the rental for office space and equipment is $2,496 for water and $1,644 for wastewater.

12) Transportation Expense (650/750) - Utility personnel are required to travel within the service area and conduct utility business using personal vehicles. It is estimated that travel averaging 100 miles per week is necessary for utility purposes. Therefore staff is recommending an allowance for this expense in the amount of $905 for the water system and $603 for the wastewater system (100 mi. X 52wks x $.29/mi). This expense is allocated with 60% to the water system and 40% to the wastewater system.

13) Insurance Expense (655/755) - Staff is recommending an insurance allowance in the amount of $851 for the water system and $328 for the wastewater. These amounts reflect the policy charges that the utility has for blanket liability insurance. Staff believes this amount is reasonable.

14) Regulatory Commission Expense (665/765) - The utility paid a $1,500 filing fee for this rate case in addition to accounting expenditures for preparation of this case in the amount of $870. Pursuant to Section 367.0816, Florida Statute, this expense has been amortized over 4 years, which allows an annual expense of $296 for the water system and $296 for the wastewater system. The utility did not record any regulatory commission expense. Therefore, this expense has been increased by $296 for the water system and $296 for the wastewater system.

15) Miscellaneous Expense (675/775) - The utility provided various records and invoices which should have been recorded as miscellaneous expense. Staff believes the appropriate balance for this account is $500 for the water system and $500 for the wastewater system.

Depreciation Expense - Test year depreciation expense has been calculated using the rates prescribed by Rule 25-30.140, Florida Administrative Code. Test year depreciation is $4,694 for the

water system and $9,817 for the wastewater system. Test year non-used and useful depreciation is $303 for water and $4,890 for wastewater. Net depreciation is $4,391 for water and $4,927 for wastewater. The utility recorded depreciation expense in the amount of $0. This expense has been increased by $4,391 and $4,927 to reflect staff's calculated depreciation expense.

Amortization of CIAC - Amortization of CIAC has a negative impact on depreciation expense. The utility did not record an amortization expense. This expense has been adjusted by a negative $1,980 for the water system and by a negative $2,708 to reflect staff's calculated test year amortization of CIAC expense.

Taxes Other Than Income - Based on the tax records provided by the utility, staff believes the appropriate total amount of taxes other than income is $2,392 for the water system and $2,474 for the wastewater system. This total includes tangible personal property tax in the amount of $366 for the water system and $1,464 for the wastewater system. The total also includes regulatory assessment fees for test year revenues in the amount of $1,630 for the water system and $966 for the wastewater system. Allowances for other taxes in the amount of $396 for water and $44 for wastewater are included in the total recommended tax amount. Therefore, the total adjustment to taxes other than income is an increase of $2,392 for the water system and $2,474 for the wastewater system.

Increase in Operating Revenues and Expenses:

Operating Revenue - Revenue has been increased by $1,501 for the water system and by $5,415 for the wastewater system to reflect the increase required to allow the utility to recover its expenses and earn the authorized return on its investment.

Taxes Other Than Income - This expense has been increased by $68 and $244 for water and wastewater, respectively, to reflect regulatory assessment fees at 4.5% on the required increase in revenue.

The application of staff's recommended adjustments to the utility's recorded operating expenses results in staff's recommended operating expenses of $34,160 and $24,509 for water and wastewater, respectively.

Operating expenses are shown on Schedule No. 3 and adjustments are shown on Schedule No. 3-A.

REVENUE REQUIREMENT

ISSUE 8: What is the appropriate revenue requirement for each system?

RECOMMENDATION: The appropriate revenue requirement is $37,731 for the water system and $26,890 for the wastewater system. (REHWINKEL, BUTTS)

STAFF ANALYSIS: The utility should be allowed an annual increase in revenue of $1,501 (4.14%) for the water system and $5,415 (25.22%) for the wastewater system. This increase will allow the utility the opportunity to recover its expenses and earn a 9.21% return on its investment.

	Water	Wastewater
Adjusted rate base	$ 38,768	$ 25,861
Rate of return	x .0921	x .0921
Return on investment	$ 3,572	$ 2,382
plus		
Adjusted O&M expense	29,289	19,572
Depreciation expense	4,391	4,927
Amortization expense	(1,980)	(2,708)
Taxes other than income	2,460	2,718
Revenue requirement	$ 37,732	$ 26,890
Test year revenue	(36,230)	(21,475)
Increase in revenue	$ 1,501	$ 5,415
Percentage increase	4.14% ($1,501/$36,230)	25.22% ($5,415/$21,475)

The revenue requirement is shown on Schedule No. 3.

RATES AND TARIFF CHARGES

ISSUE 9: What is the appropriate conservation rate structure for this utility?

RECOMMENDATION: The appropriate conservation rate structure is a continuation of the current base facility and gallonage charge rate structure. (GOLDEN)

STAFF ANALYSIS: Damon is located in a water use caution area (WUCA). The Southwest Florida Water Management District (SWFMD) declared portions of Highlands County a WUCA in 1989. Although Damon is located in the Highlands Ridge WUCA, it falls below the applicable conservation thresholds for a water use permit, and is therefore, not required to have a water conservation program.

The utility's current rate structure consists of a base facility and gallonage charge rate structure. Under the current rate structure, the total average consumption per bill is 3,965 gallons which is below the 10,000 gallon threshold that determines whether a more aggressive conservation-oriented rate structure is appropriate. Although this utility has not implemented a conservation program, it appears that its customers are voluntarily making efforts to conserve water because the water consumption for this utility is low. Based on the information above, staff is recommending that the base facility and gallonage charge rate structure be continued for this utility.

ISSUE 10: Is a repression adjustment to consumption appropriate for this utility, and, if so, what is the appropriate adjustment?

RECOMMENDATION: Yes, repression adjustments of 175,180 gallons to water consumption and 167,831 gallons to wastewater consumption are appropriate. In order to monitor the effects of the rate increases on consumption, the utility should be ordered to file, on a quarterly basis, reports for both water and wastewater detailing the number of bills rendered, the number of gallons billed and the total revenues billed during the quarter, with the totals shown separately for the residential and general service classes of service. These reports should be required for a period of two years, beginning the first quarter after the revised rates go into effect. (GOLDEN)

STAFF ANALYSIS: Staff has recommended repression adjustments in a limited number of cases to date. Therefore, in order to present a thorough analysis, a discussion of the merits of repression adjustments in general is warranted, as well as a discussion of staff's recommended adjustment.

General Discussion Regarding Repression and Price Elasticity

The term "price elasticity" refers to the relationship between water use and water price. Price elasticity measures the percentage change in the quantity demanded resulting from a one percent change in price, all other factors held constant. For example, if a water price increase of one percent leads to a 0.2 percent reduction in water use, price elasticity would be -0.2. (In other words, there is an inverse relationship between price and the quantity demanded -- this is the first law of demand). The term "repression" refers to the expected reduction in quantity demanded resulting from an increase in price. (Conversely, the term "stimulation" refers to the expected increase in quantity demanded resulting from a decrease in price.)

