

State of Florida



Public Service Commission

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

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

DATE: December 27, 2006

TO: Director, Division of the Commission Clerk & Administrative Services (Bayó)

FROM: Division of Economic Regulation (Hudson, Bulecza-Banks, Edwards, Rendell)
Office of the General Counsel (Jaeger)

RE: Docket No. 060406-SU – Application for staff-assisted rate case in Polk County
by Crooked Lake Park Sewerage Company.

AGENDA: 01/09/07 – Regular Agenda – Proposed Agency Action, Except for Issues 10, 11,
12, and 13 – Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Tew

CRITICAL DATES: 10/16/07 (15-Month Effective Date (SARC))

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECR\WP\060406.RCM.DOC

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Case Background

On December 13, 1957, Polk County granted a franchise to Park Water Company to operate a water and wastewater system. In 1978, the wastewater treatment plant and collection system was sold to Warner Southern College and the name was changed to Crooked Lake Park Sewer Company. The current owner purchased this utility on September 30, 1988 under the name Crooked Lake Park Sewerage Company (Crooked Lake or the utility). Polk County came under the Commission's jurisdiction on July 11, 1996. By Order No. PSC-98-1247-FOF-SU, issued September 21, 1998, in Docket No. 961478-SU,¹ the Commission granted the utility its grandfather certificate No. 517-S for wastewater.

Crooked Lake Park Sewerage Company is a Class C wastewater utility serving 423 wastewater customers in Polk County. According to the utility's 2005 Annual Report, total gross revenue was \$104,313 and total operating expenses were \$167,266. The utility previously filed for a staff-assisted rate case (SARC) on September 6, 2005. However, due to the health of the utility owner, the utility's books and records had not been updated through the end of the test year. Therefore, the books could not be audited by Commission staff. By Order No. PSC-06-0337-PAA-SU, issued April 24, 2006, in Docket No. 050586-SU, In re: Application for staff-assisted rate case in Polk County by Crooked Lake Park Sewerage Company, the docket was closed. The order also indicated that once the utility owner was prepared to assist staff with the processing of a subsequent rate case request, he could resubmit an application for a new staff assisted rate case.

On May 19, 2006, the Commission received Crooked Lake's new application for a SARC. In this application, the utility requested interim rates. By Order No. PSC-06-0654-PCO-SU, issued August 4, 2006, in this docket, the Commission approved a 50.18% interim rate increase, subject to refund with interest, for Crooked Lake. However, to date, the utility has not implemented the interim rates due to problems with obtaining the required security.

The Commission has the authority to consider this rate case pursuant to Section 367.0814, Florida Statutes (F.S.).

¹ In re: Application for grandfather certificate to operate a wastewater utility in Polk County by Crooked Lake Park Sewerage Company.

Discussion of Issues

Issue 1: Should the quality of service provided by Crooked Lake Park Sewerage be considered satisfactory?

Recommendation: No. The quality of the wastewater service provided by the utility should be considered unsatisfactory. (Edwards)

Staff Analysis: Pursuant to Rule 25-30.433(1), Florida Administrative Code (F.A.C.), in every water and wastewater rate case, the Commission shall determine the overall quality of service provided by a utility by evaluating three separate components of water and wastewater operations. These components are: the quality of the utility's product; the operating conditions of the utility's plant and facilities; and, the utility's attempt to address customer satisfaction. The rule further states that sanitary surveys, outstanding citations, violations, and consent orders on file with the Department of Environmental Protection (DEP) and the county health department over the preceding three-year period shall be considered, along with input from the DEP and health department officials and consideration of customer comments or complaints. Below, staff addresses each of these three components.

Quality of Utility's Product

The wastewater treatment system at Crooked Lake is under the jurisdiction of DEP (Tampa Bay district office). The product of a wastewater treatment plant is determined by the results of required testing and analysis of the wastewater. According to the DEP, the utility currently is up to date with all of its testing requirements, and the results of the tests are satisfactory. By all indication, the utility appears to be properly treating its effluent and the quality of the product is satisfactory.

Operating Condition of the Wastewater Facilities

On January 31, 2006, DEP issued a Notice of Violation. In this notice, DEP cited several violations of DEP rules. In this Notice of Violation, DEP indicated that on January 16, 2004, DEP issued a Consent Order (OGC File Number 03-1878). The Consent Order was intended to resolve the unpermitted discharges from the percolation ponds by requiring an interconnection to the City of Lake Wales. The Consent Order required the wastewater treatment facility to be offline or in complete compliance by no later than March 1, 2005. On January 25, 2005, DEP issued a Proposed Amendment to the Consent Order. The amendment was intended to provide additional time and an alternative remedy to the utility to achieve compliance. The hurricanes in 2004 had delayed compliance and the City of Lake Wales was no longer capable of accepting the additional flow. DEP never received a response to the Proposed Amendment to the Consent Order.

The January 31, 2006 Notice of Violation specifically indicated that on September 16, 2005, January 6, and January 27, 2006, DEP conducted Compliance Evaluation Inspections at the Crooked Lake Park facility and observed the following:

1. There was a gravity hose extending out of the chlorine contact chamber discharging wastewater beyond the ponds and discharging wastewater east of the ponds. The inspection on January 27, 2006, confirmed the discharge flowed south and entered a canal leading to Crooked Lake, which is designated an Outstanding Florida Water. Therefore, the first violation was the release or disposal of excreta, sewage, or other wastewater or domestic wastewater residual without providing proper treatment, which is a violation of Rule 62-600.740(2)(B), FAC.
2. Failure to maintain Total Chlorine Residual of at least 0.5 mg/L for disinfection, which is a violation of Rule 62-600.440(2) (b), Florida Administrative Code.
3. Failure to notify DEP when bypassing the flow measuring device, which is a violation of Rule 62-600.740(2) (d), Florida Administrative Code.
4. Submission, by owner, manager, or operator of a domestic wastewater facility, or agent or employee thereof, of misleading, false, or inaccurate information of operational reports to the DEP, either knowingly or through neglect, which is a violation of Rule 62-600.740(2) (e), Florida Administrative Code.
5. Failure to comply with the Consent Order, which is a violation of Section 403.161(1) (b), Florida Statutes. The Consent Order became effective on January 16, 2004. In accordance with paragraph 6 of the Consent Order, the utility was to submit an application to DEP for a collection system permit. No application was received. In accordance with paragraph 10 of the Consent Order, the utility was to maintain at least one foot of freeboard in the percolation ponds, by hauling wastewater or effluent if necessary. The utility allowed the bypass of the percolation ponds in order to save the cost of hauling.
6. Operating a pollution source without a valid permit issued by the DEP, which is a violation of Section 403.087, Florida Statutes. The permit to operate the facility expired on September 6, 2005. On August 8, 2005, the utility submitted an untimely and incomplete application to renew the permit. Therefore, the utility has been operating without a permit since September 7, 2005.

