

State of Florida



Public Service Commission
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-M-E-M-O-R-A-N-D-U-M-

DATE: MAY 22, 2003

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

FROM: DIVISION OF ECONOMIC REGULATION (STONE, FITCH, MASSOUDI,
BRUCE, LINGO) (RL) /
OFFICE OF THE GENERAL COUNSEL (HOLLEY) JAM maps TSD

RE: DOCKET NO. 021067-WS - APPLICATION FOR STAFF-ASSISTED RATE
CASE IN POLK COUNTY BY RIVER RANCH WATER MANAGEMENT,
L.L.C.

AGENDA: 06/03/03 - REGULAR AGENDA - PROPOSED AGENCY ACTION -
EXCEPT FOR ISSUE NOS. 16 AND 17 - INTERESTED PERSONS MAY
PARTICIPATE

CRITICAL DATES: 15-MONTH EFFECTIVE DATE: 03/19/04 (SARC)

SPECIAL INSTRUCTIONS: NONE

FILE NAME AND LOCATION: S:\PSC\ECR\WP\021067.RCM

DOCUMENT NUMBER DATE

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FPSC COMMISSION CLERK

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CASE BACKGROUND

River Ranch Water Management, L.L.C. (River Ranch or Utility), is a Class C water and wastewater utility located in Polk County. The utility currently serves 48 single family homes, 119 residential units, 192 condominium units, 367 RV sites, and approximately 25 general service customers. The utility has provided service since 1973. The Florida Public Service Commission (PSC) acquired jurisdiction over Polk County water and wastewater utilities on May 14, 1996.

On April 29, 2002, River Ranch filed an application for the transfer of the utility's facilities and Certificates Nos. 602-W and 519-S. In Order No. PSC-03-0518-FOF-WS, issued on April 18, 2003, in Docket No. 020382-WS, the Commission approved the utility's application for transfer of facilities and certificates.

River Ranch obtained the rights to the utility by an assignment of interest in the Certificate of Title from Westgate Resorts Ltd., an affiliated company that purchased the resort and utility through a foreclosure sale. Westgate then conveyed the utility over to its affiliate, River Ranch Water Management, L.L.C. The parent company, Central Florida Investments, Inc. (CFI), has 100% ownership of the utility. Rate base for this utility has never been established by the Commission.

The resort property, along with the utility, has changed ownership several times in the past years. During these years, the previous owners have allowed the utility to deteriorate significantly.

On October 21, 2002, River Ranch filed an application for a staff assisted rate case (SARC) and paid the appropriate filing fees on December 16, 2002. Since the Commission acquired jurisdiction in 1996, the utility had not applied for an increase in rates prior to this filing. The Commission has the authority to consider this rate case pursuant to Section 367.0814, Florida Statutes. Staff has audited the utility's records for compliance with Commission Rules and Orders and determined the components necessary for rate setting. Staff also conducted a field investigation of the utility's plant and service area. A review of the utility's operation expenses, maps, files, and rate application was also performed to obtain information about the physical plant

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operating cost. Staff has selected a December 31, 2002, year-end test year for this rate case.

A customer meeting was held in the service area on April 23, 2003. Approximately 78 customers attended the meeting and 10 customers chose to give comments. Staff also conducted informal afternoon meetings with customer representatives. Prior to and after the customer meeting, staff received letters from customers stating their concerns about the proposed increase. The most common concern was related to flat rates vs. metered rates and which one would better serve the customers. Concerns were raised among customers about not knowing who to call for billing inquiries, emergency service, or general questions. Customers also voiced that they were not receiving detailed bills for their water and wastewater service. Their bills currently list one amount for all utility services and association fees. Several quality of service complaints were voiced regarding unannounced water outages and repairs, low water pressure, bad odor in drinking water, too much chlorine in the water, uncovered manholes, and flushing of fire hydrants. Customers who own more than one lot were concerned about paying a proposed guaranteed revenue charge on the undeveloped lots or on their home that resides on more than one lot. All the above concerns will be addressed later in the recommendation.

The following is a list of acronyms and commonly used technical terms which are used throughout this recommendation:

COMPANY AND PARTY NAMES

<u>DEP</u>	Florida Department of Environmental Protection
<u>PSC</u>	Florida Public Service Commission
<u>NARUC</u>	National Association of Regulatory Utility Commissioners
<u>OPC</u>	Office of Public Counsel
<u>SFWMD</u>	South Florida Water Management District

GLOSSARY OF TECHNICAL TERMS

<u>BFC</u>	Base Facility Charge - A charge designed to recover the portion of the total expenses required to provide water and sewer service incurred whether or not the customer actually uses the services and regardless of how much is consumed.
<u>CIAC</u>	Contributions In Aid Of Construction - Any amount or item of money, services, or property received by a utility, from any person or governmental agency, any portion of which is provided at no cost to the utility, and which is utilized to offset the acquisition, improvement, or construction costs of the utility's property, facilities, or equipment used to provide utility services to the public. The term includes, but is not limited to, system capacity charges, main extension charges, and customer connection charges.
<u>ERCs</u>	Equivalent Residential Connections - A statistic used to quantify the total number of water or wastewater connections that can be served by a plant of some specific capacity. The consumption of each connection is considered to be that of a single family residential connection, which is usually considered to be a unit comprised of 3.5 persons.
<u>gpd</u>	Gallons Per Day - The amount of liquid that can be delivered or actually measured during a 24-hour period.
<u>gpm</u>	Gallons Per Minute - The amount of liquid that can be delivered or actually measured during a one-minute time period.
<u>O&M</u>	Operations and Maintenance Expense
<u>RAF</u>	Regulatory Assessment Fees
<u>SARC</u>	Staff Assisted Rate Case
<u>UPIS</u>	Utility Plant in Service - The land, facilities, and equipment used to generate, transmit, and/or distribute utility service to customers.

Used The amount of plant capacity that is used by current
and customers including an allowance for the margin reserve.
Useful

USOA Uniform System of Accounts - A list of accounts for the
purpose of classifying all plant and expenses associated
with a utility's operations.

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QUALITY OF SERVICE:

ISSUE 1: Should the quality of service provided by River Ranch Water Management, L.L.C. (River Ranch or Utility), be considered satisfactory?

RECOMMENDATION: Yes. The quality of service provided by River Ranch should be considered satisfactory. Although, the utility currently is not in full compliance status for wastewater, DEP's inspector believes that the utility's new owner is cooperating and currently bringing the plant into compliance status. Therefore, the utility should complete any and all improvements to the system that are necessary to satisfy the standards set by the DEP. Also, the utility should be required to provide a local emergency phone number and the number should be posted at the plant and at each lift station. The emergency phone number should be posted at all locations no later than 90 days from the date of the Consummating Order for this rate case. (MASSOUDI)

STAFF ANALYSIS: Rule 25-30.433(1), Florida Administrative Code, states that:

The Commission in every rate case shall make a determination of the quality of service provided by the utility. This shall be derived from an evaluation of three separate components of water and wastewater utility operations: quality of utility's product (water and wastewater); operational conditions of utility's plant and facilities; and the utility's attempt to address customer satisfaction. Sanitary surveys, outstanding citations, violations and consent orders on file with the Department of Environmental Protection (DEP) and county health departments (HRS) or lack thereof over the proceeding three-year period shall also be considered. DEP and HRS officials' testimony concerning quality of service as well as the comments and testimony of the utility's customers shall be considered.

Staff's analysis below addresses each of these three components based on the information available.

River Ranch is a Class C water and wastewater utility serving customers in Polk County. The utility is serving water and

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wastewater to 48 residential homes in Countryside/River Ranch Shores (estimated to be 48 ERCs), 119 fixed mobile homes in Long Hammock Owner Association (Phase I) (estimated to be 96 ERCs), 367 mobile homes in RV area (Phase II- V) (estimated to be 294 ERCs), 192 Condominium village (estimated to be 154 ERCs), and to the resort community which includes restaurants, offices, and a hotel with pool and shops (estimated to be 74.5 ERCs for water and 71 ERCs for wastewater). The River Ranch Resort is a vacation area that experiences peak water usage from October through April.

QUALITY OF UTILITY'S PRODUCT

Water

In River Ranch, the potable water program is regulated by the Polk County Health Department (PCHD), and consumptive use is permitted by the South Florida Water Management District (SFWMD). According to county health records, the utility is currently up-to-date with all chemical analysis and all test results are satisfactory. The utility serves water which meets or exceeds all standards for safe, potable water. Therefore, the water quality should be considered satisfactory.

Wastewater

Jurisdiction over wastewater facilities is regulated by the Southwest District of the DEP in Tampa. According to DEP's letter dated May 16, 2001, to River Ranch, the wastewater treatment plant (WWTP) was inspected on April 23, 2001. Based on this inspection, the DEP inspector obtained a grab sample of effluent and tested it for Carbonaceous Biomedical Oxygen Demand (CBOD) and Total Suspended Solids (TSS). The CBOD and TSS results were 330 mg/l and 39mg/l, respectively. These results exceed the 30 mg/l monthly average permit limit for CBOD and TSS. Also, the inspector observed an excessive amount of vegetation in the single percolation pond.

The utility owner constructed a new wastewater treatment plant in August 2002. According to the DEP's Compliance Evaluation Inspection letter dated March 5, 2003, to River Ranch, the WWTP was inspected on February 19, 2003. Based on this inspection, the DEP inspector observed the following items and brought them to the utility's attention:

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- 1- The effluent was turbid and had a chlorine residual greater than 2.0 ppm.
- 2- The DEP inspector sampled the effluent for CBOD and TSS during the time of the inspection. The sampling results for CBOD and TSS were 18 mg/l and 44mg/l, respectively. The monthly average limit for CBOD and TSS is 30 mg/l. Additionally, the influent was tested for CBOD and TSS and the sampling results were 61 mg/l and 139 mg/l, respectively.
- 3- A review of monthly Discharge Monitoring Report (DMR) submitted for the period of August 1, 2001, through October 31, 2002, revealed two nitrate and one fecal coliform exceedence. The November 2001 DMR indicated a fecal coliform result of >800 Colony Forming Units (CFU)/100 ml. According to the Department's guidance memo, this result should have been reported as 20,000 CFU/100ml. The single grab sample limit for fecal coliform is 800 CFU/100 ml. The July and August 2002 DMRs reported a nitrate result of 16.3 mg/l and 19.1 mg/l, respectively. The maximum limit for nitrate is 12 mg/l. Additionally, the excursions mentioned above were not indicated on Part A of the DMRs.
- 4- The inspector observed an excessive amount of vegetation in the single percolation pond.

Although the utility currently is not in full compliance status for wastewater, DEP's inspector believes that the utility's new owner is cooperating and currently bringing the plant into compliance status. Therefore, the utility should complete any and all improvements to the system that are necessary to satisfy the standards set by the DEP. All things considered, the quality of the wastewater provided by River Ranch should be considered satisfactory at this time.

OPERATIONAL CONDITIONS AT THE PLANT

Water

The quality of the utility's plant-in-service is generally reflective of the quality of the utility's product. Since January 2002, several improvements, upgrades, and replacements have been made to the water systems. Maintenance of the building, which

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includes the well and pump at the water treatment plant, is satisfactory. The building itself appears well maintained.

According to PCHD's letter dated December 31, 2002, to River Ranch, the utility drinking water system is in noncompliance status with requirements of the Safe Drinking Water Act of the State of Florida. This letter states, "[f]acility failed to obtain a construction permit prior to making modifications to the water treatment system and placed it into operation without sampling and obtaining clearance from this Department. A Consent Order was agreed upon by both the Department and the Respondent and executed on November 19, 2002." The stipulations in the Consent Order called for the following items:

- 1- A set of signed and sealed As Built Plans along with specifications of all newly installed equipment was to be submitted to the Department for review within 30 days of the effective date of the consent order.
- 2- Respondent was to request a letter of acceptance/clearance to the Department within 30 days.
- 3- Respondent was to submit an auxiliary power plan to the Department for review within 30 days.
- 4- Respondent was to pay \$4,742 in penalties and cost to the Department.

Items 2, 3, and 4 were submitted to the Department; however, the As Built Plans and specifications were not submitted as required.

However, according to PCHD's letter dated February 20, 2003, to River Ranch, the utility subsequently submitted the requested information and As Built Plans for the water system. The PCHD accepted all submitted data, changes, and modifications and returned the utility to compliance status.

Accordingly, the operational conditions of the water treatment plant-in-service should be considered satisfactory.

Wastewater

The wastewater plant-in-service is also reflective of the product provided by the utility. The overall capacity of the

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wastewater plant is sufficient to process the average daily flows of the on-line customers. DEP has issued a wastewater permit on February 8, 1999, which will expire on February 7, 2004.