Consider the following example:

Assume: A 10% increase in price
Price elasticity = -0.3
Then: Resulting price = 110%
Reduction in demand = 3% (10% x -0.3)
Resulting demand = 97%
Resulting revenue increase = 6.7%
(110% price x 97% demand)

The above example illustrates that ignoring price elasticity in rate design analysis creates the potential for both revenue instability and revenue shortfalls. Furthermore, if rate structure is substantially modified or if a large rate increase is implemented, revenue shortfalls can be especially problematic. The preliminary increases in this case, before any adjustments for repression, are 4.14% for water and 25.22% for wastewater. When combined, these increases are significant enough to warrant consideration of a repression adjustment in this proceeding.

Staff's Recommended Repression Adjustment

In an attempt to quantify the relationship between revenue increases and consumption impacts, staff has created a database of all water utilities that were granted rate increases or decreases (excluding indexes and pass-throughs) between January 1, 1990 and December 31, 1995. This database contains utility-specific information from the applicable orders, tariff pages and the utilities' annual reports for the years 1989 - 1995. A summary of the contents of the database is listed below:

Data Obtained from:

Orders

1. The dollar amount of the revenue requirement increase for the water system.
2. The utility's rate structure before and after the rate proceeding.

Annual Reports

1. The number of gallons sold for the years 1989 - 1995.
2. The number of meter equivalents for the years 1989 - 1995.

Tariff Pages

1. The effective date of the revised rates.

Resulting Calculations:

1. The revenue requirement percentage increase (decrease) for the water system.
2. The dollar amount of the revenue requirement increase (decrease) per meter equivalent.
3. The average monthly consumption per meter equivalent for the years 1989 - 1995.
4. The percentage change in the average monthly consumption per meter equivalent from the prior year for the years 1990 - 1995.

Several utilities were excluded from the analysis, typically due to the lack (or unreliability) of consumption data. Data from the remaining 67 utilities forms the basis for our analysis.

Our analysis in this case was performed using two different bases of comparison. The first basis of comparison used Damon's preliminary rate increase to the water system (before a repression adjustment) of 4.14%. This preliminary rate increase was compared to other utilities in the database which, as in Damon's case, underwent no change in the BFC/gallonage water system rate structure. We then isolated five utilities in the database which had experienced similar percentage increases in the average monthly bills. The change in average monthly consumption per meter equivalent (ME) for these five isolated utilities was (12%), (9%), (8%), (8%), and (5%). Next, staff compared Damon's average consumption per ME to the five utilities. The utilities which most closely matched Damon's average consumption exhibited 8% and 9% consumption reductions. Based on this analysis, a consumption reduction between 8% and 9% would appear to be a conservative prediction of Damon's anticipated consumption reduction.

The second basis of comparison used Damon's annual revenue requirement increase for water, which was $7/ME. The remaining steps using this basis of comparison follow those described in the preceding paragraph. The $7/ME increase was compared to similar increases in annual revenue requirement per ME of other utilities in the database which underwent no change in the BFC/gallonage water rate structure. This comparison produced five utilities which experienced similar increases for water. The changes in average monthly consumption per ME for these five utilities were (9%), (7%), (3%), 2% and 2%. We believe the two utilities with a 2% increase in average consumption are anomalous, as it is illogical to conclude that a price increase would result in more usage. We then compared Damon's average consumption per meter equivalent to the remaining three utilities. The utility that exhibited a 7% reduction in consumption most closely matched Damon's average consumption. Using this basis of analysis, a 7% consumption reduction would appear to be a conservative prediction of Damon's anticipated consumption reduction.

However, staff believes there are other factors that should be considered. As discussed above, the recommended 4.14% water rate increase represents an average annual increase of approximately $7/ME. Staff does not believe this increase will result in significant repression from the water customers. Although the data seems to indicate that repression can occur with this level of rate increase, a closer review revealed that many of the utilities appearing in the above samples underwent a concomitant wastewater system rate increase. Consequently, an argument could be made that the resulting consumption reductions were influenced by the

wastewater rate increases. Accordingly, staff carried the analysis one step further and attempted to isolate the utilities which had similar levels of both water and wastewater increases.

As discussed above, Damon's annual revenue requirement increase for water is $7/ME. Damon's annual revenue requirement increase for wastewater is $71/ME. The $7/ME increase for water and $71/ME increase for wastewater were compared to similar increases in annual revenue requirement per ME of other utilities in the database which underwent no change in the BFC/gallonage water rate structure. This combined comparison produced seven utilities which experienced similar increases for water and wastewater. The changes in average monthly consumption per ME for these seven utilities were (27%), (11%), (10%), (9%), (7%), 1% and 2%. We believe the utilities with the 1% and 2% increases in average consumption are anomalous, as it is illogical to conclude that a price increase would result in more usage. We then compared Damon's average consumption per meter equivalent to the remaining five utilities. The utilities that exhibited the 10% and 11% reductions in consumption most closely matched Damon's average consumption. Using this basis of analysis, a consumption reduction between 10% and 11% would appear to be a conservative prediction of Damon's anticipated consumption reduction.

Although the analysis could end at this point, staff believes there is another important factor which should be considered before making our final determination. Only one-third of Damon's customers receive both water and wastewater service. The remaining two-thirds receive only water service. Based upon our review, staff believes that most, if not all repression resulting from this rate increase will be exhibited by the one-third of Damon's customers which are impacted by both the water and wastewater rate increases. Consequently, staff believes it is appropriate to consider an alternative repression adjustment in this case.

As discussed above, staff has recommended repression adjustments in a limited number of cases to date, and, as such, we have no established, previously-approved methodology to calculate an appropriate adjustment. Until we do have approved methodologies in place, we believe it is appropriate to err on the side of caution when considering the magnitude of our recommended adjustments. In most cases, staff has previously recommended that the repression adjustment be applied to total residential gallons. However, because staff believes repression is more likely to occur in the group of customers that receive both water and wastewater service, applying the expected percentage reduction to total gallons in this case would result in an overstatement of the expected repression on a company-wide basis. Therefore, to achieve the correct mathematical result, staff believes the repression adjustment should be calculated for the portion of the total

gallons that is associated with the customers that receive both water and wastewater service.

Based upon our analysis, staff believes a conservative prediction of Damon's anticipated consumption reduction for the customers receiving both water and wastewater service is 7%. The resulting adjustment to water gallons is 175,180 gallons. When incorporated into the total gallons used for ratemaking purposes, the adjustment results in an overall repression adjustment of 1.76% to total water consumption for the utility's residential water customers as a whole. Because the analysis indicates that some repression is possible even with a low rate increase, staff believes the resulting repression adjustment is not unreasonable in this case.

