STATE OF FLORIDA

DIVISION OF LEGAL SERVICES
NOREEN S. DAVIS
DIRECTOR
(850) 413-6199

Public Service Commission

June 29, 1998

Mr. Leonard Jeter, General Manager
Bayside Utilities, Inc.
6325 Big Daddy Drive
Panama City Beach, Florida 32407

Re: Docket No. 971401-WS, Application for a Staff Assisted Rate Case for Bayside Utilities, Inc. In Bay County

Dear Mr. Jeter:

This will confirm that Commission Staff will hold a customer meeting at 6:30pm on Wednesday, July 29, 1998. The location of the meeting will be the Optimist Club Center, 421 Lyndell Lane and Middle Beach Road, Panama City Beach, Florida. We ask that, if at all possible, you or another knowledgeable representative of the utility attend the meeting in order to answer customer questions.

The original customer meeting notice is enclosed. Please note the date has been left blank so that you can fill in the date that the notice is sent to the customers. The customers must have at least 14 days' notice of the meeting, calculated from the day that they receive the notice. Please furnish me with a copy of the notice, as reproduced at the time it is distributed to your customers, together with a cover letter indicating the exact date(s) on which the notice was mailed or otherwise delivered to the customers.

ACK _____
AFA _____
APP _____
CAF _____
CMU _____
CTR _____
EAG _____
LEG _____
LIN _____
OPC _____
RCH _____
SEC 1
WAS _____
OTH cy notice + letter to Carol P.

Two copies of the accounting report dated June 25, 1998 are enclosed. Please ensure that a copy of the complete Application for Staff Assistance and the reports are available for review by all interested persons at the utility's office, Bayside Utilities, Inc., 6325 Big Daddy Drive, Panama City Beach, Florida 32407, during its regular business hours (8:00am to 12:00 noon, and 1:00pm to 5:00pm).

If you have any questions, please do not hesitate to call.

Sincerely,

Shannon Fleming

Shannon Fleming
Staff Attorney

SF/lw
Enclosure

cc: Division of Records and Reporting
Division of Consumer Affairs (DeMello, Raspberry)
Hearing Reporter (Joy Kelly)
Office of Public Counsel
Division of Water and Wastewater (Casey, Davis, Rendell, Willis)

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

NOTICE OF CUSTOMER MEETINGS

TO THE CUSTOMERS OF BAYSIDE UTILITIES INC.

AND

ALL OTHER INTERESTED PERSONS

DOCKET NO. 971401-WS

APPLICATION OF BAYSIDE UTILITIES, INC.
FOR A STAFF-ASSISTED RATE CASE IN
BAY COUNTY

Issued:

Notice is hereby given that the Staff of the Florida Public Service Commission will conduct a customer meeting to discuss the application of Bayside Utilities, Inc. for a staff-assisted rate case in Bay County. The meeting will be held at the following time and place:

6:30 p.m., Wednesday, July 29, 1998
Optimist Club Center
421 Lyndell Lane and Middle Beach Road
Panama City Beach, Florida

All persons who wish to comment are urged to be present at the beginning of the meeting, since the meeting may be adjourned early if no customers are present. The meeting will begin as scheduled and will continue until all the customers have been heard.

In addition to the customer meeting to be held on July 29, 1998, the Public Service Commission Staff will be available on July 30, 1998, from 8:00am to 12:00 noon, to meet with individual customers who desire a more in-depth discussion of the issues. The Public Service Commission Staff has reserved the Optimist Club Center from 8:00am to 12:00 noon on July 30, 1998 to meet with individual customers who wish to be present. Appointments may be made prior to July 29, 1998 by either contacting Troy Rendell or Bob Casey of the Public Service Commission Staff at (850)413-6934 or (850)413-6974, respectively, or by signing up for individual customer meetings during the July 29, 1998 customer meeting.

Finally, the Public Service Commission Staff is also attempting to meet with representatives of customer groups and homeowners associations on July 29, 1998 between 2:00pm and 4:00pm at the Optimist Club Center. If you are a representative of a customer group or homeowners association and you have not been contacted by the Public Service Commission Staff, and wish to meet with staff, please contact Troy Rendell or Bob Casey of the Public Service Commission staff at (850) 413-6934 or (850)413-6974, respectively, prior to July 29, 1998.

All persons who wish to participate in individual meetings are urged to make an appointment, since the individual meeting session may be canceled if no appointments are made.

Any person requiring some accommodation at the customer meeting(s) because of a physical impairment should call the Division of Records and Reporting at (850)413-6770 at least five calendar days prior to the meeting(s). Any person who is hearing or speech impaired should contact the Florida Public Service Commission by using the Florida Relay Service, which can be reached at 1-800-955-8771 (TDD).

PURPOSE

The purpose of this meeting is to give customers and other interested persons an opportunity to offer comments to the Public Service Commission Staff regarding the quality of service the utility provides, the proposed rate increase, and to ask questions and comment on staff's preliminary rates included in this notice as well as other issues. Staff members will summarize Bayside's proposed filing, the preliminary work accomplished, and answer questions to the extent possible. A representative from the utility has also been invited to respond to questions.

At the beginning of the meeting, procedures will be established for the order of comments. The Public Service Commission Staff will have sign-up sheets, and customers will be called to speak in the order that they sign-up. Public Service Commission Staff will be available to coordinate customers' comments and to assist members of the public.

Any person who wishes to comment or provide information to staff may do so at the meetings, orally or in writing. Written comments may also be sent to the Commission at the address given at the end of this notice. Your letter will be placed in the correspondence file of this docket. You may also submit comments

through the Public Service Commission's toll-free facsimile line at 1-800-511-0809.

BACKGROUND

Bayside Utilities, Inc. is a Class C water and wastewater utility located in Bay County. It provides service to approximately 228 customers. The utility's revenues for the test period are $52,199 for water and $58,370 for wastewater. Its adjusted operating expenses are $69,773 for water and $75,759 for wastewater, resulting in adjusted net operating losses of ($17,574) for water and ($17,389) for wastewater for the test period. The test period for setting rates is the historical twelve month period ending December 31, 1997.

CURRENT AND PRELIMINARY RATES AND CHARGES

Staff has compiled the following rates and charges for the purpose of discussion at the customer meeting. These rates are preliminary and subject to change based on information gathered at the customer meeting, further staff review, and the final decision by the Commissioners. The utility's current and staff's preliminary rates and charges are as follows:

RESIDENTIAL WATER RATES

Type of Service	Existing Base Facility Charge	Preliminary Base Facility Charge
5/8" x 3/4"	$ 11.24	$ 18.89
3/4"	16.88	28.34
1"	28.13	47.23
Recreational Vehicles	4.50	7.56
Gallonage Charge Per 1,000 gallons	$ 1.82	$ 2.49

GENERAL SERVICE WATER RATES

Base Facility Charge Meter Size	Existing Monthly Rate	Preliminary Monthly Rate
5/8" x 3/4"	$ 11.24	$ 18.89
3/4"	16.88	28.34
1"	28.13	47.23
1-1/2"	56.23	94.47
2"	89.96	151.15
3"	179.93	302.29
4"	281.14	472.33
6"	562.28	944.67
Gallonage Charge Per 1,000 gallons	$ 1.82	$ 2.49

RESIDENTIAL WASTEWATER RATES

Type of Service	Existing Base Facility Charge	Preliminary Base Facility Charge
All Meter Sizes	$ 10.73	$ 20.81
Recreational Vehicles	4.29	8.24
Gallonage Charge Per 1,000 gallons (6,000 gallon maximum per month)	$ 3.15	$ 5.24

GENERAL SERVICE WASTEWATER RATES

Base Facility Charge Meter Size	Existing Monthly Rate	Preliminary Monthly Rate
5/8" x 3/4"	$ 10.73	$ 20.81
3/4"	16.07	31.21
1"	26.82	52.01
1-1/2"	53.63	104.03
2"	85.80	166.44
3"	171.61	332.89
4"	268.16	520.13
6"	536.31	1,040.27
Gallonage Charge Per 1,000 gallons (No Maximum)	$ 3.73	$ 6.29

MISCELLANEOUS SERVICE CHARGES

Currently, the utility's tariff has a provision for miscellaneous service charges. Staff is recommending updating the existing miscellaneous service charges to more accurately defray the costs associated with each service as shown below:

Existing Miscellaneous Service Charges

	Water		Wastewater	
	Normal Hours	After Hours	Normal Hours	After Hours
Initial Connection	$10.00	$15.00	$10.00	$15.00
Normal Reconnection	$10.00	$15.00	$10.00	$15.00
Violation Reconnection	$10.00	$15.00	Actual Cost	Actual Cost
Premises Visit (in lieu of disconnection)	$ 5.00	N/A	$ 5.00	N/A

Preliminary Miscellaneous Service Charges

	Water	Wastewater
Initial Connection	$15.00	$15.00
Normal Reconnection	$15.00	$15.00
Violation Reconnection	$15.00	Actual Cost
Premises Visit (in lieu of disconnection)	$10.00	$10.00

SERVICE AVAILABILITY FEE

Currently, the utility's tariff provides for a $300 wastewater plant capacity charge per ERC and actual cost for all others, which was authorized in Order 20148, issued October 11, 1988. Since the wastewater plant has interconnected with the City of Panama City Beach, staff is recommending the wastewater plant capacity charge be eliminated, and a main extension charge of $300 be initiated for all new customers.

