FLORIDA PUBLIC SERVICE COMMISSION
Capital Circle Office Center ● 2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

RECEIVED-FPSC
99 AUG 18 PM 4:16
RECORDS AND REPORTING

M E M O R A N D U M

AUGUST 19, 1999

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

FROM: DIVISION OF WATER & WASTEWATER (CHU, DEWBERRY, MUNROE)
DIVISION OF LEGAL SERVICES (JAEGER)

RE: DOCKET NO. 980242-SU - LINDRICK SERVICE CORPORATION - APPLICATION FOR LIMITED PROCEEDING TO INCREASE WASTEWATER RATES
COUNTY: PASCO

AGENDA: 08/31/99 - REGULAR AGENDA - PROPOSED AGENCY ACTION, EXCEPT ISSUE 21 - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: I:\PSC\WAW\WP\980242.RCM

DOCUMENT NUMBER-DATE
09844 AUG 18 99
FPSC-RECORDS/REPORTING

TABLE OF CONTENTS

CASE BACKGROUND

Lindrick Service Corporation (Lindrick or utility) is a Class B utility located in Pasco County (County). According to the utility's annual report, for the year ended December 31, 1997, the utility provided water and wastewater services to approximately 2,283 water customers and 2,203 wastewater customers.

Lindrick's last rate case was finalized on November 16, 1983, by Order No. 12691, in Docket No. 830062-WS. By that order, rate base was established and the return on equity was set at 14.38% for both water and wastewater. In Docket No. 860089-SU, the Commission initiated an overearnings investigation and lowered rates for the wastewater system only. Pursuant to Order No. 16142, issued May 23, 1986, the return on equity was lowered to 12.65% for the wastewater system. The Commission approved index and pass-through increases in both March and December of 1995.

By Order No. PSC-97-1501-FOF-WS, issued November 25, 1997 in Docket No. 961364-WS, the Commission addressed Lindrick's 1995 earnings level and the disposition of wastewater revenues collected subject to refund. Based on the revenue deficiency of $81,594 for the water system and the revenue excess of $26,910 for the wastewater system, the Commission found that on a combined basis the company had a $54,684 revenue deficiency. The customers and service area are virtually the same for both water and wastewater, and Lindrick as a whole was earning below its authorized rate of return. The Commission also found that the interest of both the customers and the utility would be best served by allowing the utility to offset the overearning in the wastewater system by the underearning in the water system.

On February 12, 1998, Lindrick filed an application, pursuant to Section 367.0822, Florida Statutes, for a limited proceeding to increase its wastewater rates. This requested increase in wastewater rates was based upon the Florida Department of Environmental Protection's (DEP) Notice of Violation and Orders for Corrective Action issued on January 13, 1998, and the resulting increase in cost of the wastewater operation. In the Notice of Violation and Orders for Corrective Action, DEP ordered Lindrick to eliminate intrusion/infiltration into Lindrick's collection system and to meet the effluent limits of the permit or initiate actions that would cease surface water discharge into Cross Bayou.

Lindrick decided to take its wastewater treatment plant off line, ceasing surface water discharge, and send the raw effluent to the City of New Port Richey (City) in order to comply with DEP's requirements. The City then sends the treated wastewater to the

County's reuse system. Effluent chloride is an inherent problem for Lindrick, given the location of its service area and the age of the system. The Gulf Harbors and Sea Forest communities were created over 40 years ago by dredging and filling in the Gulf of Mexico. The clay tile wastewater collection system is literally submerged in salt water under high tide conditions and infiltration of some salt water into the system through the aging pipes is unavoidable.

The County's reuse system limits the chloride level of the water entering the system. (Reuse water is primarily used for irrigation and excess chlorides are detrimental to plant life). In order to meet the required chloride level so that Lindrick's effluent treated by the City can be accepted into the County's reuse system, it was necessary for Lindrick to improve its collection system to further reduce the chloride level. Previous improvements have resulted in a reduction in effluent chlorides. However, the aging clay pipes are a limiting factor which needed to be addressed to achieve additional significant improvement. Large sections of the collection system had to be relined or repaired to accomplish this reduction in infiltration.

In its original application, Lindrick requested an emergency rate increase of 47.13% effective immediately, and a second rate increase of 130.12% effective upon the completion of the interconnection with the City. At that time, Lindrick was still negotiating with the City for an agreement. On May 18, 1998, the New Port Richey City Council approved a Bulk Wastewater Agreement between the City and Lindrick. Under the terms of the Agreement, actual connection to the City was conditioned on proof that the chloride levels in Lindrick's wastewater system effluent do not exceed 600mg/L.

On March 10, 1998, staff requested an audit to determine the utility's earning level for the historical year ended December 31, 1997. The audit report dated August 18, 1998 and the revised audit report dated November 9, 1998 address the requested audit for this case.

On September 3, 1998, Lindrick filed its first revised application, which changed the emergency rate increase previously requested to a request for a non-emergency Phase-I increase of 84.95% to allow recovery of the cost of (a) collection system improvements necessary to reduce chloride level; and (b) the City's bulk wastewater treatment rate. The requested Phase-II rate increase was 131.55% to allow the recovery of (a) the remaining investments and costs associated with the interconnection, including the cost of collection system improvements necessary to further reduce the chloride level below 400mg/L; (b) the return on the investments based on the utility's approved rate of return; and (c) the additional contractual services expenses.

On February 17, 1999, a customer meeting was held in the utility's service area. Approximately 350 customers attended. The majority of customers stated that the utility's requested rate increase of 131.55% is too high. Customers stated that the utility is and has been managed poorly over the years and stated that the customers should not have to pay for the utility's negligence. Customers also stated that the quality of water is bad, and they addressed concerns about the utility's slow response to customer complaints, odor, frequent line breaks and low pressure. In addition, the Commission has received and responded to approximately 150 written customer concerns since the customer meeting. Customer concerns are addressed in quality of service Issue No. 5.

During the customer meeting and in letters received from customers after the meeting, customers indicated that construction of high rise buildings had taken place after the audit's test year ended December 31, 1997. Customers wanted to know whether the new connections after 1997 would be included in the calculation of the increase required for the interconnection. During the processing of this case, staff requested billing determinants to include customer growth after 1997.

On April 19, 1999, Lindrick submitted its second amended petition to request a Phase-I wastewater rate increase of 133.26%, and a Phase-II wastewater rate increase of 142.67% assuming no change in related party services. The requested Phase-II wastewater rate increase is 158.13% if all related party expenses are replaced with contract services from third parties. The second amended petition also adds a proposed water rate increase of 19.05% for Phase-II assuming no change in related party services. The requested Phase-II water rate increase is 40.64% if all related party expenses are replaced with contract services from third parties. The utility's petition represents that the water rate increase is requested due to underearning experienced by the water operation for the year ended December 31, 1997. The second amended petition also stated that "the required new transfer pumping facility would be completed prior to May 12, 1999. Under the Bulk Wastewater Agreement with the City, Lindrick was required to commence bulk wastewater treatment on or before May 12, 1999 or risk termination of the Agreement by the City." The petition stated that "Lindrick also faced substantial monetary penalties under the DEP Consent Order if bulk treatment service from the City was not commenced prior to May 19, 1999." Consequently, Lindrick requested an emergency, temporary increase in wastewater rates to recover the cost for the Phase-I wastewater revenue requirement prior to May 12, 1999.

By Order No. PSC-99-1010-PCO-SU, issued May 20, 1999, the Commission approved a 59.89% increase in revenue for emergency rates on a temporary basis for the utility. These rates were approved subject to refund pending the Commission's final decision. The utility provided an irrevocable letter of credit for security for a potential refund and the emergency temporary rates became effective May 27, 1999.

In its application for the rate increase, the utility requested an across the board percentage increase to existing rates. Its calculation included the increase in plant improvements required for the interconnection and changes for operating expenses affected by the interconnection. The utility interconnected with the City on May 28, 1999. Staff believes that the increase for interconnection should be calculated to determine a revenue requirement to allow the utility to recover the appropriate return on its investment and operating expenses based on a projected rate base and operating expenses after the interconnection. In addition, the rates should be calculated to include projected customer growth. This recommendation addresses the utility's request for a limited proceeding, its earnings posture at December 31, 1997 and projected earnings posture at December 31, 1999.

OVEREARNINGS INVESTIGATION

ISSUE 1: What is the appropriate rate base for the utility's wastewater system at December 31, 1997?

RECOMMENDATION: The appropriate rate base for the utility's wastewater system at December 31, 1997 should be $306,115. (CHU, DEWBERRY)

STAFF ANALYSIS: The utility's wastewater rate base was established at December 31, 1995 by Order No. PSC-97-1501-FOF-WS, issued November 25, 1997, in Docket No. 961364-WS. An audit has been completed for this case using a test year ended December 31, 1997. A discussion of staff's adjustments follows:

Utility Plant in Service (UPIS) - The utility recorded $2,713,249 in this account at December 31, 1997. This account has been increased by $12,990 to reconcile the utility's balance at December 31, 1995 with the balance approved in Order No. PSC-97-1501-FOF-WS. Audit Exception No. 2 states that the utility purchased a new ABS pump for $4,203 in November, 1996. The utility capitalized the cost of this pump to Account No. 320 - Water Treatment Equipment. The pump is used for one of the lift stations. The utility stated that the cost of the replaced pump was $1,047. Therefore, UPIS has been increased by $4,203 to reflect a reclassification from water UPIS and decreased by $1,047 to reflect the retirement of the old pump.

Based on audit workpapers for wastewater, the utility recorded a plant cost of $4,713 in Account No. 371 and an invoice was not available. This amount was not included in an audit disclosure, but an adjustment was made on the workpaper. UPIS has been decreased by $4,713 to remove an undocumented cost of plant.

Audit Exception No. 2 states that the utility recorded two repair charges to plant Account Nos. 371 and 380, respectively in the amounts of $453 and $1,023. It also states that a sludge hauling expense of $6,000 was recorded in Account No. 380. UPIS has been decreased by $453 to reflect a reclassification from Account No. 371 to Account No. 775, a decrease of $1,023 to reflect a reclassification from Account No. 380 to Account No. 775 and a decrease of $6,000 to reflect a reclassification from Account No. 380 to Account No. 711.

Audit Exception No. 8 states that the utility's contract operator, H20 Utility Services, sent the utility two invoices totaling $4,673 for improving the functionality of its Lift Station No. 2. Rule 25-30.140(1)(g), Florida Administrative Code, states that any replacement with a retirement unit that materially enhances the value, use, life expectancy or capacity of the asset prior to replacement shall be capitalized. Following this guideline, staff has increased UPIS by $4,673 to reflect a lift station improvement.

Audit Exception No. 2 and audit workpapers addresses blower filter silencers replacements costs of $1,520 and repair expenses of $102. UPIS has been decreased by $1,520 and $102 to reflect a reclassification of repair costs to Account No. 775. The total adjustment for UPIS is $7,009.

The utility's recorded wastewater plant included a plant addition in 1995 of $121,962 in Account No. 360. This amount was not included in the plant balance at December 31, 1995, that was approved by Order No. PSC-97-1501-FOF-WS. In Audit Exception No. 2, in the audit report dated November 9, 1998, it is stated that the cost for this plant was unsupported and it was recommended that this amount be removed from plant. However, the utility has responded to the audit and provided documentation of plant costs to staff. A review of the utility's 1995 annual report shows this amount as an addition also. Therefore, no adjustment is necessary.

Contributions-in-Aid-of-Construction (CIAC) - The utility recorded $2,455,018 in CIAC at December 31, 1997. Audit Exception No. 4 states that the utility made an unsupported credit adjustment in the amount of $252,597 to wastewater CIAC. The utility's recorded amount has been decreased by $252,597 to reflect the appropriate balance of $2,202,421.

Order No. PSC-97-1501-FOF-WS established CIAC of $2,220,281 at December 31, 1995. Audit Exception No. 4 states that the utility did not adjust its 1996 general ledger to agree with this Order. CIAC has been increased by $26,430 to agree the utility's recorded balance with the Order. In addition, Audit Exception No. 4, states that the utility's recorded CIAC should be decreased by $1,920 to reflect a reclassification to water CIAC. The total downward adjustment for this account is $228,087, which results in a CIAC balance of $2,226,931.

Accumulated Depreciation - The utility recorded $1,282,793 in accumulated depreciation at December 31, 1997. Accumulated depreciation at December 31, 1995, per Order No. PSC-97-1501-FOF-WS, is $1,148,686. Depreciation has been calculated using the rates prescribed by Rule 25-30.140, Florida Administrative Code, for the period January, 1996 through December 31, 1997. The calculated depreciation reflects all adjustments made to plant including the retirement of the pump. This account has been increased by $52,228 to reflect accumulated depreciation at December 31, 1997. This account has also been decreased by $1,047 to reflect the retirement of a pump. The total adjustment for this account is an increase of $51,181.