For informational purposes, it should be noted that the repression adjustment was only applied to residential consumption. The utility currently serves three general service customers, one of which receives only water service. Little is known about how commercial/general service customers respond to water price. In addition, because these customers are such a heterogeneous group, it is difficult to quantify what the group's price elasticity is. In the instant case, consumption by general service customers represents a very small percentage (approximately six percent) of historical test period consumption, and the corresponding repression adjustment would not have a significant impact on revenue instability or revenue shortfall concerns. Therefore, staff excluded the general service class from its recommended repression adjustment calculation.

As discussed above, staff believes a repression adjustment of 175,180 gallons to water consumption is appropriate in this case. The anticipated consumption reduction will also affect the billed gallons for the wastewater system. In this case, the ratio of billed wastewater gallons to billed water gallons will be approximately 95.8% if staff's recommended 8,000 gallon per month residential wastewater gallonage cap is implemented. (The recommended residential wastewater gallonage cap will be discussed further in Issue No. 11.) Consequently, it is reasonable to also adjust wastewater consumption to reflect 95.8% of the recommended gallon reduction for the water system. Therefore, staff recommends repression adjustments of 175,180 gallons to water consumption and 167,831 gallons to wastewater consumption.

Further, staff believes it will be beneficial in future cases to monitor the effects of this rate increase on consumption. Therefore, staff recommends the utility should be ordered to file, on a quarterly basis, reports for both water and wastewater detailing the number of bills rendered, the number of gallons billed and the total revenues billed during the quarter, with the

totals shown separately for the residential and general service classes of service. These reports should be required for a period of two years, beginning the first quarter after the revised rates go into effect.

ISSUE 11: What are the appropriate rates?

RECOMMENDATION: The recommended rates are designed to produce revenue of $37,731 for the water system and $26,890 for the wastewater system. The appropriate residential wastewater cap should be set at 8,000 gallons. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), Florida Administrative Code, provided the customers have received notice. The rates may not be implemented until proper notice has been received by the customers. The utility should provide proof of the date notice was given within 10 days after the date of the notice. (REHWINKEL, BUTTS)

STAFF ANALYSIS: During the test year the utility provided water service to approximately 218 residential customers and 3 general service customers and wastewater service to approximately 77 residential customers and 2 general service customers. Rates have been calculated using the number of bills and the number of gallons of water and wastewater billed during the test year. A schedule of the utility's existing rates and staff's recommended rates follows:

WATER
Monthly Rates

Residential and General Service BASE FACILITY CHARGE Meter Size	Existing Rates	Staff's Recommended Rates
5/8 x 3/4"	$ 8.08	$ 8.40
3/4"	12.15	12.59
1"	20.24	20.99
1 ½"	40.46	41.98
2"	64.75	67.16
3"	129.50	134.33
4"	202.34	209.89
6"	405.47	419.78
GALLONAGE CHARGE	$ 1.38	$ 1.47

WASTEWATER
Monthly Rates

Residential	Existing Rates	Staff's Recommended Rates
BASE FACILITY CHARGE		
All Meter Sizes	$ 14.92	$ 15.93
GALLONAGE CHARGE (8,000 gallon cap)	$ 2.82	$ 4.95
General Service		
BASE FACILITY CHARGE		
Meter Size		
5/8 x 3/4"	$ 14.92	$ 15.93
3/4"	22.37	23.89
1"	37.29	39.82
1 ½"	74.60	79.64
2"	119.36	127.42
3"	238.72	254.85
4"	372.98	398.20
6"	745.97	796.40
GALLONAGE CHARGE	$ 2.82	$ 5.94

The average number of residential gallons of water billed for the test year is approximately 3,965 gallons per month/customer. The average number of residential gallons of wastewater billed for the test year is approximately 2,809 gallons per month/customer. A schedule of an average bill based on existing rates and recommended rates follows:

Residential	Water	Wastewater
Average bill using recommended rates	$ 14.23	$ 29.83
Average bill using existing rates	(13.55)	(23.47)
Increase in bill	$ .68	$ 6.36
Percentage increase in bill	5.00%	27.10%

Staff recommends a wastewater gallonage cap of 8,000 gallons. The Commission's goal in setting a wastewater cap is to recognize the general usage level of the utility's customers. Water used beyond that general level is probably used for irrigation purposes, and will not be returned to the wastewater system.

The recommended rates are designed to produce revenue of $37,732 for the water system and $26,890 for the wastewater system.

The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), Florida Administrative Code, provided the customers have received notice. The rates may not be implemented until proper notice has been received by the customers. The utility should provide proof of the date notice was given within 10 days after the date of the notice.

ISSUE 12: What is the appropriate amount by which rates should be reduced four years after the established effective date to reflect the removal of the amortized rate case expense as required by Section 367.0816, Florida Statutes?

RECOMMENDATION: The water and wastewater rates should be reduced as shown on Schedule No. 4, to remove rate case expense grossed-up for regulatory assessment fees and amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the recovery period, pursuant to Section 367.0816, Florida Statutes. The utility should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. (REHWINKEL, BUTTS)

STAFF ANALYSIS: Section 367.0816, Florida Statutes requires that the rates be reduced immediately following the expiration of the four year period by the amount of the rate case expense previously included in the rates. The reduction will reflect the removal of the revenues associated with the amortization of rate expense and the gross-up for regulatory assessment fees, which is $310 for each system. The reduction in revenues will result in the rates recommended by staff on Schedule No. 4.

The utility should be required to file revised tariffs no later than one month prior to the actual date of the required rate reduction. The utility also should be required to file a proposed customer notice setting forth the lower rates and the reason for the reduction.

If the utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data shall be filed for the price index and/or pass-through increase or decrease, and for the reduction in the rates due to the amortized rate case expense.

ISSUE 13: Should the recommended rates be approved for the utility on a temporary basis in the event of a timely protest filed by a party other than the utility?

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

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

The utility should be authorized to collect the temporary rates upon the staff's approval of the security for potential refund and the proposed customer notice. The security should be in the form of a bond or letter of credit in the amount of $4,759 ($1,033 for the water system and $3,726 for the wastewater system). Alternatively, the utility could establish an escrow agreement with an independent financial institution.

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

1) The Commission approves the rate increase; or

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

If the utility chooses a letter of credit as security, it should contain the following conditions:

1) The letter of credit is irrevocable for the period it is in effect.

2) The letter of credit will be in effect until final Commission order is rendered, either approving or denying the rate increase.

If security is provided through an escrow agreement, the following conditions should be part of the agreement:

1) No funds in the escrow account may be withdrawn by the utility without the express approval of the Commission.

2) The escrow account should be an interest bearing account.

3) If a refund to the customers is required, all interest earned by the escrow account should be distributed to the customers.

4) If a refund to the customers is not required, the interest earned by the escrow account should revert to the utility.

5) All information on the escrow account should be available from the holder of the escrow account to a Commission representative at all times.

6) The amount of revenue subject to refund should be deposited in the escrow account within seven days of receipt.