According to DEP's letter dated May 16, 2001, to River Ranch, the wastewater treatment plant was inspected on April 23, 2001. Based on this inspection, the inspector observed the following:

- 1- The clarifier's gear drive and sweep arm were found to be inoperable.
- 2- The walkway on top of the plant, which provides access to the chlorine contact chamber and clarifier showed evidence of deterioration and metal fatigue. Safe access needs to be provided for sampling and recording daily flow.
- 3- The metal wall that separates the clarifier aeration basin exhibited evidence of deterioration and metal fatigue. Also, a portion of the southeast side of the clarifier had separated away from the rest of the structure.
- 4- The back-up blower motor was inoperable.
- 5- The scales, which are part of the gas chlorination system, are inoperable.
- 6- The gas chlorination equipment lacks safety equipment such as a leak detector alarm, wind flag, operational scales, a self-contained breathing apparatus (SCBA), and warning signs.
- 7- The single percolation pond contains excessive solids which need to be removed and be properly disposed. Also, small shrubs and trees were growing on the bottom of the pond.
- 8- The entrance gate to the plant needs to be replaced to ensure adequate access control.
- 9- The stairs to access the plant were found to be rusted and showed evidence of metal fatigue and are too steep.
- 10- The Department received a July 13, 1999, letter indicating that the sanitary collection system for the Countryside subdivision was televised and sources of black water infiltration were found. The letter also indicated that work

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to repair the sanitary collection system would begin within the next 15 days. As of this date, the infiltration problem in the Countryside Subdivision's sanitary collection system is still outstanding. During the inspection, the Department observed black water entering the plant.

- 11- The above problem has allowed excessive amounts of sand into the plant, thereby reducing its design capacity and causing the plant to become septic on occasion.
- 12- The operator has converted the method of disinfection from gas chlorination to liquid without a permit modification.

Since there were numerous problems with the wastewater treatment plant and because the existing plant's clarifier had imploded on itself due to the lack of integrity between the separating walls of the facility, the utility owner constructed a new WWTP in August 2002 in order to bring the wastewater system into compliance. The DEP allowed them to place the new plant into service without a permit based on the urgency of the situation. The utility has submitted a permit application to get the new plant permitted.

According to the DEP's Compliance Evaluation Inspection letter dated March 5, 2003, to River Ranch, the DEP inspector also has observed the following items during her field inspection on February 19, 2003:

- 1- The aeration basins do not have adequate freeboard. According to Ten State Standards, all aeration tanks should have a freeboard of not less than 18 inches. Additionally, the minimum side water depth on a secondary clarifier should be 12 feet to ensure an adequate separation zone between the sludge blanket and the overflow weirs.
- 2- The skimmer was plugged during the time of the inspection.
- 3- A staff gauge needs to be installed three to four times the maximum head upstream of the weir and be precisely aligned with the primary device (e.g. weir) zero level. Also, the ultrasonic level sensor needs to be mounted next to the staff gauge.

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- 4- The primary measuring device has a recommended range of flow rates, outside of which errors in flow measurement will result. For example, the minimum flow rate for a 90 degree V-notch is .029 MGD. The facility's current 3-month average daily flow is 0.016 MGD. A 22.5 degree V-notch reads a minimum flow of 0.006 MGD and a maximum flow of 1.82 MGD. The DEP suggests the installation of a 22.5 degree V-notch weir, as opposed to the 90 degree V-notch weir, in order to measure flow accurately.
- 5- Only one of the two blower motors was set to operate during the time of the inspection.
- 6- The DEP suggested that a return activated sludge line be installed to the surge tank in order to maintain odor control.
- 7- Based on review of January to November 2002 DMRs, the operator is not consistently meeting the required operator attendance of 1/2 hour per day, five days per week, and one weekend visit.

Also, the DEP inspector observed a few minor record and report deficiencies that were being brought to the utility's attention.

The DEP inspector has stated in her letter that the type of inspection conducted was a Compliance Evaluation Inspection and the overall rating of the facility was Out of Compliance. However, according to the utility's letter dated April 7, 2003, to DEP, the utility has fixed most of the above items and is in the process of fixing the other problems.

During the engineering field inspection, the water and wastewater plant-site appeared to have been given adequate maintenance attention. Water and wastewater plant equipment appeared to have been receiving periodic maintenance and numerous improvements have been done. The plant ground within the fenced-in area was organized and still under construction. The utility has plans to repair the Countryside Subdivision's sanitary sewer system to stop the black water from entering into the plant. DEP's inspector believes that the utility's new owner is cooperating with DEP and trying to bring the plant into compliance status as soon as possible.

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All things considered, the quality of the wastewater plant-in service provided by River Ranch should be considered satisfactory at this time.

UTILITY'S ATTEMPT TO ADDRESS CUSTOMER SATISFACTION

The customer meeting was held on April 23, 2003, in the River Ranch Saloon located at River Ranch. Staff conducted two meetings, one at 4:00 p.m. and the other at 6:00 p.m. Four customers attended the 4:00 p.m. meeting. Mr. Tom Rhodes, River Ranch RV Association Property Manager, stated that water pipes in RV sites and Long Hammock leak constantly and they have problems with low water pressure. Mr. Rhodes added that usually the customers repair the leaking pipes since it is easier and quicker for them to fix the pipes rather than asking the utility to fix them.

The evening meeting was open to all customers and was held at 6:00 p.m., same location. There were 78 people in attendance at this meeting, including the utility's representative, Mr. Bill Goaziou, and the utility's attorney. There were ten customers that presented comments and concerns about the utility. Of those customers that attended the evening meeting, seven came forward with complaints and opinions concerning the quality of service. The quality of service issues raised by these customers were: unannounced water outages and repairs, water went out 2-3 times per week during summer and fall, low water pressure, water smells like a sewer, too much chlorine in the water, uncovered manholes in Countryside Subdivision, sand in the Countryside's lines since 1997, outdated emergency telephone number posted at the utility plant, and the elevated water tank paint cost.

Also, staff received a letter dated April 30, 2003, from Wayne and Jean Harris, regarding the flushing of the fire hydrant for three months. In their letter, they stated that Mr. Harris was employed for three months by River Ranch in 2002 and he had overheard a utility representative tell an employee to open all the fire hydrants every other day. She stated that the employee flushed the fire hydrants every other day for three months. Also, they stated that there was too much chlorine in their water and that they have experienced low water pressure.

Concerning the complaint by the customers that they have to repair their own leaking pipes, the utility is responsible for any maintenance and repairs involving the service lines up to and

including the service control valve, meter, and meter box pursuant to Rule 25-30.231, Florida Administrative Code.

Concerning the water outage and repairs, many customers complained that they had unannounced water outages and sometimes did not have water for 2-3 times per week during the summer and fall. The utility addressed this issue with staff stating that they have recently been installing new pumps, motors, valves, and meters in order to improve the water plant. The utility claimed that they tried to work and replace the pumps at night and the customers were always notified by writing in advance. In accordance with Rule 25-30.250, Florida Administrative Code, "[e]ach utility shall make all reasonable efforts to provide continuous service. Should interruption in service occur, however, each utility shall reestablish service with the shortest delay consistent with the safety of its customers and the general public." This Rule also states, "[e]ach utility shall schedule any necessary interruptions in service at a time anticipated to cause the least inconvenience to its customers. Each utility shall notify its customers prior to scheduled interruptions."

Concerning the low pressure, the utility explained to staff that the water pressure is provided by a large 100,000 gallon elevated water tank. Customers sometimes experience low pressure in the morning after the RV site has run its irrigation systems which reduces the water level in the big tank. The utility has to run the pumping system very hard to replenish the water in the elevated tank. The utility stated that it has had a problem with the motor on the 12 inch well that is located by Kicco Road (Well No. 2, behind the WWTP). The utility will soon be replacing the old motor with a new one in order to solve the low water pressure.

Regarding the excessive chlorine in the drinking water and the bad odor/sulfur taste experienced by the customers, the chlorine pump is set on a timer that only injects disinfectant while the pump is engaged. The disinfection process is complicated by the fact that the raw water at River Ranch contains substantial levels of hydrogen sulfide. Hydrogen sulfide is a secondary compound that is not considered to be a health hazard. In order to remove hydrogen sulfide at the plant, the utility would have to treat the hydrogen sulfide with chlorine since the two will not co-exist in the same environment. Levels of hydrogen sulfide vary from day to day. When chlorine is fed into the raw water, it first reacts with any iron, manganese, or hydrogen sulfide that may be in the water.

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If any residual (un-reacted) chlorine remains, it will next react with organic material (including bacteria) present. The interactive variables are constantly in flux and results will shift from moment to moment. In order to ensure that the water remains protected throughout the distribution system, an excess of chlorine, usually 0.5 parts per million (ppm) is added (minimum required chlorine residual is 0.2 ppm by ISAPI). This "rate of feed" is normally adjusted to make sure that sufficient chlorine is available to fully react with the organics that may be present. When both the mineral and organic reactions have been completed, any residual chlorine remains in the drinking water. Therefore, the residences that are located at the beginning of the distribution system may experience higher residual levels than others. Sensitivity to the taste of water with residual chlorine is subjective and some customers are more sensitive than others. However, while there is a 0.2 parts per million minimum free chlorine residual requirement, an upper limitation is not specified in the rules governing disinfection.

Mr. Ron Murphy complained that several manholes at Dallas Circle in the Countryside Subdivision are uncovered and the utility has not fixed them. After the customer meeting, staff inspected the manholes in the Countryside Subdivision. All manholes were covered and were fixed. Staff found just one green area in Dallas Circle on Oakmont Drive where bushes were overgrown and surrounded by sand. Staff was not able to step into the bushes, but believes that an uncovered manhole may have been in the middle of the bushes. Staff reported this area to DEP. After a few days, the utility notified staff that there was an uncovered manhole in the middle of the bushes in Dallas Circle that the previous owner had never fixed. The utility claimed that bushes had been cut, a lot of sand was taken out of the manhole and the manhole, was fixed and covered. DEP confirmed this correction.

Regarding sand in the Countryside Subdivision, the utility is assuming that the open manhole on Dallas Circle was probably causing sand to enter into Countryside's line. The utility is expecting that by fixing this manhole, the sand problem in the Countryside Subdivision's collection system will be solved and it will help stop the black water from entering into the wastewater plant. The DEP inspector told staff that even though the manholes are fixed, they will still inspect the plant for the black water problem to make sure the sand problem is solved.

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Mr. Murphy also complained that his telephone number is posted on the lift station and at the water utility plant for emergencies. He said he worked for the utility in the past, but was no longer employed by it. He said customers and even the security person still call him during emergencies. Local emergency phone numbers should be updated and posted at both plants and at each lift station so that the utility can respond to an emergency in a timely manner. Those postings should occur no later than 90 days from the date of the Consummating Order for this rate case.

Concerning flushing the fire hydrants for three months, the utility explained to staff that during the summer, when most of the customers are gone from River Ranch, the utility begins a systematic flushing of the water lines by opening up three to four fire hydrants every two weeks for two to three minutes. This process rotates throughout the entire system. The utility does this as the fire protection supply lines and the potable water lines are the same. This allows the utility to flush out any water that might have lost the proper chlorine residual because of the looping system and lack of flow in some parts of the system. The utility claimed that it does not flush the fire hydrants during the peak season as the flows are much higher.

One customer asked how often the utility should paint its water tanks. He complained that the utility painted the elevated water tank four years ago and again it was recently painted. The customer asked why the customers should have to pay for painting the tank. Staff did not receive any invoices from the utility for the elevated water tank painting cost and therefore, this cost was not included in this rate case. The utility also explained to staff that the utility did not pay for painting the elevated water tank, but that it was paid for by Westgate Resorts.

All things considered, staff believes that the new owner of the utility is putting forth a sufficient good faith effort to justify a "satisfactory" finding concerning the attempts to resolve customer complaints. Staff recommends that the utility's attempt to address customer satisfaction also be considered satisfactory. However, staff further recommends that a local emergency phone number should be updated and posted at both plants and at each lift station so that someone can respond to an emergency in a timely manner. Those postings should occur no later than 90 days from the date of the Consummating Order for this rate case.

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RATE BASE:

ISSUE 2: Should the Commission approve a year-end rate base for this utility?

RECOMMENDATION: Yes, the Commission should approve a year-end rate base for this utility to allow it an opportunity to earn a fair return on the utility investment made during the test year and to insure compensatory rates on a prospective basis. (STONE, FITCH)

STAFF ANALYSIS: As discussed in the case background, the utility was purchased by its current owner prior to the test year. The new owners purchased an old system which was in need of major repairs. During the test year, the utility made substantial improvements to the water treatment plant and replaced the existing wastewater plant. The cost associated with the improvements and upgrades represent over 34% of its net water plant in service and over 40% of its net wastewater plant in service. In order to allow the utility an opportunity to recover the amount spent on plant improvements, the utility should be allowed a year-end rate base.

The Commission has the authority to apply a year-end rate base. Citizens of Florida v. Hawkins, 356 So. 2d 254 (Fla. 1978). Historically, it has only been applied in extraordinary circumstances. Staff believes that extraordinary circumstances exist in this docket because the utility has made major water and wastewater system improvements representing over 44% of its total water and 33% of its wastewater utility plant. See Order No. PSC-98-0763-FOF-SU, issued June 3, 1998, in Docket No. 971182-SU (Improvements representing 36.07% of total plant deemed extraordinary circumstances).

The utility is also planning on upgrading its existing wastewater collection system to eliminate the high cost associated with black water infiltration. Staff believes that these improvements benefit existing customers. Further, staff believes that not allowing the full cost of these improvements in rates would be a disincentive for the utility to make future investments in plant. Further, as discussed above, staff believes that the magnitude of the improvements represent extraordinary circumstances which the Commission has used in the past to justify a year-end rate base.