Amortization of Acquisition Adjustment - A negative acquisition adjustment was approved in a rate proceeding for this utility's wastewater system by Order No. 8373. Order No. PSC-97-1501-FOF-WS established amortization of the acquisition adjustment of $15,733 at December 31, 1995. Amortization has been updated through December 31, 1997 and the year-end amount is $16,769. The utility recorded $17,126 in this account. This account has been decreased by $357 to reflect amortization of the acquisition adjustment at December 31, 1997 of $16,769 for wastewater.

Amortization of CIAC - Order No. PSC-97-1501-FOF-WS, established amortization of CIAC for wastewater at December 31, 1995 of $915,828. Amortization of CIAC has been updated through December 31, 1997, and accumulated amortization at December 31, 1997 is $1,067,004. The utility recorded accumulated amortization of CIAC of $1,225,302 at December 31, 1997. This account has been decreased by $158,298 to reflect the appropriate amount of amortization of CIAC at December 31, 1997.

Working Capital Allowance: Consistent with Rule 25-30.433, Florida Administrative Code, staff recommends that the one-eighth of operation and maintenance expense formula approach be used for calculating working capital allowance. Applying that formula, staff recommends a working capital allowance of $68,537 (based on O&M of $548,298).

Rate Base Summary: Based on the foregoing, the appropriate rate base for the utility's wastewater system at December 31, 1997 should be $306,115.

ISSUE 2: What is the appropriate test year revenue for wastewater for 1997?

RECOMMENDATION: Test year revenue should be $761,554. (CHU, DEWBERRY)

STAFF ANALYSIS: The utility recorded test year revenue of $656,313 for wastewater. In its application dated September 3, 1998, the utility provided billing determinants for calculating annualized revenue. These determinants included the number of bills and billed consumption for residential and general service customers based on meter-size. The utility was granted an increase in its wastewater rates through the application of a pass-through rate adjustment that became effective December 13, 1997. Annualized revenue for wastewater using the billing determinants provided by the utility and the rates that became effective December 13, 1997 is $761,554. Therefore, staff recommends test year revenue of $761,554, as shown on schedule No. 3.

<u>ISSUE 3</u>: What is the appropriate amount for operating expenses for wastewater for 1997?

<u>RECOMMENDATION</u>: The appropriate amount for operating expenses for wastewater for 1997 should be $636,250. (CHU, DEWBERRY)

<u>STAFF ANALYSIS</u>: The utility's operating expenses includes operation and maintenance expense, depreciation expense, amortization expense, taxes other than income and income taxes. The utility's test year expenses have been adjusted to reflect staff's recommended totals, which include some adjustments from the staff audit and some adjustments requested by the utility.

<u>Operation and Maintenance Expense (O&M)</u>

<u>(701) Salary and Wages - Employees</u> - The utility recorded $50,598 in this expense. Based on information received from the utility, it employed six employees during the test year. The six employees included a customer service manager, three licensed plant operators, a maintenance and repair supervisor and a maintenance and repair assistant. Some of these employees were hired during the year and were not on the payroll for a full year. Therefore, the recorded salaries are understated. The information the utility provided included the annual salary, the allocation of salaries for each system and the duties performed by each employee.

The customer service manager handles calls, customer billing input (meter readings and payments) and check and mail reports required by regulatory agencies. This employee is also responsible for all other reports along with invoice transmittals and deposits. This employee earns $22,880 annually. The utility allocates 50%, $11,440 to water and wastewater each. Staff recommends an annual salary of $11,440 for the customer service manager for wastewater for 1997.

The three plant operators were responsible for duties required for operation and maintenance of the system. In addition, they handled sampling. The operators annual salaries were $22,880, $21,840, and $24,960 for a total of $69,600. The utility allocated 95% of the operators salaries to wastewater for a total of $66,196. Staff recommends an annual salary of $66,196 for the three operators for 1997.

The maintenance supervisor supervises water and wastewater repair and replacements. This employee also re-reads meters and does final readings on meters. In addition, this employee maintains and checks lift stations and is on call twenty-four hours per day. The supervisor's annual salary is $16,900. The utility allocated 50%, $8,450 to wastewater for the supervisor for 1997. Staff recommends an annual salary of $8,450 for the maintenance supervisor for 1997.

The assistant supervisor assists with water and sewer repair and replacements. This employee also checks lift stations, re-reads meters and replaces meters. This employee's annual salary is $13,104. The utility allocates 50%, $6,552, of this salary to wastewater. Staff recommends an annual salary of $6,552 for the assistant supervisor for 1997.

Staff is recommending a total salary of $92,638 for employees in 1997 to reflect annualized employee salaries. The utility recorded $55,598. This expense has been increased by $42,040 to reflect annualized employee salaries for 1997.

<u>(703) Salaries and Wages - Officers</u> - The utility recorded $46,590 in salaries for the utility's president and operations manager. This amount includes $30,990 for the president and $15,600 for the office manager. Audit exception No. 5 states that the utility's general ledger included an unsupported year end accrual for a salary increase of $15,000, or $7,500 each for water and wastewater. This exception states that the president's salary should be decreased by $7,500.

In its response to the audit, the utility disagrees with this adjustment and states that Mr. Borda has been paid a salary of $44,980 since the mid-1980's. It also stated that since that time, the president has had no salary increase even though his duties and time spent conducting utility business increased as the utility continued to grow. The utility stated that the utility's president annual compensation should be $61,980 which includes $59,980 in salary and $2,000 for an individual retirement account (IRA).

However, the audit provided a schedule prepared by the utility that lists the annual salary for the president of $60,000 annually with a 50% allocation to water and wastewater each. The utility's president oversees all operations of the utility. Staff believes that $60,000 for 1997 is reasonable for the duties performed by the president. This expense has been decreased by $990 to reflect an annual salary with a 50% allocation to wastewater of $30,000.

The operations manager is employed part-time and earns $31,200 annually. The utility allocates 50% of this salary to water and wastewater each. The operations manager assists the president and staff daily, manages operations, bids out work to be performed and assists customers as required. Staff believes that the recorded salary of $31,200 is reasonable for 1997 for the duties performed by the operations manager; therefore, no adjustment is necessary.

(704) Pensions and Benefits - The utility recorded $14,367 in this account. Audit Exception No. 5 states that this amount included $1,000 that was charged to the utility for the president's IRA account. This exception recommends a decrease of $1,000 to remove this non-utility expense. In its response to the audit, the utility states that the IRA is a part of the president's total compensation and this expense should not be decreased.

The National Association of Regulatory Utility Commisioners (NARUC) Uniform System of Accounts (USOA) states that employee pensions and benefits shall include all accruals under pension plans to which the utility has irrevocably committed such funds and payments for employee accident, sickness, hospital and death benfits or insurance therefor. It also includes expenses for medical, educational or recreational activities of employees. In addition, the utility requested the $1,000 IRA as a part of the president's compensation as addressed in Account No. 703. This expense does not fall into the category of an employee pension and benefit and the recommended salary of the president has been addressed previously. Therefore, this expense has been decreased by $1,000 to remove this non-utility expense.

(711) Sludge Removal - The utility recorded $85,936 in this expense. Audit Exception No. 5 states that an out-of-period expense of $1,715 was charged to this account. This expense has been decreased by $1,715 to remove an out-of-period expense per the audit. It has been increased by $6,000 to reflect a reclassification from plant Account No. 380. The total adjustment for this expense is an increase of $4,285 to reflect annual sludge removal expense of $90,221.

(715) Purchased Power - The utility recorded $32,574 in this expense. Audit Exception No. 5 states that the utility allocated purchased power equally between water and wastewater. An analysis of the power bills indicated that the water utility was overcharged by $20,885. This expense has been increased by $20,885 to reflect the appropriate annual expense per the audit.

(720) Materials and Supplies - The utility recorded $27,517 in this expense. Audit Exception No. 5 states that the utility expensed materials for capital items in the amount of $5,286. The costs are comingled and cannot be assigned to specific accounts. This expense has been decreased by $5,286 to reflect a reclassification to Account No. 775.

Audit Exception No. 4 states that this expense includes a refund to the utility of $1,018 for various operation and maintenance expenses. It also states that the expense includes expensed labor and materials for back flow prevention devices in the amount of $3,592. This expense has been decreased by $1,018 to remove a non-utility expense and decreased by $3,592 to reflect a reclassification of back flow prevention devices costs to water plant. The total adjustment for this expense is a decrease of $9,896.

Related party Contractual Services

Borda Engineers and Energy Consultants (Borda), a related company, provides contractual engineering, accounting and management services for the utility. Based on the staff Audit Exception No. 5, some checks drawn by the utility to Borda engineering were not supported by invoices or coding notes. The checks charged were: engineering, $5,140 for water and $45,371 for wastewater; accounting, $27,662 for water and $46,253 for wastewater; and management services, $6,917 for water and $11,563 for wastewater. The audit recommended that the unsupported engineering, accounting and management expenses be removed from the utility's O&M expenses.

In its responses to staff's audit, dated September 24, 1998, the utility provided signed contracts, dated December 27, 1993, between the utility and Borda Engineers & Energy Consultants, for engineering and administrative services. The administrative services include management and accounting. Based on the contract, contractual services included the following for 1997.

1. Monitor all test reports and operating records as they relate to permit parameters.
2. Communications as required with local operators, laboratories and regulatory agencies.
3. Prepare technical data required for Annual Reports and Rate Adjustment Applications.
4. Complete and file for permits with regulatory agencies.
5. Prepare bid documents, solicit and review bids for work performed for retrofit and repair programs.
6. Administer construction contracts.
7. Maintain records of maintenance and repairs.
8. Recommend improvements to operating and maintenance programs.
9. Upon direction, undertake special studies, engineering analysis and design for capital improvement projects.

Borda provides administrative services for $6,600 per month. Of this amount, $1,320 is booked to management per month with an allocation of $488 per month to water and $832 to wastewater. Therefore, the annual management expense for wastewater is $9,984. The annual accounting services is $5,280 per month with a monthly allocation of $1,954 for water and $3,326 for wastewater. The annual accounting expense is $39,912. Borda contractual services included the following administrative services in 1997.

1. Prepare monthly general ledger and compile financial statements.
2. Payroll functions for Lindrick Service Personnel including tax payments and returns.
3. Personnel vacation leave, sick time and personal leave accrual tracking.
4. Provide Accounts Payable and Accounts Receivable services.
5. Prepare Index Adjustment for Rate increases.
6. Prepare PSC Annual Report.
7. Provide individual cost tracking of any specific projects upon request.
8. Supervise purchasing procedures for equipment, supplies and related purchases.
9. Maintain accurate and complete records on Utility Operation and Maintenance.
10. Ensure that all reporting requirements for Florida Administrative Code are met.

In addition, the utility provided copies of invoices for Borda engineering and administrative services for 1997. It also provided a schedule of hourly billing that included task codes and descriptions for each code.

Staff believes that related party transactions require close scrutiny. However, the fact that the transaction is between related parties does not mean the transaction is unreasonable. It is the utility's burden to prove that its costs are reasonable. Florida Power Corp. v. Cresse, 413, So. 2d 1187, 1191 (Fla. 1982). The burden is even greater when the transaction is between related parties. In GTE Florida Inc. v. Deason, 642 So. 2d 545 (Fla. 1994), the court established that the standard to use in evaluating affiliate transactions is whether those transactions exceed the going market rate or are otherwise inherently unfair.

The utility submitted copies of bids from other companies showing the cost they would charge for engineering, accounting, and management services. The costs were based on services provided by Borda in 1997. All of the costs in the bids from other companies exceeds the amounts charged by Borda. In addition, staff reviewed the contractual services provided by Borda in 1997 and believes that the costs are reasonable for the services provided. Contractual services provided by Borda are addressed in Account Nos. 731, 732 and 734.

(731) Contractual Services (Engineering) - The utility recorded $57,339 in this account. Audit Exception No. 5 states that the utility charged some 1996 expenses in the test year. The 1996 expenses include an engineering expense of $3,283 and a $6,000 expense for a valuation study dealing with the possible sale of the utility to the City of New Port Richey. The total expense for 1996 is $9,282 with $4,641 charged to water and wastewater each. This expense has been decreased by $4,641 to remove a prior period expense.

The contractual cost for Borda's engineering service for wastewater is $63,255 annually. This expense has been increased by $10,557 to reflect the appropriate engineering expense for 1997. The total adjustment for this increase is $5,916.

(732) Contractual Services (Accounting) - The utility recorded $46,647 in this expense. The contractual cost for Borda accounting services is $39,912 annually. This expense has been decreased by $6,735 to reflect the appropriate accounting expense for 1997.