7) This escrow account is established by the direction of the Florida Public Service Commission for the purpose(s) set forth in its order requiring such account. Pursuant to Cosentino v. Elson, 263 So. 2d 253 (Fla. 3d DCA 1972), escrow accounts are not subject to garnishments.

8) The Director of Records and Reporting must be a signatory to the escrow agreement.

In no instance should the maintenance and administrative costs associated with the refund be borne by the customers. These costs are the responsibility of, and should be borne by, the utility. Irrespective of the form of security chosen by the utility, an account of all monies received as result of the rate increase should be maintained by the utility. This account must specify by whom and on whose behalf such monies were paid. If a refund is ultimately required, it should be paid with interest calculated pursuant to Rule 25-30.360(4), Florida Administrative Code.

The utility should maintain a record of the amount of the bond, and the amount of revenues that are subject to refund. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), Florida Administrative Code, the utility should file reports with the Division of Water and Wastewater no later than 20 days after each monthly billing. These reports shall indicate the amount of revenue collected under the increased rates.

ISSUE 14: Should Damon Utilities, Inc., be ordered to show cause, in writing, within 21 days, why it should not be fined for its apparent failure to comply with Order No. 25789 in regard to the collection of water and wastewater service availability charges?

RECOMMENDATION: No. A show cause proceeding should not be initiated. However, the utility should be ordered to maintain its water and wastewater service availability charges in accordance with Order No. 25789 and should be put on notice that staff will review the utility's collection of water and wastewater service availability charges in six months. If the utility is still in apparent violation of Order No. 25789, staff will recommend initiation of show cause proceedings at that time. (CIBULA, REHWINKEL, BUTTS)

STAFF ANALYSIS: Pursuant to Order No. 25789, issued February 24, 1992, the utility's water system was 78% contributed. The Commission ordered the utility to discontinue the collection of the $575 plant capacity charge for water. However, the Commission ordered no change to the $75 water meter installation charge and the $465 wastewater plant capacity charge. Also, by this Order, the Commission encouraged the utility to request re-examination of its water service availability policy "if it adds to its water plant at a later date."

The utility failed to comply with Order No. 25789 in regard to its service availability policy and charges. According to the audit, the utility added 78 water customers and 48 wastewater customers since its last rate proceeding. The utility collected $19,150 in service availability charges from 31 new water customers since the last rate proceeding. The utility did not collect any service availability charges for wastewater connections.

Section 367.161, Florida Statutes, authorizes the Commission to assess a penalty of not more than $5,000 for each offense, if a utility is found to have knowingly refused to comply with, or have willfully violated any Commission rule, order, or provision of Chapter 367, Florida Statutes. In failing to discontinue the collection of water service availability charges and not collecting wastewater service availability charges, the utility's act was "willful" in the sense intended by Section 367.161, Florida Statutes. In Order No. 24306, issued April 1, 1991, in Docket No. 890216-TL, titled In Re: Investigation Into The Proper Application of Rule 25-14.003, Florida Administrative Code, Relating To Tax Savings Refund For 1988 and 1989 For GTE Florida, Inc., the Commission having found that the company had not intended to violate the rule, nevertheless found it appropriate to order it to show cause why it should not be fined, stating that "[i]n our view, 'willful' implies an intent to do an act, and this is distinct from an intent to violate a statute or rule." Additionally, "[i]t is a

common maxim, familiar to all minds that 'ignorance of the law' will not excuse any person, either civilly or criminally." Barlow v. United States, 32 U.S. 404, 411 (1833).

Although Damon's collection of the water service availability charges and failure to collect wastewater service availability charges are apparent violations of Order No. 25789, staff believes a show cause proceeding is not warranted and should not be initiated. According to a letter from the utility dated April 14, 1999, the manager of the utility was on leave at the time the last staff assisted rate case occurred and continued to be out of the office for a year and a half afterwards. The letter further states that the person who was keeping track of the tariffs was a part-time employee who failed to understand the importance of the tariff. The utility states that "we have never been through this process before and didn't see the page that referred to adjusting the water connection fees." As for the sewer connection charges, the letter states that fees were not charged because "the three men who own the utility also own the development where the sewage customers are located" and that the developers "thought that they could make a decision not to charge the customers of their development."

CIAC is a component of rate base. Pursuant to Rule 25-30.570(1), Florida Administrative Code, if CIAC has not been recorded on the utility's books and the utility does not submit competent substantial evidence as to the amount of CIAC, the amount of CIAC is imputed. Thus, even if the utility makes a mistake in recording CIAC, staff imputes CIAC and the amount of CIAC used to determine rate base is correct. For this staff assisted rate case, staff has calculated CIAC based on the approved charges in Order No. 25789.

Staff does not believe that, in these circumstances, the apparent violation of Order No. 25789 rises to the level which warrants the initiation of a show cause proceeding. Therefore, staff recommends that the Commission not order Damon to show cause for continuing to collect water service availability charges and failing to collect wastewater service availability charges at this time. However, staff does have a concern that the utility was ordered, by Order No. 25789, to discontinue the collection of water service availability charges and to continue collection of wastewater service availability charges, but did not do so. Staff addresses this concern further in Issue 15. In Issue 15, staff is recommending that the utility be required to refund the unauthorized service availability charges which it collected.

In keeping with the above, staff also recommends that the utility should be ordered to maintain its water and wastewater service availability charges in accordance with Order No. 25789 and

should be put on notice that staff will review the utility's collection of water and wastewater service availability charges in six months. If the utility is still in violation of Order No. 25789, staff will initiate show cause proceedings at that time.

ISSUE 15: Should the utility be required to refund the unauthorized service availability charges that were collected subsequent to Order No. 25789 being issued?

RECOMMENDATION: Yes. The utility should be required to refund unauthorized service availability charges in the amount of $16,360 which have been collected subsequent to the issuance of Order No. 25789. Further, the utility should be required to submit the proper refund reports pursuant to Rule 25-30.360(7), Florida Administrative Code. (REHWINKEL, BUTTS, CIBULA)

STAFF ANALYSIS: As discussed in Issues 4 and 14, the utility failed to comply with Order No. 25789 in regard to its service availability policy and charges. According to the audit, the utility added 78 water customers and 48 wastewater customers since its last rate proceeding. The utility collected $19,150 in service availability charges from 31 (of the 78) water customers since the last rate proceeding. The utility did not collect any service availability charges for wastewater connections. Of this amount, $2,790 was authorized. The remaining, $16,360 was not authorized.

From conversations with the utility and based on the audit findings, the utility did not charge service availability charges to the developer, DDH Partnership, a related party. However, the utility did charge water service availability charges to the non-developer customers. Staff believes that these non-developer customers should be refunded the difference in the amount of service availability charges that were paid to the utility and the amount of service availability charges that should have been paid to the utility. For most of the 31 non-developer water customers, the refund is $575. However, based on staff's calculations, 5 customers should be refunded $375 and 1 customer should be refunded $110. The total refund amount is $16,360.