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Based on the above, staff believes that a year-end rate base for this utility should be approved. A year-end rate base will allow this utility an opportunity to earn a fair return on its investment made during the test year and to insure compensatory rates on a prospective basis.

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ISSUE 3: What portions of River Ranch Water Management, L.L.C., are used and useful?

RECOMMENDATION: The water treatment plant should be considered 100% used and useful, water distribution system should be considered 79.8% used and useful, wastewater treatment plant should be considered 17.5% used and useful, and the wastewater collection system should be considered 79.7% used and useful. (MASSOUDI)

STAFF ANALYSIS:

Water Treatment Plant

The water treatment plant is an open system with two wells. Well No. 1 is a 6 inch well equipped with a 5 horsepower (hp) vertical turbine pump that resources the ground water table at a rate of 150 gallons per minute (gpm). Well No. 2 is a 12 inch well equipped with a 10 hp vertical turbine pump that resources the ground water table at a rate of 350 gpm. The raw water from two wells enters into a cascade aerator. The flow from the aerator is routed to either of the two 50,000 gallon steel plate storage tanks, which are connected to the suction header of the three high service pumps (25 hp-727 gpm, 20 hp-581 gpm, and 15-259 gpm hp). The high service pumps discharge directly into the 100,000 gallon elevated (125 feet high) storage tank, which is connected to the potable water system and the fire system.

The firm reliable capacity is calculated by using the capacity of the high service pumps, with the deduction of the two highest volume capacity pumps which are 581 gpm and 727 gpm. Considering the lowest volume capacity high service pump with 259 gpm times a normal 12 hour day (186,480 gpd), plus the storage capacity of all storage units (200,000 gallons), minus the dead storage space (10,000 gallons) the firm reliable capacity of the River Ranch's water plant was determined to be 376,480 gpd.

During the ten-month review period, the peak month of water usage occurred during May 2001. The average of the five highest days in that maximum month was 289,300 gpd with average daily flow of 113,031 gpd. The utility provides fire protection via fire hydrants throughout the distribution system. The Polk County fire code requires a minimum of 500 gpm, sustainable for a period of four hours (120,000 gallons) which is considered in the calculations. A regression analysis was performed to anticipate a

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growth of three ERCs for the next year which calculates a projection of 2,546 gpd for the statutory growth period pursuant to Section 367.081(2)(a)(2)(b), Florida Statutes. Therefore, in accordance with the calculation sheet (Attachment A, Sheet 1 of 4), it is recommended that the used and useful for the water treatment plant should be 100%.

Water Distribution System

The water distribution system has the potential of serving 942 customers (estimated to be 853 ERCs). The average number of customers served during the test year was 756 customers (estimated to be 666 ERCs). A regression analysis of growth over the past five years indicates that next year's growth will be three ERCs per year. When we apply the three ERCs to the statutory growth period, the future growth is calculated to be 15 ERCs. By the formula approach, staff calculates the distribution system to be 79.8% used and useful (Attachment A, Sheet 2 of 4).

Wastewater Treatment Plant

The wastewater treatment plant is permitted by the DEP as a 95,000 gpd Annual Average Daily Flow (AADF) plant operating in the extended aeration mode of treatment. During the peak month of the most current test year (July), the highest consecutive five day average was 41,600 gpm. The AADF for the plant was measured and calculated to be 16,250 gpd. Growth in the used and useful calculation is limited to three ERCs per year which is determined by the statutory 5percent per year cap for the growth calculation. It is estimated that the increase demand for the five year statutory growth period will be 368 gpd. Therefore, the formula used on the calculation sheet (Attachment A, Sheet 3 of 4) indicates a used and useful of 17.5%.

Wastewater Collection System

The utility's potential customer base is 849 ERCs. The average number of customers in ERCs for the test year was 662. Using the statutory cap of 5 percent per year for the five year growth period (three ERCs per year), future growth for the next five years is calculated to be 15 ERCs. In accordance with the formula method used on the calculation sheet (Attachment A, Sheet 4 of 4), the used and useful is calculated to be 79.7%. By the

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formula method, it is recommended that the wastewater collection system should be considered 79.7% used and useful.

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ISSUE 4: What is the appropriate year-end test year rate base for this utility?

RECOMMENDATION: The appropriate year-end test year rate base for this utility is \$245,608 for water and \$427,090 for wastewater. The utility should be required to complete the pro forma fence installation, meter installation, and line lining within 180 days from the date of the Consummating Order. (STONE, FITCH)

STAFF ANALYSIS: Pursuant to Order No. PSC-03-0518-FOF-WS, issued April 18, 2003, in Docket No. 020382-WS, River Ranch was granted a transfer of Water and Wastewater Certificates Nos. 603-W and 519-S. The Commission approved the utility's existing rates and charges in the above referenced order; however, rate base was not established at that time.

During the audit investigation, staff discovered that the utility did not have sufficient documentation to support its investment in plant. Therefore, an original cost study was conducted by staff. Rate base components were adjusted using the original cost study for plant balances through December 31, 2001, and actual invoices from 2002 provided by the parent company, CFI. As discussed in an earlier issue, staff has recommended a December 31, 2002, year-end test year be used. Because staff is using a year-end test year, averaging adjustments will not be made. A discussion of each component of rate base follows:

Utility Plant in Service (UPIS): The utility did not record any balances for UPIS for water and wastewater. Based on the original cost study, staff has increased UPIS by \$565,492 for water and \$674,402 for wastewater for the period ending December 31, 2001.

The new owners recorded plant additions on the books of CFI for the test year. Staff identified utility plant additions on the parent's books and increased UPIS by \$112,437 for water and \$212,639 for wastewater.

Staff increased Account No. 335 (Hydrants) by \$5,422 to reclassify a fire hydrant from O&M Account No. 636 (Contractual Services - Other). Staff also increased Account No. 360 (Collecting Sewers - Force) by \$8,948 to reclassify a lift station pump from O&M Account No. 736 (Contractual Services - Other).

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According to the utility the existing wastewater treatment plant (WWTP) was not working properly. The utility constructed a new WWTP during the test year. The utility has not retired the old WWTP and is holding it for future expansion plans. Based on the original cost study, staff has determined the cost of the old WWTP to be \$46,765. Staff decreased UPIS by \$46,765 to reclassify WWTP to plant held for future use.

Pro Forma

A majority of the utility's customers are not metered. In the past, the Commission has set consumption based rates for utilities in order to better match usage levels with cost and to encourage conservation. Both the South Florida Water Management District (SFWMD) and the utility are concerned about the current level of consumption. As discussed later in this recommendation, staff is moving toward setting consumption based rates in the near future. In order to charge consumption-based rates, consumption must be metered. In its response to staff's audit, the utility requested \$250 per residential meter and a total of \$12,500 for general service meter connections. As discussed later in this recommendation, staff is recommending a combination of individual meters and localized master meters. Staff has used the utility's meter cost as a basis and has increased UPIS by \$106,750 for water to include the installation of meters for residential and general service customers.

During the test year the utility incurred approximately \$41,000 in chemical expense for wastewater treatment associated with black water infiltration. The utility incurred \$14,540 to televise the collection system in order to locate the source of the infiltration. The utility has requested \$279,700 to install approximately 9,500 linear feet of cured-in-place lining throughout the wastewater system. This lining process will eliminate the black water infiltration and remove \$41,000 of annual chemical expense associated with treating the black water. This process will also extend the useful life of the existing collection lines. In the utility's audit response, it requested staff to book the televised research of the sewer lines as a prepaid expense and amortize it over five years. Because this cost is directly associated with the line lining process, staff believes the televised process should be capitalized as part of the overall cost of the lining project. Based on the above, staff believes this process is prudent and has increased UPIS by \$294,240 for

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wastewater to include the installation of the lines based on an estimate provided by the utility and to capitalize the cost associated with identifying the infiltration.

The utility requested the installation of a fence around the water and wastewater treatment plants. The fence will provide security for both plants. Staff increased UPIS by \$3,659 for water and \$1,074 for wastewater to allow for the installation of the fence.

In its audit response, the utility also requested two additional pro forma items: an additional clarifier and treatment expansion of 100,000 plus gallons. Both of these items are related to plant expansion. In an earlier issue, staff recommended that the wastewater treatment plant is only 17.5% used and useful. Because the utility has excess capacity, and because staff believes that growth related items should be recovered through future customers, staff does not believe items related to plant expansion should be included in rate base at this time. Staff has included these items in its recommended service availability charges as discussed later in this recommendation.

Accordingly, staff's recommended UPIS is \$793,760 for water and \$1,144,538 for wastewater.

Land: The utility's books did not reflect a land balance at the end of the test year. National Association of Regulatory Utility Commissioners (NARUC), Definition No. 9, states that original cost as applied to utility plant, means the cost of such property pertaining to the person first devoting it to public service.

Staff contacted the Polk County Property Appraisers' Office and obtained research consisting of information dating back to 1986; however, the utility's land was placed into service in 1965. Staff then researched past dockets and found similar property purchased during the time frame River Ranch's property was acquired. In Order No. PSC-00-1774-PAA-WU, issued September 27, 2000, in Docket No. 991627-WU, the Commission determined the land value of \$100 for similar property located in Polk County that was placed in service during 1961. Staff believes the value of the property in the above mentioned Order to be a fair value per acre cost for River Ranch; therefore, staff has made an adjustment to increase land value in the amount of \$160 for water (1.6 acres) and \$500 for wastewater (5 acres).

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Non-used and Useful Plant: Staff has determined the used and useful percentages for each plant account. As previously discussed, the water treatment plant is 100% used and useful and the water distribution system is 79.8% used and useful. The wastewater treatment plant is 17.5% used and useful and wastewater collection system is 79.7% used and useful. However, as discussed below, staff is recommending that CIAC be increased based on the value of the transmission and distribution lines and collection lines consistent with Rule 25-30.570, Florida Administrative Code. The purpose of the used and useful adjustment is to remove from rate base the cost of UPIS not used by current customers. The purpose of CIAC is to remove from rate base that portion of UPIS that was not invested by the utility. Applying a used and useful adjustment to fully contributed plant would result in a double reduction to rate base. Therefore, a used and useful adjustment should not be made to the contributed portions of the distribution and collection system. Although staff has not contributed the cost associated with the line lining, the lining process is believed to be a prudent solution to a DEP requirement. Therefore, pursuant to Section 367.081(2)(a)(2)(c), Florida Statutes, the capitalized lining project should be considered 100% used and useful.

The non-used and useful percentages times the appropriate wastewater accounts reflect non-used and useful wastewater plant of \$137,403. Non-used and useful accumulated depreciation for wastewater is \$10,689. This results in a net non-used and useful plant adjustment of \$126,714 for wastewater.

Contribution in Aid of Construction (CIAC): The utility did not record a balance in CIAC for both water and wastewater. Rule 25-30.570, Florida Administrative Code, specifies that:

If the amount of CIAC has not been recorded on the utility's books and the utility does not submit competent substantial evidence as to the amount of CIAC, the amount of CIAC shall be imputed to be the amount of plant costs charged to the cost of land sales for tax purposes if available, or the portion of the cost of the facilities and plant attributable to the water transmission and distribution system and the sewage collection system.

Since the utility has not recorded CIAC on its books and has not provided staff with competent substantial evidence to ascertain the amount of CIAC, pursuant to Rule 25-30.570, Florida

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Administrative Code, staff has included in CIAC the cost associated with the utility's transmission and distribution lines and collection lines. Therefore, staff has increased CIAC by \$504,962 for water and by \$628,150 for wastewater to reflect the value of the transmission and distribution lines and the collection lines.

Accumulated Depreciation: The utility did not record accumulated depreciation balances for water and wastewater. Consistent with Commission practice, staff has calculated accumulated depreciation using the prescribed rates in Rule 25-30.140, Florida Administrative Code, and staff's original cost study. Staff's calculated accumulated depreciation for the year-end test year is \$346,202 for water and \$308,093 for wastewater.

Staff has decreased this account by \$46,765 for wastewater to remove depreciation associated with plant held for future use. Further, staff has increased this account by \$3,204 for water and \$3,698 for wastewater to reflect depreciation associated with pro forma additions discussed above. Staff recommends an accumulated depreciation balance for the year-end test year of \$349,406 for water and \$265,026 for wastewater.

Amortization of CIAC: The utility did not record CIAC amortization for water and wastewater. Staff has calculated amortization using specifically identified depreciation rates related to contributed property discussed above. Staff's calculated amortization of CIAC is \$295,588 for water and \$290,448 for wastewater for the year-end test year. Therefore, staff increased this account by \$295,588 for water and by \$290,448 for wastewater to reflect amortization calculated per staff.

Working Capital Allowance: Working Capital is defined as the investor-supplied funds necessary to meet operating expenses or going-concern requirements of the utility. Consistent with Rule 25-30.433(2), Florida Administrative Code, staff has calculated working capital using the one-eighth of operation and maintenance (O&M) expense formula approach. Based on that formula, staff recommends a working capital allowance of \$10,468 (based on O&M of \$83,741) for water and \$11,494 (based on O&M of \$91,950) for wastewater.