(733) Contractual Services (Legal) - Audit Exception No. 5 states that the utility paid a non-utility legal expense of $1,527 and a prior period legal expense of $2,843 in 1997. One half of the total was allocated to water and wastewater each. The utility recorded $6,484 in this expense. This expense has been decreased by $1,421 to remove a non-utility expense and decreased by $764 to remove a prior period expense. The total adjustment for this expense is a decrease of $2,185.

(734) Contractual Services (Management) - The utility recorded contractual management service expense of $11,152. The annual contractual amount is $9,984. This expense has been decreased by $1,168 to reflect the appropriate contractual management expense for 1997.

(736) Contractual Services (Other) - The utility recorded $94,701 in this expense. Audit Exception No. 5 states that the utility's documentation for an accounting expense of $6,277 for wastewater did not indicate any utility benefit. The exception also states that the expense should be decreased by $6,277.

In its response to staff's audit, the utility states that this charge is for the outside Certified Public Accountant (CPA) for year-end adjusting entries, maintenance of book and tax depreciation schedules, preparation of financial statements and preparation of the state and federal income tax returns.

Staff believes that these accounting services are included as a service provided by Borda Engineering and Energy Consultants in its signed contract. Therfore, since staff is recommending that the full contractual amount for accounting and management services in Account Nos. 732 and 734 be allowed, staff is recommending this expense be decreased by $6,277. Further, staff is also recommending that this account be decreased by $7,414 to reflect a reclassification to Account No. 765.

In addition, Audit Exception No. 5 states that the utility expensed costs for various plant repairs and replacements totaling $5,523 for wastewater. This expense has been decreased by $5,523 to reflect a reclassification to Account No. 775. This expense has also been decreased by $850 to reflect a reclassification to Account No. 775 per the audit.

<u>(750) Transportation Expense</u> - The utility recorded $12,000 in this expense. Audit Exception No. 5 states that the utility incurred an expense of $8,103 for a car lease, which had no utility identification. In its response to the staff audit, the utility stated that this lease amount was for the lease of a Lexus for the president. It further stated that although it agrees that the Commission probably would not approve the full lease expense for this type of automobile, there should be some provision for an automobile expense. The utility requested a transportation expense in the amount of $3,840 based upon 12,000 miles per year times $.32 per mile. Staff believes that this amount is reasonable. Therefore, staff is recommending that this expense be decreased by $8,103, the amount of the lease for the Lexus. This results in a balance of $3,897 annually. Since this amount is in line with the utility's requested amount, no further adjustment is necessary.

<u>(765) Regulatory Commission Expense</u> - The utility recorded $6,000 in this expense. This expense has been increased by $7,414 to reflect a reclassification of rate case expense from Account No. 736. Audit Exception No. 5 states that the utility charged both the 1997 and 1998 wastewater annual DEP fees to 1997 wastewater expenses at $6,000 each. $6,000 is included in this expense. This expense has been decreased by $6,000 to remove a prior period expense. It has also been decreased by $5,560 to reflect rate case expense amortized over four years. The total adjustment for this expense is a decrease of $4,146.

(770) Bad Debt Expense - Per the audit, the utility wrote off 1994, 1995 and 1996 bad debts in the 1997 test year. The utility charged $7,997 bad debt to wastewater. There were no bad debts charged during the test year. Since the expense per year data was not available, an average of one-third of each amount should be allowed. Therefore, this expense has been decreased by $5,332 allowing $2,665 annually.

(775) Miscellaneous Expense - The utility recorded $859 in this expense. This expense has been increased to reflect reclassifications from Account No. 735 by $5,523, by $5,286 from Account No. 720, by $850 from Account No. 735 and by $3,098 from plant Account Nos. 371, 380 and 397. Total reclassifications equal $14,757. The majority of the reclassified expenses are for repairs and maintenance. Repair costs should decrease after the interconnection with the City. Therefore, staff has amortized the total reclassified expenses over 5 years and has decreased this expense by $11,806 to reflect the appropriate miscellaneous expense for 1997. The total adjustment for this expense is an increase of $2,951 for an annual expense of $3,810.

Operation and Maintenance Expenses (O&M) Summary - Total operation and maintenance expense adjustments are an increase of $16,458. Staff recommends O&M expenses of $548,298.

Depreciation Expense (Net of Amortization of CIAC) - The utility recorded depreciation expense of $13,002 on its books for wastewater. Using the rates prescribed by Rule 25-30.140, F.A.C., staff calculated depreciation expense of $93,165. Staff's calculated amortization of CIAC is $75,938. Depreciation expense net of amortization of CIAC is $17,227. This expense has been increased by $4,225 to reflect net depreciation for 1997.

Amortization of Acquisition Adjustment - The utility did not record amortization of the Commission approved negative acquisition adjustment. This expense has been adjusted to reflect test year amortization of $518.

Taxes Other Than Income - The utility recorded $50,525 in this account. This expense has been increased by $6,310 to reflect the appropriate regulatory assessment for annualized revenue for 1997. It has also been increased by $16,455 to reflect payroll taxes on recommended salaries. Audit Exception No. 6 states that the utility's recorded total includes penalties totaling $2,047 for wastewater. This expense has been decreased by $220 to remove a non-utility property tax expense and decreased by $1,827 to remove a tax penalty for a total penalty decrease of $2,047. The total adjustment for this expense is an increase of $20,718.

Income Tax Expense - The utility is an 1120 Corporation. The utility did not record an income tax expense. For the purpose of determining whether the utility is overearning staff has calculated an income tax expense consistent with the capital structure approved in Order No. PSC-97-1501-FOF-WS. Staff's calculated income tax expense is $42,659 for wastewater operation on a stand alone basis. A copy of the utility's 1996 tax return was included in the audit workpapers. Base on this tax return, the utility has a tax loss carryforward of $254,566 for 1996. This loss carryforward is based on the combined earning and income for water and wastewater. Therefore, staff has calculated income and income tax expense for water and wastewater combined for 1997, using the staff audit to determine an income tax expense for the total company. Staff's calculated annual income tax expense for the total company for 1997 is $6,808. Staff believes that the tax carryforward loss for 1996 will allow an offset for total income for 1997. Therefore, staff recommends no income tax expense for 1997.

Operating Expenses Summary - The application of staff's recommended adjustments to the utility's recorded operating expenses results in staff's recommended operating expenses of $636,250.

ISSUE 4: Did Lindrick's wastewater system earn in excess of its authorized rate of return on equity for the year ended December 31, 1997?

RECOMMENDATION: Yes, Lindrick's wastewater system earned in excess of its authorized rate of return for the year ended December 31, 1997. However, once the wastewater overearnings are netted against the water system's underearning, Lindrick did not overearn on a total company basis. (CHU, DEWBERRY)

STAFF ANALYSIS: Issues 1, 2, and 3 address the utility's rate base, revenues and operating expenses for the 1997 year for wastewater. Based on staff's recommended rate base, test year revenues and operating expenses, the utility's wastewater system's net operating income was $125,304 and its achieved rate of return was 40.93% for 1997.

The utility's most recent authorized return on equity for wastewater was approved by Order No. PSC-97-1501-FOF-WS, issued November 25, 1998. The capital structure in this order includes 39.95% debt with a cost of 9.75% and a weighted cost of 3.90%. It also includes 60.05% of equity with a cost of 9.77% and a weighted cost of 5.86%. The range for the return on equity is 8.77% - 10.77%. Using the high range of the return on equity approved in the above referenced order, staff calculated an overall rate of return of 10.37% to determine the utility's wastewater overearnings posture. Staff's calculation is as follows:

Achieved Rate of Return	40.93%
Overall Rate of Return (incl. high end of ROE)	(10.37)%
Overearnings Posture for 1997	30.56%

Based on staff's recommended rate base, revenue, operating expenses and adjustments to the capital structure approved in Order No. PSC-97-1501-FOF-WS, Lindrick's wastewater system earned in excess of its authorized rate of return for the year ended December 31, 1997. However, the utility's water system is operating at a loss. The utility's customers and service area is virtually the same for water and wastewater and the utility as a whole is earning below its authorized rate of return. Therefore, consistent with the Commission's decision in Order No. PSC-97-1501-FOF-WS, in Docket No. 961364-WS, staff recommends that, although the wastewater system experienced overearnings for 1997, once these are netted against the utility's water system's underearning, the utility did not overearn.

QUALITY OF SERVICE

ISSUE 5: Is the quality of service provided by Lindrick satisfactory?

RECOMMENDATION: No, the quality of service provided by Lindrick to its customers is not satisfactory. The utility should be monitored by staff to insure improvements are made and should be directed to respond in writing in six months as to the progress made in the area of complaint responsiveness. (MUNROE)

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 utility operations:

(1) Quality of the utility's product (water and/or wastewater),
(2) Operational condition of the utility's plant or facilities and
(3) Customer satisfaction

Quality of Utility's Product

In order to assess the overall quality of service provided by the utility, the quality of the product (water and/or wastewater) must be evaluated. This evaluation consists of a review of the utility's current compliance with DEP and Health Department (water and wastewater) standards.

In August 1997, DEP conducted an inspection and a number of violations were discovered. Subsequent inspections revealed other violations, the result of which was the January 13, 1998 Consent Order (OGC File No. 98-0025, DOAH Case No. 98-1226) which listed 13 counts on which the order was based. The thirteen counts are as follows:

1. failure to obtain a permit to build the collection system for The Landings of St. Andrews;
2. failure to maintain The Landings collection as to standards required for flood events;
3. failure to maintain The Lindrick Collection System to prevent inflow/infiltration which introduced excessive chlorides to the plant;
4. failure to meet effluent standards for nitrogen, total chloride, dissolved oxygen and copper;
5. use of inaccurate test methods;
6. failure to use prescribed testing procedures in testing for chemicals found in Count IV;

7. submitting inaccurate and incomplete effluent reports;
8. discharging effluent that is chronically toxic;
9. failure to meet standards for repeat testing for *M. Bahia* after a failed test;
10. failure to submit the September 1997 DMR form in the specified time;
11. failure to have a Class B licensed operator on duty as required at the time of DEP inspections;
12. failure to commence construction required by their permit; and
13. DEP incurred excessive cost investigating this matter.

The conclusion of The Consent Order was that Lindrick be required to perform extensive repair to the collection system and repair its plant to meet standards or interconnect with a regional facility. As pointed out in the Consent Order, Counts 1 - 13, Lindrick was not meeting DEP standards for effluent. Although the utility is now taking steps to correct these problems, the utility has allowed these conditions to exist for at least ten years. Therefore the quality of the utility's product should be considered unsatisfactory.

<u>Operational Condition of the Utility's Plant or Facilities</u>

The operational condition of the utility's treatment and distribution systems must also be evaluated to determine the overall quality of service provided by the utility. Evaluation of these systems includes a review of the utility's compliance with DEP standards of operation as well as an analysis of proper system design. For example, among other standards of evaluation, water treatment plants and distribution systems are reviewed for compliance with permit standards and minimum operator requirements as well as standards regarding the location of wells with regard to potential sources of pollution. Wastewater treatment plants and collection systems are reviewed for compliance with permit standards, minimum operator requirements and lift station location and reliability among other standards.

As previously stated, the utility is under a Consent Order for its collection system and plant effluent. This alone indicates that the DEP standards were not being met by the utility. Among the 13 counts in the Consent Order, were failure to maintain the collection system as to prevent inflow/infiltration which caused excessive corrosion and deterioration of the wastewater facility, failure of effluent levels for total nitrogen, inaccurate effluent testing, procedural violations of testing, discharge of effluent that is chronically toxic into surface water, and operation of the faculty without proper licensed personnel present. In the corrective actions, DEP required the collection system be repaired and the plant be repaired or taken off line. Therefore the operational condition of the utility's plant and facilities should be considered unsatisfactory.

<u>Customer Satisfaction</u>

The final component of the overall quality of service which must be assessed is the level of customer satisfaction which results from the utility's relations with its customers. A qualitative evaluation of these relations includes a review of notification requirements between the utility and its customers as well as a review of action taken by the utility regarding customer complaints. For example, utility policies are reviewed in order to insure that customers have been properly notified of scheduled service interruptions.

A customer meeting was held in the West Pasco Government Center on Wednesday, February 17, 1999. There were numerous complaints as to utility responsiveness to calls for service and the quality of the product for both water and wastewater from the 350 plus customers in attendance. This prompted a staff investigation.

Rule No. 25-30.130, Florida Administrative Code, sets the standard for the complaint log which is to be maintained by a utility. The utility's complaint log was found to be substandard, which made verification of complaints difficult. In addition to the complaint log being inadequate, one problem was obvious: the utility's response time to situations which exceed its expertise was incumbered by an awkward, time consuming purchase order system. The utility must get a purchase order from its accounting department, which is not on site. Also there were no provisions for after hours and weekend service work requiring a purchase order.