Staff is recommending that the utility must refund the proper amount to each customer who was charged the unauthorized service availability charges subsequent to the issuance of Order No. 25789. Further, staff is recommending that the utility submit the proper refund reports pursuant to Rule 25-30.360(7), Florida Administrative Code.

ISSUE 16: What is the appropriate meter installation charge?

RECOMMENDATION: The appropriate meter installation charge is $155.00. If the utility files revised tariff sheets within 30 days of the effective date of the 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 revised tariff sheets are filed and approved, the meter installation charge should become effective for connections made on or after the stamped approval date of the revised tariff sheets, if no protest is filed. (REHWINKEL, BUTTS)

STAFF ANALYSIS: The utility's tariff presently reflects a meter installation charge in the amount of $75.00. The utility has submitted invoices which reflect updated costs for meter installation in the amount of $155.00. Staff has reviewed the costs submitted by the utility. Staff believes that the meter installation charge should be increased for this utility based on our review of the utility's costs.

Therefore, staff is recommending that the appropriate meter installation charge is $155.00 and should be included as part of this utility's tariff. If the utility files revised tariff sheets within 30 days of the effective date of the 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 revised tariff sheets are filed and approved, the meter installation charge should become effective for connections made on or after the stamped approval date of the revised tariff sheets, if no protest is filed.

ISSUE 17: Should Damon Utilities, Inc., be ordered to show cause, in writing within 21 days, why it should not be fined for its apparent violation of Rule 25-30.115, Florida Administrative Code, and Order No. 25789?

RECOMMENDATION: No. A show cause proceeding should not be initiated. However, the utility should be ordered to maintain its books and records in conformance with the 1996 NARUC Uniform System of Accounts(USOA) and should be put on notice that staff will check the utility's books and records in six months. If the utility's books and records are not in conformance with the 1996 NARUC USOA, staff will initiate show cause proceedings at that time. (CIBULA, REHWINKEL, BUTTS)

STAFF ANALYSIS: According to the audit, the utility's accounts were not maintained in conformance with the NARUC USOA during the test year. Rule 25-30.115, Florida Administrative Code, entitled "Uniform System of Accounts for Water and Wastewater Utilities," states:

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

Furthermore, Order No. 25789, issued February 24, 1992, required the utility to maintain its books and records in conformance with the 1984 NARUC system of accounts.

Section 367.161, Florida Statutes, authorizes the Commission to assess a penalty of not more than $5,000 for each offense, if a utility is found to have knowingly refused to comply with, or have willfully violated any Commission rule, order, or provision of Chapter 367, Florida Statutes. In failing to maintain its books and records in conformance with the USOA, the utility's act was "willful" in the sense intended by Section 367.161, Florida Statutes. In Order No. 24306, issued April 1, 1991, in Docket No. 890216-TL, titled In Re: Investigation Into The Proper Application of Rule 25-14.003, Florida Administrative Code, Relating To Tax Savings Refund For 1988 and 1989 For GTE Florida, Inc., the Commission having found that the company had not intended to violate the rule, nevertheless found it appropriate to order it to show cause why it should not be fined, stating that "[i]n our view, 'willful' implies an intent to do an act, and this is distinct from an intent to violate a statute or rule." Additionally, "[i]t is a common maxim, familiar to all minds that 'ignorance of the law'

will not excuse any person, either civilly or criminally." Barlow v. United States, 32 U.S. 404, 411 (1833).

Although Damon's failure to keep its books and records in conformance with the NARUC USOA is an apparent violation of Rule 25-30.115, Florida Administrative Code, and Order No. 25789, staff believes that a show cause proceeding is not warranted and should not be initiated at this time. According to a letter from the utility dated April 14, 1999, the utility's goal was to keep costs down by doing the accounting work itself. The letter states that the utility attempted to understand the NARUC USOA and received an accounting book on the topic; however, the utility states that "the book was not easy to understand." Moreover, the letter states that the utility tried to find software packages that would demonstrate the NARUC system; however, the utility asserts that the available software was designed for larger utilities with a large number of customers and it was unable to afford these software packages. The utility also states that it attempted to contact local private utility companies for help; however, the utility contends that it could not find any other local utilities that were using the NARUC system. The letter further states that the utility is now getting concrete help to resolve its problem and has contacted a local firm to discuss the possibility of contracting their services.

Staff does not believe that the apparent violation of Rule 25-30.115, Florida Administrative Code, and Order No. 25789 in these circumstances rises to the level which warrants the initiation of a show cause proceeding. Therefore, staff recommends that the Commission not order Damon to show cause for failing to keep its books and records in conformance with the NARUC USOA. However, staff does have a concern that the utility was ordered, by Order No. 25789, to must maintain its books and records in conformance with NARUC USOA, but failed to do so. Thus, staff also recommends that the utility should be ordered to maintain its books and records in conformance with the 1996 NARUC USOA and should be put on notice that staff will check the utility's books and records in six months. If Damon's books and records are not in conformance with the 1996 NARUC USOA, staff will initiate show cause proceedings at that time.

ISSUE 18: Should this docket be closed?

RECOMMENDATION: No. Upon expiration of the protest period, this docket should remain open to allow staff to verify that the utility's books and records are in compliance with the NARUC Uniform System of Accounts and to verify that the appropriate service availability charges are being charged to new customers. Further, the docket should remain open so that staff can verify that proper refunds have been made. Once staff has verified this information, this docket should be closed administratively. (REHWINKEL, BUTTS, CIBULA)

STAFF ANALYSIS: Staff believes that, upon expiration of the protest period, this docket should remain open to allow staff to verify that the utility's books and records are in compliance with the NARUC Uniform System of Accounts and to verify that the appropriate service availability charges are being charged to new customers. Further, the docket should remain open so that staff can verify that proper refunds have been made. Once staff has verified this information, this docket should be closed administratively.