Rate Base Summary: Based on the foregoing, staff recommends that the appropriate year-end test year rate base to be \$245,608 for water and \$427,090 for wastewater.

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Rate base is shown on Schedule Nos. 1-A and 1-B. Related adjustments are shown on Schedule No. 1-C.

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COST OF CAPITAL:

ISSUE 5: What is the appropriate rate of return on equity and the appropriate overall rate of return for this utility?

RECOMMENDATION: The appropriate rate of return on equity is 10.97% with a range of 9.97% - 11.97%. The appropriate overall rate of return for the utility is 10.43%. (STONE, FITCH)

STAFF ANALYSIS: The utility recorded the following items in capital structure for the year-end test year: common stock of \$10, no retained earnings, paid-in-capital of \$159,240, and long-term debt of \$202,598. Equity represents 44% of the utility's capital structure.

The utility's \$202,598 of long-term debt represents a related party debt payable to CFI for expenses paid by CFI on behalf of the utility. The debt consists of a single loan with an interest cost of 10% and represents 56% of the utility's capital structure.

Using the current leverage formula approved by Order No. PSC-02-0898-PAA-WS, issued July 5, 2002, in Docket No. 020006-WS, the appropriate rate of return on equity is 10.97%.

The utility's capital structure has been reconciled with staff's recommended rate base. Staff's recommended return on equity is 10.97% with a range of 9.97% - 11.97% and an overall rate of return of 10.43%. The return on equity and overall rate of return are shown on Schedule No. 2.

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NET OPERATING INCOME:

ISSUE 6: What are the appropriate year-end test year revenues?

RECOMMENDATION: The appropriate year-end test year revenues for this utility are \$51,877 for water and \$39,838 for wastewater. (STONE, FITCH)

STAFF ANALYSIS: The utility recorded revenues for the test period of \$39,315 for water and \$39,314 for wastewater.

The utility's current tariffs authorize flat rates for water and wastewater service. Staff has annualized revenues based on current tariffed rates times the number of year-end customers. Staff has determined year-end test year revenues to be \$51,877 for water and \$39,838 for wastewater. Therefore, staff has increased revenue by \$12,562 for water and by \$524 for wastewater to reflect staff's calculated year-end test year revenues.

Year-end test year revenues are shown on Schedule Nos. 3-A and 3-B and the related adjustments are shown on Schedule No. 3-C.

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

RECOMMENDATION: The appropriate amount of operating expense for this utility is \$103,578 for water and \$111,321 for wastewater. The utility should be required to provide staff with proof of insurance and billing contract within 90 days of the Consummating Order. (STONE, FITCH)

STAFF ANALYSIS: Due to a complete year of records not being available at the time of the audit, the utility's books were audited for a ten month test period ending October 31, 2002. The utility recorded operating expenses of \$59,388 for water and \$120,172 for wastewater during the ten month test period. The utility provided the auditor with access to all books and records, invoices, canceled checks, and other utility records to verify its O&M and taxes other than income expense. Staff has determined the appropriate operating expenses for the year-end test year and a breakdown of expenses by account class using the documents provided by the utility. Adjustments have been made to reflect the appropriate annual operating expenses that are required for utility operations on a going forward basis.

Operations and Maintenance Expenses (O&M):

Salaries and Wages - Employees (601/701) - The utility has allocated from the parent company \$13,433 for water and \$13,433 for wastewater during the test period. The utility has no employees directly assigned to the utility. During the test year CFI allocated the salary of one Westgate Resorts employee (Pedro Jaen) to the utility. According to Audit Disclosure No. 4, Mr. Jaen did not spend 100 percent of his time on utility business. However, there are other Westgate employees who do utility maintenance and repair work. Therefore, staff believes it is fair and reasonable to allocate the salary and benefits of one full-time employee to the utility.

After the completion of staff's audit of the utility's books, staff discovered that Mr. Jaen had been removed as an employee of the utility. During the customer meeting it was brought to staff's attention that the customers are in support of a full-time employee to maintain the utility. Although Mr. Jaen is no longer working for the utility, the utility will need to assign another employee to perform the maintenance duties. Therefore, staff recommends an allowance for a full-time maintenance employee as discussed above.

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Salary was annualized based on bi-weekly payroll for 26 weeks. Staff increased salary and wages by \$3,654 for water and \$3,654 for wastewater. Staff recommends annual maintenance salary of \$17,087 for both water and wastewater.

Employees Pension and Benefits (604/704) - The utility has recorded \$1,817 for water and \$1,817 for wastewater in this account during the test period. Accounts were annualized based on a bi-weekly pension and benefit amounts of the maintenance person discussed above. The utility balances were overstated and staff decreased these accounts by \$92 for water and \$92 for wastewater. Staff recommends a pension and benefits expense to be \$1,725 for water and \$1,725 for wastewater.

Sludge Removal Expense (711) - The utility did not record an amount in this account during the test period. Staff believes that \$3,500 per year is reasonable for sludge hauling expenses. Therefore, staff increased this account by \$3,500 for wastewater to reflect annual sludge removal.

Purchased Power (615/715) - The utility recorded \$5,496 for water and \$15,418 for wastewater in this account during the test period. Staff has decreased this account by \$534 for water and \$1,432 for wastewater to remove out-of-period bills. Staff decreased this account by \$706 for wastewater to remove a non-utility related invoice. Staff decreased this account to remove an undocumented expense and reverse a double entry by \$265 for wastewater. Staff has increased purchased power by \$992 for water and by \$2,606 for wastewater to annualize the utility's cost for the year-end test year. Staff recommends purchased power expense of \$5,954 for water and \$15,621 for wastewater.

Fuel for Power Production (616) - The utility did not record a balance for this account during the test period. During the test year the utility installed a generator with a diesel fuel tank in case of a power failure. Staff estimated a reasonable fuel allowance to be \$350 per year for water. Therefore, staff recommends fuel expense to be \$350 for water.

Chemicals (618/718) - The utility recorded \$7,512 for water and \$46,584 for wastewater in this account during the test period. Staff has reclassified \$285 from wastewater to Account No. 735 (Contractual Services - Testing).

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Due to the repair and installation of 9,500 linear feet of cured-in-place lining discussed in an earlier issue, the chemical treatment associated with black water infiltration will be eliminated. Staff has identified the chemical expense associated with treating the black water to be \$41,132. Staff has decreased this account by \$41,132 for wastewater to remove chemical expense associated with the black water. Staff has increased this account by \$1,502 for water and \$1,033 for wastewater to annualize chemical expense.

Staff recommends chemicals expense of \$9,014 for water and \$6,200 for wastewater.

Materials and Supplies (620/720) - The utility did not record an amount in this account during the test period. Staff has increased this account by \$2,243 for water and \$163 for wastewater to reclassify materials and supplies that were recorded in Account No. 636 (Contractual Services - Other). Staff recommends materials and supplies expense of \$2,243 for water and \$163 for wastewater.

Contractual Services - Billing (630/730) - The utility did not record an amount in this account during the test period. In its response to the audit, the utility requested contracting a billing company to perform the billing function of the utility. The utility has requested \$2.25 per account for the following services: meter reading; data input of reading; printing and sending of bills to customers; receipt and deposit of customer payments; and customer service.

Typically, for small utilities, the maintenance person is responsible for the meter reading function. In the past, the Commission has allowed meter reading costs of \$0.50 per meter. Staff is recommending in a later issue that the utility install a combination of individual and localized master meters; as such, the utility will be reading less meters than number of bills each month. Therefore, staff believes an adjustment should be made to the requested contract amount to remove meter reading costs. Since the maintenance person is typically responsible for this duty, staff believes that the recommended maintenance salary is sufficient to cover the meter reading function. Therefore, staff has reduced the per bill request of \$2.25 by \$0.50 per bill.

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Based on the above, staff recommends Contractual Services - Billing expense of \$7,886 (751 connections x \$1.75 x 12 months + 2 systems) for water and wastewater each. The utility should be required to provide staff with proof of a billing contract within 90 days of the Consummating Order.

Contractual Services - Professional (631/731) - The utility recorded \$10,648 for water and \$10,648 for wastewater during the test period. Staff decreased this account by \$648 for water and by \$648 for wastewater to remove acquisition costs and reclassify rate case expense to Account No. 665 (Regulatory Commission Expense).

The utility pays \$2,000 per month, which is allocated from CFI to Mr. Bill Goaziou for technical, state regulatory, and land consulting fees. Mr. Goaziou played an integral part in getting the new wastewater treatment plant up and running. Based upon several discussions and correspondence with Mr. Goaziou, he anticipates his future services to stay consistent with fees charged during the test year. Therefore, staff has increased Contractual Services - Professional by \$2,000 for water and by \$2,000 for wastewater to annualize engineer/consultant fees associated with Mr. Goaziou.

The utility requested \$200 per month to be included in expenses for legal fees. Staff has included legal fees incurred during the test year of \$1,295 that was substantiated by invoices provided by the utility which were related to the transfer and rate case of the utility. The utility did not incur any additional fees during the test year. Absent adequate documentation to justify requested fees, staff recommends no additional legal fees be included.

Staff recommends contractual services - professional expense of \$12,000 for water and \$12,000 for wastewater.

Contractual Services - Testing (635/735) - The utility did not record amounts for this account during the test period. Staff increased this account by \$285 for wastewater to reclassify testing expense from Account No. 718 (Chemicals).

Each utility must adhere to specific testing conditions prescribed within its operating permit. These testing requirements are tailored to each utility as required by the Florida Administrative Code and enforced by the DEP. The tests and the

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frequency at which those tests must be repeated for this utility are:

WATER - DEP REQUIRED TESTING

<u>Test</u>	<u>Frequency</u>	<u>Annual Amount</u>
Microbiological	Monthly	\$480
Primary Inorganics	3 Years	\$49
Secondary Inorganics	3 Years	\$29
Asbestos	1/9 Years	\$35
Nitrate & Nitrite	Annual	\$80
Volatile Organics	Qrtly/1st yr/36 mos. Subsequent/Annual	\$110
Pesticides & PCB	3 Years	\$146
Radionuclides Group I	3 Years	\$42
Radionuclides Group II	3 Years	\$250
Unregulated Organics Group I	Qrtly/1st yr./9yr.	\$112
Unregulated Organics Group II	3 Years	\$18
Unregulated Organics Group III	3 Years	\$83
Lead & Copper	Biannual	<u>\$300</u>
Total		<u>\$1,734</u>

WASTEWATER - DEP REQUIRED TESTING

<u>Test</u>	<u>Frequency</u>	<u>Annual Amount</u>
CBOD/TSS (Influent)	Monthly	\$780
CBOD/TSS (Effluent)	Monthly	\$780
Fecal Coliform	Monthly	\$480
Nitrate, Nitrite	Quarterly	\$160
Sludge Analysis	Annual	<u>\$450</u>
Total		<u>\$2,650</u>

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Staff has increased accounts by \$1,734 for water and by \$2,365 for wastewater to annualize DEP required testing. Staff recommends Contractual Services - Testing expense of \$1,734 for water and \$2,650 for wastewater.

Contractual Services - Other (636/736) - The utility recorded \$16,453 for water and \$28,243 for wastewater in this account during the test period. Staff has decreased this account by \$2,406 for water to reclassify chemicals from Contractual Services - Other to Account No. 620 (Material and Supplies).

The utility has not been allocating costs from CFI for fire hydrant testing. Maintaining the fire hydrants is the responsibility of the utility and associated expenses should be recorded in the utility's books. Therefore, staff has allocated \$1,250 for water from CFI for fire hydrant testing. Staff has also increased Contractual Services - Other by \$4,500 for water and \$4,500 for wastewater to allocate accounting and management services from CFI.

Staff decreased this account by \$5,422 for water and \$8,948 for wastewater to reclassify and capitalize the costs of new fire hydrants and costs associated with rebuilding the master lift station pump and motor.

The utility did not record an amount for mowing and grounds keeping. Staff estimated costs associated with mowing and grounds keeping of the plant and has recommended \$750 for water and \$1,500 for wastewater.

The utility contracts services for a water plant operator that specializes in operating and maintaining water utility plants in accordance with federal, state, and local regulatory standards. In addition to the contractor's monthly fees, the contractor also bills the utility for additional services and chemicals outside of their basic contract. Staff annualized contractor operator services for the test year. Therefore, staff increased \$5,368 for water and decreased \$5,432 for wastewater.

The utility's records are currently not being kept in accordance with the NARUC Uniform System of Accounts as required by Rule 25-30.115, Florida Administrative Code. According to Audit Disclosure No. 1, the utility's accounting and billing is being handled by CFI. The company plans to switch to the NARUC accounting system for 2003. Per the utility, estimates have been

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obtained for implementing such a system and would cost approximately \$1,500. Staff believes this is a reasonable amount and has increased this account by \$150 for water and wastewater each (\$1,500/5 years) to amortize implementation costs over five years, pursuant to Rule 25-30.433(8), Florida Administrative Code.

Staff's net adjustments to this account is an increase of \$4,190 for water and a decrease of \$8,230 for wastewater. Staff recommends contractual services - other of \$20,643 for water and \$20,013 for wastewater.