The utility is cooperating with staff to improve in this area. The complaint system has been computerized, new maintenance practices should cut response time, and the utility is working on a customer feedback system to evaluate these changes. Also, a flushing program for the water system is under consideration as a result of the numerous complaints heard at the customer meeting. These changes should improve customer service. However, based on the foregoing, customer satisfaction should be considered unsatisfactory at this time.

Staff has found that all three components reviewed for quality of service are unsatisfactory. Therefore, staff recommends that quality of service be found unsatisfactory, and that changes and improvements continue to be monitored, with the utility being directed to respond in writing in six months as to the progress made in the area of complaint responsiveness.

WATER LIMITED PROCEEDING

ISSUE 6: Should the utility's request for a limited proceeding for its water system be approved?

RECOMMENDATION: No, Lindrick's request for a limited proceeding for its water system should be denied. The utility may apply for a rate increase in accordance with Section 367.081, Florida Statutes. (CHU, DEWBERRY)

STAFF ANALYSIS: In its original application the utility requested a limited proceeding to implement a two-step increase in wastewater rates and paid the appropriate filing fees for its wastewater system only. In its second amended petition filed April 19, 1999, the utility requested a water rate increase based on the underearning experienced in the utility's water operations for the year ended December 31, 1997.

Limited proceedings generally address a specific or significant change that would adversely affect the normal operating income of the utility. It is usually narrow in scope. Therefore, staff believes that the utility's underearning posture should not be addressed in a limited proceeding. Since a full reveiw of the utility's earnings posture would be required to determine whether a water rate increase is warranted, staff recommends that a limited proceeding is an inappropriate vehicle by which the utility should seek rate relief. Therefore, staff recommends that the utility's request for a limited proceeding for its water system should be denied. However, in accordance with Section 367.081, Florida Statutes, the utility may apply for a rate proceeding to increase its rates to earn the authorized rate of return.

WASTEWATER LIMITED PROCEEDING

ISSUE 7: Was the wastewater interconnection by Lindrick Service Corporation with the City of New Port Richey required, and if so, should the prudent cost of the interconnection be recovered through rates?

RECOMMENDATION: Yes, the interconnection is required and the prudent cost should be recovered in rates.(MUNROE)

STAFF ANALYSIS: In early 1996 Lindrick applied for a renewal of its DEP wastewater treatment plant permit. DEP denied the permit renewal application based on new operational and discharge requirements. Lindrick could not meet these requirements without major changes to the plant and personnel. Since the cost of these changes would be extreme, DEP and Lindrick entered into a lengthy period of negotiations. A permit was finally issued on May 29, 1997 with the provision that Lindrick had to examine options for plant operation. These options were plant modification or interconnection.

A plan by the engineering firm H2O to modify the existing plant at an estimated cost of $2,916,820 and repair the collection system at an estimated cost of $2,800,000 was rejected by DEP, and Lindrick began a period of negotiations with the City and the County for interconnection of the wastewater system. These negotiations lasted some six months until December of 1997.

Negotiations with the County involved another treatment study performed by Hartman & Associates for an Effluent Reverse Osmosis Treatment system. With a cost that ranged from $1,135,000 to $1,633,000, plus collection system costs of $2,800,000 and an unknown cost of disposing of the R/O by-products, this plan was rejected by DEP.

A third plan was researched and found to be the least expensive. It was also the only one which was acceptable to DEP. A Consent Order was signed by DEP and Lindrick to this effect. This plan involved taking the plant off line and interconnecting with the City. This would still require repair of the collection system in order to reduce the chlorides caused by the salt water infiltration.

The Consent Order called for repair of the collection system and reducing the chloride level caused by infiltration to below 600 mg/l by May 19, 1999. This was to be accomplished by testing to establish repair priorities followed by pressure cleaning and televising of the collection lines. The repairs consisted of grouting, slip lining or replacement of lines as required. In addition, lift stations were to be repaired by the application of a sealant. The Consent Order also established a goal of a chloride level below 400 mg/l by May 19, 2000.

The existing treatment plant would be converted and become a master lift station. Because this lift station was in close proximity to customers, DEP required pretreatment, odor control and a covering for the structure.

DEP granted an extension to the May 19, 1999, interconnection deadline due to the City delaying final approval to turn on the interconnection. The interconnection finally occurred on May 28, 1999.

The staff engineer has closely followed this entire project since the agreement with DEP on the third option, through the interconnection. The costs associated with this refurbishment of the collection system and interconnection to the City have been reviewed and are prudent.

ISSUE 8: Should the utility be allowed to recover the requested interest during construction in the cost of the plant?

RECOMMENDATION: No. Since the utility does not have a Commission approved Allowance for Funds Used During Construction (AFUDC) rate, the utility should not be allowed to recover the requested interest during construction in the cost of the plant. (CHU, DEWBERRY)

STAFF ANALYSIS: In its original application filed January 28, 1998, the utility requested a plant improvement cost of $2,814,844 for the interconnection with the City of New Port Richey. This amount includes the engineer's estimated cost of $2,179,874, engineering, contingencies & permitting of $544,970, and construction management of $90,000. In its second amended application filed April 13, 1999, the utility requested a plant improvement cost of $3,078,645 for the interconnection with the City. This amount includes actual and estimated cost of $2,544,217, engineering, construction management & permitting of $411,365, contingency of $23,000, and interest during construction of $100,063. Pursuant to Rule 25-30.116, Florida Administrative Code, no utility may charge or change its AFUDC rate without prior Commission approval. Since the utility does not have a Commission approved Allowance for Funds Used During Construction (AFUDC) rate, the utility should not be allowed to recover the requested interest during construction in the cost of the plant.

Staff's recommendation is consistent with the Commission's past practice. In Order No. 22150, issued November 6, 1989, in Docket No. 890233-WS, the Commission denied Southern States Utilities, Inc.'s request for AFUDC because the utility "did not request it prior to or at the time of construction". As discussed in Issue 16, the utility's long-term debts are included in the capital structure, together with its equity and advances from its affiliates. The utility is allowed a return on the long-term debts when the overall rate of return is calculated. Based on the above analysis, staff recommends that the utility not be allowed to recover the requested interest during construction in the cost of plant.

ISSUE 9: What is the appropriate amount of additional plant-in-service required for the improvements to the collection system and the interconnection with the City of New Port Richey?

RECOMMENDATION: The additional plant needed for the improvements to the collection system and the interconnection with the City of New Port Richey is $2,978,582, as shown on Schedule No. 1A. (CHU, DEWBERRY, MUNROE)

STAFF ANALYSIS: As previously noted, on January 13, 1998, the DEP issued the utility a Notice of Violation and Orders for Corrective Action requiring the utility to eliminate intrusion/infiltration into the utility's collection system and to meet the effluent limits of the permit or initiate actions that will cease surface water discharge into Cross Bayou.

The utility explored three options under the guidance of DEP. The first option was to improve the existing plant so that all new permit parameters could be met. This option had the highest initial costs of the three options and left the utility at risk from the uncertainties of future environmental regulation changes. The second option was to eliminate surface water discharge from the plant by sending the plant effluent to the Pasco County reuse system. With this option, the utility would remain on-line, and 24-hours per day operation would still be required. The third option was to take the utility's plant off-line, ceasing surface water discharge, and send the raw influent to the City for treatment. The third option is the least costly, and, in addition, the utility stated in its response to staff's data request that the third option is the only option acceptable to DEP. The utility obtained four bids after it solicited ten companies regarding the construction costs for the interconnection. Among the four bids, H2O had the lowest costs overall.

In its second amended application filed April 13, 1999, the utility estimated that the interconnection with the City costs an additional $3,078,645. This amount includes $2,544,217 actual and estimated cost; $411,365 engineering, construction management, and permitting cost; $100,063 interest during construction cost; and $23,000 contingency cost. After further review of the actual invoices for the work already completed and the estimates of future costs, staff believes that the utility provided sufficient justification for the cost of the interconnection. However, based on the discussion in Issue 8, staff believes that the interest during construction should not be included in the plant cost. Therefore, staff recommends that the cost of additional plant is $2,978,582.

ISSUE 10: What is the appropriate average service life and depreciation rate that should be used for the improvements to the collection system?

RECOMMENDATION: An average service life of 18 years is appropriate, resulting in a 5.86% depreciation rate. (MUNROE)

STAFF ANALYSIS: In its filing, Lindrick proposed a service life of 12 years, resulting in a depreciation rate of 8.33%. In response to a staff data request concerning this claim, the utility stated that the sealed manholes and grouted pipes have a life expectancy of 10 years. It also stated that the limited areas which were slip lined should last for 20 years, and that areas where pipe was replaced should last 25 to 30 years.

The grouting material that was used in the collection system repair was AV-118 DURAFLEX. The manufacturer specifies a service life of 15 to 18 years. Because the other repair methods represent a smaller percentage but at greater cost, staff recommends using an 18 year service life and the resulting depreciation rate of 5.86%.

The utility states that some of the lines are 35 to 40 years old, and this accounts for the 10 year life expectancy. The staff engineer viewed hours of the TV tape which shows the condition of lines in the collection system and consulted with H20 engineers who conducted the rehab project. All these factors were taken into account in determining the recommended 18 year life.

RATE INCREASE ADJUSTMENTS

ISSUE 11: What is the appropriate projected rate base at December 31, 1999, for Lindrick subsequent to the improvements and interconnection with the City of New Port Richey?

RECOMMENDATION: The appropriate projected rate base at December 31, 1999, for Lindrick subsequent to the improvements and interconnection with the City of New Port Richey should be $3,119,225. (CHU, DEWBERRY)

STAFF ANALYSIS: Issue 1 addresses staff's recommended rate base at December 31, 1997. This issue updates rate base to include additional plant improvements, retirements, depreciation, CIAC and amortization of the negative acquisition adjustment and CIAC through a projected year ended December 31, 1999.

Utility Plant in Service (UPIS) - The utility has provided copies of invoices and estimated costs for plant improvements required for the interconnection with the City. The staff engineer has reviewed the plant costs and determined the costs to be reasonable.

As addressed in Issue 9, the appropriate amount of plant improvements required for the interconnection with the City is $2,978,582.

After the interconnection with the City, the utility's remaining wastewater treatment plant was retrofitted into a flow equalization transfer pumping station with overflow capability and back-up storage tanks. As requested, the utility provided staff with the original cost of plant that was retired after the interconnection. In its letter dated May 27, 1999, the utility stated that the total plant retired is $68,214 with a zero salvage value. The utility also requested a debit to accumulated depreciation with no gain or loss. UPIS has been decreased by $68,214 to reflect the retirement of the plant. The net adjustment for UPIS is $2,910,368 to reflect UPIS of $5,630,626 at December 31, 1999.

Land - The land upon which the utility's wastewater plant is located will remain in service. Therefore, no adjustment is necessary for land value. Land value at December 31, 1999 is $19,353.

Acquisition Adjustment - There is no change in the negative acquisition adjustment. The appropriate negative acquisition adjustment at December 31, 1999 is $24,901.

Contributions-in-Aid-of-Construction (CIAC) - Staff's recommended CIAC at December 31, 1997, is $2,226,931. Based on the utility's 1998 annual report, the utility collected $4,200 in CIAC, which represents 12 connections based on its existing service availability charge of $350 per connection. Based on projected billing determinants provided by the utility for 1999, the utility will add 25 customer in 1999. Total projected customer additions from 1998-1999 is 37. Staff has calculated CIAC of $12,950 to reflect CIAC through December 31, 1999. Staff's recommended CIAC at December 31, 1997 has been increased by $12,950 (37 x $350) to reflect CIAC of $2,239,881 at December 31, 1999.

Accumulated Depreciation - Issue 10 addresses the appropriate average service life to use for depreciating plant improvements required for the interconnection with the City. Using the rates recommended in this issue, staff has calculated depreciation on the plant improvements required for the interconnection through December, 1999. In addition, depreciation on existing plant at December 31, 1997, has been calculated through December 31, 1999. Staff's recommended accumulated depreciation at December 31, 1997, is $1,333,974. This account has been increased by $157,702 to reflect depreciation on plant improvements for the interconnection. It has also been increased by $184,195 to reflect accumulated depreciation on plant prior to the interconnection through December 31, 1999. This account has been decreased by $68,214 to remove depreciation associated with retired plant. The net adjustment for this account is an increase of $273,683.

Amortization of Acquisition Adjustment - Staff's recommended amortization of the acquisition adjustment at December 31, 1997, is $16,769. This account has been increased by $1,036 to reflect amortization through December 31, 1999 of $17,805.