In the Notice of Violation, the DEP's Southwest District (DEP-SWD) office requested that a civil complaint be filed by DEP to bring the wastewater treatment facility into compliance with the intent of the Consent Order, and to resolve the other violations found subsequently. The DEP-SWD further indicated that the stipulated penalties of \$200 per day should be collected if civil penalties of \$10,000 a day are not awarded by the court. Subsequently, DEP filed a lawsuit in the Circuit Court of the Tenth Judicial Circuit in Polk County, Florida against the utility regarding the discharge of the utility's affluent into nearby Crooked Lake. The case, Case No. 2006-CA-2085, is currently pending. Based on the above, the operating condition of the wastewater facilities appears to be out of compliance. Therefore, the quality of the wastewater plant is considered unsatisfactory.

The Utility's Attempt to Address Customer Satisfaction

In its filing, the utility did not include a list of customer complaints received during the test year. Staff's engineer reviewed the Commission's records and found three complaints filed in the last five years. In addition, staff reviewed the DEP records and found no customer complaints on file. On November 16, 2006, at 2:00 pm, staff conducted a customer meeting in the Webber International University Conference Center. The utility serves approximately 423 customers. Out of that customer base, twenty-eight customers attended the customer meeting. Several of the customers voiced their concerns about the staff assisted rate case. In addition, all of the customers complained about quality of service. Many of the customers' complaints were regarding odor and the ponds overflowing. The customers appear to have valid complaints. Many pertain to the quality of plant problems noted above.

It appears the utility has not adequately addressed the DEP concerns or made the necessary corrections to improve its quality of service since the last rate proceeding.² During the utility's last rate case, eighteen customers attended the meeting. The major concerns addressed were sewage overflows and dissatisfaction with the projected percentage increase in rates. Today, the customers still have the same concerns. In the utility's original application filed in 1998, the utility requested the recovery of costs for improvements for its collection system and relocation of two percolation ponds as required by DEP. However, the utility experienced problems in acquiring a loan for funding the improvements. In a letter dated April 6, 1999, the utility stated that it would not include any cost associated with the possible relocation of the percolation ponds in that case. The utility further stated that if DEP insists that the percolation ponds be relocated, it would file a petition for a limited proceeding at that time. As stated above, the percolation ponds relocation issue has yet to be resolved.

During the utility's last rate case, its operating permit had expired because it was out of compliance with DEP's regulatory requirements. The utility had received a DEP Warning Letter No. WL980009DW53SWD, dated March 25, 1999 citing it for:

- A) Effluent being discharged off utility property;
- B) Failure to use its south percolation pond;
- C) Overflow of raw wastewater from plant tanks;
- D) Failure to report its discharge violations to the Department; and
- E) Influent flows exceeding permitted capacity.

The utility's operating permit had expired on July 31, 1999. Pursuant to that warning letter, the utility needed to satisfy all of the violations and bring the plant up to current regulatory standards. This meant the utility would need to upgrade the capacity of the percolation ponds and construct the new ponds a minimum of 100 feet from the wet edge of the pond to any adjacent property in accordance with Rule 62-610.521(6), F.A.C. At that time, the utility hired a consultant to address the problem. The consultant believed that the high volume of flows experienced at the plant was due to excessive infiltration, and that once the infiltration problems

² See Order No. PSC-99-2116-PAA-SU, in Docket No. 980778-SU, In re: Application for a staff-assisted rate case in Polk County by Crooked Lake Park Sewerage Company.

were under control, the need for additional plant capacity would be resolved. To address this infiltration problem, the utility proposed and the Commission approved several pro forma plant additions to correct the infiltration problem. Staff verified the approved pro forma plant additions relating to infiltration were completed. However, DEP continues to address the utility's need for additional capacity at the plant.

In the utility's last rate case, the Commission determined the utility's quality of service was unsatisfactory and required the utility to make the DEP mandated improvements.³ Currently, the utility remains out of compliance with the DEP mandated improvements.

Summary

Based on the above, it is obvious that these utility problems have been in existence for a long period of time and still the utility has not properly addressed the problems. Therefore, with all things considered, staff recommends the utility's quality of service be considered unsatisfactory.

³ See Order No. PSC-99-2116-PAA-SU, in Docket No. 980778-SU, In re: Application for a staff-assisted rate case in Polk County by Crooked Lake Park Sewerage Company.

Issue 2: What are the used and useful percentages for the utility's wastewater treatment plant and wastewater collection system?

Recommendation: Crooked Lake Park's used and useful percentages (U&U) should be as follows:

Wastewater Treatment Plant	100%
Wastewater Collection Systems	100%

(Edwards)

Staff Analysis: In its filing, the utility did not state the used and useful percentages of its wastewater treatment plant and collection system. Staff has performed an analysis of the utility's facilities and our analysis and recommendations are discussed below.

Wastewater Treatment Plant and Collection System - Used and Useful (U&U)

According to the utility's last rate case, Order No. PSC-99-2116-PAA-SU, issued October 25, 1999, both the wastewater treatment plant and the collection system are 100% U&U. Staff has reviewed the systems and the utility's records and discovered there have been no changes to the plant which would increase its capacity. In addition, there have been no changes to the collection system to accommodate additional customers.

Staff's analysis determined the two systems were designed to provide services only to the Crooked Lake Park community and all of the lots are metered. Therefore, the U&U percentage for both wastewater treatment plant and collection systems should be considered 100%.

Issue 3: What is the appropriate average test year rate base for the utility?

Recommendation: The appropriate average test year rate base for Crooked Lake is \$127,127 for wastewater. (Hudson)

Staff Analysis: The utility's rate base was last established by Order No. PSC-99-2116-PAA-SU, in its last rate case.

Staff has selected a test year ended December 31, 2005 for this rate case. Rate base components established in Order No. PSC-99-2116-PAA-SU have been updated through December 31, 2005, using information obtained from staff's audit and engineering reports. A summary of each component and the adjustments follows:

Utility Plant in Service (UPIS): The utility recorded \$379,267 for wastewater UPIS for the test year ending December 31, 2005. In 2000, the utility recorded plant additions in the amount of \$109,636. Staff has determined that some of the plant additions should have been recorded as expenses. Staff has decreased plant by \$28,754 to remove the 2000 expenses. Per Audit Disclosure No. 1, the utility recorded \$25,723 for the purchase of a vehicle. The audit indicated the utility should have recorded \$24,984 for the vehicle. Staff has decreased this account by \$739 (\$25,723 - \$24,984). Staff also made an averaging adjustment to decrease UPIS by \$3,616.

Staff's net adjustment to UPIS is a decrease of \$33,109. Staff's recommended average UPIS balance is \$346,158.

Non-Used and Useful Plant: As discussed in Issue No. 2 of this recommendation, the utility's wastewater treatment plant should be considered 100% used and useful. Also, the utility's wastewater collection system is contributed and should be considered 100% used and useful. Therefore, a non-used and useful adjustment is not necessary.

Contribution in Aid of Construction (CIAC): The utility recorded CIAC of \$126,736 for the test year ended December 31, 2005. Staff has decreased this account by \$300 to reflect an averaging adjustment. Staff has calculated average CIAC to be \$126,436.

Accumulated Depreciation: The utility recorded a balance for accumulated depreciation of \$215,026 for the test year. Staff has calculated accumulated depreciation using the prescribed rates set forth in Rule 25-30.4140, F.A.C. As a result, staff has increased this account by \$3,024 to reflect depreciation calculated per staff. Staff has decreased this account by \$3,529 to reflect an averaging adjustment. These adjustment results in accumulated depreciation of \$215,531.