Rents (640/740) - The utility did not record an amount for this account during the test period. The utility has not been allocating costs from CFI for office space and equipment. Staff has estimated and allocated rent expense from CFI in the amounts of \$1,800 for water and \$1,800 for wastewater annually.

Transportation Expense (650/750) - The utility did not record an amount in this account during the test period. The utility has not been allocating costs from CFI for transportation expense. The utility owner and his staff use their personal vehicles to meet with regulatory personnel, make bank deposits, transport financial information to the accountant, pick up parts for repairs, run utility related errands, pick up supplies, etc. Staff has estimated that the owner and his staff travel approximately 200 miles per week performing these functions. Staff has increased this account by \$1,508 each for water and wastewater for transportation expense (200 miles per week x \$0.29 per mile x 52 weeks ÷ 2).

Insurance Expense (655/755) - The utility did not record an amount in this account during the test period. The utility has not been allocating costs from CFI for insurance expense. In its response to the audit, the utility requested premiums of \$50,000/year for hazard/liability insurance, but has not provided staff with a contract for this amount. Staff believes this amount is unreasonable based on past allowances for Class C utilities. If this expense were included in rates, each customer would pay approximately \$5.50 of their monthly bill for insurance.

Per Audit Disclosure No. 6, staff believes that \$100 monthly is an appropriate amount for insurance expense to be allocated from the parent company. Therefore, staff has increased this account by \$600 annually for both water and wastewater as a reasonable amount for liability insurance. The utility should be required to provide

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staff with proof of insurance within 90 days of the Consummating Order. Staff recommends insurance expense of \$600 for water and wastewater each.

Regulatory Commission Expense (665/765) - The utility did not record an amount in this account for the test period. Staff has allocated professional fees related to this case paid by CFI of \$621 for water and wastewater each. Staff has reclassified rate case expense of \$324 to both water and wastewater from Account No. 631 and 731 (Contractual Services - Professional). The utility paid a rate case filing fee of \$1,000 for both water and wastewater. Therefore, staff increased this account by \$1,000 for water and wastewater each. The utility submitted its actual and estimated rate case expense by letter dated March 13, 2003. The utility has requested that these expenses be included as rate case expense. Pursuant to Rule 25-30.455(1), Florida Administrative Code:

... If a utility that chooses to utilize the staff assistance option employs outside experts to assist in developing information for staff or to assist in evaluating staff's schedules and conclusions, the reasonable and prudent expense will be recovered through the rates developed by staff.

The utility requested rate case expense of \$6,065. Staff identified \$1,212 of the requested amount associated with discussions with preparing the filing as well as the filing itself. Staff does not believe these costs should be included pursuant to Rule 25-30.455(1), Florida Administrative Code. Staff believes that discussions by the utility with its experts prior to filing neither fall under "developing information for staff" nor "assist in evaluating staff's schedules and conclusions." Regarding the actual preparation of the filing, the SARC application was designed such that any regulated utility could complete the application without expert assistance. The application is eight pages long and requests information which is readily available on the utility's annual report. In this case, the application included only engineering information and lacked the requested financial information. For these reasons, staff believes that \$1,212 of requested rate case expense should be disallowed. The utility recorded \$1,890 for rate case expense on its books during the test year (\$621 + \$324 each for water and wastewater above). Therefore, staff has increased this account by \$1,482 each for water and wastewater $((6,065 - 1,212 - 1,890)/2)$.

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Staff has decreased regulatory commission expense by \$2,570 (\$3,427 - \$3,427/4 years) for water and wastewater each to amortize rate case expense over four years pursuant to Section 367.0816, Florida Statutes. Staff recommends regulatory commission expense of \$857 for water and \$857 for wastewater.

Miscellaneous Expense (675/775) - The utility recorded \$41 for water and \$41 for wastewater in this account for the test period. The utility has not been allocating costs from CFI for telephone usage. Staff has estimated and allocated \$300 to water and wastewater each for telephone expense from CFI. Staff recommends miscellaneous expense of \$341 for water and wastewater each.

Operation and Maintenance Expense (O&M Summary) - The total O&M adjustment is an increase of \$28,341 for water and a decrease of \$24,234 for wastewater. Staff's recommended O&M expenses are \$83,741 for water and \$91,950 for wastewater. O&M expenses are shown on Schedules 3-D and 3-E.

Depreciation Expense - The utility did not record depreciation expense for the test period. Staff has calculated depreciation expense using the prescribed rates in Rule 25-30.140, Florida Administrative Code. Staff's calculated depreciation expense is \$27,157 for water and \$38,243 for wastewater. Staff has decreased depreciation expense by \$9,506 for wastewater to reflect non-used and useful depreciation. Staff has calculated test year amortization of CIAC, using specifically identified depreciation rates, of \$13,874 for water and \$17,321 for wastewater. Non-used and useful depreciation and amortization of CIAC has a negative impact on depreciation expense. Staff's calculated net depreciation expense is \$13,283 for water and \$11,416 for wastewater.

Taxes Other Than Income - The utility recorded taxes other than income of \$3,988 for water and \$3,988 for wastewater during the test year. Staff has decreased taxes other than income by \$24 for water and \$24 for wastewater to remove penalties and interest. Staff increased taxes other than income by \$312 for water and decreased taxes other than income by \$229 for wastewater to reflect regulatory assessment fees (RAFs) on staff's annualized revenues. Staff decreased the account by \$239 for water and \$239 for wastewater to annualize payroll taxes. Staff decreased this account by \$963 for water and \$763 for wastewater to annualize property taxes. Staff recommends taxes other than income of \$3,074 for water and \$2,733 for wastewater.

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Income Tax - The utility is a Florida Limited Liability Corporation (L.L.C.). L.L.C.'s are not tax paying entities; rather, they are reporting entities. Therefore, the utility has no income tax liability.

Operating Revenues - An adjustment to increase operating revenues by \$77,317 for water and \$116,028 for wastewater has been made to reflect the change in revenue required to cover expenses and allow the recommended return on investment.

Taxes Other Than Income - An adjustment to increase taxes other than income by \$3,479 for water and \$5,221 for wastewater has been made to reflect RAFs of 4.5% on the change in operating revenues.

Operating Expenses Summary - The application of staff's recommended adjustments to the audited test year operating expenses results in staff's calculated operating expenses of \$103,578 for water and \$111,321 for wastewater.

Operating expenses are shown on Schedule Nos. 3-A and 3-B. The related adjustments are shown on Schedule No. 3-C.

REVENUE REQUIREMENT:

ISSUE 8: What are the appropriate revenue requirements?

RECOMMENDATION: The appropriate revenue requirements for water and wastewater are \$129,194 and \$155,866, respectively. (STONE, FITCH)

STAFF ANALYSIS: The utility should be allowed an annual increase of \$77,317 (149.04%) for water and \$116,028 (291.25%) for wastewater. This will allow the utility the opportunity to recover its expenses and earn a 10.43% return on its investment. The calculations are as follows:

	<u>Water</u>	<u>Wastewater</u>
Adjusted rate base	\$245,608	\$427,090
Rate of Return	x 10.43%	x 10.43%
Return on investment	\$25,617	\$44,545
Adjusted O & M expense	\$83,741	\$91,950
Depreciation expense (Net)	\$13,283	\$11,416
Taxes Other Than Income	\$6,553	\$7,954
Revenue Requirement	<u>\$129,194</u>	<u>\$155,866</u>
Adjusted Test Year Revenues	<u>\$51,877</u>	<u>\$39,838</u>
Percent Increase/(Decrease)	<u>149.04%</u>	<u>291.25%</u>

Revenue requirements are shown on Schedules Nos. 3-A and 3-B.

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RATES AND CHARGES:

ISSUE 9: Should all connections be individually metered, and what is the appropriate resulting rate structure for the utility at this time?

RECOMMENDATION: No, not all connections should be individually metered. Staff recommends that only general service customers, plus the residential customers of the Countryside subdivision, be individually metered. Due to the lack of metered data, the appropriate rate structure for the utility at this time is a continuation of the flat rate structure. (LINGO)

STAFF ANALYSIS: As discussed in an earlier issue, the utility provides residential service to 48 single-family homes in the Countryside subdivision (Countryside), 119 fixed mobile homes in Phase I (Long Hammock), 367 lots in the River Ranch RV Resort (Phases II through V), 192 condominiums, and general service to the remainder of the resort community consisting of restaurants, offices, a hotel, pools and bath houses, shops, a trap/skeet range, an airport, stables and a rodeo arena, a fire station, tennis and basketball courts, and a church. Currently, only the 119 fixed mobile homes located in Phase I have meters, which have been in place for a number of years but have not been read or used for billing purposes.

It is Commission practice, as well as the desire of the South Florida Water Management District, to meter all connections for water conservation purposes. At the customer meeting held on April 23, 2003, customers voiced opinions both in favor of and against individual metering. In addition, during staff's evaluation of the service area on April 24, 2003, numerous interested customers stopped staff so that they could express their opinions about the pros and cons of individual metering. Once again, there was no clear majority opinion regarding the individual metering issue.

Based upon our evaluation of the service area, we do not believe that individually metering the residential connections in Phases II through V would achieve the water conservation typically experienced when converting from unmetered to metered rates. The RV lots in the resort, while varying in size, are small. A concrete slab takes up the majority of each lot's space. Irrigation of the lots in Phases II through V is provided by each Phase's respective homeowners' association; therefore, individual customers do not have control over this discretionary use of water.

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Furthermore, virtually all of the residential customers of record are either seasonal or transitory in nature. Many of these customers participate in a rental program in which their mobile home or RV is rented out for a period of time during the customer's absence. Therefore, the customers of record would not be receiving the ongoing price signal regarding water consumption that individual metering is designed to provide.

However, staff does recommend that all general service connections be individually metered. In addition, we believe that, due to the differences in housing and lot size, it is appropriate to require the individual metering of the single-family homes located in the Countryside subdivision. As will be discussed in a subsequent issue, staff recommends that the utility be ordered to file for a rate restructuring in the first quarter of 2005. At that time, it is contemplated that the BFC/gallonage charge rate structure will be implemented. Although many of the customers in Countryside are seasonal, an examination of the subdivision revealed that these homes are much larger compared to other residences in the service area. Other relevant factors which we believe warrant individual metering of the Countryside subdivision include: 1) some homes resting on more than one lot, and, therefore, should be subject to a greater level of discretionary water use than other homes; and 2) several of these residences have irrigation systems. Therefore, the customers in Countryside have a greater anticipated level of monthly consumption and would be subject to greater conservation price signals than other residential customers.

Based on the foregoing, not all connections should be individually metered. Staff recommends that only general service customers, plus the residential customers of the Countryside subdivision, be individually metered. Due to the lack of metered data, the appropriate rate structure for the utility at this time is a continuation of the flat rate structure.

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ISSUE 10: Is an adjustment to reflect repression of consumption appropriate at this time?

RECOMMENDATION: No, a repression adjustment is not appropriate at this time. (BRUCE)

STAFF ANALYSIS: As previously discussed, staff is recommending that a flat rate structure be continued by the utility at this time. As this rate structure is not consumption-based, there is no calculation to determine the repression of consumption associated with staff's recommended price increase. Therefore, a repression adjustment is not appropriate at this time.

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ISSUE 11: Should the utility be ordered to file a rate restructuring case with the Commission, and, if so, when should this case be filed and what reports should be filed with the Commission in preparation of the rate restructuring case?

RECOMMENDATION: In order to eliminate the recommended flat rate structure in favor of the Commission's preferred BFC/gallonage charge rate structure, the utility should be ordered to file a rate restructuring case with the Commission during the first quarter of 2005. In order to obtain actual consumption data for use in the rate restructuring case, the utility should be ordered to provide actual monthly consumption reports, by meter, for the 15-month period of October 2003 - December 2004. A conservation adjustment and a repression adjustment will be reconsidered in the rate restructuring case. (BRUCE)

STAFF ANALYSIS: As discussed in an earlier issue, staff recommends that, due to the lack of metered data, the appropriate rate structure for the utility at this time is the flat rate structure. However, the flat rate structure is contrary to Commission practice. Therefore, in order to eliminate the recommended flat rate structure in favor of the Commission's preferred BFC/gallonage charge rate structure, the utility should be ordered to file a rate restructuring case with the Commission during the first quarter of 2005. In order to obtain actual consumption data for use in the rate restructuring case, the utility should be ordered to provide actual monthly consumption reports, by meter, for the 15-month period of October 2003 - December 2004. A conservation adjustment and a repression adjustment will be reconsidered in the rate restructuring case.

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ISSUE 12: Should the Commission approve a guaranteed revenue charge for this utility?

RECOMMENDATION: No, the Commission should not approve a guaranteed revenue charge for this utility. (STONE, FITCH)

STAFF ANALYSIS: As discussed in a previous issue, the utility requested \$294,240 to reline a portion of its wastewater collection system that is associated with black water infiltration. It was determined that the black water infiltration was occurring in the Countryside subdivision. According to the utility, this subdivision has approximately 190 lots for which service is available but no homes have been constructed. According to the utility, a majority of these lots have been purchased.