Amortization of CIAC - Staff's recommended amortization of CIAC at December 31, 1997, is $1,067,004. This account has been increased by $155,830 to reflect amortization of CIAC of $1,222,834 at December 31, 1999.

Working Capital Allowance - Consistent with Rule 25-30.433, Florida Administrative Code, staff recommends that the one-eighth of operation and maintenance expense formula approach be used for calculating working capital allowance. Staff's recommended working capital allowance for 1997 is $68,537. This account has been increased by $32,509 to reflect one-eighth of staff's recommended O&M expense of $808,364 for the projected test year 1999. Staff's recommended working capital allowance is $101,046.

Rate Base Summary - Based on the foregoing, the appropriate projected rate base at December 31, 1999, for Lindrick's wastewater system subsequent to the improvements and interconnection with the City is $3,119,225.

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

<u>ISSUE 12</u>: Based upon the findings as to the quality of service, should the Commission reduce Lindrick's return on equity (ROE), and if so, by how much?

<u>**RECOMMENDATION**</u>: Yes, Lindrick's return on equity should be reduced by 100 basis points. (MUNROE)

<u>STAFF ANALYSIS</u>: Based upon staff's determination in Issue 5 that quality of service is unsatisfactory, ROE should be reduced. As stated in Issue 5, Lindrick's complaint log was substandard, and there was evidence of communications break down, causing unacceptable response times. In addition, as explained in Issue 5, the DEP Consent Order shows maintenance and operational deficiencies. Although the utility is now taking steps to correct these problems, the utility has allowed these conditions to exist for at least 10 years.

In the past, the Commission has reduced utilities' return on equity to the minimum of the range for poor quality of service by reducing the return on equity by up to 100 basis points. In a rate proceeding for Consolidated Utilities Company in Docket No. 840267-WS, the Commission determined that there was an "apparent lack of concern by the utility for the customers' service problems", and that the utility failed to properly respond to customer calls, and failed to maintain its books and records. Therefore, the Commission reduced the utility's return on equity by one percentage (100 basis) point. Order No. 14931, issued September 11, 1985. In Docket No. 850646-SU, the Commission found that Ocean Reef Club, Inc.'s quality of service was only marginally satisfactory, and reduced the utility's return on equity by 50 basis points. Order No. 17760, issued June 29, 1987.

In the case of <u>Gulf Power v. Wilson</u>, 597 So. 2d 270 (Fla. 1992) the Commission determined that Gulf Power's fair rate of return was between 11.75% and 13.50% and that because of several years of corrupt practices such as theft and misuse of company property and inappropriate political contributions, the Commission reduced Gulf Power's rate of return by 50 basis points to 12.05%. The court held that so long as it remains within the authorized range, the Commission may adjust a utility's rate of return for mismanagement.

Lindrick's collection system and plant have had problems for at least 10 years, and the utility did not take action to correct the problems until forced to do so by DEP. In addition, the service provided to the customers is deficient in areas of response time and the complaint log. For these reasons it is recommended that ROE be reduced by 100 basis points.

ISSUE 13: Should the Commission update the utility's authorized return on equity (ROE), and if so, what is the appropriate return on equity?

RECOMMENDATION: Yes. The utility's authorized ROE should be updated to establish the return based on the current leverage formula for this limited proceeding and on a going-forward basis. Based on the current leverage formula, the utility's ROE would be 10.12%, with a range from 9.12% to 11.12%. However, as discussed in Issue 12, staff is recommending a reduction of 100 basis points because of the quality of service. Therefore, the utility's ROE should be decreased to 9.12% with a range of 9.12% to 11.12%. This recommended return on equity should be effective as of the date the Commission's order is final. It should be applied to any future wastewater proceedings of this utility, including, but not limited to, price indexes and interim rates. (CHU, DEWBERRY)

STAFF ANALYSIS: The utility's last rate case was finalized in Docket No. 830062-WS, by Order No. 12691, issued November 16, 1983. In that Order, rate base was established and the return on equity was set at 14.38% for both water and wastewater. In Docket No. 860089-SU, the Commission initiated an overearnings investigation and lowered rates for the wastewater system only. Pursuant to Order No. 16142, issued May 23, 1986, the return on equity was lowered to 12.65% for the wastewater system. Since that time the utility has been authorized to increase its rates annually in the price index and pass through rate adjustment procedures. The utility was under an overearning investigation in Docket No. 961364-WS, and it culminated with the issuance of Order No. PSC-97-1501-FOF-WS on November 25, 1997, which determined that the utility was not overearning. By that order, the Commission's authorized return on equity is 9.77% for both water and wastewater.

For this case, the cost of capital has changed since the return on equity was last established in 1997. Therefore, staff believes that reestablishment of the utility's return on equity is necessary in this limited proceeding and on a going-forward basis.

The utility's capital structure includes 6.97% common equity. Based on the current leverage formula established in Order No. PSC-99-1224-PAA-WS, and finalized in Order No. PSC-99-1382-CO-WS, in Docket No. 990006-WS, the return on common equity is capped at 10.12% for all water and wastewater utilities with equity ratios less than 40%. Therefore, the utility's authorized ROE would be 10.12%. However, as discussed in Issue 12, staff is recommending a reduction of 100 basis points due to the utility's unsatisfactory quality of service. The utility's return on equity should be decreased to 9.12% with a range of 9.12% to 11.12%. This recommended return on equity should be effective as of the date the Commission's order is final. It should be applied to any future proceedings of this utility, including, but not limited to, price indexes and interim rates.

<u>ISSUE 14:</u> Should adjustments be made to the utility's capital structure and what is the appropriate overall rate of return?

<u>RECOMMENDATION:</u> Yes. Two adjustments should be made to the utility's capital structure. A $4,000,000 loan with a interest rate of 9.00% should be added to the utility's long-term debt, and a $279,759 advance from affiliates with an assigned interest rate of 10.12% should be included in the capital structure. Therefore, the appropriate overall rate of return should be 9.06% with a range of 9.06% to 9.20%. (CHU)

<u>STAFF ANALYSIS:</u> By a loan agreement with Republic Bank dated November 16, 1998, the utility received a loan in the amount of $4,000,000 to provide funding for the improvement of its wastewater system. The interest rate of this loan is 1.00% above the base rate of Citibank, and it is adjusted daily. The current base rate is 8.00%. Therefore, the interest rate of this loan is 9.00%. Based on the audit report, the utility also received an advance from its affiliates for $279,759 without a stated interest rate. Staff has assigned the cost of equity to this advance from affiliates, which is 10.12% for this utility based on the current leverage formula. The utility's capital structure has been reconciled with staff's recommended rate base. The overall rate of return has been calculated based on the pro rata share of each capital component times the cost of each component. Staff recommends an overall rate of return of 9.06% with a range of 9.06% to 9.20%.

ISSUE 15: What are the appropriate billing determinants to be used for determining the 1999 projected test year revenues and rates and what is the appropriate amount of revenue for 1999?

RECOMMENDATION: The 1999 projected billing determinants provided by the utility should be used to determine the 1999 projected revenue and rates. The appropriate amount for the projected test year revenue is $811,758. (CHU, DEWBERRY, MUNROE)

STAFF ANALYSIS: At the customer meeting held on February 17, 1999, customers questioned whether customer growth for the newly constructed high rise buildings located in the utility's service area would be included in this rate proceeding. Staff requested and the utility provided projected billing determinants for 1999 and 2000. All plant improvements associated with the interconnection with the City are scheduled to be completed by August 31, 1999. Staff has used a projected test year ended December 31, 1999 to include customer growth.

By letter dated March 2, 1999, staff requested projected billing determinants for 1999. By letter dated April 1, 1999, the utility responded to staff's request and provided projected billing determinants for 1999. In its response, the utility stated that the figures for early 1999 are based on actual flows and the remainder of the flows have been estimated based on a water use rate of 130 gallons per day per average household, and the number of additional customers (households) anticipated. Additional wastewater flows were estimated at 80% of additional water sold (to account for irrigation).

The projected billing determinants have been used for setting rates and determining projected revenues. Based on the 1999 projected billing determinants, factored ERC's includes 26,518 for residential customers and 4,288 for multi-family and general service customers. Total factored ERC's are 30,806. The projected number of gallons of wastewater treatment is 172,133,000 for residential customers and 51,252,000 for multi-family and general service customers. Total gallons are 223,385,000. Staff has calculated annualized revenue using these determinants and the existing rates (not the emergency rates) to determine the revenue the utility would collect with additional growth charging the rates in effect prior to the implementation of the emergency rates. Staff's calculated annualized revenue is $811,758. Staff's recommended annualized revenue for 1997 is $761,554. This account has been increased by $50,204 to reflect staff's calculated projected annualized revenue for 1999.

Staff recommends that the 1999 projected billing determinants provided by the utility should be used to determine the 1999 projected revenues and rates. The appropriate amount should be $811,758.

Revenue is shown on Schedule No. 3 and adjustments are shown on Schedule No. 3-A.

ISSUE 16: What is the appropriate amount of rate case expense for this limited proceeding and for Docket No. 961364-WS?

RECOMMENDATION: The appropriate amount of rate case expense for this limited proceeding and for Docket No. 961364-WS is $59,709. The annual amortization amount should be $14,928. (CHU, DEWBERRY)

STAFF ANALYSIS: The utility submitted a schedule of rate case expense that includes $31,124 accounting expense, $18,621 legal expense and a filing fee of $1,750 for a total of $51,495. The utility provided copies of invoices for $22,774 accounting expense and estimated accounting expense of $8,350 for services that will be rendered through the review of the PAA order. It provided copies of invoices for $8,671 legal expense and estimated $9,950 for services rendered through the completion of the procedure. Staff has reviewed the invoices for accounting and legal and believes that the costs are reasonable for the services provided. The estimated costs were also reviewed and were determined reasonable for the services that will be required to complete this case.

The utility also provided a receipt for the cost of $800 for noticing customers of the Commission-approved emergency temporary rate increase. The total rate case expense for the limited proceeding is $52,295. This amount has been amortized over 4 years allowing $13,074 for the limited proceeding.

Staff's recommended rate case expense for wastewater for 1997 is $7,414. This amount includes accounting rate case expense incurred in the prior overearnings Docket No. 961364-WS. This amount, amortized over 4 years, is $1,854. This amount has not been included in the calculation of rates prior to this proceeding. Therefore, the total rate case expense for wastewater is $59,709 ($52,295+$7,414). The annual amortization amount should be $14,928 ($13,074+$1,854), to reflect a four year amortization as addressed in Issue 17.

ISSUE 17: What is the appropriate amount of prospective operating expenses subsequent to the interconnection and improvements?

RECOMMENDATION: The appropriate amount of prospective operating expenses subsequent to the interconnection and improvements should be $1,139,656. (DEWBERRY, CHU, MUNROE)

STAFF ANALYSIS: The utility's operating expenses include operation and maintenance expense, depreciation expense, amortization of acquisition adjustment, taxes other than income, and income taxes. The utility's prospective operating expenses have been adjusted to reflect staff's recommended amounts after the interconnection with the City and improvements to its collection system.

Operation and Maintenance (O&M) - A discussion of staff's adjustments to reflect O&M expense after the interconnection follows:

(701) Salaries and Wages -- Employees - For the year ended December 31, 1997, the staff's recommended total salary for employees is $92,638. This amount includes a salary of $11,440 for the customer service manager, $66,196 for three operators, $8,450 for a maintenance supervisor and $6,552 for a maintenance and repair assistant.

After the interconnection with the City, the utility's wastewater treatment plant is off-line, which reduces the operator service required by DEP. After the interconnection with the City, H2O will provide operator service for the utility. The annual amount for H2O service is addressed in Account No. 736 - Contractual Services (Other). Therefore, the amount of salaries and wages for employees has been decreased by $66,196 to remove salaries for the three operators that are no longer needed.

The utility requested an annual salary of $27,040 for the customer service manager and $18,700 for the maintenance supervisor. The requested allocation to wastewater is $13,520 for the customer service manager and $9,350 for the maintenance supervisor. A review of the duties performed by these two employees shows that the requested salaries are reasonable. Staff recommends an increase of $2,080 for the customer service manager and an increase of $900 for the maintenance supervisor.

The total adjustment for this expense is a decrease of $63,216 to reflect employee salaries totaling $29,422. This includes an annual salary of $13,520 for the customer service manager, $9,350 for the maintenance and repair supervisor, and $6,552 for the maintenance and repair assistant.

(703) Salaries and Wages - Officers - After the interconnection, some duties performed by the utility's president will be reduced. In its original filing, the utility requested a decrease of $11,577 in the president's salary. Staff believes this reduction is appropriate and adjusted this account accordingly. The recommended annual salary for the president for wastewater operation in 1997 is $30,000. This expense has been decreased by $11,577 allowing an annual salary of $18,423 for the president for wastewater operation.