STAFF REPORTS AND UTILITY APPLICATION

The results of staff's preliminary investigation are contained in an accounting report dated June 25, 1998. Copies of the report may be examined by interested members of the public from 8:00 a.m. to 12:00 noon and 1:00pm to 5:00pm at the following location:

Bayside Utility, Inc.	Office Hours:
6325 Big Daddy Drive	8:00am - 12:00 noon
Panama City Beach, FL 32407	1:00pm - 5:00pm
(850) 234-6668	Monday - Friday

PROCEDURES AFTER CUSTOMER MEETINGS

After the meetings, Public Service Commission Staff will prepare a recommendation which is scheduled to be submitted to the Public Service Commission on August 20, 1998. The Public Service Commission will then vote on staff's recommendation at its September 1, 1998 agenda conference. The Commission will thereafter issue a proposed agency action (PAA) order containing rates which may be different from those contained in staff's final recommendation. Substantially affected persons have 21 days from the date the PAA order is issued to protest the Commission's proposed agency action order. Five to ten customers or persons who attend the meeting and who wish to receive a copy of the recommendation and the order should so indicate at the meeting. Those individuals are expected to distribute the information in the recommendation and the order to other customers. Anyone who is unable to attend and who wishes to obtain a copy of the recommendation or the order may do so in writing to the Commission at the address at the end of this notice.

HOW TO CONTACT THE COMMISSION

Written comments regarding the utility and the proposed rates, and requests to be placed on the mailing list for this case, may be directed to this address:

Director, Division of Records and Reporting
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

All correspondence should refer to "Docket No. 971401-WS, Bayside Utilities, Inc."

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CASE BACKGROUND

This Accounting Report is a **preliminary** analysis of the utility prepared by the Florida Public Service Commission (PSC) staff to give utility customers and the utility an advance look at what staff would be proposing. The final recommendation to the Commission (currently scheduled to be filed August 20, 1998 for the September 1, 1998 Agenda Conference) will be revised as necessary using updated information and results of customer quality of service or other relevant comments received at the customer meeting.

Bayside Utilities, Inc. (Bayside or utility) is a class C water and wastewater utility serving approximately 228 water and wastewater customers in Bay County. Bayside is a reseller utility purchasing water and wastewater service from the City of Panama City Beach and is considered non-jurisdictional by the Northwest Florida Water Management District. The utility has been providing wastewater service since 1973, but the certification process was delayed due to legal proceedings involving a former owner. The Commission granted wastewater operating certificate No. 358-S to Buckaroo Ranch, Inc., d/b/a Bayside Mobile Home Park by Order No. 12760, issued December 9, 1983. On May 23, 1984, the Commission received an application for a transfer of Sewer Certificate No. 358-S from Buckaroo Ranch, Inc. (d/b/a Bayside Mobile Home Park), to Jevne Enterprises and Whitton Corporation (a partnership d/b/a Bayside Partnership). The Commission granted the transfer by Order No. 15205, issued October 8, 1985.

The utility originally claimed exemption under Section 367.022(8), Florida Statutes, for its water service on the grounds that all of the water it provides to customers is purchased from Bay County. However, the utility never filed annual reports to justify the exemption, nor did it completely satisfy the requirements of Rule 25-10.09, Florida Administrative Code. Faced with a possible show cause action, the utility decided to apply for a water certificate. The utility filed for and received water certificate No. 469-W by Order No. 16414, issued July 24, 1986.

The Commission has processed two staff assisted rate cases for the utility, in Docket Nos. 860015-SU, and 870093-WS. The utility has also been granted price index rate adjustments in 1986, 1989, 1990, 1993, and 1995. In addition, the utility has also been granted pass-through rate adjustments in 1986, 1993, and 1995.

In August 1997, the utility added a surcharge of $16.16 to each customers bill for repairs to the utility's plant. Staff

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: JUNE 25, 1998

TO: TROY RENDELL, PUBLIC UTILITIES SUPERVISOR

FROM: DIVISION OF WATER AND WASTEWATER (CASEY, DAVIS, LINGO)

RE: DOCKET NO. 971401-WS - APPLICATION FOR STAFF-ASSISTED RATE CASE IN BAY COUNTY BY BAYSIDE UTILITIES, INC. COUNTY: BAY

ACCOUNTING REPORT

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CASE BACKGROUND

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The Commission has processed two staff assisted rate cases for the utility, in Docket Nos. 860015-SU, and 870093-WS. The utility has also been granted price index rate adjustments in 1986, 1989, 1990, 1993, and 1995. In addition, the utility has also been granted pass-through rate adjustments in 1986, 1993, and 1995.

In August 1997, the utility added a surcharge of $16.16 to each customers bill for repairs to the utility's plant. Staff

necessary day-to-day operating expenses and taxes in emergency rates, and only where there is immediate and urgent need in very unique circumstances, such as a receivership. An October 31, 1997 letter to the utility included staff's analysis and recommended the utility withdraw its request for emergency interim rates. The utility withdrew its request for emergency rates in a November 11, 1997 letter to the Commission.

In preparation for this report, 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 distribution and wastewater collection facilities along with the service area. The utility's operating expenses, maps, files and rate application were also reviewed to determine reasonableness of maintenance expenses, regulatory compliance, utility plant in service and quality of service. Staff has selected a historical test year ended December 31, 1997.

Based on the staff analysis, the utility's test year revenue was $52,199 for the water system and $58,370 for the wastewater system. Test year operating expenses were $70,748 for water and $74,784 for wastewater. This resulted in operating losses of $18,549 and $16,414, respectively.

learned of the surcharge through a customer complaint received by phone on August 5, 1997. On August 7, 1997, staff sent a certified letter to the utility advising them that the utility may only collect rates and charges approved by the Commission, and that the surcharge should be refunded with interest per Rule 25-30.360(4), Florida Administrative Code. The utility issued a refund (which included interest) to customers on October 22, 1997.

On October 20, 1997 staff received a letter from the utility which included an application for a pass-through rate adjustment as allowed by Section 367.081(b), Florida Statutes. The utility stated the increase request was due to an increase in rates by the City of Panama City Beach. They also stated that no allowances were made in the original rates for the payment of regulatory assessment fees and requested that the regulatory assessment fees be included in the utility's rates.

After reviewing the utility application, staff sent a letter dated October 22, 1997 to the utility stating that the requested increases could not be processed. The utility's last staff assisted rate case (SARC) (Docket 870093-WS) included 2 1/2% regulatory assessment fees in the utility's rates. A pass through application processed in 1995 (WS-95-0195) passed through an additional 2% in regulatory assessment fees due to the increase in fees by the PSC, which brought the fees up to the current 4 ½%. The utility's request to pass through increases in purchased water and wastewater cost increases from the City of Panama Beach could not be processed because of a requirement in Section 367.081(4)(b), Florida Statutes, which states a utility cannot pass through an increase in cost of purchased water or sewer services which increase was initiated more than 12 months before the filing by the utility. Panama City Beach last increased their water and wastewater rates on May 11, 1995 through Ordinance No. 446.

Since the utility stated it is continuing to operate at a loss and has been unable to make its mortgage payments because of cash flow, staff recommended the utility apply for a staff assisted rate case (SARC), which they did, through an application received October 22, 1997. A subsequent utility letter requested the utility be allowed to institute emergency interim rates during this SARC. The utility provided staff with financial statements for the first nine months of 1997. A staff review showed the utility is meeting its necessary day-to-day expenses, showing a $6,628 water operating income and $3,259 wastewater operating income before depreciation, amortization, and return on capital, for the nine month period ending September 30, 1997. Staff advised the utility that past Commission practice has been to allow recovery of only

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

RECOMMENDATION: The calculation of a water treatment plant and a wastewater treatment plant used and useful percentage is not applicable. All distribution and collection lines should be considered 100% used and useful. (DAVIS)

STAFF ANALYSIS: The calculation of a water treatment plant and a wastewater treatment plant used and useful percentage is not applicable. Bayside is a consecutive system that purchases water and wastewater service from the City of Panama City Beach.

Water Distribution System

The network of water mains is engineered and constructed to adequately serve the existing capacity of customers. After Hurricane Opal, the utility's growth dropped to zero. However, this is a mobile home park with services available that provide access to the gulf via the bay. It is anticipated the utility will experience growth in the near future. An allowance of 5 ERCs have been calculated into the margin reserve to adjust for future anticipated growth. In keeping with the approved formula, used to determine a starting point for a used and useful percentage, it was calculated that the distribution system is 76.55% used and useful (See Attachment "A"). However, it was determined in the last rate case, and should be held in this rate case that no less of a system could serve the existing number of customers, and the water distribution should be considered 100% used and useful. Therefore, it is recommended that all distribution system accounts be considered 100% used and useful.