Amortization of CIAC: The utility recorded \$109,872 for amortization of CIAC. Amortization of CIAC has been calculated using the same prescribed rates used for depreciation for the utility's wastewater collection system. Per Audit Disclosure No. 3, the utility used a 15-year life for the amortization of cash contributions which has overstated accumulated amortization of CIAC. Amortization of cash contributions has been recalculated by staff using composite depreciation rates. This account has been decreased by \$6,213 to reflect amortization of CIAC as calculated by staff. Staff has decreased this account by \$460 to reflect an averaging adjustment. Staff's net adjustments to this account results in Amortization of CIAC of \$103,199.

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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), F.A.C, staff recommends that the one-eighth of the O&M expense formula approach be used for calculating working capital allowance. Applying this formula, staff recommends a working capital allowance of \$13,540 (based on O&M of \$108,317). Working capital has been increased by \$13,540 to reflect one-eighth of staff's recommended O&M expenses.

Rate Base Summary: Based on the forgoing, staff recommends that the appropriate test year rate base is \$127,127.

Rate base is shown on Schedule No. 1.

Issue 4: What is the appropriate rate of return on equity and the appropriate overall rate of return for this utility?

Recommendation: The appropriate return on equity is 11.78% with a range of 10.78% - 12.78%. The appropriate overall rate of return is 8.17%. (Hudson)

Staff Analysis: According to staff's audit, the utility recorded the following items in capital structure: common stock of \$3,000; negative retained earnings of \$149,187; paid-in-capital of \$76,070; and, long-term debt of \$206,480. The utility's capital structure consists of long term debt in the amount of \$206,480.

Using the leverage formula approved by Order No. PSC-06-0476-PAA-WS issued June 5, 2006, in Docket No. 060006-WS, In Re: Water and Wastewater industry annual establishment of authorized range of return on common equity for water and wastewater utilities pursuant to Section 367.081(4)(f), F.S., the appropriate rate of return on equity is 11.78%.

The utility's capital structure has been reconciled with staff's recommended rate base. Staff recommends a return on equity of 11.78% with a range of 10.78% - 12.78%, and an overall rate of return of 8.17%.

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

Issue 5: What is the appropriate test year revenue?

Recommendation: The appropriate test year revenue for this utility is \$107,153 for wastewater. (Hudson)

Staff Analysis: Per Audit Disclosure No. 4, the utility recorded total revenues of \$104,313 for the 12-month period ended December 31, 2005. During the audit, the auditor discovered that the utility recorded its revenues on a cash basis. According to the Uniform System of Accounts, Accounting Instruction 2, the books of accounts of all water and wastewater utilities are to be kept by the double entry method, on an accrual basis. Staff has increased test year revenues by \$2,840 (\$107,153 - \$104,313).

Staff recommends test year revenue of \$107,153 for wastewater.

Test year revenue is shown on Schedule No. 3. The related adjustments are shown on Schedule No. 3-A.

Issue 6: What is the appropriate amount of operating expenses?

Recommendation: The appropriate amount of operating expenses for the utility is \$127,603 for wastewater. (Hudson)

Staff Analysis: The utility recorded operating expenses of \$167,266 during the test year ending December 31, 2005. The test year O & M expenses have been reviewed and invoices, canceled checks, and other supporting documentation have been examined. Staff made several adjustments to the utility's operating expenses. A summary of adjustments to operating expenses is as follows:

Salaries and Wages – Employees – (701) – The utility recorded \$0 in this account during the test year. The utility is requesting a salary of \$100 per week (\$5,200 annually) for Mr. James Hollingsworth who serves as maintenance personnel, as well as, a weekend operator. His duties involve plant operations and maintenance projects. He performs a portion of the normal daily repairs such as cleaning the weirs, checking return lines and lift stations. Also, he performs any additional duties that may arise. Staff believes this salary is reasonable. Staff has increased this account by \$5,200 for the maintenance employee. Staff's recommended Salaries and Wages – Employees expense is \$5,200.

Salaries and Wages – Officers – (703) – The utility recorded \$24,000 in this account during the test year. As discussed in Issue No. 1, staff is recommending that the utility's quality of service be considered unsatisfactory. The utility's quality of service was considered unsatisfactory in its last rate case proceeding. Staff believes the utility owner should be held accountable for not improving quality of service since the last rate proceeding. Moreover, the utility is still committing the same violations for which it was cited for by DEP in 1999, and staff is recommending that it be show caused for these violations. In past cases, the Commission has found it appropriate to reduce the president's salary based on poor quality of service and the performance of management.⁴ As stated above, the utility recorded \$24,000 for the president's salary. Staff is recommending that the salary be reduced due to poor quality of service. Staff has decreased this account by \$12,000. Staff's recommended Salaries and Wages – Officers expense is \$12,000.

Purchased Wastewater Treatment – (710) – The utility recorded \$26,955 to this account during the test year. Based on invoices reviewed by the engineer, staff has determined that the expenses were stormwater-related. Staff has made an adjustment to reclassify the \$26,955 to Acct. No. 775. Staff's recommended purchased wastewater treatment expense is \$0.

Sludge Removal Expense – (711) – The utility recorded \$0 to this account during the test year. The utility provided documentation that indicated sludge was removed twice during the test year at a cost of \$5,670 for 205,500 gallons of sludge. The staff's engineer indicated that \$5,670 for sludge removal expense is reasonable. Staff has made an adjustment of \$5,670 to reclassify

⁴ See Order Nos. PSC-93-0295-FOF-WS, issued February 24, 1993, in Docket No. 910637-WS, In Re: Application for a Rate Increase in Pasco County by Mad Hatter Utility, Inc. and PSC-01-1162-PAA-WU, issued May 22, 2001 in Docket No. 001118-WU, In Re: Application for staff-assisted rate case in Polk County by Keen Sales, Rentals and Utilities, Inc. (Sunrise Water Company).

sludge removal expense from Acct. No. 736. Staff's recommended sludge removal expense is \$5,670.

Purchased Power – (715) – The utility recorded \$11,014 to this account during the test year. The utility provided invoices that indicated purchased power for the test year was \$13,161. Staff has made an adjustment to increase this account by \$2,147 (\$13,161-\$11,014). Staff's recommended purchase power expense is \$13,161.

Chemicals – (718) – The utility recorded \$1,440 to this account during the test year. Staff has determined that the amount recorded was for testing expenses. Staff has reclassified \$1,440 to Acct. No. 735 for testing expenses. The utility provided an invoice indicating that its chemical expense for the test year was \$4,590. Staff believes that the chemical expense is reasonable. Staff has made an adjustment to increase this account by \$4,590 for chemical expenses. Staff's recommended chemical expense is \$4,590.

Materials and Supplies – (720) – The utility recorded \$3,760 in this account during the test year. Staff has made the following adjustments: a decrease of \$2,172 to reclassify contractual services expenses to Acct. No. 736 and a decrease of \$240 to reclassify miscellaneous expenses for vegetation clearing to Acct. No. 775. Staff's recommended materials and supplies expense is \$1,348.