The utility's operation manager, a half-time employee, earns $31,200 annually with an allocation of $15,600 for wastewater operation. The utility requested an annual increase in salary of $2,600 for this employee. The utility represents that this employee's salary has been in effect since 1987 without an increase, and requested the increase equating to approximately 1.4% increase for each year since 1987. Staff believes that this employee's existing salary is appropriate for the duties performed. In addition, some of the existing duties should be reduced after the interconnection with the City. Therefore, staff recommends no change in the operation manager's salary.

Staff recommends officers salaries of $18,423 for the president and $15,600 for the operation's manager for a total of $34,023.

(704) Pensions and Benefits - The utility's recorded pension and benefits expense includes medical and life insurance cost of $3,996 for one operator. The utility requested a decrease of $3,996 for the one operator in this account. Staff believes that the reduction is appropriate and reduces this account by $3,996 to match the amount of the salary recommended by staff. Therefore, the balance of this account should be $9,371.

(710) Purchased Sewage Treatment - The utility interconnected with the City on May 28, 1999. Based on the utility's agreement with the City, the bulk wastewater treatment rate is $2.89 per 1,000 gallons. The utility also provided the projected amount of wastewater treated and sold for 1999. The utility calculated the projected cost for wastewater treatment for 1999 of $447,629 (154,889,000 gallons x $2.89 per 1,000 gallons). Staff believes that this amount is appropriate, and recommends that this expense

be increased by $447,629 to reflect annualized purchased wastewater treatment costs for 1999.

<u>(711) Sludge Removal Expense</u> - After the interconnection, the utility is sending wastewater to the City for treatment, and will no longer have to remove sludge. Annual sludge removal cost for 1997 was $90,221. This expense has been decreased by $90,221 since the utility will not incur this expense. Therefore, staff recommends that this account be reduced by $90,221 to a zero balance.

<u>(715) Purchased Power Expense</u> - Staff's recommended purchased power expense for 1997 is $53,459. This expense has been decreased by $43,276 to reflect purchased power expense after the interconnection of $10,183 as requested by the utility.

<u>(718) Chemicals</u> - The facility is located adjacent to a residential community. After the interconnection, raw sewage detention times may increase to the point that some septicity may be experienced. The utility estimated that there will be an increase of $8,257 in chemical expense for odor control after the interconnection. Staff engineer determined that this amount is reasonable. Therefore, chemical expense is increased by $8,257 as requested by the utility. The annual amount for chemicals should be $16,584.

<u>(731) Contractual Services (Engineering)</u> - Staff encountered some difficulty in determining the amount to allocate to Borda Engineering after the plant was interconnected. A document was provided on January 20, 1999 which contained job codes, hours allotted and hourly rates. The document also stated that the job code E07 would be modified to reflect the change of the plant to a master lift station. In analyzing the work codes it was discovered that there was a problem: some codes were wastewater specific, others were water specific and the remainder applied to both water and wastewater.

After staff received a service agreement for H20 Utility Services which detailed their responsibilities in the operation of the lift station, staff requested Borda Engineering provide a list of work codes, with the modified E07, and the hours allocated to each with water and wastewater separated.

A document was received July 20, 1999. There were some notable changes to the information provided: (1) the total billable hours had increased by 54 hours; (2) there were changes to not one but two work codes; and (3) the rates for the billable hours had increased. No information was provided in the document to substantiate the changes. Although Borda Engineering offered justification in a call received the day after the document arrived, staff determined the justification was inadequate to warrant any further changes to the recommendation.

Therefore, staff has reduced the engineering hours by 54 and used the hourly rates provided in the January 20 document. The results are staff's recommendation for a $37,913 per year allocation to Borda Engineering for wastewater engineering services after the interconnection with the City.

<u>(732) Contractual Services (Accounting) and (734) Contractual Services (Administrative)</u> - Staff's recommended accounting expense for wastewater for 1997 is $39,912, and staff's recommended administrative expense for wastewater for 1997 is $9,984. Per the utility's current contract with Borda Engineering, the utility had $79,200 accounting and administrative expense for water and wastewater for 1997. The utility has requested a $12,000 annual increase for Borda Engineering to continue to provide its services, resulting in a total of $91,000 accounting and administrative costs for water and wastewater. The utility states that this increase equates to approximately a 2.5% increase for each year since 1987. The utility requested that this amount be allocated by an increase of $16,296 for water and a decrease of $4,296 for wastewater. However, the utility did not provide an updated signed contract, nor a break down of the requested changes between Account No. 732 - Contractual Accounting Services and Account No. 734 - Contractual Administrative Services. Staff does not believe that it is appropriate to address this requested increase at this time. Further analysis would be required to determine if this requested increase would be appropriately included in prospective rates. Since the utility states this increase is for previous periods, staff believes that the request should be re-examined in the utility's next full rate case. Therefore, staff recommends no change to these accounts.

<u>(735) Contractual Services (Testing)</u> - Staff's recommended testing cost for 1997 is $10,065. The utility submitted test costs after the interconnection. Staff's engineer has reviewed these costs and determined them to be reasonable. A schedule of tests and costs follow:

Description	Annual Cost
Chlorine Testing (Test for Aerobic Bacteria)	$12,132
Chloride Testing (Test for Salts)	25,800
Total after interconnection	$37,932

This expense has been increased by $27,867 to reflect annual testing expense of $37,938 after the interconnection.

(736) Contractual Services (Other) - Staff's recommended contractual (other) expense is $74,007 for 1997. This expense includes $54,709 paid to H2O. Based on a signed contract, H2O provides operators and maintenance service related to the operation of the utility's transfer wastewater lift station that delivers wastewater to the City of New Port Richey for $2,513.16 monthly, or $30,158 annually. It also provides billing service for $2,715 per month, or $32,580 annually. The total contractual charges for H2O appear reasonable for the service provided. Therefore, this expense has been increased by $8,029 to reflect the appropriate contractual operation and maintenance and billing services after the interconnection.

The utility's recorded expense also includes $5,918 for contractual billing service provided by Avatar in 1997. This company will no longer provide billing service and this account has been decreased by $5,918.

The total adjustment for this expense is an increase of $2,111, allowing $76,118 annually.

(755) Insurance Expense - The utility recorded insurance expense of $3,120 in 1997 of which $1,244 was worker's compensation insurance expense. Staff recommends that worker's compensation insurance expense should be reduced to be consistent with the recommended reduction of operator's service as requested by the utility. The balance of this account should be $1,876.

(765) Regulatory Commission Expense - Staff's recommended rate case expense for 1997 is $1,854. The utility submitted a schedule of rate case expense that included $31,124 accounting expense, $18,621 legal expense, and a filing fee of $1,750 for a total of $51,495. The utility also provided a receipt in the amount of $800 for noticing customers of the Commission-approved emergency temporary rate increase. The utility provided copies of invoices for $22,774 in accounting expense that had already been incurred, and an estimated accounting expense of $8,350 for services that will be rendered through the completion of this application. The utility also provided copies of invoices for $8,671 in legal expense that had already been incurred, and an estimated expense of $9,950 for services that will be rendered through the completion of this application. Staff has reviewed the actual and estimated costs for accounting and legal rate case expenses and believes that the costs are reasonable. Staff's recommended rate case expense for the limited proceeding is $52,295 amortized over four years which

equates to $13,074 annually. This expense has been increased by $13,074 to reflect an annualized rate case expense amortization of $14,928 as discussed in Issue 16.

Operation and Maintenance Expense (O&M) Summary - Total operation and maintenance expense adjustments are $260,066. Staff recommends O&M expense of $808,364.

Depreciation Expense (Net of Amortization of CIAC) - Staff's recommended net depreciation expense for the utility for the year 1997 is $17,227. Since 1997, the utility has been improving its wastewater system for the interconnection. Using the depreciation rates prescribed by Rule 25-30.140, Florida Administrative Code, and the service life provided by manufacturers for Account 361 as addressed in Issue 10, staff calculated depreciation expense of $163,365. Staff's calculated amortization of CIAC is $8,282. Therefore, staff recommends depreciation expense net of amortization of CIAC be increased by $155,083 to reflect net depreciation after the interconnection, the balance of this account should be $172,310.

Taxes Other Than Income - Staff recommended $71,243 for taxes other than income in 1997. Staff recommends that this account be: reduced by $8,827 to remove payroll taxes associated with reduced salaries after interconnection; increased by $2,259 to reflect the appropriate regulatory assessment fee on annualized revenue after interconnection. Staff's projected accumulated plant after interconnection is $5,630,626 for the year ended December 31, 1999. The staff's projected accumulated depreciation on the plant is $1,607,657 for the year ended December 31, 1999, which results in the plant net of depreciation of $4,023,164 ($5,630,626-$1,607,657). The utility provided that the current millage rate for its property is 0.021841, which results in property taxes of $87,870 ($4,023,164 x 0.021841) after the interconnection for the year ended December 31, 1999. The utility's historical property tax was $20,518; therefore, staff recommends an increase by $67,352 to reflect the increase in property taxes. The total adjustments of this account should be $60,784, and the balance of this account should be $132,027.

Income Tax Expense - This utility is an 1120 corporation. As discussed in Issue 3, the utility had a tax loss carryforward of $254,566 for 1996, and staff recommended no income tax expense for 1997. The income tax returns for 1997 and 1998 are not available. Therefore, the current loss carryforward amount is not available. Using staff's calculated income tax expense for 1997 with no change in the utility's water underearning posture, staff believes that the tax carryforward loss for 1996 will allow an offset for total income taxes through out at least 1999, if not further. Therefore, staff recommends no income tax expense for the utility.

Operating Revenue: Based on the existing rates, the utility's projected operating revenue for the utility for the year ended December 31, 1999 is $811,758 for the wastewater system, which would result in an operating loss of $300,425. Staff believes that the operating revenue should be increased by $610,499, or 75.21% to allow the utility the opportunity to earn the authorized rate of return after the interconnection and the improvements of its collection system. Staff recommends that the utility should be allowed the opportunity to generate annual operating revenues of $1,422,257 for its wastewater operation.

Taxes Other Than Income - This expense has been increased by $27,473 to reflect the regulatory assessment fee of 4.5% on staff's recommended increase in revenue.

Operating Expense Summary - The application of staff's recommended adjustments to the utility's operating expense results in staff's recommended operating expenses of $1,139,656.

ISSUE 18: What is the appropriate wastewater revenue requirements associated with the improvements to the collection system and interconnection to the City of New Port Richey?

RECOMMENDATION: The appropriate wastewater revenue requirement associated with the improvements to the collection system and interconnection to the City of New Port Richey is $1,422,257. (CHU, DEWBERRY)

STAFF ANALYSIS: In its most recent filing, dated April 13, 1999, the utility requested an increase in revenue of $1,111,459 (142.67%) with no change in related party services. It requested an increase in revenue of $1,231,859 (158.13%) if all related party expenses are replaced with contract services from third parties. See Schedules 5 and 5A for the utility's proposed increase for both scenarios.

Staff recommends that the utility be allowed a revenue increase of $610,499 (75.21%). This will allow the utility the opportunity to recover its expenses and earn a 9.06% return on its investment. The calculation is as follows:

Adjusted Rate Base	$3,119,225
Rate of Return	x .0906
Return on Investment	$ 282,601
Adjusted Operation Expenses	808,364
Net Depreciation Expense	172,310
Amortization of Acquisition Adj.	(518)
Taxes Other Than Income	159,500
Revenue Requirement	$1,422,257
Annualized Revenue Increase	$ 610,499
Percentage Increase	75.21%

The revenue requirement is shown on Schedule No. 3.

ISSUE 19: What is the appropriate method to be used for calculating wastewater rates and what are the appropriate wastewater rates?

RECOMMENDATION: Staff's recommended rates should be designed to allow the utility the opportunity to generate annual operating revenues of $1,422,257 for wastewater. The utility should file revised tariff sheets consistent with the decision herein. 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 utility should provide proof of the date customer notice was given within 10 days after the date of the notice. (CHU)

STAFF ANALYSIS: In this filing, the utility requested an across the board percentage increase to rates that were in effect prior to the implementation of the emergency temporary rates. This methodology was used in the calculation of the emergency temporary rates. Staff believes that this methodology will not capture the effect of customer growth from 1983, when the utility had its last rate case, through the projected test year ended December 31, 1999. Therefore, staff has calculated final rates to include customer growth through the projected test year. That is, the recommended revenue requirement has been spread over the projected customer base for 1999 as recommended in Issue 15.