Wastewater Collection System

The formula approach which was approved for use by the Commission as an indicator in determining useful plant, indicates the collection system is 76.55% used and useful (See Attachment "B"). This includes an allowance of 5 ERCs for growth which did not occur during the test year due to damage by hurricane Opal. In the last rate case it was determined that since vacancies are scattered throughout the service area, no less of a system could serve the existing number of customers, and the collection system was considered 100% used and useful. This consideration should also hold true today and the wastewater collection system should be considered 100% used and useful. Therefore, it is recommended that all collection system accounts be considered 100% used and useful.

DISCUSSION OF ISSUES

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

RECOMMENDATION: The quality of service appears to be satisfactory but the staff engineer reserves all quality of service determinations until after the scheduled July 29, 1998, customer meeting. (DAVIS)

STAFF ANALYSIS: The utility is a consecutive system (purchases water for resale) which is considered non-jurisdictional by the Northwest Florida Water Management District and is not required to file for a consumptive use permit.

The quality of the utility's product rests totally upon the City of Panama City Beach. Without plant facilities, the operational conditions of the utility's plant is not an issue. The customer satisfaction portion of the utility's quality of service will not be determined until after the informal customer meeting which is scheduled for July 29, 1998.

The staff engineer will reserve any quality of service determination until after that customer meeting which will give the customers an opportunity to express their opinions, comments, and complaints. All valid quality of service complaints will be investigated and will be considered in staff's final recommendation to the Commissioners.

ISSUE 3: What is the appropriate treatment of the CIAC associated with the wastewater treatment plant?

RECOMMENDATION: The appropriate treatment of the CIAC should be to retire the amount associated with the wastewater treatment plant. Staff is recommending that $74,026 of wastewater CIAC and $49,284 of wastewater accumulated amortization of CIAC be retired. (CASEY)

STAFF ANALYSIS: The utility interconnected its wastewater system to the City of Panama City Beach in 1988. At that time, the utility retired the appropriate wastewater plant and retired the accumulated depreciation balances as of the retirement date. Order No. 18624, issued January 4, 1988, allowed an extraordinary loss of $23,417 amortized over 10 years for this retirement. The $23,417 calculation did not include any retirement of CIAC, CIAC accumulated amortization, or an additional $71,043 in wastewater plant which was retired.

Staff recalculated the appropriate net loss for the retirement which included all retired plant, retirement of CIAC, and retirement of CIAC accumulated amortization. The result was a net loss of $15,699. Staff also considered the rate of return impact of carrying the CIAC and CIAC accumulated amortization on the books for the 10 years since the last rate case along with the effect of CIAC amortization on net income for the 10 years.

The utility earned an additional $7,721 in extraordinary loss amortization by not retiring any CIAC or CIAC accumulated amortization. However, the utility forwent $11,821 in additional revenue by not retiring CIAC and CIAC accumulated amortization from rate base and by taking yearly amortization expense of CIAC. Staff believes the $416 difference per year in favor of the ratepayers is immaterial.

Bayside's only service availability charge has been a $300 plant capacity charge. Since all wastewater treatment plant has been retired and wastewater CIAC has been fully amortized, the $74,026 of wastewater CIAC should be retired, along with the $49,284 balance of accumulated amortization. Staff's calculation's of the interconnection net loss are shown on Schedule No. 1B.

ISSUE 4: What is the appropriate average amount of test year rate base for each system?

RECOMMENDATION: The appropriate average amount of test year rate base for Bayside Utilities, Inc. should be $69,189 for water and $226,398 for wastewater. (CASEY, DAVIS)

STAFF ANALYSIS: The appropriate components of Bayside's rate base include depreciable plant in service, contributions in aid of construction (CIAC), accumulated depreciation, accumulated amortization of CIAC, and working capital allowance. Utility plant, depreciation, and CIAC balances were last determined as of December 31, 1987 in the utility's last staff assisted rate case by Order No. 18624, issued January 4, 1988. Staff used the amounts set forth in that Order as a base for rate base components updated in this recommendation. Further adjustments are necessary to reflect test year changes. A discussion of each component follows.

Depreciable Plant in Service: Bayside Utilities is a consecutive water system that purchases water for resale from the City of Panama City Beach via a transmission main. Bayside Utilities has no water treatment plant facilities.

According to the plans and records reviewed, the distribution system is a composite network of approximately 4,825 linear feet of eight (8) inch ductile iron pipe, approximately 3,530 linear feet of six (6) inch PVC pipe, approximately 8,840 linear feet of four (4) inch PVC pipe, approximately 4,470 linear feet of two (2) inch PVC pipe, and approximately 4,700 linear feet of one (1) inch PVC pipe. The distribution system contains seven (7) fire hydrants located in various places along the utility's six (6) inch mains.

There is also no wastewater treatment plant facility. Wastewater generated by the residents of Bayside is transported to the City of Panama City Beach via a force main. This force main interconnects with the utility's three (3) lift stations to centralize and transport raw wastewater to the city's collection system.

According to the records reviewed, the collection system is a network of approximately 5,000 linear feet of ten inch (10") gravity pipe, about 2,700 linear feet of six inch (6") PVC gravity pipe, and over 17,000 linear feet of four inch (4") lateral service connectors. A newly replaced four inch (4") PVC force main that is about 2,640 linear feet was added to the utility's existing 3,670 linear feet of ten inch (10") force main.

The utility recorded utility plant in service balances of $181,352 for water and $349,524 for wastewater at the end of the test year. Staff calculated utility plant by starting with Order No. 18624, which established utility plant of $164,898 for water and $387,736 for wastewater as of December 31, 1987, and made adjustments for plant additions and retirements through the test year. Staff made adjustments to wastewater plant to reflect $15,000 of pro forma plant required by the Department of Environmental Protection (DEP), and to reflect $2,694 of staff recommended pro forma plant. The DEP required pro forma plant consists of the replacement of six lift station pumps, and the staff recommended pro forma plant includes replacement of five rubberized plastic manhole lids, replacement of an electrical panel box, and replacement of a sewage flow meter. An averaging adjustment of ($7,506) was also made to wastewater plant. Total recommended utility plant in service is $181,352 for water and $359,712 for wastewater.

Non-Used and Useful Plant: As discussed in Issue No. 2 of this recommendation, all distribution and collection system accounts should be considered 100% used and useful.

Contributions in Aid of Construction: The utility recorded CIAC balances of ($52,911) for water and ($40,344) for wastewater at the end of the test year. By Order No. 18624, the Commission established water CIAC of ($52,911) and wastewater CIAC of ($74,026). No CIAC has been added since the last rate case. Staff made an adjustment of ($40,344) to wastewater CIAC to reflect staff's recommendation in Issue No. 3 of this recommendation to retire wastewater plant CIAC. Staff recommends water CIAC of ($52,911) and wastewater CIAC of $0.

Accumulated Depreciation: The utility books reflected accumulated depreciation balances of ($112,502) for water and ($171,788) for wastewater at the end of the test year. Staff calculated accumulated depreciation starting with balances from Order No. 18624 and used the depreciation rates set forth in that Order to calculate depreciation up to the test year. Staff made adjustments of $5,509 to water and $28,420 to wastewater to bring the utility's figures to staff's calculated amount. Pro forma plant depreciation of ($1,383) was included in wastewater accumulated depreciation. Averaging adjustments of $3,501 for water and $4,253 for wastewater were also made. Staff recommends accumulated depreciation balances of ($103,492) for water and ($140,498) for wastewater.

Accumulated Amortization: The utility recorded accumulated amortization balances of $37,736 for water, and $27,662 for wastewater at the end of the test year. Staff calculated amortization of CIAC by starting with balances from Order No. 18624, and amortized CIAC by using a yearly composite rate. As

discussed in Issue No. 3, wastewater CIAC amortization should be retired due to the interconnection with the City of Panama City. Staff made an adjustment of ($27,662) to reflect the removal of the wastewater plant CIAC amortization. An averaging adjustment of ($1,021) for water brings the total recommended accumulated amortization balances to $36,715 for water and $0 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 formula approach be used for calculating working capital allowance. Applying that formula, staff recommends a working capital allowance of $7,525 for water and $7,184 for wastewater (based on O&M of $60,196 for water and $57,474 for wastewater).

Rate Base Summary: Based on the foregoing, the appropriate balance of Bayside Utilities, Inc. test year rate base should be $69,189 for water and $226,398 for wastewater. Rate base is shown on Schedules Nos. 1 and 1A and adjustments are shown on Schedule No. 1C.

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 should be 10.46% with a range of 9.46% - 11.46% and the appropriate overall rate of return should be 9.53%. (CASEY)

STAFF ANALYSIS: Based on the staff audit, the utility's capital structure consists of $9,500 of notes payable with an interest rate of 10.00%, $272,820 of notes payable with an interest rate of 10.00%, $24,242 of notes payable with an interest rate of 4.00%, and negative retained earnings of $42,935. The cost of common equity capital should be established using the leverage formula in effect at the time of the Commission decision in this case. Using the current leverage formula approved under Docket No. 970006-WS, Order No. PSC-97-0660-FOF-WS, issued June 10, 1997, the rate of return on common equity should be 10.46% with a range of 9.46% - 11.46% for utilities with equity ratios of less than 40%, which includes Bayside. Since including a negative common equity would penalize the utility's capital structure by understating the overall rate of return, staff has adjusted the negative common equity to zero.