Contractual Services – Professional – (731) – The utility recorded \$6,835 in this account during the test year. The utility included in this account the following for accounting expenses: \$3,350 for the preparation of annual reports, regulatory assessment fee forms, annual federal and state corporate income returns, quarterly payroll returns and for the performance of monthly accounting duties; and, \$600 for rate case expense. The utility provided an invoice indicating that its annual accounting expense is \$3,550. Staff believes this amount is reasonable. Staff has made an adjustment to increase this account by \$200 (\$3,550 - \$3,350). Staff has made an adjustment to reclassify rate case expense of \$600 to Acct. No. 765. The utility included in this account \$2,885 for engineering expenses. Staff has determined that the engineering expenses are non-recurring. Staff recommends that engineering expenses be amortized over five years for an annual recovery of \$577 (\$2,885/5). Staff has decreased this account by \$2,308 (\$2,885 - \$577) to reflect the amortization of this expense. Staff's recommended Contractual Services - Professional expense is \$4,127.

Contractual Services Testing – (735) – The utility recorded \$1,995 in this account during the test year. Staff has determined that the amount recorded was for operator services. Staff has made an adjustment of \$1,995 to reclassify operator services expense to Acct. No. 736. Staff has reclassified \$1,440 of testing expenses from Acct. No. 718.

State and local authorities require that several analyses be submitted in accordance with Chapter 62-19, F.A.C. For testing, the utility uses Short Environmental Laboratories, Inc. The list below includes monthly monitoring and other less frequent tests required by DEP:

<u>Test</u>	<u>Frequency</u>	<u>Cost per Year</u>
Bio Oxygen Demand	Bi-Monthly	\$650
Total Suspended Solids	Bi-Monthly	\$650
Fecal Coliform	Bi-weekly	\$500
Nitrate (as N)	Bi-weekly	\$500
CBOD (influent)	Annual	\$40
TSS (influent)	Annual	\$40
Total		<u>\$2,380</u>

Staff annualized the testing costs based on the required testing frequency, and increased this expense by \$940 (\$2,380 - \$1,440) to reflect annualized cost for DEP required testing. Staff's recommended contractual services expense— testing is \$2,380.

Contractual Services – Other – (736) – The utility recorded \$44,186 in this account during the test year. Staff has made the following reclassifications to this account: increase of \$2,172 for contractual services expenses from Acct No. 720; decrease of \$25,108 for stormwater-related expense to Acct. No. 775; increase of \$1,995 for operator services expense from Acct No. 735; decrease of \$795 for miscellaneous expense - pond treatment to Acct. No. 775; decrease of \$5,670 for sludge removing expense to Acct. No. 711; and, a decrease of \$375 for miscellaneous expenses to Acct. No. 775. As a result of the reclassification of \$1,995 for operator services, there is \$2,370 in this account for operator services. The monthly operator services expense is \$285. Staff has annualized the monthly operator expenses for an annual expense of \$3,420. Staff has increased this account by \$1,140 (\$3,420 - \$2,370) to reflect the annualized operator services expense. Staff has also made an adjustment to decrease this account by \$20 to reflect an erroneous recorded invoice. Staff's recommended Contractual Services expense – Other is \$17,526.

Rents – (740) – The utility recorded \$837 in this account during the test year. In the last rate case, the utility was granted \$1,200 for rent expense.⁵ The utility's office was located in the personal residence of the utility's president. He had one room of his home set aside as office space and shared the space with another related company. The utility owner no longer uses this home for his personal residence. Now, he is allocating 40% of all the expenses related to the residence to Crooked Lake. The remaining expenses are allocated 40% to College Park Mobile Home Park (College Park) and 20% to himself. The utility has provided documentation indicating that residence costs \$9,977 annually which includes the mortgage, electric, phone, insurance and taxes. The amount being allocated to Crooked Lake is \$3,991 (\$9,977 x 40%). The dynamics of Crooked Lake has not changed. The one room that was used during the last proceeding was sufficient office space. Staff does not believe the rate payers should bear additional expenses because the utility owner decided to no longer use the home for his personal residence. Staff believes the rent expense approved in the utility's last rate case proceeding is

⁵ See Order No. PSC-99-2116-PAA-SU, issued October 25, 1999, in Docket No. 980778-SU.

more reasonable. Staff has indexed the \$1,200 and determined an appropriate rent expense to be \$1,400. Staff has made an adjustment to increase this account by \$563 (\$1,400-\$837). Staff's recommended Rents expense is \$1,400.

Regulatory Commission Expense – (765) – The utility recorded \$0 in this account during the test year. Pursuant to Section 367.0816, Florida Statutes, rate case expense is amortized over a 4-year period. The utility paid a \$1,000 rate case filing fee for wastewater. Staff has increased this account by \$250 (\$1,000/4). The utility is required by Rule 25-22.0407(9)(b), F.A.C., to mail notices of the customer meeting to its customers. Staff has estimated noticing expense for wastewater of \$167 postage expense, \$43 printing expense, and \$22 for envelopes. The above results in a total rate case expense for noticing of \$232. Staff has increased this account by \$58 (\$232/4) to reflect rate case expense for noticing. Staff has amortized the reclassified \$600 of accounting expense by four years for an annual recovery of \$150 (\$600/4). Staff has decreased this account by \$450 (\$600-\$150) to reflect the amortization of this expense. Staff recommends a net increase to this account of \$458.

Miscellaneous Expense – (775) – The utility recorded \$5,309 in this account for the test year. Staff has made the following reclassifications to this account: increase of \$26,955 for stormwater-related expenses from Acct No. 711; increase of \$25,108 for stormwater-related expense from Acct. No. 736; increase of \$240 for miscellaneous expense - vegetation clearing from Acct. No. 720; increase of \$795 for miscellaneous expense - pond treatment from Acct. No. 736; and, an increase of \$375 for miscellaneous expenses from Acct. No. 775. As a result of the reclassification of stormwater-related expenses, there is \$52,063 in this account for stormwater-related expenses. Staff has determined that these expenses are non-recurring. Staff recommends that stormwater-related expenses be amortized over four years for an annual recovery of \$13,016 (\$52,063/4). Staff has decreased this account by \$39,047 (\$52,063-\$13,016) to reflect the amortization of this expense. The staff engineer indicated that the utility should keep growth of trees and shrubs at a minimum by conducting periodic vegetation clearing and pond treatment, and that \$770 is a reasonable amount for this. As a result of the reclassification of miscellaneous expenses for vegetation clearing and pond treatment, the utility has \$1,035 in this account. Staff has decreased this account by \$265 (\$1,035 - \$770) to reflect the appropriate miscellaneous expense for vegetation clearing and pond treatment. Also, the staff engineer indicated that the utility be allowed \$1,200 to perform mowing more frequently. Therefore, staff has made an adjustment to increase this account by \$1,200 to reflect the appropriate miscellaneous expenses for mowing. Staff has also made an adjustment of \$3,487 to remove the utility's journal entry for plant retirements. Staff recommends miscellaneous expense of \$17,183.

Operation and Maintenance Expense (O&M Summary) – The total O&M adjustment is a decrease of \$41,289. Staff's recommended O&M expenses are \$108,317. O&M expenses are shown on Schedule 3-B.

Depreciation Expense (Net of Amortization of CIAC) – The utility recorded \$9,925 in this account during the test year. Staff calculated test-year depreciation using the rates prescribed in Rule 25-30.140, F.A.C. Staff has calculated amortization of CIAC based on composite rates. Staff has decreased this account by \$1,931 (\$9,925 - \$7,994) to reflect staff's calculated net depreciation expense. Therefore, staff recommends net depreciation expense of \$7,994.