DAMON UTILITIES, INC.
SCHEDULE OF WATER RATE BASE
TEST YEAR ENDED JUNE 30, 1998

SCHEDULE NO. 1
DOCKET NO. 981198-WS
PAGE 1 OF 2

	BALANCE PER UTILITY	STAFF ADJ. TO UTIL. BAL.	BALANCE PER STAFF
UTILITY PLANT IN SERVICE	$ 0	$ 116,275 A	$ 116,275
LAND/NON-DEPRECIABLE ASSETS	0	0	0
NON-USED AND USEFUL PLANT	0	(8,406) B	(8,406)
ACQUISITION ADJUSTMENT	0	0	0
CWIP	0	0	0
CIAC	0	(51,688) C	(51,688)
ACCUMULATED DEPRECIATION	0	(37,332) D	(37,332)
AMORTIZATION OF ACQUISITION ADJUSTMENT	0	0	0
AMORTIZATION OF CIAC	0	16,257 E	16,257
WORKING CAPITAL ALLOWANCE	0	3,661 F	3,661
WATER RATE BASE	$ 0	$ 38,768	$ 38,768

DAMON UTILITIES, INC.
SCHEDULE OF WASTEWATER RATE BASE
TEST YEAR ENDED JUNE 30, 1998

SCHEDULE NO. 1
DOCKET NO. 981198-WS
PAGE 2 OF 2

	BALANCE PER UTILITY	STAFF ADJ. TO UTIL. BAL.		BALANCE PER STAFF
UTILITY PLANT IN SERVICE	$ 0	$ 214,951	A	$ 214,951
LAND/NON-DEPRECIABLE ASSETS	0	0		0
NON-USED AND USEFUL PLANT	0	(41,873)	B	(41,873)
ACQUISITION ADJUSTMENT	0	0		0
CWIP	0	0		0
CIAC	0	(60,774)	C	(60,774)
ACCUMULATED DEPRECIATION	0	(101,259)	D	(101,259)
AMORTIZATION OF ACQUISITION ADJUSTMENT	0	0		0
AMORTIZATION OF CIAC	0	12,368	E	12,368
WORKING CAPITAL ALLOWANCE	0	2,447	F	2,447
WASTEWATER RATE BASE	$ 0	$ 25,861		$ 25,861

DAMON UTILITIES, INC.
ADJUSTMENTS TO RATE BASE
TEST YEAR ENDED JUNE 30, 1998

SCHEDULE NO. 1A
DOCKET NO. 981198-WS

		WATER	WASTEWATER
A.	UTILITY PLANT IN SERVICE		
1.	To record plant per Order No. 25789	$ 96,449	$ 179,562
2.	To record additions to plant through beginning of test year	13,596	34,964
3.	To record test year additions to plant	12,460	850
4.	To reduce plant by averaging adjustment	(6,230)	(425)
		$ 116,275	$ 214,951
B.	NON-USED AND USEFUL PLANT		
1.	To reflect non-used and useful average plant	$ (11,466)	$ (94,518)
2.	To reflect non-used and useful average accumulated depreciation	3,060	52,645
		$ (8,406)	$ (41,873)
C.	CONTRIBUTIONS IN AID OF CONSTRUCTION(CIAC)		
1.	To record CIAC per Order No. 25789	$ (46,250)	$ (6,045)
2.	To record additions to CIAC through 06/30/98	(5,850)	(54,496)
3.	To reflect averaging adjustment	413	1,163
4.	To reflect CIAC on the margin reserve	0	(1,395)
		$ (51,688)	$ (60,774)
D.	ACCUMULATED DEPRECIATION		
1.	To reflect accumulated depreciation at 06/30/98	$ (39,679)	$ (106,167)
2.	To reflect averaging adjustment	2,347	4,909
		$ (37,332)	$ (101,259)
E.	AMORTIZATION OF CIAC		
1.	Amortization of CIAC at 06/30/98	$ 17,247	$ 13,690
2.	To reflect averaging adjustment	(990)	(1,354)
3.	To reflect average margin reserve	0	32
		$ 16,257	$ 12,368
F.	WORKING CAPITAL ALLOWANCE		
1.	To reflect 1/8 of operation and maintenance expense	$ 3,661	$ 2,447

DAMON UTILITIES, INC.
SCHEDULE OF CAPITAL STRUCTURE
TEST YEAR ENDED JUNE 30, 1998

SCHEDULE NO. 2
DOCKET NO. 981198-WS

	PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	ADJUSTED BALANCE PER STAFF	PRO RATA ADJUST. PER STAFF	RECONCIL-IATION TO RATE BASE	PERCENT OF TOTAL	COST	WEIGHTED COST
COMMON EQUITY	$ 0	$ 0	$ 0	$ 0	0	0.00%	9.85%	0.00%
LONG-TERM DEBT	0	86,157	86,157	(28,803)	57,355	88.74%	9.50%	8.43%
LONG-TERM DEBT	0	10,926	10,926	(3,652)	7,274	11.26%	7.00%	0.79%
PREFERRED EQUITY	0	0	0	0	0	0.00%	0.00%	0.00%
CUSTOMER DEPOSITS	0	0	0	0	0	0.00%	6.00%	0.00%
OTHER	0	0		0		0.00%	0.00%	0.00%
TOTAL	$ 0	$ 97,084	97,084	$ (32,454)	64,629	100.00%		9.21%

RANGE OF REASONABLENESS	LOW	HIGH
RETURN ON EQUITY	8.85%	10.85%
OVERALL RATE OF RETURN	9.21%	9.21%

DAMON UTILITIES, INC.
SCHEDULE OF WATER OPERATING INCOME
TEST YEAR ENDED JUNE 30, 1998

SCHEDULE NO. 3
DOCKET NO. 981198-WS
PAGE 1 OF 2

	TEST YEAR PER UTILITY	COMM. ADJ. TO UTILITY		COMM. ADJUSTED TEST YEAR	ADJUST. FOR INCREASE		TOTAL PER COMM.
OPERATING REVENUES	$ 0	$ 36,230	A	$ 36,230	$ 1,501	E	$ 37,732
					4.14%		
OPERATING EXPENSES:							
OPERATION AND MAINTENANCE	$ 0	$ 29,289	B	$ 29,289	$ 0		29,289
DEPRECIATION (NET)	0	4,391	C	4,391	0		4,391
AMORTIZATION (CIAC)	0	(1,980)		(1,980)	0		(1,980)
TAXES OTHER THAN INCOME	0	2,392	D	2,392	68	F	2,460
INCOME TAXES	0	0		0	0		0
TOTAL OPERATING EXPENSES	$ 0	$ 34,092		$ 34,092	$ 68		$ 34,160
OPERATING INCOME/(LOSS)	$ 0			$ 2,138			$ 3,572
WATER RATE BASE				$ 38,768			$ 38,768
RATE OF RETURN				5.51%			9.21%

DAMON UTILITIES, INC.
SCHEDULE OF WASTEWATER OPERATING INCOME
TEST YEAR ENDED JUNE 30, 1998

SCHEDULE NO. 3
DOCKET NO. 981198-WS
PAGE 2 OF 2

	TEST YEAR PER UTILITY	COMM. ADJ. TO UTILITY		COMM. ADJUSTED TEST YEAR	ADJUST. FOR INCREASE		TOTAL PER COMM.
OPERATING REVENUES	$ 0	$ 21,475	A	$ 21,475	$ 5,415	E	$ 26,890
					25.22%		
OPERATING EXPENSES:							
OPERATION AND MAINTENANCE	$ 0	$ 19,572	B	$ 19,572	$ 0		19,572
DEPRECIATION (NET)	0	4,927	C	4,927	0		4,927
AMORTIZATION (CIAC)	0	(2,708)		(2,708)	0		(2,708)
TAXES OTHER THAN INCOME	0	2,474	D	2,474	244	F	2,718
INCOME TAXES	0	0		0	0		0
TOTAL OPERATING EXPENSES	$ 0	$ 24,265		$ 24,265	$ 244		$ 24,509
OPERATING INCOME/(LOSS)	$ 0			$ (2,790)			$ 2,382
WASTEWATER RATE BASE				$ 25,861			$ 25,861
RATE OF RETURN				-10.79%			9.21%