Applying the weighted average method to the total capital structure yields an overall rate of return of 9.53%. The company's test year capital structure balance has been adjusted to match the total of the water and wastewater rate bases.

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

ISSUE 6: What are the appropriate test year operating revenues for each system?

RECOMMENDATION: The appropriate test year operating revenue should be $52,199 for water and $58,370 for wastewater. (CASEY)

STAFF ANALYSIS: The utility recorded water revenues of $52,199 and wastewater revenues of $58,370 during the test period. The staff audit concurs with these figures.

Staff recommends test year water revenue of $52,199 and test year wastewater revenue of $58,370.

ISSUE 7: What are the appropriate amounts for operating expense for each system?

RECOMMENDATION: The appropriate amounts for operating expense should be $70,912 for water and $77,595 for wastewater. (CASEY, DAVIS)

STAFF ANALYSIS: The utility recorded operating expenses of $56,232 for water and $66,893 for wastewater. The components of these expenses include operation and maintenance expenses, depreciation expense (net of related amortization of CIAC), and taxes other than income taxes.

The utility's test year operating expenses have been reviewed and invoices and other supporting documentation have been examined. Adjustments have been made to reflect unrecorded test year expenses and to reflect recommended allowances for plant operations.

Operation and Maintenance Expenses(O & M): The utility charged $51,466 to water O & M and $49,515 to wastewater O & M during the test year. A summary of adjustments that were made to the utility's recorded expenses follows:

Salaries and Wages - Employees - The utility recorded employee salaries and wages of $6,235 for water and $6,235 for wastewater. Utility employees include a utility manager, maintenance man, bookkeeper/secretary, and part time labor for utility work when necessary. In the utility's last rate case, the Commission approved employee salaries and wages of $13,771 for water and $12,597 for wastewater. Staff indexed these salaries using the Commission approved yearly index figures which resulted in staff's recommended employee salaries and wages of $18,782 for water and $17,184 for wastewater.

Sludge Removal Expense - The utility recorded no sludge removal expense during the test year. Upon inspection, odors were detected at the middle lift station. In addition to recommending the enzyme pretreatment mentioned in chemicals expense, it is recommended that sludge removal of the three lift stations be part of the utility's regular maintenance. Sludge hauling should occur when telltale signs such as odor and sludge buildup deem it appropriate. Since the customer base appears seasonal, one clean-out per lift station each year after the peak season at a typical cost of $275 per clean-out is appropriate for this utility. Staff recommends $825 ($275 X 3) for wastewater sludge removal expense.

Purchased Power - The utility recorded no purchased power expense for water and $507 for wastewater during the test year. There was no water purchased power expense due to the utility purchasing

water for resale. Power consumption for the wastewater collection system relates solely to the three lift stations. Two of the three lift stations are metered separately and have undisputed amounts for purchased power. The third lift station draws power through a meter that is common with at least one other user. During the test period, the Tiki lift station averaged $35.71 per month, and the Middle lift station averaged $14.96 per month. The third lift station (Eastern lift station) is closely comparable to the Tiki lift station, and is anticipated to consume approximately the same amount of power that the Tiki lift station did during the test year. Staff recommends wastewater purchased power expense of $1,037 ($35.71 + $35.71 + $14.96 X 12 months).

Chemicals - The utility recorded no water or wastewater chemical expense during the test year. All water treatment is performed by the City of Panama City Beach, and no chemicals for additional treatment are necessary. Currently the utility does not purchase chemicals to pretreat wastewater influent at the lift stations. Upon the engineer's field audit, the middle lift station had a build-up of sludge/grease that was creating some septic odors. There is an enzyme pretreatment which will reduce unwanted buildup and temporarily keep odors under control. This enzyme can be purchased for approximately $10 per container. One container per month would be sufficient to treat all three lift stations. Staff recommends $120 (12 containers X $10 ea.) of wastewater chemical expense.

Contractual Services - Professional - The utility recorded professional contractual services of $450 for water and $545 for wastewater for accounting and engineering fees. The staff engineer is recommending repair of fifteen manholes which are showing signs of age and are suspected of leaking at an estimated cost of $4,875 over a five year period. The staff engineer recommends including $975 in wastewater professional contractual services for the repair of these manholes. Staff recommends test year professional contractual services of $450 for water and $1,520 for wastewater.

Contractual Services - Testing - The utility recorded no contractual services - testing expenses during the test year. DEP considers this utility to be a consecutive system, and as such, requires monthly microbiological monitoring and normal lead and copper testing. The required tests and frequency at which those test must be repeated are:

Rule	Description	Frequency	Cost
62-550.518F.A.C.	Microbiological	monthly	$300/yr
17-551F.A.C.	Lead & Copper	biannual/subseq annual	150/yr
		Total	$450/yr

water depreciation expense and ($4,931) adjustment to wastewater depreciation expense to bring the utility balances to the staff's recommended amounts. A CIAC amortization adjustment amounted to ($2,043) for water. Staff also made an adjustment of $1,766 to wastewater to include depreciation expense on pro forma plant. Staff recommends depreciation expenses net of CIAC of $4,959 for water and $13,468 for wastewater for the test year.

Taxes Other Than Income Taxes: The utility recorded taxes other than income of $565 for water and $745 for wastewater. Staff made adjustments to water taxes other than income to reclassify $2,264 of regulatory assessment fees from O & M, increase regulatory assessment fees by $85 to reflect regulatory assessment fees on staff's recommended test year revenue, and include payroll taxes of $1,704 on staff's recommended salaries and wages. Staff made adjustments to wastewater taxes other than income to reclassify $2,417 of regulatory assessment fees from O & M, increase regulatory assessment fees by $210 to reflect regulatory assessment fees on staff's recommended test year revenue, and include payroll taxes of $1,445 on staff's recommended salaries and wages. Staff recommends test year taxes other than income of $4,618 for water and $4,817 for wastewater.

Operating Revenues: Revenues have been adjusted by $25,303 for water and $40,790 for wastewater to reflect the increase in revenue required to cover expenses and allow the recommended rate of return on investment.

Taxes Other Than Income Taxes: This expense has been increased by $1,139 for water and $1,836 for wastewater to reflect the regulatory assessment fee of 4.5% on the increase in revenue.

Operating Expenses Summary: The application of staff's recommended adjustments to the utility's test year operating expenses results in staff's recommended operating expenses of $70,912 for water and $77,595 for wastewater.

Operating expenses are shown on Schedules Nos. 3 and 3A. Adjustments are shown on Schedule No. 3B.

No testing requirements are currently being imposed on the wastewater system. Staff recommends water contractual services - testing of $450 for the test year.

Transportation Expenses - The utility recorded water transportation expense of $340, and wastewater transportation expense of $1,176 during the test year. In the utility's last rate case, the Commission allowed transportation expenses of $1,389 for water and $1,389 for wastewater. Staff indexed these amounts using the annual Commission approved index figures which results in staff's recommended test year transportation expenses of $1,855 for water and $1,855 for wastewater.

Regulatory Commission Expense - The utility recorded regulatory commission expenses of $2,264 for water and $2,417 for wastewater during the test year. Staff made adjustments of ($2,264) to water regulatory commission expense and ($2,417) to wastewater regulatory commission expense to reclassify regulatory assessment fees to taxes other than income. The filing fee for this SARC amounted to $1,000 for water and $1,000 for wastewater. Staff made an adjustment of $250 to water regulatory commission expense and $250 to wastewater regulatory commission expense to amortize the filing fee for this SARC over four years ($1,000/4). Staff recommends regulatory commission expense of $250 for water and $250 for wastewater.

Bad Debt Expense - The utility recorded bad debt expense of $4,513 for water and $4,697 for wastewater during the test year. The utility amounts are bad debt expenses compiled over a number of years and written off in 1997. Disclosure No. 1 of staff's audit recommends the utility's bad debt expenses be reduced to $745 for water and $745 for wastewater. Issue No. 12 of this report recommends the utility initiate a customer deposit policy to reduce the amount of bad debt the utility is experiencing. Staff made an adjustment of ($3,768) to water and ($3,952) to wastewater, which result in test year recommended bad debt expenses of $745 for water and $745 for wastewater.

Operation and Maintenance Expenses(O & M) Summary: Total operation and maintenance adjustments are $8,730 for water and $7,959 for wastewater. Staff recommends operation and maintenance expenses of $60,196 for water and $57,474 for wastewater. Operation and maintenance expenses are shown in Schedule Nos. 3C and 3D.

Depreciation Expense (Net of Amortization of CIAC): The utility recorded $4,201 of water depreciation expense and $16,633 of wastewater depreciation expense on their books for the test year. Consistent with Commission practice, staff calculated test year depreciation expense using the rates prescribed in Rule 25-30.140, Florida Administrative Code. Staff made a $2,801 adjustment to

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

RECOMMENDATION: The appropriate revenue requirement should be $77,502 for water and $99,160 for wastewater. (CASEY)

STAFF ANALYSIS: The utility should be allowed an annual increase in revenue of $25,303 (48.47%) for water and an annual increase of $40,790 (69.88%) for wastewater. This will allow the utility the opportunity to recover its expenses and earn the recommended 9.53% return on its investment. The calculations are as follows:

	Water	Wastewater
Adjusted Rate Base	$ 69,189	$ 226,398
Rate of Return	x .0953	x .0953
Return on Investment	$ 6,591	$ 21,566
Adjusted Operation Expenses	60,196	57,474
Depreciation Expense (Net)	4,959	13,468
Taxes Other Than Income Taxes	5,757	6,653
Revenue Requirement	$ 77,502	$ 99,160
Annual Revenue Increase	$ 25,303	$ 40,790
Percentage Increase/(Decrease)	48.47%	69.88%

The revenue requirements and resulting annual increases are shown on Schedules Nos. 3 and 3A.