Taxes Other Than Income – The utility recorded taxes other than income of \$7,735 during the test year. Per Audit Disclosure No. 6, the utility did not take advantage of the available discount. As a result, staff has decreased this account by \$193 to reflect the discount on the property taxes. Also, Audit Disclosure No. 6 indicated that Regulatory Assessment Fees (RAFs) were understated. In Issue No. 5, staff made an adjustment to increase operating revenues by \$2,840. Staff has increased this account by \$128 to reflect the RAFs associated with the increase in operating revenues. Staff has also increased this account by \$2,234 to reflect payroll taxes associated with the recommended salaries.

Staff's total adjustment to this account is an increase of \$2,169.

Income Tax – The utility recorded income tax of \$0 for water. The utility is an 1120 corporation; however, the utility has a large amount of loss carry forwards based on its current income tax return. These loss carry forwards are in excess of staff's recommended operating income, and will continue to exceed income over the next several years. Therefore, staff has not made an adjustment to this account.

Operating Revenues – Revenues have been increased by \$30,836 to reflect the change in revenue required to cover expenses and allow the recommended return on investment.

Taxes Other Than Income – The expense has increased by \$1,388 to reflect RAFs of 4.5% on the change in 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 \$127,603.

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

Issue 7: What is the appropriate revenue requirement?

Recommendation: The appropriate revenue requirement is \$137,989 for wastewater. (Hudson)

Staff Analysis: The utility should be allowed an annual increase of \$30,836 (28.78%) for wastewater. This will allow the utility the opportunity to recover its expenses and earn an 8.17% return on its investment. The calculations are as follows:

	<u>Water</u>
Adjusted Rate Base	\$127,127
Rate of Return	X .0817
Return on Rate Base	\$10,386
Adjusted O & M Expense	\$108,317
Depreciation expense (Net)	\$7,994
Taxes Other Than Income	\$11,292
Income Taxes	\$0
Revenue Requirement	<u>\$137,989</u>
Adjusted Test Year Revenues	<u>\$107,153</u>
Percent Increase/(Decrease)	<u>28.78%</u>

Revenue requirements are shown on Schedule No. 3.

Issue 8: What are the appropriate wastewater rates for the system?

Recommendation: The appropriate wastewater rates are shown on Schedule No. 4. The recommended wastewater rates are designed to produce revenues of \$137,989. The utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(1), F.A.C. In addition, the rates should not be implemented until staff has approved the proposed customer notice. The utility should provide proof of the date the notice was given no less than 10 days after the date of the notice. (Hudson, Jaeger, Rendell)

Staff Analysis: The recommended rates are designed to produce revenue of \$137,989. Staff has calculated rates using test-year number of bills and consumption. Staff's recommended rates for wastewater have been calculated based on 80% of the water used by residential customers being returned to the system. Staff's recommended rates also include an 8,000 gallon monthly gallonage cap for residential wastewater customers.

Based on staff's recommended rates, the utility would recover approximately 60% (\$82,793) of wastewater system revenue from the base facility charge, and the remaining 40% (\$55,196) for wastewater recovered from the gallonage charge.

College Park Mobile Home Park (CPMHP or College Park) is a master-metered customer of Crooked Lake and is also owned by the utility's owner, Mr. Knowlton. Currently Crooked Lake bills College Park as a bulk residential service wastewater customer. College Park is charged a base facility charge per unit and the residential gallonage cap per thousand gallons. College Park is also capped at 8,000 gallons per unit. At the customer meeting held in November, it was brought to staff's attention that the customers of College Park are also being billed individually for water and wastewater by the owner. CPMHP is currently exempt from Commission regulation pursuant to Section 367.022(5), F.S. Under this exemption, landlords who provide service to their tenants without specific compensation for the service are exempt from the Commission's jurisdiction. However, in this instance, the College Park owner began to charge its tenants individually for what he considered excessive water and wastewater usage. The customers provided staff with copies of bills that were sent out to the tenants.

The owner of College Park indicated to staff that he needed to recoup its water and wastewater expenses, and thus began billing these mobile homeowners for water and wastewater usage in excess of 6,000 gallons. Staff initially thought that this might be inappropriate. However upon further review, it appears that such practice of CPMHP would still be exempt from Commission regulation pursuant to Section 367.022(8) [the reseller's exemption], F.S. If CPMHP has determined pursuant to its contract with its tenants that it should charge for usage above 6,000 gallons, and not over the 8,000 gallon cap, then staff believes this is between CPMHP and its tenants. Because CPMHP is a bulk residential service customer, it would still be exempt pursuant to Section 367.022(8), F.S. For determining wastewater rates, staff has appropriately included the mobile home park customers and capped gallons in its billing determinants.

The customers believe that being charged the water and wastewater gallonage charges for excessive water use above 6,000 gallons, is in violation of either their contract of Chapter 723, F.S. Chapter 723, F.S., entitled Mobile Home Park Lot Tenancies, governs the relationship between mobile home park owners and the mobile home owners. Pursuant to Section 723.005, F.S., the Division of Land Sales, Condominiums, and Mobile Homes of the Department of Business and Professional Regulation “has the power and duty to enforce and ensure compliance with the provisions of this chapter ...” Therefore, staff believes that any violations of Chapter 723, F.S., or the contracts between the customers and College Park cannot be addressed by this Commission. However, staff believes the owner should be aware of the statutory requirements of Statute 723.037, Florida Statutes, which states; “A park owner shall give written notice to each affected mobile home owner and the board of directors of the homeowners' association, if one has been formed, at least 90 days prior to any increase in lot rental amount or reduction in services or utilities provided by the park owner or change in rules and regulations.”

If the Commission approves staff's recommendation, the new rates should be effective for service rendered on or after the stamped approval date on the revised tariff sheets. The tariff sheets should be approved administratively upon staff's verification that the tariffs are consistent with the Commission's decision and the customer notice is adequate.

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.

Based on the foregoing, the appropriate wastewater monthly rates are shown on Schedule No. 4. The recommended wastewater rates are designed to produce revenues of \$137,989. The utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(1), F.A.C. In addition, the rates should not be implemented until staff has approved the proposed customer notice. The utility should provide proof of the date the notice was given no less than 10 days after the date of the notice.

Issue 9: In determining whether any portion of the interim increase granted should be refunded, how should the refund be calculated, and what is the amount of the refund, if any?

Recommendation: The utility did not implement the Commission approved interim rates due to the inability to obtain security. Therefore, no refund is necessary. (Hudson)

Staff Analysis: In Order No. PSC-06-0654-PCO-SU, issued on August 4, 2006, interim wastewater rates were approved subject to refund, pursuant to Section 367.0814(4), Florida Statutes. The approved interim revenue from rates is shown below:

Wastewater	<u>Revenues</u>	<u>Increase</u>	<u>Percentage</u>
	\$156,656	\$52,343	50.18%

The utility attempted to obtain security, for the interim increase from several different sources. The attempts were unsuccessful and the utility did not implement the interim rates. Therefore, no refund is necessary.