Staff's recommended rates should be designed to allow the utility the opportunity to generate annual operating revenues of $1,422,257 for wastewater, which is an increase of $610,499 or 75.21% from the annualized revenue of $811,758 as discussed in Issue 15. Rates have been calculated using the number of bills and the number of gallons of wastewater billed during the test year, adjusted for future growth. Schedules of the utility's existing rates and staff's recommended rates are as follows:

Monthly Wastewater Rates

Residential	Prior to Filing	Staff Recommended
Base Facility Charge All meter size	$ 10.76	$ 16.56
Gallonage Charge per 1,000 gallons (Maximum - 10,000 gallons)	$ 2.15	$ 3.90

Multi-residential and General Service

Base Facility Charge
Meter size

5/8" x 3/4"	$ 10.76	$ 16.56
3/4"	N/A	24.85
1"	26.92	41.41
1-1/2"	53.78	82.82
2"	86.15	132.52
3"	172.30	265.03
4"	269.21	414.11
6"	538.40	828.23
8" (Compound)	861.04	1,325.17
8" (Turbine)	968.76	1,490.81
Gallonage Charge Per 1,000 gallons	$ 2.15	$ 4.68

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 should be approved upon staff's verification that the tariffs are consistent with the Commission's decision and the customer notice is adequate. 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 should 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 20: 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 wastewater rates should be reduced as shown on Schedule 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 four-year rate case expense recovery period, pursuant to Section 367.0816, Florida Statutes (1997). 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. (DEWBERRY)

STAFF ANALYSIS: Section 367.0816, Florida Statutes (1997), 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 $15,631 annually for wastewater. Using the utility's current revenues, expenses, capital structure and customer base the reduction in revenues will result in the rate decreases as shown on Schedule No. 4.

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 should 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.

Senate Bill 1352 amended Section 367.0816, Florida Statutes, and eliminated the requirement for decreasing rates by the rate case expense included in the rate calculation immediately following the expiration of the four-year rate case expense recovery period. However, this change does not apply to cases pending on March 11, 1999. The utility filed its application for this case on February 12, 1998. Therefore, the utility is required to decrease its rates after the four-year recovery period as stated above.

ISSUE 21: Should the recommended rates be approved for the utility on a temporary basis, subject to refund, in the event of a protest?

RECOMMENDATION: Yes, the staff recommended rates should be approved on a temporary basis in the event of a protest. The utility should be authorized to collect the temporary rates subject to refund, with interest, after staff's approval of the security for a potential refund, the proposed customer notice, and revised tariff sheets. (DEWBERRY, CHU)

STAFF ANALYSIS: This recommendation proposes an increase in 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, staff recommends that the recommended rates be approved as temporary rates in the event of a protest. The recommended rates collected by the utility should be subject to the refund provisions discussed below.

The utility should be authorized to collect the temporary rates upon staff's approval of security for a potential refund, a copy of the proposed customer notice, and revised tariff sheets. The security should be in the form of a bond or letter of credit in the amount of $641,097 for this proceeding. Alternatively, the utility could establish an escrow agreement with an independent financial institution.

Currently the utility has a letter of credit in the amount of $480,000 pursuant to Order No. PSC-99-1010-PSC-SU, issued May 20, 1999, in this docket. This letter of credit provides security for the emergency temporary rates and expires on May 11, 2000. If the utility chooses a letter of credit as the security in this case, the utility may use its current letter of credit providing that the utility extends the effective period and increases the amount by $321,097 to reflect a total of $801,097 ($160,000+$641,097). This amount includes four months of security for a potential refund of emergency temporary rates and 12 months plus interest for a potential refund for this proceeding.

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 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 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 should specify by whom and on whose behalf such monies were paid. If a refund is ultimately required, it should be paid with interest calculated pursuant to Rule 25-30.360(4), Florida Administrative Code.

The utility should maintain a record of the amount of revenues that are subject to refund. In addition, pursuant to Rule 25-30.360(6), Florida Administrative Code, the utility shall file a report with the Division of Water and Wastewater no later than the 20th day of each month indicating in detail the total amount of revenues collected under the temporary rates from its wastewater customers on a monthly and total basis.

ISSUE 22: Should a refund of the difference between revenues generated through emergency rates and the revenues generated through the proposed agency action (PAA) rates approved herein be required, and if so, how should it be calculated?

RECOMMENDATION: No, a refund is not required. (CHU)

STAFF ANALYSIS: By Order No. PSC-99-1010-PCO-SU, issued May 20, 1999, the utility was authorized to implement emergency temporary rates, subject to refund. The approved emergency rates generated additional revenues of $480,394 and the rates became effective May 27, 1999.

Staff has determined that the additional revenue necessary for the interconnection with the City is $610,499. This revenue increase is greater than the revenue increase granted for the emergency temporary rates. Therefore, a refund is not required.

ISSUE 23: Should this docket be closed?

RECOMMENDATION: Yes, if no timely protest is received upon the expiration of the protest period, the Order should become final and effective upon the issuance of a Consummating Order and this docket should be closed. If a protest is filed within 21 days of the issuance of the Order, the Commission approved temporary rates should become effective pending resolution of the protest. (CHU, JAEGER)

STAFF ANALYSIS: If no timely protest is received upon the expiration of the protest period, the Order should become final and effective upon the issuance of a Consummating Order and this docket should be closed. If a protest is filed within 21 days of the issuance of the Order, the Commission approved temporary rates should become effective pending resolution of the protest.

LINDRICK SERVICE CORPORATION
SCHEDULE OF WASTEWATER RATE BASE
PROJECTED TEST YEAR ENDED DECEMBER 31, 1999

SCHEDULE NO. 1
DOCKET NO. 980242-SU

	BALANCE PER UTILITY	STAFF ADJ.	STAFF ADJUSTED BAL. 1997	ADJ. FOR INTERCONNECT	PROJECTED BALANCE 12/31/99
UTILITY PLANT IN SERVICE	$ 2,713,249	$ 7,009 A	$ 2,720,258	$ 2,910,368 G	$ 5,630,626
LAND/NON-DEPRECIABLE ASSETS	19,353	0	19,353	0	19,353
NON-USED AND USEFUL PLANT	0	0	0	0	0
ACQUISITION ADJUSTMENT	(24,901)	0	(24,901)	0	(24,901)
CWIP	0	0	0	0	0
CIAC	(2,455,018)	228,087 B	(2,226,931)	(12,950) H	(2,239,881)
ACCUMULATED DEPRECIATION	(1,282,793)	(51,181) C	(1,333,974)	(273,683) I	(1,607,657)
AMORTIZATION OF ACQUISITION ADJUSTMENT	17,126	(357) D	16,769	1,036 J	17,805
AMORTIZATION OF CIAC	1,225,302	(158,298) E	1,067,004	155,830 K	1,222,834
WORKING CAPITAL ALLOWANCE	0	68,537 F	68,537	32,509 L	101,046
WASTEWATER RATE BASE	$ 212,318	93,797	306,115	$ 2,813,110	$ 3,119,225

LINDRICK SERVICE CORPORATION
ADJUSTMENTS TO RATE BASE
PROJECTED TEST YEAR ENDED DECEMBER 31, 1999

SCHEDULE NO. 1A
DOCKET NO. 980242-SU

		WASTEWATER
A.	UTILITY PLANT IN SERVICE	
1.	To adjust beginning balance of account No. 370,371 and 380 to amount approved by Order No. 97-1501	12,990
2.	Reclassification from water plant account No. 320 per audit	4,203
3.	Retirement of pump	(1,047)
4	To remove undocumented cost per audit	(4,713)
5.	Reclassification from account 371 to account 775	(453)
6.	Reclassification from account 380 to accounts 775	(1,023)
7.	Reclassification from account 380 to account 711	(6,000)
8.	To reflect lift station improvement per audit	4,673
9.	Reclassification from account 380 to account 775	(1,520)
10.	Reclassification from account 397 to account 775	(102)
	Total Test Year Adjustment	7,009
B.	CONTRIBUTIONS IN AID OF CONSTRUCTION(CIAC)	
1.	To reverse unsupported credit adjustment	$ 252,597
2.	To agree util.CIAC balances with order no. 97-1501	(26,430)
3.	To reflect reclassification to water CIAC	1,920
		$ 228,087
C.	ACCUMULATED DEPRECIATION	
1.	To reflect accumulated depreciation at 12/31/97	$ (52,228)
2.	To adjust accumulated depreciation for retirement	1,047
		$ (51,181)
D.	AMORTIZATION OF AQUISITION ADJUSTMENT	
1.	To reflect amortization of aqusition adj. at 12/31/97	$ (357)
E.	AMORTIZATION OF CIAC	
1.	Amortization of CIAC @ 12/31/97	$ (158,298)
F.	WORKING CAPITAL ALLOWANCE	
1.	To reflect 1/8 of operation and maintenance expense for test year	$ 68,537
G.	UTILITY PLANT IN SERVICE PHASE-II ADDITION	
1.	To include estimated cost for second phase coll. system improvements	$ 2,978,582
2.	To reflect plant retirement after the interconnection	(68,214)
		$ 2,910,368
H.	CONTRIBUTIONS IN AID OF CONSTRUCTION(CIAC)	
1.	To reflect CIAC for 1998 per the utility annual report	$ (4,200)
2.	To reflect CIAC for 1999 based on projected growth per the utility	(8,750)
		$ (12,950)
I.	ACCUMULATED DEPRECIATION	
1.	To reflect accumulated depreciation on plant improvement for the interconnection	$ (157,702)
2.	To reflect accumulated depreciation on existing plant through 12/31/99	(184,195)
3.	To remove accumulated depreciation on retired plant	68,214
		$ (273,683)
J.	AMORTIZATION OF ACQUISITION ADJUSTMENT	
1.	To reflect amortization through 12/31/99	$ 1,036
K.	AMORTIZATION OF CIAC	
1.	To reflect amortization of CIAC through 12/31/99	$ 155,830
L.	WORKING CAPITAL ALLOWANCE	
1.	1/8 of operation and maintenance expense after interconnection	$ 32,509

LINDRICK SERVICE CORPORATION
SCHEDULE OF CAPITAL STRUCTURE
PROJECTED TEST YEAR ENDED DECEMBER 31, 1999

SCHEDULE NO. 2
DOCKET NO. 980242-SU

	PER UTILITY	STAFF ADJ.	ADJUSTED BALANCE PER STAFF	PRO RATA ADJUST. PER STAFF	RECONCIL-IATION TO RATE BASE	PERCENT OF TOTAL	COST	WEIGHTED COST
COMMON EQUITY	$ 328,236	$ 0	$ 328,236	$ (110,767)	217,469	6.97%	9.12%	0.64%
LONG-TERM DEBT	100,000	0	100,000	(33,746)	66,254	2.12%	8.00%	0.17%
LONG-TERM DEBT	0	4,000,000	4,000,000	(1,349,849)	2,650,151	84.96%	9.00%	7.65%
LONG-TERM DEBT	0	0	0	0	0	0.00%	0.00%	0.00%
ADVANCES	279,759	0	279,759	(94,408)	185,351	5.94%	10.12%	0.60%
CAPITAL STOCK	0	0		0		0.00%	0.00%	0.00%
PAID IN CAPITAL	0	0		0		0.00%	0.00%	0.00%
OTHER	0	0		0		0.00%	0.00%	0.00%
TOTAL	$ 707,995	$ 4,000,000	4,707,995	$ (1,588,770)	3,119,225	100.00%		9.06%

RANGE OF REASONABLENESS	LOW	HIGH
RETURN ON EQUITY	9.12%	11.12%
OVERALL RATE OF RETURN	9.06%	9.20%

LINDRICK SERVICE CORPORATION
SCHEDULE OF WASTEWATER OPERATING INCOME
PROJECTED TEST YEAR ENDED DECEMBER 31, 1999

SCHEDULE NO. 3
DOCKET NO. 980242-SU

	PER UTILITY	STAFF ADJ.		STAFF ADJUSTED BAL. 1997	STAFF ADJ. FOR INTERCONNECT		PROJECTED BAL. AT 12/31/99	ADJUST. FOR INCREASE		TOTAL PER STAFF
OPERATING REVENUES	$ 656,313	$ 105,241	A	$ 761,554	$ 50,204	F	$ 811,758	$ 610,499	J	$ 1,422,257
								75.21%		
OPERATING EXPENSES:										
OPERATION AND MAINTENANCE	$ 531,840	16,458	B	$ 548,298	$ 260,066	G	$ 808,364	$ 0		808,364
DEPRECIATION (NET)	13,002	4,225	C	17,227	155,083	H	172,310	0		172,310
AMORT. OF ACQUISITION ADJ.	0	(518)	D	(518)	0		(518)	0		(518)
TAXES OTHER THAN INCOME	50,525	20,718	E	71,243	60,784	I	132,027	27,473	K	159,500
INCOME TAXES	0	0		0	0		0	0		0
TOTAL OPERATING EXPENSES	$ 595,367	$ 40,883		$ 636,250	$ 475,933		$ 1,112,183	$ 27,473		$ 1,139,656
OPERATING INCOME/(LOSS)	$ 60,946			$ 125,304			$ (300,425)			$ 282,601
WASTEWATER RATE BASE	$ 212,318			$ 306,115			$ 3,119,225			$ 3,119,225
RATE OF RETURN	28.71%			40.93%			-9.63%			9.06%