ISSUE 9: Are repression adjustments to consumption appropriate for this utility, and, if so, what are the appropriate adjustments?

RECOMMENDATION: Yes, repression adjustments of 572,000 gallons to water consumption and 439,000 gallons to wastewater consumption are appropriate. (LINGO)

STAFF ANALYSIS: This case represents only the second instance in which Staff recommends that a repression adjustment be made. 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.

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, were a 48.47% increase in water rates and a 69.88% increase in wastewater rates. These increases are of a magnitude that lead us to believe it is appropriate to consider making repression adjustments 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.

Staff's estimated average increase in annual bills was compared to other utilities in the database which underwent no change in the BFC/gallonage rate structure and which experienced similar rate increases as proposed in this case. The average monthly consumption per meter equivalent for those utilities was calculated for both the year prior to that utility's rate change and the year subsequent to the rate change. The change in average monthly consumption per meter equivalent during that time period for those utilities was then calculated; the resulting percentage changes ranged from 2% to (31)%. The utility with a 2% change in average consumption appears to be anomalous, as the other utilities

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all exhibited fairly significant consumption reductions caused by the revenue requirement increases ranging from (5)% to (31)%.

As discussed above, this case represents only the second instance in which Staff recommends that a repression adjustment be made; 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. Based on the remaining values, we believe a conservative prediction of Bayside's anticipated consumption reductions for both the water and wastewater systems is (5%).

Therefore, Staff recommends repression adjustments of 572,000 gallons to water consumption and 439,000 gallons to wastewater consumption.

ISSUE 10: What is the appropriate rate structure and what are the recommended rates for this utility?

RECOMMENDATION: The recommended rates should be designed to produce revenues of $77,502 for water and $99,160 for wastewater. The approved rates will be effective for service rendered on or after the stamped approval date on the tariff sheet pursuant to Rule 25-30.475(1), Florida Administrative Code. The 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. (CASEY, LINGO)

STAFF ANALYSIS: During the test year, Bayside provided water and wastewater service to approximately 218 residential and 11 recreational vehicle customers. The utility's tariff provides for a base facility/gallonage charge rate structure for all customers. The Commission has a memorandum of understanding with the Florida Water Management Districts which recognizes that a joint cooperative effort is necessary to implement an effective, state-wide water conservation policy. The utility is a consecutive system (purchases water for resale) which is considered non-jurisdictional by the Northwest Florida Water Management District and is not required to file for a consumptive use permit. The 5/8" x 3/4" meter residential customers average consumption is approximately 4,370 gallons per month, which is not considered excessive.

Staff has calculated a recommended base facility / gallonage charge for water and wastewater customers based on test year data. The base facility / gallonage charge rate structure is the preferred rate structure because it is designed to provide for the equitable sharing by the rate payers of both the fixed and variable costs of providing service. The base facility charge is based upon the concept of readiness to serve all customers connected to the system. This ensures that rate payers pay their share of the costs of providing service (through the consumption or gallonage charge) and also pay their share of the fixed costs of providing service (through the base facility charge).

Approximately 65% (or $50,362) of the water revenue requirement and 56% (or $55,459) of the wastewater revenue requirement are associated with the fixed costs of providing service. Fixed costs are recovered through the base facility charge based on annualized number of factored Equivalent Residential Connections (ERC's). The remaining 35% (or $27,140) of the water revenue requirement and 44% (or $43,701) of the wastewater revenue requirement represent the consumption charge

based on the estimated number of gallons consumed during the test period. Schedules of the utility's existing rates and staff's preliminary rates follow.

RESIDENTIAL WATER RATES

Type of Service	Existing Base Facility Charge	Preliminary Base Facility Charge
5/8" x 3/4"	$ 11.24	$ 18.89
3/4"	16.88	28.34
1"	28.13	47.23
Recreational Vehicles	4.50	7.56
Gallonage Charge Per 1,000 gallons	$ 1.82	$ 2.49

GENERAL SERVICE WATER RATES

Base Facility Charge Meter Size	Existing Monthly Rate	Preliminary Monthly Rate
5/8" x 3/4"	$ 11.24	$ 18.89
3/4"	16.88	28.34
1"	28.13	47.23
1-1/2"	56.23	94.47
2"	89.96	151.15
3"	179.93	302.29
4"	281.14	472.33
6"	562.28	944.67
Gallonage Charge Per 1,000 gallons	$ 1.82	$ 2.49

RESIDENTIAL WASTEWATER RATES

Type of Service	Existing Base Facility Charge	Preliminary Base Facility Charge
All meter sizes	$ 10.73	$ 20.31
Recreational Vehicles	4.29	8.24
Gallonage Charge Per 1,000 gallons (6,000 gallon maximum per month)	$ 3.15	$ 5.24

GENERAL SERVICE WASTEWATER RATES

Base Facility Charge Meter Size	Existing Monthly Rate	Preliminary Monthly Rate
5/8" x 3/4"	$ 10.73	$ 20.81
3/4"	16.07	31.21
1"	26.82	52.01
1-1/2"	53.63	104.03
2"	85.80	166.44
3"	171.61	332.89
4"	268.16	520.13
6"	536.31	1,040.27
Gallonage Charge Per 1,000 gallons (No Maximum)	$ 3.73	$ 6.29

Using the 218 test year residential water customers with an average use of 4,370 gallons/month per customer, an average residential **MONTHLY** water bill comparison would be as follows:

	Average **MONTHLY** Bill Using Existing Rates	Average **MONTHLY** Bill Using Preliminary Rates	Percent Increase
Base Facility Charge	$11.24	$ 18.89	
Gallonage Charge	7.95	10.88	
Total	$19.19	$ 29.77	55.13%

Using the 218 test year residential wastewater customers with an average use of 3,351 gallons/month per customer, an average residential **MONTHLY** wastewater bill comparison would be as follows:

	Average **MONTHLY** Bill Using Existing Rates	Average **MONTHLY** Bill Using Preliminary Rates	Percent Increase
Base Facility Charge	$10.73	$ 20.81	
Gallonage Charge	10.56	17.56	
Total	$21.29	$ 38.37	80.23%

The rates should be effective for service rendered as of the stamped approval date on the tariff sheets provided the customers have received notice. The tariff sheets will be approved upon

staff's verification that the tariffs are consistent with the Commission's decision, that the customer notice is adequate, and that any required security has been provided. The utility should provide proof of the date notice was given within 10 days after the date of the notice.

If the effective date of the new rates falls within a regular billing cycle, the initial bills at the new rate may be prorated. The old charge should be prorated based on the number of days in the billing cycle before the effective date of the new rates. The new charge should be prorated based on the number of days in the billing cycle on or after the effective date of the new rates.

In no event should the rates be effective for service rendered prior to the stamped approval date.

ISSUE 11: 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 Schedules No. 4 and 4-A, 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 four-year recovery period, pursuant to Section 367.0816, Florida Statutes. The utility should be required to file revised tariff sheets and a proposed customer notice setting forth the lower rates and the reason for the reduction not later than one month prior to the actual date of the required rate reduction. (CASEY)

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 revenues associated with the amortization of rate case expense and the gross-up for regulatory assessment fees which is $262 annually for each water and wastewater system. The reduction in revenues will result in the rates recommended by staff on Schedules Nos. 4 and 4A.

The utility should be required to file revised tariff sheets 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 the reduction in the rates due to the amortized rate case expense.

ISSUE 12: Should the utility's tariff have a provision for customer deposits, and if so, what should be the appropriate amount of customer deposits?

RECOMMENDATION: The utility should be allowed a provision for customer deposits in its tariff. The appropriate amount of customer deposits should be $60.00 for water and $77.00 for wastewater for 5/8" x 3/4" meters. The appropriate amount of deposits for recreational vehicles should be $20.00 for water and $25.00 for wastewater. (CASEY)

STAFF ANALYSIS: The utility presently does not have a provision for customer deposits in its tariff. Rule 25-30.311(1), Florida Administrative Code states "Each utility may require an applicant for service to satisfactorily establish credit, but such establishment of credit shall not relieve the customer from complying with utilities' rules for prompt payment of bills."

Rule 25-30.311(7), Florida Administrative Code, states "A utility may require, upon reasonable written notice of not less than 30 days, such request or notice being separate and apart from any bill for service, a new deposit, where previously waived or returned, or an additional deposit, in order to secure payment of current bills; provided, however, that the total amount of the required deposit shall not exceed an amount equal to the average actual charge for water and/or wastewater service for two billing periods for the 12 month period immediately prior to the date of notice. In the event the customer has had service less than 12 months, then the utility shall base its new or additional deposit upon the average monthly billing available."