DAMON UTILITIES, INC.
ADJUSTMENTS TO OPERATING INCOME
TEST YEAR ENDED JUNE 30, 1998

SCHEDULE NO. 3A
PAGE 1 OF 2
DOCKET NO. 981198-WS

		WATER	WASTEWATER
A.	OPERATING REVENUES		
1.	To record utility's reported revenues per the audit	$ 39,042	$ 19,328
2.	To remove misclassified service availability charges	(3,900)	0
3.	To reflect appropriate annualized test year revenues	1,088	2,147
		$ 36,230	$ 21,475
B.	OPERATION AND MAINTENANCE EXPENSES		
1.	Salaries and Wages - Employees		
	a. To reflect salaries and wages associated with bookkeeper and maintenance personnel	$ 9,816	$ 4,207
2.	Sludge Removal Expense		
	a. To record sludge expense for the test year per the audit	$ 0	$ 1,275
	b. To increase expense to reflect 4 loads @ $415/load as recommended by the engineer		385
		$ 0	$ 1,660
3.	Purchased Power		
	a. To reflect purchased power for the test year	$ 2,361	$ 2,292
4.	Fuel for Power Production		
	a. To reflect fuel expense	$ 150	$ 0
5.	Chemicals		
	a. To reflect recommended chemicals expense per the engineer	$ 720	$ 777
6.	Material and Supplies		
	a. To record materials and supplies expense per the audit	$ 1,863	$ 315
7.	Contractual Services (Operator)		
	a. To record operator expense ($200/month each system)	$ 2,400	$ 2,400
8.	Contractual Services (Professional)		
	a. To record accounting expense	$ 473	$ 1,300
9.	Contractual Services (Testing)		
	a. To record recommended testing expense per the engineer	$ 2,824	$ 1,626
10.	Contractual Services (Other)		
	a. To record groundskeeping and mowing expense	$ 900	$ 750
	b. To record various repairs and mainteneance expense per the audit	2,735	874
		$ 3,635	$ 1,624
11.	Rents		
	a. To reflect land and office space rent	$ 2,496	$ 1,644
12.	Transportation Expense		
	a. To reflect test year transportation expense as recommended per the engineer	$ 905	$ 603
13.	Insurance Expense		
	a. To reflect test year insurance expense (two policies)	$ 851	$ 328
14.	Regulatory Commission Expense		
	a. To reflect rate case expense amortized over 4 years	$ 296	$ 296
15.	Miscellaneous Expense		
	a. To reflect miscellaneous expense included in audit	$ 500	$ 500
	TOTAL O & M ADJUSTMENTS	$ 29,290	$ 19,572

DAMON UTILITIES, INC.
ADJUSTMENTS TO OPERATING INCOME
TEST YEAR ENDED JUNE 30, 1998

SCHEDULE NO. 3A
PAGE 2 OF 2
DOCKET NO. 981198-WS

C.	DEPRECIATION EXPENSE		
1.	To reflect appropriate test year depreciation expense	$ 4,694	$ 9,817
2.	To reflect non-used and useful depreciation expense	(303)	(4,890)
		$ 4,391	$ 4,927
D.	TAXES OTHER THAN INCOME		
1.	To reflect tangible personal property tax	$ 366	$ 1,464
2.	To reflect appropriate amount of regulatory assessment fees @ 4.5% of test year revenues	1,630	966
3.	To reflect other taxes	396	44
		$ 2,392	$ 2,474
E.	OPERATING REVENUES		
1.	To reflect increase in revenue required to cover expenses and allow recommended rate of return	$ 1,501	$ 5,415
F.	TAXES OTHER THAN INCOME		
1.	To reflect regulatory assessment fee at 4.5% on increase in revenue	$ 68	$ 244

DAMON UTILITIES, INC.
ANALYSIS OF WATER OPERATION AND
MAINTENANCE EXPENSE
TEST YEAR ENDED JUNE 30, 1998

SCHEDULE NO. 3B
DOCKET NO. 981198-WS

	TOTAL PER UTIL.	STAFF RECOM-MENDED ADJUST.	TOTAL PER STAFF
#601 SALARIES AND WAGES - EMPLOYEES	$ 0	$ 9,816 [1]	$ 9,816
#603 SALARIES AND WAGES - OFFICERS	0	0	0
#604 PENSIONS AND BENEFITS	0	0	0
#610 PURCHASED WATER	0	0	0
#615 PURCHASED POWER	0	2,361 [3]	2,361
#616 FUEL FOR POWER PRODUCTION	0	150 [4]	150
#618 CHEMICALS	0	720 [5]	720
#620 MATERIALS AND SUPPLIES	0	1,863 [6]	1,863
#630 CONTRACTUAL SERVICES (BILLING/OPERATOR)	0	2,400 [7]	2,400
#631 CONTRACTUAL SERVICES (PROFESSIONAL)	0	473 [8]	473
#635 CONTRACTUAL SERVICES (TESTING)	0	2,824 [9]	2,824
#636 CONTRACTUAL SERVICES (OTHER)	0	3,635 [10]	3,635
#640 RENTS	0	2,496 [11]	2,496
#650 TRANSPORTATION EXPENSE	0	905 [12]	905
#655 INSURANCE EXPENSE	0	851 [13]	851
#665 REGULATORY COMMISSION EXPENSE	0	296 [14]	296
#670 BAD DEBT EXPENSE	0	0	0
#675 MISCELLANEOUS EXPENSES	0	500 [15]	500
	$ 0	$ 29,289	$ 29,289

DAMON UTILITIES, INC.
ANALYSIS OF WASTEWATER OPERATION AND MAINTENANCE EXPENSE
TEST YEAR ENDED JUNE 30, 1998

SCHEDULE NO. 3B
DOCKET NO. 981198-WS
Page 2 of 2

	TOTAL PER UTIL.	STAFF RECOM-MENDED ADJUST.		TOTAL PER STAF
#701 SALARIES AND WAGES - EMPLOYEES	$ 0	$ 4,207	[1]	$ 4,207
#703 SALARIES AND WAGES - OFFICERS	0	0		0
#704 PENSIONS AND BENEFITS	0	0		0
#710 PURCHASED WASTEWATER TREATMENT	0	0		0
#711 SLUDGE REMOVAL EXPENSE	0	1,660	[2]	1,660
#715 PURCHASED POWER	0	2,292	[3]	2,292
#716 FUEL FOR POWER PRODUCTION	0	0		0
#718 CHEMICALS	0	777	[5]	777
#720 MATERIALS AND SUPPLIES	0	315	[6]	315
#730 CONTRACTUAL SERVICES (BILLING/OPERATOR	0	2,400	[7]	2,400
#xxx CONTRACTUAL SERVICES (professional)	0	1,300	[8]	1,300
#xxx CONTRACTUAL SERVICES (testing)	0	1,626	[9]	1,626
#xxx CONTRACTUAL SERVICES (other)	0	1,624	[10]	1,624
#740 RENTS	0	1,644	[11]	1,644
#750 TRANSPORTATION EXPENSE	0	603	[12]	603
#755 INSURANCE EXPENSE	0	328	[13]	328
#765 REGULATORY COMMISSION EXPENSE	0	296	[14]	296
#770 BAD DEBT EXPENSE	0	0		0
#775 MISCELLANEOUS EXPENSES	0	500	[15]	500
	$ 0	$ 19,572		$ 19,572