Issue 10: What is the appropriate amount by which rates should be reduced four years after the established effective date to reflect the removal of the amortized rate case expense as required by Section 367.0816, Florida Statutes?

Recommendation: The wastewater rates should be reduced as shown on Schedule No. 4, to remove rate case expense grossed-up for regulatory assessment fees and amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the 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. (Hudson)

Staff Analysis: Section 367.0816, F.S., 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 \$458 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 11: 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(6), Florida Administrative Code, the utility should file reports with the Commission's Division of Economic Regulation no later than the 20th of each month indicating the monthly and total amount of money subject to refund at the end of the preceding month. The report filed should also indicate the status of the security being used to guarantee repayment of any potential refund. (Hudson)

Staff Analysis: This recommendation proposes an increase in wastewater rates. A timely protest might delay what may be a justified rate increase resulting in an unrecoverable loss of revenue to the utility. Therefore, pursuant to Section 367.0814(7), F.S., 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 appropriate security for the potential refund and the proposed customer notice. Security should be in the form of a bond or letter of credit in the amount of \$21,261. Alternatively, the utility could establish an escrow agreement with an independent financial institution.

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

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

If the utility chooses a letter of credit as 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 the express approval of the Commission.
- 2) The escrow account shall be an interest bearing account.
- 3) If a refund to the customers is required, all interest earned by the escrow account shall be distributed to the customers.
- 4) If a refund to the customers is not required, the interest earned by the escrow account shall revert to the utility.
- 5) All information on the escrow account shall be available from the holder of the escrow account to a Commission representative at all times.
- 6) The amount of revenue subject to refund shall be deposited in the escrow account within seven days of receipt.
- 7) This escrow account is established by the direction of the Florida Public Service Commission for the purpose(s) set forth in its order requiring such account. Pursuant to Cosentino v. Elson, 263 So. 2d 253 (Fla. 3d DCA 1972), escrow accounts are not subject to garnishments.
- 8) The Director of Commission Clerk and Administrative Services must be a signatory to the escrow agreement.
- 9) This account must specify by whom and on whose behalf such monies were paid signatory to the escrow agreement.

In no instance should the maintenance and administrative costs associated with the refund be borne by the customers. These costs are the responsibility of, and should be borne by, the utility. Irrespective of the form of security chosen by the utility, an account of all monies received as a 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), F.A.C.

The utility should maintain a record of the amount of the bond, and the amount of revenues that are subject to refund. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the utility should file reports with the Commission Division of Economic Regulation no later than the 20th of each month indicating the monthly and total amount of money subject to refund at the end of the preceding month. The report filed should also indicate the status of the security being used to guarantee repayment of any potential refund.

Issue 12: Should Crooked Lake Park Sewerage Company be ordered to show cause in writing, within 21 days, why it should not be fined for its apparent failure to comply with the requirements of Order No. PSC-99-2116-PAA-SU, issued October 25, 1999, to satisfy the violations listed by the Department of Environmental Protection in its Warning Letter No. WL980009DW53SWD, dated March 25, 1998, in which the utility was cited for the following violations:

- A) Effluent being discharged off utility property;
- B) Failure to use its south percolation pond;
- C) Overflow of raw wastewater from plant tanks;
- D) Failure to report its discharge violations to the DEP; and
- E) Influent flows exceeding permitted capacity.

Recommendation: Yes. Crooked Lake Park Sewerage Company should be ordered to show cause in writing, within 21 days, why it should not be fined \$500 for its apparent failure to timely comply with the requirements of Order No. PSC-99-2116-PAA-SU. The order to show cause should incorporate the conditions stated below in the staff analysis. (Jaeger, Hudson, Rendell)

Staff Analysis: Pursuant to Order No. PSC-99-2116-PAA-SU (PAA Order)⁶, the Commission required Crooked Lake Park Sewerage Company (Crooked Lake) to satisfy the violations listed by DEP in its Warning Letter No. WL980009DW53SWD, dated March 25, 1998, in which the utility was cited for the following violations:

- A) Effluent being discharged off utility property;
- B) Failure to use its south percolation pond;
- C) Overflow of raw wastewater from plant tanks;
- D) Failure to report its discharge violations to the DEP; and
- E) Influent flows exceeding permitted capacity.

PAA Order No. PSC-99-2116-PAA-SU was finalized by a Consummating Order, Order No. PSC-99-2277-CO-SU, issued October 25, 1999. Normally, when there are apparent violations of DEP rules, the Commission works with DEP, and DEP brings whatever enforcement action it deems appropriate. However, in Order No. PSC-99-2116-PAA-SU, the Commission specifically noted that there was a problem with discharge to Crooked Lake and a failure to report such discharge, and specifically ordered the utility to correct those problems. Now, over seven years later, it appears that the utility is still committing the very same violations, and has not complied with those two very specific directives of the PAA Order.

⁶ Issued October 25, 1999, in Docket No. 980778-SU, In re: Application for staff-assisted rate case in Polk County by Crooked Lake Park Sewerage Company.

As stated in the Quality of Service section of this recommendation, based on three Compliance Evaluation Inspections, DEP recently determined, among other things, that: (1) the utility is still discharging wastewater such that it is discharged off the utility's property and entering Crooked Lake; and (2) the utility continues to fail to report discharge violations to DEP. These appear to be identical violations set forth in the PAA Order for correction.

Utilities are charged with the knowledge of the Commission's rules and statutes. Additionally, "[i]t is a common maxim, familiar to all minds that 'ignorance of the law' will not excuse any person, either civilly or criminally." Barlow v. United States, 32 U.S. 404, 411 (1833). Section 367.161(1), Florida Statutes, authorizes the Commission to assess a penalty of not more than \$5,000 for each offense if a utility is found to have knowingly refused to comply with, or to have willfully violated, any provision of Chapter 367, Florida Statutes, or any lawful order of the Commission. By failing to comply with the above-noted requirements of the PAA Order in a timely manner, the utility's acts were "willful" in the sense intended by Section 367.161, Florida Statutes. In Commission Order No. 24306, issued April 1, 1991, in Docket No. 890216-TL titled In Re: Investigation Into The Proper Application of Rule 25-14.003, F.A.C., Relating To Tax Savings Refund for 1988 and 1989 For GTE Florida, Inc., the Commission, having found that the company had not intended to violate the rule, nevertheless found it appropriate to order it to show cause why it should not be fined, stating that "willful" implies an intent to do an act, and this is distinct from an intent to violate a statute or rule." Id. at 6.

Staff believes that the circumstances in this case are such that show cause proceedings should be initiated. Staff is especially concerned with the continued discharge of effluent to Crooked Lake. Staff believes that the continued pattern of disregard for the Commission's Orders (and DEP rules), warrants more than just a warning. Accordingly, staff recommends that Crooked Lake be made to show cause in writing, within 21 days, why it should not be fined \$500 for its apparent failure to comply with the requirements of the PAA Order to cease discharging effluent off its property and into areas such that it enters Crooked Lake. Staff recommends that the show cause order incorporate the following conditions:

1. The utility's response to the show cause order should contain specific allegations of fact and law;
2. Should Crooked Lake file a timely written response that raises material questions of fact and makes a request for a hearing pursuant to Sections 120.569 and 120.57(1), Florida Statutes, a further proceeding will be scheduled before a final determination of this matter is made;
3. A failure to file a timely written response to the show cause order should constitute an admission of the facts herein alleged and a waiver of the right to a hearing on this issue;
4. In the event that Crooked Lake fails to file a timely response to the show cause order, the fine should be deemed assessed with no further action required by the Commission;

5. If the utility responds timely but does not request a hearing, a recommendation should be presented to the Commission regarding the disposition of the show cause order;
6. If the utility responds to the show cause order by remitting the fine, this show cause matter should be considered resolved.