The utility has experienced a high amount of bad debt expense over the past few years, largely due to loss of customers from Hurricane Opal and its transient customer base. Staff is recommending the utility initiate a customer deposit provision in its tariff to reduce the amount of bad debt expense. Staff's preliminary recommendation is to approve customer deposits of $60.00 for water and $77.00 for wastewater for 5/8" x 3/4" meters. Also, staff's preliminary recommendation is to approve customer deposits of $20.00 for water and $25.00 for wastewater for recreational vehicles.

ISSUE 13: Are the utility's existing miscellaneous service charges appropriate, and if not, what should they be?

RECOMMENDATION: The utility's existing miscellaneous service charges were approved in Commission Order No. 18624, issued January 4, 1988. The appropriate charges should be those recommended in the staff analysis. (CASEY)

STAFF ANALYSIS: The utility's current tariff contains miscellaneous service charges which were approved in Commission Order No. 18624, issued January 4, 1988. Staff believes these charges should be updated and recommends that the following charges be authorized:

Existing Miscellaneous Service Charges

	Water		Wastewater	
	Normal Hours	After Hours	Normal Hours	After Hours
Initial Connection	$10.00	$15.00	$10.00	$15.00
Normal Reconnection	$10.00	$15.00	$10.00	$15.00
Violation Reconnection	$10.00	$15.00	Actual Cost	Actual Cost
Premises Visit (in lieu of disconnection)	$ 5.00	N/A	$ 5.00	N/A

Preliminary Miscellaneous Service Charges

	Water	Wastewater
Initial Connection	$15.00	$15.00
Normal Reconnection	$15.00	$15.00
Violation Reconnection	$15.00	Actual Cost
Premises Visit (in lieu of disconnection)	$10.00	$10.00

The four types of miscellaneous service charges are:

1) Initial Connection: This charge is to be levied for service initiation at a location where service did not exist previously.

2) Normal Reconnection: This charge is to be levied for transfer of service to a new customer account at a previously served location, or reconnection of service subsequent to a customer requested disconnection.

3) Violation Reconnection: This charge is to be levied prior to reconnection of an existing

customer after disconnection of service for cause according to Rule 25-30.320(2), F.A.C., including a delinquency in bill payment.

4) Premises Visit (in lieu of disconnection): This charge is to be levied when a service representative visits a premises for the purpose of discontinuing service for nonpayment of a due and collectible bill, but does not discontinue service because the customer pays the service representative or otherwise makes satisfactory arrangements tc pay the bill.

These charges are designed to more accurately reflect the costs associated with each service and to place the burden of payment on the person who causes the cost to be incurred (the "cost causer"), rather than on the entire ratepaying body as a whole.

Therefore, staff recommends that the utility's tariff be revised to incorporate the charges discussed above.

ISSUE 14: Should the utility's wastewater tariff service availability charges be revised?

RECOMMENDATION: Yes, the utility's wastewater service availability charges should be revised. The existing $300 plant capacity charge should be discontinued, and a main extension charge of $300 should be initiated for all future customers. The utility should be ordered to file a revised tariff sheet within 10 days of the effective date of the Order, which is consistent with the Commission's vote. Staff should be given administrative authority to approve the revised tariff sheet upon staff's verification that the tariffs are consistent with the Commission's decision. (CASEY)

STAFF ANALYSIS: The utility's wastewater tariff Second Revised Sheet No. 25.0 provides for a wastewater plant capacity charge of $300 per ERC and actual cost for all others. Since the utility interconnected to the City of Panama Beach for wastewater treatment and disposal, the plant capacity charge is no longer applicable.

As a result of the retirement of the wastewater treatment plant and related CIAC, the utility's level of CIAC would be lower than what is prescribed in Rule 25-30.580 (1)(b), Florida Administrative Code. Pursuant to Rule 25-30.580(1)(b), Florida Administrative Code, the minimum amount of contributions-in-aid-of-construction should not be less than the percentage of such facilities and plant that is represented by the water transmission and distribution and sewage collection systems. Since the utility's CIAC level would be lower than minimum, as prescribed by rule, staff is recommending that the $300 plant capacity fee be revised to reflect a $300 main extension charge. Staff believes that the $300 main extension charge would allow the utility to increase its CIAC level and would help to ensure that future customers would pay their pro-rata share of the cost of the interconnect.

The utility should be required to file a revised tariff sheet within 10 days of the effective date of the order issued in this case, which is consistent with the Commission's vote. Upon timely receipt and staff's verification that the tariffs are consistent with the Commission's decision, staff should be given administrative authority to approve the revised tariff sheet. If no protest is filed and the revised tariff sheet is approved, the charges should become effective for connections made on or after the stamped approval date of the revised tariff sheet pursuant to Rule 25-30.475(2), Florida Administrative Code.

ISSUE 15: Should the recommended rates be approved for the utility on a temporary basis in the event of a protest filed by a party other than the utility?

RECOMMENDATION: Yes, the recommended rates should be approved for on a temporary basis in the event of a 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, a copy of the proposed customer notice, and revised tariff sheets. (CASEY)

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 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 security for both the potential refund and a copy of the proposed customer notice. The security should be in the form of a bond or letter of credit in the amount of $45,575. 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 affect 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 a 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 refunds in the escrow account may be withdrawn by the utility without the express approval of the Commission.

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

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

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

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

6) The amount of revenue subject to refund shall 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, 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 16: Should the utility be required to maintain its books and records in conformity with the 1996 NARUC Uniform System of Accounts (USOA)?

RECOMMENDATION: Yes, the utility should be required to maintain its books and records in conformity with the 1996 NARUC Uniform System of Accounts. (CASEY)

STAFF ANALYSIS: During the test year, the utility's books were not maintained in conformity with the USOA.

Paragraph (1) of Rule 25-30.115, Florida Administrative Code, entitled "Uniform System of Accounts for Water and Sewer Utilities", states:

> 1) Water and Sewer Utilities shall, effective January 1, 1998, maintain its [sic] accounts and records in conformity with the 1996 NARUC Uniform System of Accounts adopted by the National Association of Regulatory Utility Commissioners.

Although the test year for this rate case ended December 31, 1997, the utility did not maintain its books consistent with the prior 1984 NARUC system of accounts. Staff believes the utility has the expertise necessary to convert and maintain the utility's records in conformity with Rule 25-30.115, Florida Administrative Code. Therefore, staff recommends that the utility be required to maintain its books and records in conformity with the 1996 NARUC Uniform System of Accounts.

ISSUE 17: Should the utility be fined for violations of Rule 25-30.110(1)(a), Florida Administrative Code, for destruction of utility records and failure to notify the Commission of such, within 90 days?

RECOMMENDATION: No, the utility should not be fined for violations of Rule 25-30(1)(a), Florida Administrative Code for destruction of utility records and failure to notify the Commission of such, within 90 days. (CASEY)

STAFF ANALYSIS: Rule 25-30.110(1)(a), Florida Administrative Code, states "Each utility shall preserve its records in accordance with the "Regulations to Govern the Preservation of Records of Electric, Gas, and Water Utilities" as issued by the National Association of Regulatory Utility Commissioners (NARUC), as revised May 1985".

The NARUC Regulations to Govern the Preservation of Records General Instructions state "The public utility or licensee shall provide reasonable protection for records subject to the regulations in this part from damages by fires, floods, and other hazards and, in the selection of storage spaces, safeguard the records from unnecessary exposure to deterioration from excessive humidity, dryness, or lack of proper ventilation.

The NARUC Regulations to Govern the Preservation of Records General Instructions further state "When any records are destroyed before the expiration of the prescribed period of retention, a certified statement listing, as far as may be determined, the records destroyed and describing the circumstances of accidental or other premature destruction shall be filed with the Commission within (90) days from the date of discovery of such destruction. Discovery of loss of records is to be treated in the same manner as in the case of premature destruction."

Section 367.161, Florida Statutes, authorizes the Commission to assess a penalty of not more than $5,000 per day for each offense, if a utility is found to have knowingly refused to comply with, or to have willfully violated any Commission rule, order, or provision of Chapter 367, Florida Statutes. Utilities are charged with the knowledge of the Commission's rules and statutes. Additionally, "[i]t is a common maxim, familiar to all minds that 'ignorance of the law' will not excuse any person, either civilly or criminally." Barlow v. United States, 32 U.S. 404, 411 (1833). Thus, any intentional act, such as the utility's continuing to charge the final rates and failing to file a motion to vacate the stay, would meet the standard for a "willful violation." In Order No. 24306, issued April 1, 1991, in Docket No. 890216-TL, entitled

In Re: Investigation Into The Proper Application of Rule 25-14.003, F.A.C., 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 "'willful' implies an intent to do an act, and this is distinct from an intent to violate a statute or rule." Id. at 6.

All utility records prior to November 1995 were destroyed by Hurricane Opal and the Commission was not notified. The utility's office was flooded by saltwater due to the force of the hurricane. All utility efforts after the hurricane were geared to restoring utility operations. Because of the extraordinary circumstances and destructive force of this hurricane, the utility should not be fined for failure to notify the Commission of the destruction of utility records.