Prior to the customer meeting, the utility contacted staff and requested a guaranteed revenue charge to recover the cost associated with the line lining. The utility believed that this repair was associated with a single development and the cost associated with that repair should be borne by the residents of Countryside, including the 190 lots. The utility believes that the only way to include these lots is by including a guaranteed revenue charge.

Staff originally viewed the line lining as a benefit to all customers. As discussed in an earlier issue, the line lining would eliminate approximately \$41,000 of annual chemical expense which would have been recovered through the general body of ratepayers. Therefore, staff believes that the line lining benefits all customers, not just the residents of Countryside. However, staff wanted input from customers on this issue and provided customers with an estimated guaranteed revenue charge in the Customer Notice for the customer meeting.

At the customer meeting the majority of customers spoke against including a guaranteed revenue charge. Lot owners raised concerns about being charged a water and wastewater rate when this service was not being utilized by the vacant lots. Further, existing utility customers raised concerns about how this rate would be applied to homes that occupied more than one lot or future homes that may be built on more than one lot. Although staff pointed out that the recommended rate increase would be lessened by including the 190 lots in the customer base, the majority of speakers at the customer meeting, phone calls, and letters received to date are in opposition the guaranteed revenue charge.

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As discussed above, the utility's basis for requesting a guaranteed revenue charge was to recover the cost of the line lining from the customers who benefit from this repair including the undeveloped lots. The utility believes that the undeveloped lots should share in the cost of the repair as a matter of fairness. As discussed above, staff believes that the general body of rate payers benefit from this repair, not just the Countryside residents and undeveloped lots. Further, staff is recommending that this repair be fully recovered through the general body of rate payers. Staff would also point out that the recommended service availability charges take into consideration the cost of the lining repair. These service availability charges would be charged to future customers at the time of connection. Therefore, the lot owners would share in the cost of this repair through service availability charges, as well as general rates, once service begins.

For the foregoing reasons, staff recommends that the Commission should not approve a guaranteed revenue charge for this utility.

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ISSUE 13: What are the appropriate rates for each system?

RECOMMENDATION: The recommended rates should be designed to produce revenue of \$129,194 for water and \$155,866 for wastewater excluding miscellaneous service charges, as shown in the staff analysis. 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. The rates should not be implemented until staff has approved the proposed customer notice, the notice has been received by the customers, and staff has verified that the tariffs are consistent with the Commission's decision. The utility should provide proof of the date notice was given no less than 10 days after the date of the notice. Customers should be billed in accordance with Rule 25-30.335(1), Florida Administrative Code. (STONE, FITCH, BRUCE, LINGO)

STAFF ANALYSIS: As discussed in earlier issues, the appropriate revenue requirement is \$129,194 for the water system and \$155,866 for the wastewater system. Also, the utility was unable to provide sufficient accurate metered data. Without sufficient metered data, staff does not believe that a base facility gallonage charge rate structure can be implemented at this time.

Staff has calculated rates using year-end test year number of customers and estimated ERCs for general service customers. Staff calculated flat rates by dividing the revenue requirement for water and wastewater by the total number of ERCs for water and wastewater respectively. Since Westgate (CFI) owns a majority of the general service customers, staff has calculated a single flat rate for the related party general service customer. Schedules of the utility's current rates and rate structure and staff's recommended rates and rate structure are as follows:

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MONTHLY FLAT RATES - WATER
RESIDENTIAL AND GENERAL SERVICE

<u>CUSTOMERS</u>	<u>TEST YEAR RATES</u>	<u>STAFF'S RECOMMENDED RATES</u>
<u>RESIDENTIAL</u>		
River Ranch Shores/ Countryside (Qrtly)	\$22.80	N/A
River Ranch Shores/ Countryside (Monthly)	N/A	\$15.27
Condo (Per Unit)	\$4.00	\$12.22
Long Hammock Phase I/ RV Phase II-V (Per Unit)	\$6.00	\$12.22
<u>GENERAL SERVICE</u>		
Westgate Properties	N/A	\$1,099.68
Church	N/A	\$38.18
All Others (Per ERC)	N/A	\$15.27
<u>IRRIGATION SERVICE</u>		
<u>Long Hammock:</u>		
Phase I	N/A	\$106.91
<u>RV Area:</u>		
Phase II	N/A	\$137.46
Phase III	N/A	\$183.28
Phase IV	N/A	\$91.64
Phase V	N/A	\$91.64

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MONTHLY FLAT RATES - WASTEWATERRESIDENTIAL SERVICE

<u>CUSTOMERS</u>	<u>TEST YEAR RATES</u>	<u>STAFF'S RECOMMENDED RATES</u>
<u>Residential:</u>		
River Ranch Shores/ Countryside (Qtrly)	\$22.80	N/A
River Ranch Shores/ Countryside (Monthly)	N/A	\$16.30
Condo (Per Unit)	\$3.00	\$16.30
Long Hammock Phase I/ RV Phase II-V (Per Unit)	\$4.50	\$16.30
<u>General Service:</u>		
Westgate Properties	N/A	\$1,157.00
All Others (Per ERC)	N/A	\$16.30

At the customer meeting, several customers commented that the bills they received did not specify the cost of water and wastewater service. Staff believes this is because the mobile home residents were not charged directly for service. Rather, the mobile home park was billed per unit and this cost was passed on to the residents along with other fees. As discussed previously in this recommendation, staff is recommending that these customers be billed individually; therefore, these customers will receive water and wastewater bills. These bills should comply with Rule 25-30.335(1), Florida Administrative Code, which specifies that:

A utility shall render bills to customers at regular intervals, and each bill shall indicate: the billing period covered; the applicable rate schedule; beginning and ending meter reading; the amount of the bill; the delinquent date or the date after which the bill becomes past due; and any unauthorized late payment charge.

If the Commission approves staff's recommendation, 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. The rates should not be implemented until staff has approved the proposed customer notice,

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the notice has been received by the customers, and staff has verified that the tariffs are consistent with the Commission's decision. The utility should provide proof of the date notice was given no less than 10 days after the date of the notice.

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

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ISSUE 14: What is the appropriate amount by which rates should be reduced four years after the established effective date to reflect the removal of the amortized rate case expense as required by Section 367.0816, Florida Statutes?

RECOMMENDATION: The water and wastewater rates should be reduced as shown on Schedule 4, to remove rate case expense grossed-up for RAFs 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. 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. 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. (STONE, FITCH)

STAFF ANALYSIS: Section 367.0816, Florida Statutes, requires that the rates be reduced immediately following the expiration of the four year period by the amount of the rate case expense previously included in the rates. The reduction will reflect the removal of revenues associated with the amortization of rate case expense and the gross-up for RAFs which is \$897 annually for water and \$897 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.

ISSUE 15: What are the appropriate customer deposits for this utility?

RECOMMENDATION: The appropriate customer deposits should be as specified in the staff analysis. The utility should file revised tariff sheets and proposed notice, which are consistent with the Commission's vote. The customer deposits should become effective for connections made on or after the stamped approval date of the revised tariff sheets, if no protest is filed and provided customers have been noticed. (STONE, FITCH)

STAFF ANALYSIS: Rule 25-30.311, Florida Administrative Code, provides guidelines for collecting, administering and refunding customer deposits. It also authorizes customer deposits to be calculated using an average monthly bill for a 2-month period. The utility's existing tariff authorizes the utility to collect a \$15 customer deposit for water and for wastewater or an amount necessary to cover charges for three billing periods. The \$15 amount will not cover an average bill for a 2-month period based on staff's recommended rates and the utility's three month billing option is contrary to Rule 25-30.311, Florida Administrative Code. Therefore, staff has calculated customer deposits using recommended rates and an average monthly bill for a 2-month period. A schedule of the utility's existing and staff's recommended deposits follows:

WATER

RESIDENTIAL AND GENERAL SERVICE

<u>CUSTOMER</u>	<u>EXISTING DEPOSIT</u>	<u>RECOMMENDED DEPOSIT</u>
Residential	\$15.00	\$30.54
RV/Mobile/Condo	\$15.00	\$24.44
All Others	3 x Avg. Bill	2 x Avg. Bill

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WASTEWATERRESIDENTIAL AND GENERAL SERVICE

<u>CUSTOMER</u>	<u>EXISTING DEPOSIT</u>	<u>RECOMMENDED DEPOSIT</u>
Residential	\$15.00	\$32.60
RV/Mobile/Condo	\$15.00	\$32.60
All Others	3 x Avg. Bill	2 x Avg. Bill

The utility should file revised tariff sheets which are consistent with the Commission's vote. The customer deposits should become effective for connections made on or after the stamped approval date of the revised tariff sheets, if no protest is filed and provided customers have been noticed.

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ISSUE 16: Should the utility's service availability charges be revised?

RECOMMENDATION: Yes. The utility's existing service availability charges should be revised to reflect a plant capacity charge of \$335 for water and \$1,073 for wastewater and a main extension charge of \$522 for water and \$891 for wastewater. The utility should also be granted a \$250 meter installation fee. The utility should file revised tariff sheets and proposed notice which are consistent with the Commission's vote. The service availability charges should become effective for connections made on or after the stamped approval date of the revised tariff sheets, if no protest is filed and provided that customers have been noticed. (STONE, FITCH)

STAFF ANALYSIS: The utility's existing tariff authorizes a system capacity charge of \$650 combined for water and wastewater and a tap-in fee of \$60 for water and \$40 for wastewater. Staff is recommending recalculating the existing system capacity charge as a plant capacity and main extension charge. The main extension charge will also include the cost of services which are typically collected as tap-in fees.

The utility's current contribution level is 62% for water and 39% for wastewater. The utility's water and wastewater facilities can accommodate additional connections.

In order to evaluate the utility's service availability charges, staff relied on Rule 25-30.580, Florida Administrative Code, which states in part that:

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

(2) The minimum amount of contributions-in-aid-of-construction should not be less than the percentage of such facilities and plant that is represented by the water transmission and distribution lines and sewage collection systems.

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Staff has designed service availability charges such that the utility's contribution level will approach the maximum level prescribed in Rule 25-30.580, Florida Administrative Code, at build out. As previously discussed in this recommendation, the utility requested several pro forma plant items related to expansion. Staff did not include those plant expansion items in rate base; however, plant expansion items have been included in the calculation of service availability charges. A schedule of the utility's existing charges and staff's recommended charges are as follows:

<u>WATER</u>		
<u>SYSTEM CAPACITY CHARGE</u>	<u>EXISTING CHARGE</u>	<u>RECOMMENDED CHARGE</u>
Water and Wastewater (Combined)	\$650.00	N/A
Tap-in Fee	\$60.00	N/A
Meter Installation Fee	N/A	\$250.00
<u>Main Extension Charge</u>		
Residential-Per Gallon(185 GPD)	N/A	\$522.00
All Others-Per Gallon	N/A	\$5.82
<u>Plant Capacity Charge</u>		
Residential-Per Gallon(185 GPD)	N/A	\$335.00
All Others-Per Gallon	N/A	\$1.81

WASTEWATER

<u>SYSTEM CAPACITY CHARGE</u>	<u>EXISTING CHARGE</u>	<u>RECOMMENDED CHARGE</u>
Water and Wastewater (Combined)	\$650.00	N/A
Tap-in Fee	\$40.00	N/A
<u>Main Extension Charge</u>		
Residential-Per Gallon(185 GPD)	N/A	\$891.00
All Others-Per Gallon	N/A	\$4.81
<u>Plant Capacity Charge</u>		
Residential-Per Gallon(185 GPD)	N/A	\$1,073.00
All Others-Per Gallon	N/A	\$5.80

As stated in an earlier issue, staff is recommending that the utility be required to install meters. The utility has provided staff with estimated costs for meter installations of \$250. Although this amount is greater than past amounts approved by the Commission, staff believes this cost is reasonable considering the isolated location of the utility. Staff is recommending that a meter installation fee of \$250 be approved to offset the cost of meter installation for new water customers.

The service availability charges should become effective for connections made on or after the stamped approval date of the revised tariff sheets, if no protest is filed and provided customers have been noticed.

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ISSUE 17: Should the recommended rates be approved for the utility on a temporary basis, subject to refund, in the event of a protest filed by a party other than the utility?

RECOMMENDATION: Yes. Pursuant to Section 367.0814(7), Florida Statutes, the recommended rates should be approved for the utility on a temporary basis, subject to refund, in the event of a protest filed by a party other than the utility. Prior to implementation of any temporary rates, the utility should provide appropriate security. If the recommended rates are approved on a temporary basis, the rates collected by the utility should be subject to the refund provisions discussed below in the staff analysis. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(7), Florida Administrative Code, the utility should file reports with the Division of Commission Clerk and Administrative Services no later than 20 days after each monthly billing. These reports should indicate the amount of revenue collected under the increased rates subject to refund. (STONE, FITCH, HOLLEY)

STAFF ANALYSIS: This recommendation proposes an increase in water and wastewater rates. A timely protest might delay what may be a justified rate increase resulting in an unrecoverable loss of revenue to the utility. Therefore, pursuant to Section 367.0814(7), Florida Statutes, in the event of a protest filed by a party other than the utility, staff recommends that the recommended rates be approved as temporary rates. The recommended rates collected by the utility should be subject to the refund provisions discussed below.