Further, the utility should be put on notice that failure to comply with Commission orders, rules, or statutes will again subject the utility to show cause proceedings and fines of up to \$5,000 per day per violation for each day the violation continues as set forth in Section 367.161, F.S.

Issue 13: Should College Park Mobile Home Park be ordered to show cause in writing, within 21 days, why it should not be fined for its apparent failure to comply with the requirements of Section 367.031, Florida Statutes, for its apparent violation of charging specifically for water and wastewater service without a certificate?

Recommendation: No. College Park Mobile Home Park (CPMHP) should not be ordered to show cause in writing, within 21 days, why it should not be fined for its apparent failure to obtain a certificate or to comply with the requirements to be considered an exempt entity pursuant to Section 367.022(5), Florida Statutes. Although, CPMHP would not appear to be exempt under Section 367.022(5), Florida Statutes, it appears that it would still be exempt pursuant to Section 367.022(8), Florida Statutes, as a reseller. (Jaeger, Hudson, Rendell)

Staff Analysis: At the customer meeting held on November 16, 2006, in this case, staff discovered that CPMHP was charging its tenants the gallonage charge for all water and wastewater consumed by each tenant in excess of 6,000 gallons. CPMHP has been considered exempt from Commission regulation pursuant to Section 367.022(5)(landlords providing service to their tenants without specific compensation for the service), F.S.

Based on the information received at the customer meeting, CPMHP is receiving specific compensation for both water and wastewater service for usage over 6,000 gallons, and it would not appear to be exempt under Section 367.022(5), F.S. However, because it is charging each individual mobile homeowner only the exact gallonage charge above any usage over 6,000 gallons that it is being charged, and because it is a general service customer, and must pay for every 1,000 gallons of usage without a cap, it could never be charging more than what it is paying for such service. Therefore, it would appear to be exempt as a reseller pursuant to Section 367.022(8), F.S. Based on the above, CPMHP should not be ordered to show cause in writing, within 21 days, why it should not be fined for its apparent failure to obtain a certificate or to comply with the requirements to be considered an exempt entity pursuant to Section 367.022(5), F.S.

Issue 14: Should this docket be closed?

Recommendation: No. If no person whose substantial interests are affected by the proposed agency action files a protest within twenty-one days of the issuance of the order, a consummating order will be issued. The docket should remain open for staff's verification that the revised tariff sheets and customer notice have been filed by the utility and approved by staff. Once these actions are complete, if Crooked Lake pays the \$500 in fines, the docket should be closed administratively. If the utility timely responds in writing to the Order to show cause, the docket should remain open to allow for the appropriate processing of the response. (Jaeger, Hudson)

Staff Analysis: If no person whose substantial interests are affected by the proposed agency action files a protest within twenty-one days of the issuance of the order, a consummating order will be issued. The docket should remain open for staff's verification that the revised tariff sheets and customer notice have been filed by the utility and approved by staff. Once these actions are complete, if Crooked Lake pays the \$500 in fines, the docket should be closed administratively. If the utility timely responds in writing to the Order to show cause, the docket should remain open to allow for the appropriate processing of the response.

**CROOKED LAKE PARK SEWERAGE COMPANY
 TEST YEAR ENDING 12/31/2005
 SCHEDULE OF WASTEWATER RATE BASE**

**SCHEDULE NO. 1
 DOCKET NO. 060406-SU**

DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST TO UTIL. BAL.	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	\$379,267	(\$33,109)	\$346,158
2. LAND & LAND RIGHTS	\$6,197	\$0	\$6,197
3. NON-USED AND USEFUL COMPONENTS	\$0	\$0	\$0
4. CIAC	(\$126,736)	\$300	(\$126,436)
5. ACCUMULATED DEPRECIATION	(\$215,026)	(\$505)	(\$215,531)
6. AMORTIZATION OF CIAC	\$109,872	(\$6,673)	\$103,199
7. WORKING CAPITAL ALLOWANCE	<u>\$0</u>	<u>\$13,540</u>	<u>\$13,540</u>
8. WASTEWATER RATE BASE	<u>\$153,574</u>	<u>(\$26,447)</u>	<u>\$127,127</u>

**CROOKED LAKE PARK SEWERAGE COMPANY
 TEST YEAR ENDING 12/31/2005
 ADJUSTMENTS TO RATE BASE**

**SCHEDULE NO. 1-A
 DOCKET NO. 060406-SU**

WASTEWATER

UTILITY PLANT IN SERVICE

1.	To remove 2004 expenses recorded as plant	(\$28,754)
2.	To reflect the appropriate plant asset for transportation	(\$739)
3.	Averaging adjustment	<u>(\$3,616)</u>
	Total	<u>(\$33,109)</u>

LAND AND LAND RIGHTS

1.

NON-USED AND USEFUL PLANT

1.
2.

Total	<u>\$0</u>
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CIAC

2.	Averaging adjustment	<u>\$300</u>
	Total	<u>\$300</u>

ACCUMULATED DEPRECIATION

1.	Accumulated depreciation per Rule 25-30.140, FAC	\$3,024
2.	Averaging adjustment	<u>(\$3,529)</u>
	Total	<u>(\$505)</u>

AMORTIZATION OF CIAC

1.	To adjust Amortization of CIAC based on composite rates	(\$6,213)
2.	Averaging adjustment	(\$460)
	Total	<u>(\$6,673)</u>

WORKING CAPITAL ALLOWANCE

1.	To reflect 1/8 of test year O & M expenses.	<u>\$13,540</u>
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CROOKED LAKE PARK SEWERAGE COMPANY				SCHEDULE NO. 2			
TEST YEAR ENDING 12/31/2005				DOCKET NO. 060406-SU			
SCHEDULE OF CAPITAL STRUCTURE							
CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUSTMENTS	BALANCE	PRO RATA ADJUSTMENTS	BALANCE PER STAFF	PERCENT OF TOTAL	WEIGHTED COST
			BEFORE PRO RATA ADJUSTMENTS				
COMMON STOCK	\$3,000	\$0	\$3,000				
RETAINED EARNINGS	(149,187)	\$70,117	(\$79,070)				
PAID IN CAPITAL	\$76,070	\$0	\$76,070				
OTHER COMMON EQUITY	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>				
TOTAL COMMON EQUITY	(\$70,117)	\$70,117	\$0	0	0	0.00%	11.78%
LONG TERM DEBT							
K. Knowlton	\$79,281	\$0	\$79,281	(\$30,469)	\$48,812	43.17%	5.76%
American Bank	\$51,164	\$0	\$51,164	(\$19,663)	\$31,501	27.86%	10.00%
Am South Bank	\$53,218	\$0	\$53,218	(\$20,452)	\$32,766	28.98%	8.75%
Ford Credit	<u>\$22,817</u>	\$0	\$22,817	(\$8,769)	\$14,048	12.42%	2.90%
TOTAL LONG TERM DEBT	\$206,480	\$0	\$206,480	(\$70,584)	\$113,079	100.00%	
CUSTOMER DEPOSITS	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	6.00%
TOTAL	<u>\$136,363</u>	<u>\$70,117</u>	<u>\$206,480</u>	<u>-\$70,584</u>	<u>\$113,079</u>	<u>100.00%</u>	<u>8.17%</u>
RANGE OF REASONABLENESS						LOW	HIGH
RETURN ON EQUITY						<u>10.78%</u>	<u>12.78%</u>
OVERALL RATE OF RETURN						<u>8.17%</u>	<u>8.17%</u>