SCHEDULE NO. 1
DOCKET NO. 971401-WS

BAYSIDE UTILITIES, INC.
TEST YEAR ENDING DECEMBER 31, 1997
SCHEDULE OF WATER RATE BASE

	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.		BALANCE PER STAFF
UTILITY PLANT IN SERVICE	$ 181,352	$ 0		$ 181,352
LAND/NON-DEPRECIABLE ASSETS	0	0		0
NON-USED AND USEFUL PLANT	0	0		0
CIAC	(52,911)	0		(52,911)
ACCUMULATED DEPRECIATION	(112,502)	9,010	C	(103,492)
AMORTIZATION OF CIAC	37,736	(1,021)	D	36,715
WORKING CAPITAL ALLOWANCE	0	7,525	E	7,525
WATER RATE BASE	$ 53,675	$ 15,514		$ 69,189

BAYSIDE UTILITIES, INC.
TEST YEAR ENDING DECEMBER 31, 1997
SCHEDULE OF WASTEWATER RATE BASE

SCHEDULE NO. 1A
DOCKET NO. 971401-WS

	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.		BALANCE PER STAFF
UTILITY PLANT IN SERVICE	$ 349,524	$ 10,188	A	$ 359,712
LAND/NON-DEPRECIABLE ASSETS	0	0		0
NON-USED AND USEFUL PLANT	0	0		0
CIAC	(40,344)	40,344	B	0
ACCUMULATED DEPRECIATION	(171,788)	31,290	C	(140,498)
AMORTIZATION OF CIAC	27,662	(27,662)	D	0
WORKING CAPITAL ALLOWANCE	0	7,184	E	7,184
WASTEWATER RATE BASE	$ 165,054	$ 61,344		$ 226,398

BAYSIDE UTILITIES, INC. **SCHEDULE NO. 1B**
DOCKET NO. 971401-WS

CALCULATION OF NET LOSS FOR RETIREMENTS

CALCULATION PER ORDER NO. 18624, ISSUED JANUARY 4, 1988

Original Cost	$41,337	
Accumulated Depreciation (less)	($17,920)	
NET LOSS	$23,417	$23,417

RECALCULATED NET LOSS

Original Cost	$112,380	
Accumulated Depreciation (less)	($48,718)	
Contribution-in-aid-of construction (less)	($74,026)	
Accumulated CIAC (add)	$28,063	
Net Costs Incurred (add) (Salvage value - Removal Cost)	($2,000)	
NET LOSS RECALCULATED	$15,699	($15,699)
DIFFERENCE IN CALCULATION OF NET LOSS		$7,718

REVENUE CHANGE IF CIAC AND AMORTIZATION RETIRED IN 1988

Cumulative Change in Rate Base over 10 years	$338,552	
Authorized rate of return from Order No. 18624	0.0996	
Return on additional Rate Base	$33,720	
CIAC amortization taken for 10 year period ($2,184/yr)	($21,840)	
Additional Revenues if CIAC and amortization retired in 1988.	$11,880	($11,880)
UTILITY REVENUE SHORTFALL OVER 10 YEAR PERIOD		($4,162)

BAYSIDE UTILITIES, INC.
TEST YEAR ENDING DECEMBER 31, 1997
ADJUSTMENTS TO RATE BASE

SCHEDULE NO. 1C
DOCKET NO. 971401-WS

		WATER	WASTEWATER
A.	UTILITY PLANT IN SERVICE		
1.	To reflect averaging adjustment.	$ 0	$ (7,506)
2.	To include DEP required pro forma plant.	0	15,000
3.	To include staff recommended average pro forma plant.	0	2,694
		$ 0	$ 10,188
B.	CIAC		
1.	To reflect retirement of plant.	$ 0	$ 40,344
C.	ACCUMULATED DEPRECIATION		
1.	To bring utility balance to staff's recommended amount.	$ 5,509	$ 28,420
2.	To include depreciation on pro forma plant.	0	(1,383)
3.	To reflect averaging adjustment.	3,501	4,253
		$ 9,010	$ 31,290
D.	AMORTIZATION OF CIAC		
1.	To reflect retirement of plant.	$ 0	$ (27,662)
2.	To reflect averaging adjustment.	(1,021)	0
		$ (1,021)	$ (27,662)
E.	WORKING CAPITAL ALLOWANCE		
1.	To reflect 1/8 of test year O & M expenses.	$ 7,525	$ 7,184

BAYSIDE UTILITIES, INC.
TEST YEAR ENDING DECEMBER 31, 1997
SCHEDULE OF CAPITAL STRUCTURE

SCHEDULE NO. 2
DOCKET NO. 971401-WS

	PER UTILITY	SPECIFIC ADJUSTMENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUSTMENTS	BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST
RETAINED EARNINGS	$ (42,935)	$ 42,935	$ 0	$ 0	$ 0	0.00%	10.46%	0.00%
NOTES PAYABLE	9,500	0	9,500	(340)	9,160	3.10%	10.00%	0.31%
NOTES PAYABLE	272,820	0	272,820	(9,767)	263,053	88.99%	10.00%	8.90%
NOTES PAYABLE	24,242	0	24,242	(868)	23,374	7.91%	4.00%	0.32%
CUSTOMER DEPOSITS	0	0	0	0	0	0.00%	6.00%	0.00%
TOTAL	$ 263,627	$ 42,935	$ 306,562	$ (10,975)	$ 295,587	100.00%		9.53%

RANGE OF REASONABLENESS	LOW	HIGH
RETURN ON EQUITY	9.46%	11.46%
OVERALL RATE OF RETURN	9.53%	9.53%

BAYSIDE UTILITIES, INC.
TEST YEAR ENDING DECEMBER 31, 1997
SCHEDULE OF WATER OPERATING INCOME

SCHEDULE NO. 3
DOCKET NO. 971401-WS

	TEST YEAR PER UTILITY	STAFF ADJ. TO UTILITY		STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE		TOTAL PER STAFF
OPERATING REVENUES	$ 52,199	$ 0		$ 52,199	$ 25,303	D	$ 77,502
					48.47%		
OPERATING EXPENSES:							
OPERATION AND MAINTENANCE	51,466	[illegible]730	A	60,196	0		60,196
DEPRECIATION (NET)	4,201	758	B	4,959	0		4,959
AMORTIZATION	0	0		0	0		0
TAXES OTHER THAN INCOME	565	4,053	C	4,618	1,139	E	5,757
INCOME TAXES	0	0		0	0		0
TOTAL OPERATING EXPENSES	$ 56,232	$ 13,541		$ 69,773	$ 1,139		$ 70,912
OPERATING INCOME/(LOSS)	$ (4,033)			$ (17,574)			$ 6,591
WATER RATE BASE	$ 53,675			$ 69,189			$ 69,189
RATE OF RETURN	-7.51%			-25.40%			9.53%

BAYSIDE UTILITIES, INC.
TEST YEAR ENDING DECEMBER 31, 1997
SCHEDULE OF WASTEWATER OPERATING INCOME

SCHEDULE NO. 3A
DOCKET NO. 971401-WS

	TEST YEAR PER UTILITY	STAFF ADJ. TO UTILITY		STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE		TOTAL PER STAFF
OPERATING REVENUES	$ 58,370	$ 0		$ 58,370	$ 40,790	D	$ 99,160
					69.88%		
OPERATING EXPENSES:							
OPERATION AND MAINTENANCE	49,515	7,959	A	57,474	0		57,474
DEPRECIATION (NET)	16,633	(3,165)	B	13,468	0		13,468
AMORTIZATION	0	0		0	0		0
TAXES OTHER THAN INCOME	745	4,072	C	4,817	1,836	E	6,653
INCOME TAXES	0	0		0	0		0
TOTAL OPERATING EXPENSES	$ 66,893	$ 8,866		$ 75,759	$ 1,836		$ 77,595
OPERATING INCOME/(LOSS)	$ (8,523)			$ (17,389)			$ 21,566
WASTEWATER RATE BASE	$ 165,054			$ 226,398			$ 226,398
RATE OF RETURN	-5.16%			-7.68%			9.53%