LINDRICK SERVICE CORPORATION
ADJUSTMENTS TO OPERATING INCOME
PROJECTED TEST YEAR ENDED DECEMBER 31, 1999

				WASTEWATER TEST YEAR
A.	OPERATING REVENUES			
	1.	To reflect annualized revenue for 1997		$ 105,241
B.	OPERATION AND MAINTENANCE EXPENSES			
	1	Salaries and Wages - Employees		
		a.	To reflect annualized salaries for a customer service manager, two maintenance employees, and three operators.	$ 42,040
	2.	Salaries and Wages - Officers		
		a.	To reflect annual salary for president and operations manager	$ (990)
	3.	Employee Benefits		
		a.	To remove IRA fund for utility's president per audit	$ (1,000)
	4.	Sludge Removal Expense		
		a.	To remove out of period expense	$ (1,715)
		b.	Reclassification from plant account no. 380	6,000
				$ 4,285
	5.	Purchased Power		
		a.	To reflect appropriate annual expense per audit	$ 20,885
	6.	Materials and Supplies		
		a.	To reflect reclassification to account No. 775 per audit	$ (5,286)
		b.	To remove a non-utility expense per audit	(1,018)
		c.	To reflect reclassification of back flow prevention devices to water plant per audit	(3,592)
				$ (9,896)
	7.	Contractual Service (Engineering)		
		a.	To remove a prior period expense per audit	$ (4,641)
		b.	To reflect annual contractual engineering service	10,557
				$ 5,916
	8.	Contractual Service (Accounting)		
		b.	To reflect contractual accounting expense per invoices	$ (6,735)
	9.	Contractual Service (Legal))		
		a.	To remove a prior period expense	$ (1,421)
		b.	To remove a non-utility expense	(764)
				$ (2,185)
	10	Contractual Service (Management)		
		a.	To reflect contractual management fee per audit	$ (1,168)
	11.	Contractual Service (Other)		
		a.	To remove a non-utility expense per audit	$ (6,277)
		b.	Reclassification of rate case expense to account No.765	(7,414)
		c.	To reflect reclassification to account No. 775	(5,523)
		d.	To reflect reclassification to account No. 775	(850)
				$ (20,064)
	12.	Transportation Expense		
		a.	To remove a non-utility expense per audit	$ (8,103)
	13	Regulatory Commission Expense		
		a.	To reflect reclassification from account 736	$ 7,414
		b.	To reflect rate expense amortized over four years	(5,560)
		c.	To remove a prior period expense	(6,000)
				$ (4,146)
	14.	Bad Debt Expense		
		a.	To allow recovery of old debt expense over five years	$ (5,332)
	15.	Miscellaneous Expense		
		a.	Reclassification of misc. repair and maintenance costs from account No. 735	$ 5,523
		b.	Reclassify repair and maintenence cost from account No. 720	5,286
		c.	Reclassify repair cost from account No. 735	850
		d.	Reclassify repair cost from palnt account No. 371, 380 and 397	3,098
		e.	Repair and maintenance expense amortized over five years	(11,806)
				$ 2,951
		Total O & M		16,458

C.	DEPRECIATION EXPENSE	
1.	Test year depreciation	$ 80,163
2.	Test year amortization of CIAC	(75,938)
		$ 4,225
D.	AMORTIZATION OF ACQUISITION ADJ.	
1.	To reflect test year amortization of acquisition adj.	$ (518)
E.	TAXES OTHER THAN INCOME	
1.	To reflect regulatory assessment fee @ 4.5% on test year revenue	$ 6,310
2.	To reflect payroll taxes on annualized salaries	16,455
3.	To remove non-utility property taxes expense	(220)
4.	To remove tax penalty	(1,827)
		$ 20,718
	Total Operating Expenses Adjustment	$ 40,883

LINDRICK SERVICE CORPORATION
ADJUSTMENTS TO OPERATING INCOME
PROJECTED TEST YEAR ENDED DECEMBER 31, 1999

SCHEDULE NO. 3A

DOCKET NO. 980242-SU

		WASTEWATER AFTER INTERCONNECTION
F.	OPERATING REVENUE	
1.	To reflect annualized revenue to include growth for 1999	$ 50,204
G.	OPERATION AND MAINTENANCE EXPENSES	
1	Salaries and Wages - Employees	
	a. To remove salaries for three operators	$ (66,196)
	b. To reflect requested salary for customer service manager	2,080
	c. To reflect requested salary for maintenance supervisor	900
		$ (63,216)
2.	Salaries and Wages - Officers	
	a. To remove salary for utility's president after the interconnection as requested by the utility	$ (11,577)
3.	Employee Benefits	
	a. To remove pensions and benefits associated with reduced salary for the operators as requested by utility	$ (3,996)
4.	Purchased Sewage Treatment	
	a. To reflect annualized purchased wastewater treatment using 1999 cost and estimated number of gallons of wastewater treated	$ 447,629
5.	Sludge Removal Expense	
	a. To remove 1997 sludge removal expense	$ (90,221)
6.	Purchased Power	
	a. To remove 1997 purchased power expense	$ (43,276)
7.	Chemicals	
	a. To reflect chemical expense after interconnnection	$ 8,257
8.	Contractual Service (Engineering)	
	a. To reduce engineering service after interconnection	$ (25,342)
9	Contractural Service (Testing)	
	a. To reflect testing expense after interconnection	$ 27,867
10	Contractual Service (Other)	
	a. To reflect contractual services provided by H2O	$ 8,029
	b. To remove cost for billing service that is now being provided by H2O	(5,918)
		$ 2,111
11	Insurance Expense	
	a. To remove workman's compensation insurance expense for reduction of operators' services	$ (1,244)
12	Regulatory Commission Expense	
	a. To reflect rate case expense amortized over four years	$ 13,074
	Total O & M	260,066

LINDRICK SERVICE CORPORATION
ADJUSTMENTS TO OPERATING INCOME
PROJECTED TEST YEAR ENDED DECEMBER 31, 1999

SCHEDULE NO. 3A
PAGE 4 OF 4
DOCKET NO. 980242-SU

H.	DEPRECIATION EXPENSE	
	1. To reflect depreciation expense on plant for interconnection	$ 163,365
	2. To reflect test year amortization of CIAC for 1999	(8,282)
		$ 155,083
I.	TAXES OTHER THAN INCOME	
	1. To remove payroll taxes associated with reduced salaries after interconnection	$ (8,827)
	2. To reflect increase in property tax based on Pasco County's millage rate times staff's recommended net plant at 12/31/99	67,352
	3. To reflect additional reg. fees on annulized revenue	2,259
		$ 60,784
	Total Operating Expenses Adjustment for Projected Balance	$ 475,933
J	OPERATING REVENUES	
	1. To reflect increase in revenue to allow the Utility to recover its expenses and allow recommended return on investment for the phase-II plant improvement	$ 610,499
K.	TAXES OTHER THAN INCOME	
	1. To reflect additional regualory assessment fee on increase in revenue	$ 27,473

LINDRICK SERVICE CORPORATION
ANALYSIS OF WASTEWATER OPERATION AND
MAINTENANCE EXPENSE
PROJECTED TEST YEAR ENDED DECEMBER 31, 1999

SCHEDULE NO. 3B
DOCKET NO. 980242-SU

	BAL. PER UTILITY	STAFF ADJ.	STAFF ADJUSETED BAL. 1997	PHASE-II ADJUST.	PROJECTED BAL. PHASE-II
#701 SALARIES AND WAGES - EMPLOYEES	$ 50,598	$ 42,040	$ 92,638	$ (63,216)	$ 29,422
#703 SALARIES AND WAGES - OFFICERS	46,590	(990)	45,600	(11,577)	34,023
#704 PENSIONS AND BENEFITS	14,367	(1,000)	13,367	(3,996)	9,371
#710 PURCHASED SEWAGE TREATMENT	0	0	0	447,629	447,629
#711 SLUDGE REMOVAL	85,936	4,285	90,221	(90,221)	0
#715 PURCHASED POWER	32,574	20,885	53,459	(43,276)	10,183
#718 CHEMICALS	8,327	0	8,327	8,257	16,584
#720 MATERIALS AND SUPPLIES	27,517	(9,896)	17,621	0	17,621
#731 CONTRACTUAL SERVICES (ENGINEERING)	57,339	5,916	63,255	(25,342)	37,913
#732 CONTRACTUAL SERVICES (ACCT)	46,647	(6,735)	39,912	0	39,912
#733 CONTRACTUAL SERVICES (LEGAL)	6,484	(2,185)	4,299	0	4,299
#734 CONTRACTUAL SERVICES (ADMIN.)	11,152	(1,168)	9,984	0	9,984
#735 CONTRACTUAL SERVICES (TESTING)	10,065	0	10,065	27,867	37,932
#736 CONTRACTUAL SERVICES (OTHER)	94,071	(20,064)	74,007	2,111	76,118
#740 RENTS	10,097	0	10,097	0	10,097
#750 TRANSPORTATION EXPENSE	12,100	(8,103)	3,997	0	3,997
#755 INSURANCE EXPENSE	3,120	0	3,120	(1,244)	1,876
#765 REGULATORY COMMISSION EXPENSE	6,000	(4,146)	1,854	13,074	14,928
#770 BAD DEBT EXPENSE	7,997	(5,332)	2,665	0	2,665
#775 MISCELLANEOUS EXPENSES	859	2,951	3,810	0	$ 3,810
	531,840	16,458	$ 548,298	$ 260,066	$ 808,364

LINDRICK SERVICE CORPORATION
SCHEDULE OF RATE CASE EXPENSE RATE
REDUCTION AFTER FOUR YEARS
PROJECTED TEST YEAR ENDED DECEMBER 31, 1999

SCHEDULE NO. 4
DOCKET NO. 980242-SU

MONTHLY RATES

RESIDENTIAL	STAFF RECOMM. RATES	RATE DECREASE
BASE FACILITY CHARGE:		
METER SIZE:		
ALL SIZES	$ 16.56	$ 0.18
RESIDENTIAL GALLONAGE CHARGE		
PER 1,000 GALLONS	$ 3.90	$ 0.04
GENERAL SERVICE		
BASE FACILITY CHARGE:		
Meter Size:		
5/8"	$ 16.56	$ 0.18
3/4"	$ 24.85	$ 0.27
1"	$ 41.41	$ 0.46
1 1/2"	$ 82.82	$ 0.91
2"	$ 132.52	$ 1.46
3"	$ 265.03	$ 2.91
4"	$ 414.11	$ 4.55
6"	$ 828.23	$ 9.10
8" (Compound)	$ 1,325.17	$ 14.56
8" (Turbine)	$ 1,490.81	$ 16.38
GENERAL SERVICE GALLONAGE		
PER 1,000 GALLONS	$ 4.68	$ 0.05

Lindrick Service Corporation

Schedule No. 5
Docket No. 980242-SU

Utility Proposed Final Increase (Completion of Phase I&II)
If No Change in Related Party Services

Projected Test Year Ended 12/31/99

Component	Requested Increase
Operation and Maintenance Expense	$ 383,198
Depreciation (net)	241,434
Taxes Other Than Income	59,594
Income Taxes	100,305
Additional Operating Expenses	$ 784,531
Return on Investment (0.0976 x $2,837,211 net increase in plant)	$ 276,912
Total Additional Expenses and Return on Investment	$ 1,061,443
Divided by Regulatory Assessment Fee Expansion Factor	0.955
Total Revenue Increase	1,111,459
Divided by Projected Annualized Revenue	779,021
Percentage Increase in Revenue	142.67%

Lindrick Service Corporation

Schedule No. 5-A
Docket No. 980242-SU

Utility Proposed Final Increase (Completion of Phase I&II)
If the Related Party Expenses Are Replaced with
Contract Services from Third Party

Projected Test Year Ended 12/31/99

Component	Requested Increase
Operation and Maintenance Expense	$ 501,061
Depreciation (net)	241,434
Taxes Other Than Income	56,713
Income Taxes	100,305
Additional Operating Expenses	$ 899,513
Return on Investment (0.0976 x $2,837,211 net increase in plant)	$ 276,912
Total Additional Expenses and Return on Investment	$ 1,176,425
Divided by Regulatory Assessment Fee Expansion Factor	0.955
Total Revenue Increase	1,231,859
Divided by Projected Annualized Revenue	779,021
Percentage Increase in Revenue	158.13%