DAMON UTILITIES, INC.
SCHEDULE OF RATE CASE EXPENSE RATE
REDUCTION AFTER FOUR YEARS
TEST YEAR ENDED JUNE 30, 1998

SCHEDULE NO. 4
DOCKET NO. 981198-WS
PAGE 1 OF 2

MONTHLY RATES

WATER SERVICE	STAFF RECOMMENDED RATES	STAFF RECOMMENDED DECREASE
RESIDENTIAL AND GENERAL SERVICE		
BASE FACILITY CHARGE:		
Meter Size:		
5/8" x 3/4"	$ 8.40	$ 0.07
3/4"	12.59	0.10
1"	20.99	0.17
1 1/2"	41.98	0.34
2"	67.16	0.55
3"	134.33	1.10
4"	209.89	1.72
6"	419.78	3.45
GALLONAGE CHARGE PER 1,000 GALLONS	$ 1.47	$ 0.01

DAMON UTILITIES, INC.
SCHEDULE OF RATE CASE EXPENSE RATE
REDUCTION AFTER FOUR YEARS
TEST YEAR ENDED JUNE 30, 1998

SCHEDULE NO. 4
DOCKET NO. 981198-WS
PAGE 2 OF 2

MONTHLY RATES

RESIDENTIAL WASTEWATER SERVICE	STAFF RECOMMENDED RATES	STAFF RECOMMENDED DECREASE
BASE FACILITY CHARGE:		
Meter Size:		
All Meter Sizes	$ 15.93	$ 0.18
RESIDENTIAL GALLONAGE CHARGE PER 1,000 GALLONS (8,000 gallon cap)	$ 4.95	$ 0.06
GENERAL WASTEWATER SERVICE		
BASE FACILITY CHARGE:		
Meter Size:		
5/8" x 3/4"	$ 15.93	$ 0.18
3/4"	23.89	0.28
1"	39.82	0.46
1 1/2"	79.64	0.92
2"	127.42	1.47
3"	254.85	2.94
4"	398.20	4.59
6"	796.40	9.18
GENERAL SERVICE GALLONAGE CHARGE PER 1,000 GALLONS	$ 5.94	$ 0.07

WATER TREATMENT PLANT USED AND USEFUL DATA

Docket No. 981198-WS

Utility: Damon Utilities Inc. Date 01/04/99

1) Capacity of Plant = 200 GPM *
2) Maximum Daily Flow
(1.1 X 2 X 224 customers) = 492 GPM *
3) Average Daily Flow
(1.1 X 224 customers) = 246 GPM *
4) Fire Flow Capacity = -0- GPM •

5) Margin Reserve (not to exceed 20% of Average GPM):

a) Average number of customers = 224
b) Average Customer Growth in ERCs for most Recent 5 Years = 6
c) Construction Time for Additional Capacity = 1.5 Years

$$\text{Margin Reserve} = 5b \times 5c \times \left(\frac{2}{5a}\right) = 20 \text{ GPM *}$$

6) Excessive Unaccounted for Water = none GPM *

a) Total Amount -0- GPM = N/A % of Av. GPM Flow
b) Reasonable Amount -0- GPM = N/A % of Av. GPM Flow

PERCENT USED AND USEFUL FORMULA

$$\left[\frac{2 + 4 + 5 - 6}{1}\right] = 100 \%$$ Used and Useful

• This is a closed system. To evaluate its readiness to serve on a gallon per minute (GPM) basis is more appropriate.

Robert T. Davis - Engineer

WATER DISTRIBUTION SYSTEM USED AND USEFUL DATA

Docket No. 981198-WS

Utility: Damon utilities, Inc. Date 01/04/99

1) Capacity 269 ERCs (Number of potential customers without expansion)

2) Average number of TEST YEAR Connections 204 ERCs

3) Margin Reserve (Not to exceed 20% of present ERCs)

   a) Average yearly customer growth in ERCs for most recent 5 Years 6 ERCs

   b) Construction Time for Additional Capacity 1.5 Years

(3a) x (3b) = 9 ERCs Margin Reserve

PERCENT USED AND USEFUL FORMULA

$$\frac{(2 + 3)}{1} = 79.18\%$$ Used and Useful

Robert T. Davis - Engineer

WASTEWATER TREATMENT PLANT USED AND USEFUL DATA

Docket No. 981198-WS

Utility: Damon Utilities, Inc. Date 01/04/99

1) Capacity of Plant 50,000 gallons per day

2) Average Daily Flow 17,360 gallons per day

3) Margin Reserve (Not to exceed 20% of present customers)

a) Average number of customers in ERCs 62 ERCs

b) Customer yearly customer growth in ERCs for Most Recent 5 Years Including Test Year 4 ERCs

c) Construction Time for Additional Capacity 1.5 Years

$$(3b) \times (3c) \times \left[\frac{2}{(3a)}\right] = 1,680 \text{ gallons per day}$$

4) Excessive Infiltration N/A gallons per day

a) Total Amount N/A gallons per day N/A % of Av. Daily Flow

b) Reasonable Amount N/A gallons per day N/A % of Av. Daily Flow

c) Excessive Amount N/A gallons per day N/A % of Av. Daily Flow

PERCENT USED AND USEFUL FORMULA

$$\frac{[(2) + (3)] - 4}{1} = 38.1 \%$$ Used and Useful

Robert T. Davis Engineer

WASTEWATER COLLECTION SYSTEM USED AND USEFUL DATA

Docket No. 981198-WS

Utility: Damon Utilities, Inc Date 01/04/99

1) Capacity of present collection system 95 ERCs

2) Average number of connections for the Test Year 63 ERCs

3) Margin Reserve (not to exceed 20% of present ERCs):

a) Average Yearly Customer Growth in ERCs for Most Recent 5 4

c) Construction Time for Additional Capacity 1.5 Years

(a) x (b) = 6 ERCs Margin Reserve

PERCENT USED AND USEFUL FORMULA

$$\frac{(2 + 3)}{1} = 72.63\ \%$$ Used and Useful

Robert T. Davis Engineer