BAYSIDE UTILITIES, INC.
TEST YEAR ENDING DECEMBER 31, 1997
ADJUSTMENTS TO OPERATING INCOME

SCHEDULE NO. 3B
DOCKET NO. 971401-WS

		WATER	WASTEWATER
A.	OPERATION AND MAINTENANCE EXPENSES		
1.	Salaries and Wages - Employees		
	a. To bring employee salaries to staff's recommended amount.	$ 12,547	$ 10,949
2.	Sludge Removal Expense		
	a. To reflect engineer recommended test year sludge expense.	$ 0	$ 825
3.	Purchased Power		
	a. To adjust to engineer recommended purchased power expen	$ 0	$ 530
4.	Chemicals		
	a. To allow engineer recommended chemical expense.	$ 0	$ 120
5.	Contractual Sevices - Professional		
	a. To include pro forma replacement of 15 manholes.	$ 0	$ 975
6.	Contractual Services - Testing		
	a. To include engineer recommended testing amount.	$ 450	$ 0
7.	Transportation Expenses		
	a. To reflect staff recommended transportation expense.	$ 1,515	$ 679
8.	Regulatory Commission Expense		
	a. To include $1,000 per system SARC filing fee amortized over 4 years.	$ 250	$ 250
	b. To reclassify regulatory assessment fees to taxes other than income.	(2,264)	(2,417)
		$ (2,014)	$ (2,167)
9.	Bad Debt Expense		
	a. To adjust bad debt expense to test year amount.	$ (3,768)	$ (3,952)
	TOTAL O & M ADJUSTMENTS	$ 8,730	$ 7,959
B.	DEPRECIATION EXPENSE		
1.	To reflect test year depreciation calculated per 25-30.140, F.A.C.	$ 2,801	$ (4,931)
2.	To reflect test year amortization expense.	(2,043)	0
3.	To include depreciation expense on pro forma plant.	0	1,766
		$ 758	$ (3,165)
C.	TAXES OTHER THAN INCOME		
1.	To reclassify regulatory assessment fees from O & M.	$ 2,264	$ 2,417
2.	To adjust to correct test year regulatory assessment fees.	85	210
3.	To adjust payroll tax for recommended salaries.	1,704	1,445
		$ 4,053	$ 4,072
D.	OPERATING REVENUES		
1.	To reflect staff's recommended increase in revenue	$ 25,303	$ 40,790
E.	TAXES OTHER THAN INCOME		
1.	To reflect additional regulatory assessment fee associated with recommended revenue requirement	$ 1,179	$ 1,836

BAYSIDE UTILITIES, INC.
TEST YEAR ENDING DECEMBER 31, 1997
ANALYSIS OF WATER OPERATION AND
MAINTENANCE EXPENSE

SCHEDULE NO. 3C
DOCKET NO. 971401-WS

	TOTAL PER UTIL.	STAFF ADJUST.	TOTAL PER STAFF
(601) SALARIES AND WAGES - EMPLOYEES	$ 6,235	$ 12,547	$ 18,782
(603) SALARIES AND WAGES - OFFICERS	0	0	0
(604) EMPLOYEE PENSIONS AND BENEFITS	0	0	0
(610) PURCHASED WATER	28,939	0	28,939
(615) PURCHASED POWER	0	0	0
(616) FUEL FOR POWER PRODUCTION	0	0	0
(618) CHEMICALS	0	0	0
(620) MATERIALS AND SUPPLIES	2,073	0	2,073
(630) CONTRACTUAL SERVICES - BILLING	0	0	0
(631) CONTRACTUAL SERVICES - PROFESSIONAL	450	0	450
(635) CONTRACTUAL SERVICES - TESTING	0	450	450
(636) CONTRACTUAL SERVICES - OTHER	3,631	0	3,631
(640) RENTS	1,919	0	1,919
(650) TRANSPORTATION EXPENSE	340	1,515	1,855
(655) INSURANCE EXPENSE	839	0	839
(655) REGULATORY COMMISSION EXPENSE	2,264	(2,014)	250
(670) BAD DEBT EXPENSE	4,513	(3,768)	745
(675) MISCELLANEOUS EXPENSES	263	0	263
	$ 51,466	$ 8,730	$ 60,196

BAYSIDE UTILITIES, INC.
TEST YEAR ENDING DECEMBER 31, 1997
ANALYSIS OF WASTEWATER OPERATION AND MAINTENANCE EXPENSE

SCHEDULE NO. 3D
DOCKET NO. 971401-WS

	TOTAL PER UTIL.	STAFF ADJUST.	TOTAL PER STAFF
(701) SALARIES AND WAGES - EMPLOYEES	$ 6,235	$ 10,949	$ 17,184
(703) SALARIES AND WAGES - OFFICERS			0
(704) EMPLOYEE PENSIONS AND BENEFITS	0	0	0
(710) PURCHASED SEWAGE TREATMENT			23,300
(711) SLUDGE REMOVAL EXPENSE	0	825	825
(715) PURCHASED POWER			1,057
(716) FUEL FOR POWER PRODUCTION	0	0	0
(718) CHEMICALS			120
(720) MATERIALS AND SUPPLIES	4,220	0	4,220
(730) CONTRACTUAL SERVICES - ENGINEERING			0
(731) CONTRACTUAL SERVICES - PROFESSIONAL	545	975	1,520
(735) CONTRACTUAL SERVICES - MANAGEMENT FEES			0
(736) CONTRACTUAL SERVICES - OTHER	2,467	0	2,467
(740) RENTS			1,385
(750) TRANSPORTATION EXPENSE	1,176	679	1,855
(755) INSURANCE EXPENSE			838
(765) REGULATORY COMMISSION EXPENSES	2,417	(2,167)	250
(770) BAD DEBT EXPENSE			745
(775) MISCELLANEOUS EXPENSES	1,719	0	1,719
	$ 49,515	$ 7,959	$ 57,474

RECOMMENDED RATE REDUCTION SCHEDULE

BAYSIDE UTILITIES, INC.
TEST YEAR ENDING DECEMBER 31, 1997

SCHEDULE NO. 4
DOCKET NO. 971401-WS

CALCULATION OF RATE REDUCTION AMOUNT
AFTER RECOVERY OF RATE CASE EXPENSE AMORTIZATION PERIOD OF FOUR YEARS

MONTHLY WATER RATES

RESIDENTIAL AND GENERAL SERVICE		MONTHLY RECOMMENDED RATES	MONTHLY RATE REDUCTION
BASE FACILITY CHARGE:			
Meter Size:			
5/8"X3/4"	$	18.89	0.06
3/4"		28.34	0.10
1"		47.23	0.16
1-1/2"		94.47	0.32
2"		151.15	0.51
3"		302.29	1.02
4"		472.33	1.60
6"		944.67	3.19
RESIDENTIAL GALLONAGE CHARGE PER 1,000 GALLONS	$	2.49	0.01

RECOMMENDED RATE REDUCTION SCHEDULE

BAYSIDE UTILITIES, INC.
TEST YEAR ENDING DECEMBER 31, 1997

SCHEDULE NO. 4A
DOCKET NO. 971401-WS

CALCULATION OF RATE REDUCTION AMOUNT
AFTER RECOVERY OF RATE CASE EXPENSE AMORTIZATION PERIOD OF FOUR YEARS

MONTHLY WASTEWATER RATES

RESIDENTIAL AND GENERAL SERVICE		MONTHLY RECOMMENDED RATES	MONTHLY RATE REDUCTION
BASE FACILITY CHARGE:			
Meter Size:			
5/8"X3/4"	$	20.81	0.05
3/4"		31.21	0.08
1"		52.01	0.14
1-1/2"		104.03	0.27
2"		166.44	0.44
3"		332.89	0.88
4"		520.13	1.37
6"		1,040.27	2.75
RESIDENTIAL GALLONAGE CHARGE PER 1,000 GALLONS (10,000 GALLON MAX. PER MONTH)	$	5.24	0.01
GENERAL SERVICE GALLONAGE CHARGE PER 1,000 GALLONS	$	6.29	0.02

ATTACHMENT "A"

WATER DISTRIBUTION SYSTEM — USED AND USEFUL DATA

Docket No. 971401-WS Utility Bayside Utilities, Inc. Date 03/10/98

1) Capacity 307 ERC's (Number of potential customers without expansion)

2) Average number of TEST YEAR Connections 228 ERC's day

3) Margin Reserve (Not to exceed 20% of present ERC's)

   a) Average yearly customer growth in ERC's for most recent 5 Years 5 ERC's *

   b) Construction Time for Additional Capacity 1.5 Years

   (a) x (b) = 7.5 ERC's Margin Reserve

PERCENT USED AND USEFUL FORMULA

$$\frac{(2 + 3)}{1} = 76.55\ \%\ \text{Used and Useful}\ **$$

* After Hurricane Opal, the utility's growth dropped to zero. However, this is a mobile home park with services available that provide access to the gulf via the bay. It is anticipated the utility will experience growth in the near future. An allowance of 5 ERCs have been calculated into the margin reserve to adjust for future anticipated growth.

** It was determined in the last rate case, and should be held in this rate case that no less of a system could serve the existing number of customers, and the water distribution should be considered 100% used and useful.

Robert T. Davis - Engineer

ATTACHMENT "B"

WASTEWATER COLLECTION SYSTEM — USED AND USEFUL DATA

Docket No. 971401-WS Utility Bayside Utilities, Inc. Date 03/10/98

1) Capacity of present collection system 307 ERC's

2) Average number of connections for the Test Year 228 ERC's

3) Margin Reserve (not to exceed 20% of present ERC's):

a) Average Yearly Customer Growth in ERC's for Most Recent 5 — 5 *

c) Construction Time for Additional Capacity — 1.5 Years

(a) x (b) = 7.5 ERC's Margin Reserve

PERCENT USED AND USEFUL FORMULA

$$\frac{(2 + 3)}{1} = 76.55\ \%$$ Used and Useful

* After Hurricane Opal, the utility's growth dropped to zero. However, this is a mobile home park with services available that provide access to the gulf via the bay. It is anticipated the utility will experience growth in the near future. An allowance of 5 ERCs have been calculated into the margin reserve to adjust for future anticipated growth.

** It was determined in the last rate case, and should be held in this rate case that no less of a system could serve the existing number of customers, and the collection system should be considered 100% used and useful.

Robert T. Davis Engineer