The utility should be authorized to collect the temporary rates upon the staff's approval of an appropriate security for both the potential refund and a copy of the proposed customer notice. The security should be in the form of a bond or letter of credit in the amount of \$130,487. Alternatively, the utility could establish an escrow agreement with an independent financial institution.

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

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

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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 a final Commission order is rendered, either approving or denying the rate increase.

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

- 1) No refunds in the escrow account may be withdrawn by the utility without express approval of the Commission.
- 2) The escrow account should be an interest bearing account.
- 3) If a refund to the customers is required, all interest earned by the escrow account should be distributed to the customers.
- 4) If a refund to the customers is not required, the interest earned by the escrow account should revert to the utility.
- 5) All information on the escrow account should be available from the holder of the escrow account to a Commission representative at all times.
- 6) The amount of revenue subject to refund should be deposited in the escrow account within seven days of receipt.
- 7) This escrow account is established by the direction of the Florida Public Service Commission for the purpose(s) set forth in its order requiring such account. Pursuant to Cosentino v. Edson, 263 So. 2d 253 (Fla. 3d DCA 1972), escrow accounts are not subject to garnishments.

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- 8) The Director of Commission Clerk and Administrative Services must be a signatory to the escrow agreement.

This account must specify by whom and on whose behalf such monies were paid.

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. If a refund is ultimately required, it should be paid with interest calculated pursuant to Rule 25-30.360(4), Florida Administrative Code. The utility should maintain a record of the amount of the bond, and the amount of revenues that are subject to refund. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(7), Florida Administrative Code, the utility should file reports with the Division of Commission Clerk and Administrative Services no later than 20 days after each monthly billing. These reports should indicate the amount of revenue collected under the increased rates subject to refund.

ISSUE 18: Should the docket be closed?

RECOMMENDATION: No. If no timely protest is received upon expiration of the protest period, the PAA Order will become final upon the issuance of a Consummating Order. However, this docket should remain open for an additional 270 days from the effective date of the Order to allow staff time to verify the utility has completed the pro forma improvements, posted emergency phone number at the plant and lift stations, and provide staff with proof of insurance and billing contract. Upon verification of the above by staff, the docket may be administratively closed. (STONE, FITCH, HOLLEY)

STAFF ANALYSIS: If no timely protest is received upon expiration of the protest period, the PAA Order will become final upon the issuance of a Consummating Order. This docket should remain open for an additional 270 days from the effective date of the Order to allow staff time to verify the utility has completed the pro forma improvements, posted emergency phone number at the plant and lift stations, and provide staff with proof of insurance and billing contract. Upon verification of the above by staff, the docket may be administratively closed.

WATER TREATMENT PLANT - USED AND USEFUL DATA

Docket No. 021067-WS - River Ranch Water Management, L.L.C.

- | | | | |
|----|--|---------|-----------------|
| 1) | Capacity of Plant | 298,000 | gallons per day |
| 2) | Average of 5 Highest Days From
Maximum Month | 289,300 | gallons per day |
| 3) | Average Daily Flow | 113,031 | gallons per day |
| 4) | Fire Flow Capacity | 120,000 | gallons per day |
| | a) Required Fire Flow: 500 gallons per minute for 4 hours is N/A | | |
| 5) | Growth | 2,546 | gallons per day |
| | a) Test year Customers in ERCs: | Begin | 664 |
| | | End | 667 |
| | | Average | 666 |
| | (Use average number of customers) | | |
| | b) Customer Growth in ERCs using
Regression Analysis for most recent 5
years including Test Year | 3 | ERCs |
| | c) Statutory Growth Period | 5 | Years |
| | (b)x(c)x [3\ (a)] = 2,546 gallons per day for growth | | |
| 6) | Excessive Unaccounted for Water | 0 | gallons per day |
| | a) Total Unaccounted for Water | N/A | gallons per day |
| | Percent of Average Daily Flow | 10% | |
| | b) Reasonable Amount | 11,303 | gallons per day |
| | (10% of average Daily Flow) | | |
| | c) Excessive Amount | 0 | gallons per day |

USED AND USEFUL FORMULA

$$[(2)+(4)+(5)-(6)]/(1) = 138\% = 100\% \quad \text{Used and Useful}$$

WATER DISTRIBUTION SYSTEM - USED AND USEFUL DATA

Docket No. 021067-WS - River Ranch Water Management, L.L.C.

1) Capacity of System (ERCs)	853	ERCs
2) Test year connections		
a) Beginning of Test Year	664	ERCs
b) End of Test Year	667	ERCs
c) Average Test Year	666	ERCs
3) Growth	15	ERCs
a) customer growth in connections for last 5 years including Test Year using Regression Analysis	3	ERCs
b) Statutory Growth Period	5	Years
(a)x(b) = 15 connections allowed for growth		

USED AND USEFUL FORMULA

$$[2+3]/(1) = 79.8\% \quad \text{Used and Useful}$$

WASTEWATER TREATMENT PLANT - USED AND USEFUL DATA

Docket No. 021067-WS - River Ranch Management, L.L.C.

- | | | |
|--|-----------|-----------------|
| 1) Permitted Capacity of Plant (AADF) | 95,000 | gallons per day |
| 2) Maximum Daily Flow | 41,600 | gallons per day |
| 3) Average Daily Flow (AADF) | 16,250 | gallons per day |
| 4) Growth | 368 | gallons per day |
| a) Test year Customers in ERCs: | Beginning | 660 |
| | Ending | 663 |
| | Average | 662 |
| b) Customer Growth in ERCs using Regression Analysis for most recent 5 years including Test Year | 3 | ERCs |
| c) Statutory Growth Period | 5 | Years |
| (b x c) x [3/(a)] = 368 gallons per day for growth | | |
| 5) Excessive Infiltration or Inflow (I&I) | N/A | gallons per day |
| a) Total I&I: | N/A | gallons per day |
| Percent of Average Daily Flow | N/A | |
| b) Reasonable Amount | 26,555 | gallons per day |
| (500 gpd per inch dia pipe per mile) | | |
| c) Excessive Amount | N/A | gallons per day |

USED AND USEFUL FORMULA

$$[(3)+(4)-(5)]/(1) = 17.5\% \text{ Used and Useful}$$

WASTEWATER COLLECTION SYSTEM - USED AND USEFUL DATA

Docket No. 021067-WS - River Ranch Water Management, L.L.C.

- | | |
|--|----------|
| 1) Capacity of System (Number of potential ERCs) | 849 ERCs |
| 2) Test year connections | |
| a) Beginning of Test Year | 660 ERCs |
| b) End of Test Year | 663 ERCs |
| c) Average Test Year | 662 ERCs |
| 3) Growth | |
| a) customer growth in connections for last 5 years including Test Year using Regression Analysis | 3 ERCs |
| b) Statutory Growth Period | 5 Years |
| (a)x(b) = 15 ERCs allowed for growth | |

USED AND USEFUL FORMULA

$$[(2)+(3)]/(1) = 79.7\% \text{ Used and Useful}$$

RIVER RANCH WATER MANAGEMENT, L.L.C. TEST YEAR ENDING 12/31/02 SCHEDULE OF WATER RATE BASE		SCHEDULE NO. 1-A DOCKET NO. 021067-WS	
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	\$0	\$793,760	\$793,760
2. LAND & LAND RIGHTS	0	160	160
3. NON-USED AND USEFUL COMPONENTS	0	0	0
4. CIAC	0	(504,962)	(504,962)
5. ACCUMULATED DEPRECIATION	0	(349,406)	(349,406)
6. AMORTIZATION OF CIAC	0	295,588	295,588
7. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>10,468</u>	<u>10,468</u>
8. WATER RATE BASE	<u>\$0</u>	<u>\$245,608</u>	<u>\$245,608</u>

RIVER RANCH WATER MANAGEMENT, L.L.C. TEST YEAR ENDING 12/31/02 SCHEDULE OF WASTEWATER RATE BASE		SCHEDULE NO. 1-B DOCKET NO. 021067-WS	
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	\$0	\$1,144,538	\$1,144,538
2. LAND & LAND RIGHTS	0	500	500
3. NON-USED AND USEFUL COMPONENTS	0	(126,714)	(126,714)
4. CIAC	0	(628,150)	(628,150)
5. ACCUMULATED DEPRECIATION	0	(265,026)	(265,026)
6. AMORTIZATION OF CIAC	0	290,448	290,448
7. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>11,494</u>	<u>11,494</u>
8. WASTEWATER RATE BASE	<u>\$0</u>	<u>\$427,090</u>	<u>\$427,090</u>

RIVER RANCH WATER MANAGEMENT, L.L.C.		SCHEDULE NO. 1-C	
TEST YEAR ENDING 12/31/02		DOCKET NO. 021067-WS	
ADJUSTMENTS TO RATE BASE			
		<u>WATER</u>	<u>WASTEWATER</u>
<u>UTILITY PLANT IN SERVICE</u>			
1. Plant Per Original Cost Study		\$565,492	\$674,402
2. Plant Added During Test Year		112,437	212,639
3. Reclassify Fire Hydrant and Lift Station Pump from O&M		5,422	8,948
4. Remove Plant held for Future Use		0	(46,765)
5. Proforma Meters and Line Lining		106,750	294,240
6. Proforma Fence		3,659	1,074
Total		<u>\$793,760</u>	<u>\$1,144,538</u>
<u>LAND</u>			
1. Original Cost of Land Value Determined by Staff		<u>\$160</u>	<u>\$500</u>
<u>NON-USED AND USEFUL PLANT</u>			
1. To reflect non-used and useful plant.		\$0	(\$137,403)
2. To reflect non-used and useful accumulated depreciation.		0	10,689
Total		<u>\$0</u>	<u>(\$126,714)</u>
<u>CIAC</u>			
1. CIAC Imputed per Rule 25-30.571		<u>(\$504,962)</u>	<u>(\$628,150)</u>
<u>ACCUMULATED DEPRECIATION</u>			
1. Depreciation Adjustment Per Rule 25-30.140 FAC		(\$346,202)	(\$308,093)
2. Treatment Plant Held for Future Use		0	46,765
3. Proforma Depreciation		<u>(3,204)</u>	<u>(3,698)</u>
Total		<u>(\$349,406)</u>	<u>(\$265,026)</u>
<u>AMORTIZATION OF CIAC</u>			
1. Amortization of Imputed CIAC		<u>\$295,588</u>	<u>\$290,448</u>
<u>WORKING CAPITAL ALLOWANCE</u>			
1. To reflect 1/8 of test year O & M expenses.		<u>\$10,468</u>	<u>\$11,494</u>

DOCKET NO. 021067-WS
DATE: May 22, 2003

RIVER RANCH WATER MANAGEMENT, L.L.C. TEST YEAR ENDING 12/31/02 SCHEDULE OF CAPITAL STRUCTURE				SCHEDULE NO. 2 DOCKET NO. 021067-WS				
CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUST- MENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUST- MENTS	BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST
1. COMMON STOCK	\$10	\$0	\$10					
2. RETAINED EARNINGS	0	0	0					
3. PAID IN CAPITAL	159,240	0	159,240					
4. TREASURY STOCK	0	0	0					
5. TOTAL COMMON EQUITY	159,250	0	159,250	\$136,805	\$296,055	44.01%	10.97%	4.83%
6. LONG TERM DEBT	202,598	0	202,598	174,044	376,642	55.99%	10.00%	5.60%
7. LONG TERM DEBT	0	0	0	0	0	0.00%	6.00%	0.00%
TOTAL LONG TERM DEBT	202,598	0	202,598	174,044	376,642	55.99%		
8. CUSTOMER DEPOSITS	0	0	0	0	0	0.00%	6.00%	0.00%
9. TOTAL	<u>\$361,848</u>	<u>\$0</u>	<u>\$361,848</u>	<u>\$310,849</u>	<u>\$672,697</u>	<u>100.00%</u>		<u>10.43%</u>
RANGE OF REASONABLENESS						LOW	HIGH	
RETURN ON EQUITY						<u>9.97%</u>	<u>11.97%</u>	
OVERALL RATE OF RETURN						<u>9.99%</u>	<u>10.87%</u>	

RIVER RANCH WATER MANAGEMENT, L.L.C. TEST YEAR ENDING 12/31/02 SCHEDULE OF WATER OPERATING INCOME			SCHEDULE NO. 3-A DOCKET NO. 021067-WS		
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$39,315</u>	<u>\$12,562</u>	<u>\$51,877</u>	<u>\$77,317</u> 149.04%	<u>\$129,194</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	55,400	28,341	83,741		83,741
3. DEPRECIATION (NET)	0	13,283	13,283		13,283
4. AMORTIZATION	0	0	0		0
5. TAXES OTHER THAN INCOME	3,988	(914)	3,074	3,479	6,553
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$59,388</u>	<u>\$40,710</u>	<u>\$100,098</u>	<u>\$3,479</u>	<u>\$103,578</u>
8. OPERATING INCOME/(LOSS)	<u>(\$20,073)</u>		<u>(\$48,221)</u>		<u>\$25,617</u>
9. WATER RATE BASE	<u>\$0</u>		<u>\$245,608</u>		<u>\$245,608</u>
10. RATE OF RETURN	<u>ERR</u>		<u>-19.63%</u>		<u>10.43%</u>

DOCKET NO. 021067-WS

DATE: May 22, 2003

RIVER RANCH WATER MANAGEMENT, L.L.C. TEST YEAR ENDING 12/31/02 SCHEDULE OF WASTEWATER OPERATING INCOME			SCHEDULE NO. 3-B DOCKET NO. 021067-WS		
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$39,314</u>	<u>\$524</u>	<u>\$39,838</u>	<u>\$116,028</u> 291.25%	<u>\$155,866</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	116,184	(24,234)	91,950		91,950
3. DEPRECIATION (NET)	0	11,416	11,416		11,416
4. AMORTIZATION	0	0	0		0
5. TAXES OTHER THAN INCOME	3,988	(1,255)	2,733	5,221	7,954
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$120,172</u>	<u>(\$14,073)</u>	<u>\$106,099</u>	<u>\$5,221</u>	<u>\$111,321</u>
8. OPERATING INCOME/(LOSS)	<u>(\$80,858)</u>		<u>(\$66,261)</u>		<u>\$44,545</u>
9. WASTEWATER RATE BASE	<u>\$0</u>		<u>\$427,090</u>		<u>\$427,090</u>
10. RATE OF RETURN	<u>ERR</u>		<u>-15.51%</u>		<u>10.43%</u>

RIVER RANCH WATER MANAGEMENT, L.L.C.
TEST YEAR ENDING 12/31/02
ADJUSTMENTS TO OPERATING INCOME

SCHEDULE NO. 3-C
DOCKET NO. 021067-WS
PAGE 1 OF 2

	<u>WATER</u>	<u>WASTEWATER</u>
OPERATING REVENUES		
1. Annualize Revenue per Tariff Rates and Existing Customers	<u>\$12,562</u>	<u>\$524</u>
OPERATION AND MAINTENANCE EXPENSES		
1. Salaries and Wages Employees (601/701)		
a. Annualize Maintenance Salary	<u>\$3,654</u>	<u>\$3,654</u>
2. Employees Pension and Benefits (604/704)		
a. To Reflect Annual Pension Cost	<u>(\$92)</u>	<u>(\$92)</u>
3. Sludge Removal Expense (711)		
a. Annualize Sludge Removal	<u>\$0</u>	<u>\$3,500</u>
4. Purchased Power (615/715)		
a. Remove Out of Period Bill	<u>(\$534)</u>	<u>(\$1,432)</u>
b. Remove Non-Utility Invoice	<u>0</u>	<u>(706)</u>
c. Remove Undocumented Expense and Reverse Double Entry	<u>0</u>	<u>(265)</u>
d. Annualize Purchased Power	<u>992</u>	<u>2,606</u>
Subtotal	<u>\$458</u>	<u>\$203</u>
5. Fuel for Power Production (616/617)		
a. Fuel for Power Generator	<u>\$350</u>	<u>\$0</u>
6. Chemicals (618/718)		
a. Reclassify Testing Expense to Act. No. 735	<u>0</u>	<u>(285)</u>
b. Remove Chemicals Associated with Infiltration	<u>0</u>	<u>(41,132)</u>
c. Annualize Chemicals	<u>1,502</u>	<u>1,033</u>
Subtotal	<u>\$1,502</u>	<u>(\$40,384)</u>
7. Materials & Supplies (620/720)		
a. Reclassify from Contractual Services (Act. 636)	<u>\$2,243</u>	<u>\$163</u>
8. Contractual Services - Billing (630/730)		
a. Billing per contract	<u>\$7,886</u>	<u>\$7,886</u>
9. Contractual Services - Professional (631/731)		
a. Remove and Reclassify Acquisition and Rate Case Expense	<u>(648)</u>	<u>(648)</u>
b. Annualize Engineer/Consultant	<u>2,000</u>	<u>2,000</u>
Subtotal	<u>\$1,352</u>	<u>\$1,352</u>
10. Contractual Services - Testing (635/735)		
a. Reclassify from Chemicals (718)	<u>\$0</u>	<u>\$285</u>
b. To Include Annualized DEP Required Testing	<u>1,734</u>	<u>2,365</u>
Subtotal	<u>\$1,734</u>	<u>\$2,650</u>
(O & M EXPENSES CONTINUED ON NEXT PAGE)		

RIVER RANCH WATER MANAGEMENT, L.L.C.		SCHEDULE NO. 3-C	
TEST YEAR ENDING 12/31/02		DOCKET NO. 021067-WS	
ADJUSTMENTS TO OPERATING INCOME		PAGE 2 OF 2	
(O & M EXPENSES CONTINUED)	WATER	WASTEWATER	
11. Contractual Services - Other (636/ 736)			
a. Reclassify Material & Supplies to Act. 620/720	(\$2,406)	\$0	
b. Allocate Fire Hydrant Testing	1,250	0	
c. Include Allocation for Mgmt and Actg	4,500	4,500	
d. Capitalize Fire Hydrants and Lift Station Pump	(5,422)	(8,948)	
e. Allowance for Mowing and Grounds keeping	750	1,500	
f. Annualize Operator	5,368	(5,432)	
g. NARUC set up cost amortized over 5 years	150	150	
Subtotal	<u>\$4,190</u>	<u>(\$8,230)</u>	
12. Rent (640/740)			
a. Allocate Rent from Parent Company	<u>\$1,800</u>	<u>\$1,800</u>	
13. Transportation Expense (650/ 750)			
a. Transportation amnt. per Staff	<u>\$1,508</u>	<u>\$1,508</u>	
14. Insurance Expenses (655/ 755)			
a. Allocate Insurance Expense	<u>\$600</u>	<u>\$600</u>	
15. Regulatory Expense (665/ 765)			
a. Allocate Prof. Fees Paid by Parent Co.	\$621	\$621	
b. Reclassify Rate Case Exp. from Contractual Services	324	324	
c. Rate Case Filing Fee	1,000	1,000	
d. Estimated/Actual Rate Case Expense	1,482	1,482	
e. To Reflect Costs Amortized over 4 Years	<u>(2,570)</u>	<u>(2,570)</u>	
Subtotal	<u>\$857</u>	<u>\$857</u>	
16. Miscellaneous Expense (675/ 775)			
a. Allocate for Telephone from Parent Co.	<u>\$300</u>	<u>\$300</u>	
TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	<u>\$28,341</u>	<u>(\$24,234)</u>	
DEPRECIATION EXPENSE			
1. To Reflect Test Year Depreciation Calculated Per 25-30.140, FLORIDA ADMINISTRATIVE CODE	\$27,157	\$38,243	
2. Non-used and Useful Depreciation	0	(9,506)	
3. To Reflect Test Year CIAC Amortization Calculated by Staff	<u>(13,874)</u>	<u>(17,321)</u>	
Total	<u>\$13,283</u>	<u>\$11,416</u>	
TAXES OTHER THAN INCOME			
1. Remove Penalties and Interest	(\$24)	(\$24)	
2. Adjust RAF's to Annualized Revenue	312	(229)	
3. Annualize Payroll Tax	(239)	(239)	
4. Annualize Property Taxes	<u>(963)</u>	<u>(763)</u>	
Total	<u>(\$914)</u>	<u>(\$1,255)</u>	

RIVER RANCH WATER MANAGEMENT, L.L.C.		SCHEDULE NO. 3-D		
TEST YEAR ENDING 12/31/02		DOCKET NO. 021067-WS		
ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE				
	TOTAL PER PER UTILITY	STAFF PER ADJUST.		TOTAL PER PER STAFF
(601) SALARIES AND WAGES - EMPLOYEES	\$13,433	\$3,654	[1]	\$17,087
(603) SALARIES AND WAGES - OFFICERS	0	0		0
(604) EMPLOYEE PENSIONS AND BENEFITS	1,817	(92)	[2]	1,725
(610) PURCHASED WATER	0	0		0
(615) PURCHASED POWER	5,496	458	[4]	5,954
(616) FUEL FOR POWER PRODUCTION	0	350	[5]	350
(618) CHEMICALS	7,512	1,502	[6]	9,014
(620) MATERIALS AND SUPPLIES	0	2,243	[7]	2,243
(630) CONTRACTUAL SERVICES - BILLING	0	7,886	[8]	7,886
(631) CONTRACTUAL SERVICES - PROFESSIONAL	10,648	1,352	[9]	12,000
(635) CONTRACTUAL SERVICES - TESTING	0	1,734	[10]	1,734
(636) CONTRACTUAL SERVICES - OTHER	16,453	4,190	[11]	20,643
(640) RENTS	0	1,800	[12]	1,800
(650) TRANSPORTATION EXPENSE	0	1,508	[13]	1,508
(655) INSURANCE EXPENSE	0	600	[14]	600
(665) REGULATORY COMMISSION EXPENSE	0	857	[15]	857
(670) BAD DEBT EXPENSE	0	0		0
(675) MISCELLANEOUS EXPENSES	<u>41</u>	<u>300</u>	<u>[16]</u>	<u>341</u>
	<u>\$55,400</u>	<u>\$28,341</u>		<u>\$83,741</u>

RIVER RANCH WATER MANAGEMENT, L.L.C.		SCHEDULE NO. 3-E		
TEST YEAR ENDING 12/31/02		DOCKET NO. 021067-WS		
ANALYSIS OF WASTEWATER OPERATION AND MAINTENANCE EXPENSE				
	TOTAL PER UTILITY	STAFF ADJUST- MENT		TOTAL PER STAFF
(701) SALARIES AND WAGES - EMPLOYEES	\$13,433	\$3,654	[1]	\$17,087
(703) SALARIES AND WAGES - OFFICERS	0	0		0
(704) EMPLOYEE PENSIONS AND BENEFITS	1,817	(92)	[2]	1,725
(710) PURCHASED SEWAGE TREATMENT	0	0		0
(711) SLUDGE REMOVAL EXPENSE	0	3,500	[3]	3,500
(715) PURCHASED POWER	15,418	203	[4]	15,621
(716) FUEL FOR POWER PRODUCTION	0	0	[5]	0
(718) CHEMICALS	46,584	(40,384)	[6]	6,200
(720) MATERIALS AND SUPPLIES	0	163	[7]	163
(730) CONTRACTUAL SERVICES - BILLING	0	7,886	[8]	7,886
(731) CONTRACTUAL SERVICES - PROFESSIONAL	10,648	1,352	[9]	12,000
(735) CONTRACTUAL SERVICES - TESTING	0	2,650	[10]	2,650
(736) CONTRACTUAL SERVICES - OTHER	28,243	(8,230)	[11]	20,013
(740) RENTS	0	1,800	[12]	1,800
(750) TRANSPORTATION EXPENSE	0	1,508	[13]	1,508
(755) INSURANCE EXPENSE	0	600	[14]	600
(765) REGULATORY COMMISSION EXPENSES	0	857	[15]	857
(770) BAD DEBT EXPENSE	0	0		0
(775) MISCELLANEOUS EXPENSES	<u>41</u>	<u>300</u>	<u>[16]</u>	<u>341</u>
	<u>\$116,184</u>	<u>(\$24,234)</u>		<u>\$91,950</u>

RECOMMENDED RATE REDUCTION SCHEDULE

RIVER RANCH WATER MANAGEMENT, L.L.C.
TEST YEAR ENDING 12/31/02

SCHEDULE NO. 4
DOCKET NO. 021067-WS

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

MONTHLY WATER RATES

<u>RESIDENTIAL SERVICE</u>	MONTHLY PRELIMINARY RATES	MONTHLY RATE REDUCTION
River Ranch Shores	\$15.27	\$0.11
Condo (Per Unit)	\$12.22	\$0.08
Long Hammock Phase I/RV Phase II-V (Per Unit)	\$12.22	\$0.08
<u>GENERAL SERVICE</u>		
Westgate Properties	\$1,099.68	\$7.64
Church	\$38.18	\$0.27
ALL OTHERS (Per ERC)	\$15.27	\$0.11
<u>IRRIGATION SERVICE</u>		
Long Hammock:		
Phase I	\$106.91	\$0.74
RV Area:		
Phase II	\$137.46	\$0.95
Phase III	183.28	1.27
Phase IV	91.64	0.64
Phase V	91.64	0.64

RECOMMENDED RATE REDUCTION SCHEDULE

RIVER RANCH WATER MANAGEMENT, L.L.C.

SCHEDULE NO. 4A

TEST YEAR ENDING 12/31/02

DOCKET NO. 021067-WS

CALCULATION OF RATE REDUCTION AMOUNTAFTER RECOVERY OF RATE CASE EXPENSE AMORTIZATION PERIOD OF FOUR YEARSMONTHLY WASTEWATER RATES

	MONTHLY PRELIMINARY RATES	MONTHLY RATE REDUCTION
<u>RESIDENTIAL SERVICE</u>		
River Ranch Shores	\$16.30	\$0.09
Condo (Per Unit)	\$16.30	\$0.09
Long Hammock Phase I/RV Phase II-V (Per Unit)	\$16.30	\$0.09
<u>GENERAL SERVICE</u>		
Westgate Properties	\$1,157.10	\$6.66
All Others (Per ERC)	\$16.30	\$0.09