CROOKED LAKE PARK SEWERAGE COMPANY				SCHEDULE NO. 3	
TEST YEAR ENDING 12/31/2005				DOCKET NO. 060406-SU	
SCHEDULE OF WASTEWATER OPERATING INCOME					
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$104,313</u>	<u>\$2,840</u>	<u>\$107,153</u>	<u>\$30,836</u> 28.78%	<u>\$137,989</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	\$149,606	(\$41,289)	\$108,317	\$0	\$108,317
3. DEPRECIATION (NET)	\$9,925	(\$1,931)	\$7,994	\$0	\$7,994
4. AMORTIZATION	\$0	\$0	\$0	\$0	\$0
5. TAXES OTHER THAN INCOME	\$7,735	\$2,169	\$9,904	\$1,388	\$11,292
6. INCOME TAXES	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
7. TOTAL OPERATING EXPENSES	<u>\$167,266</u>	<u>(\$41,051)</u>	<u>\$126,215</u>	<u>\$1,388</u>	<u>\$127,603</u>
8. OPERATING INCOME/(LOSS)	<u>(\$62,953)</u>		<u>(\$19,062)</u>		<u>\$10,386</u>
9. WASTEWATER RATE BASE	<u>\$153,574</u>		<u>\$127,127</u>		<u>\$127,127</u>
10. RATE OF RETURN	<u>-40.99%</u>		<u>-14.99%</u>		<u>8.17%</u>

CROOKED LAKE PARK SEWERAGE COMPANY
TEST YEAR ENDING 12/31/2005
ADJUSTMENTS TO OPERATING INCOME

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WASTEWATER

OPERATING REVENUES

1. To adjust utility revenues to audited test year amount.	\$2,840
Subtotal	<u>\$2,840</u>

OPERATION AND MAINTENANCE EXPENSES

1. Salaries and Wages - Employees (701)	
a. To reflect annual salary for maintenance person	<u>\$5,200</u>
2. Salaries and Wages - Officers (703)	
a. To reduction in president's salary for quality of service	<u>-\$12,000</u>
3. Purchased Sewage Treatment	
a. To reclassify stormwater related expenses to Acct. No. 775	<u>(\$26,955)</u>
4. Sludge Removal Expense (711)	
a. To reclassify sludge removal expense recorded in Acct. 736	<u>\$5,670</u>
5. Purchased Power (715)	
a. To reflect annual purchase power per audit report	<u>\$2,147</u>
6. Chemicals (718)	
a. To reclassify testing expenses to Acct. 735	(\$1,440)
b. To reflect chemical expense for the test year	<u>\$4,590</u>
Subtotal	<u>\$3,150</u>
7. Material and Supplies (720)	
a. To reclassify contractual services expenses to Acct. 736	(\$2,172)
b. To reclassify vegetation clearing expense to Acct. 775	<u>(\$240)</u>
Subtotal	<u>(\$2,412)</u>
8. Contractual Services - Professional (731)	
a. To reflect annual accounting expenses	\$200
b. To reclassify accounting expenses to Acct 765 for rate case expense	(\$600)
c. To reflect non-recurring eng. expense amort. over 5 years	<u>(\$2,308)</u>
Subtotal	<u>(\$2,708)</u>
9. Contractual Services -Testing (735)	
a. To reclassify operator expenses to Acct. 736	(\$1,995)
b. To reclassify testing expenses from Acct. 718	\$1,440
c. To reflect annual DEP required testing expense	<u>\$940</u>
Subtotal	<u>\$385</u>

(O & M EXPENSES CONTINUED ON NEXT PAGE)

CROOKED LAKE PARK SEWERAGE COMPANY		Schedule No. 3-A
TEST YEAR ENDING 12/31/2005		DOCKET NO. 060406-SU
ADJUSTMENTS TO OPERATING INCOME		Page 2 of 2
10.	Contractual Services - Other (736)	
	a. To reclassify contractual services expenses from Acct. 720	\$2,172
	b. To reclassify stormwater related expenses to Acct. 775	(\$25,108)
	c. To reclassify operator expenses from Acct. No. 735	\$1,995
	d. To reclassify vegetation clearing expenses to Acct. 775	(\$795)
	e. To reclassify sludge removal expenses to Acct. No. 711	(\$5,670)
	f. To reclassify miscellaneous expenses to Acct. No. 775	(\$375)
	g. To reflect the appropriate operator services expenses	\$1,140
	h. To correct invoice recorded erroneous amount	(\$20)
	Subtotal	<u>(\$26,661)</u>
11.	Rents (740)	
	a. To reflect the appropriate rent expense	<u>\$563</u>
12.	Regulatory Expense (765)	
	a. To amortize filing fee (\$1000/4)	\$250
	b. To include and amortize notice expense over 4 years	\$58
	c. To reclassify accounting exp. from Acct. 731 for rate case expense	\$600
	d. To amortize accounting rate case expense	<u>(\$450)</u>
	Subtotal	<u>\$458</u>
13.	Miscellaneous Expense (775)	
	a. To reclassify stormwater related expenses from Acct. No. 711	\$26,955
	b. To reclassify stormwater related expenses from Acct. No. 736	\$25,108
	c. To reclassify vegetation clearing expenses from Acct. No. 720	\$240
	d. To reclassify pond treatment expenses from Acct. No. 736	\$795
	e. To reclassify miscellaneous expenses from Acct. No. 736	\$375
	f. To amortize stormwater related expenses over 4 years	(\$39,047)
	g. To reflect appropriate exp. for vegetation clearing and pond treatment	(\$265)
	h. To reflect the appropriate mowing expenses	\$1,200
	i. To remove journal entry for plant retirements	(\$3,487)
	Subtotal	<u>\$11,874</u>
	TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	<u>(\$41,289)</u>
		<u>WASTEWATER</u>
	DEPRECIATION EXPENSE	
1.	To reflect the appropriate net depreciation expense	<u>(\$1,931)</u>
	Total	<u>(\$1,931)</u>
	TAXES OTHER THAN INCOME	
1.	To reduce ad valorem taxes	(\$193)
2.	To reflect the appropriate regulatory assessment fees	\$128
3.	To reflect payroll taxes for recommended salaries	<u>\$2,234</u>
	Total	<u>\$2,169</u>

CROOKED LAKE PARK SEWERAGE COMPANY			SCHEDULE NO. 3-B
TEST YEAR ENDING 12/31/2005			DOCKET NO. 060406-SU
ANALYSIS OF WASTEWATER OPERATION AND MAINTENANCE EXPENSE			
	TOTAL PER UTILITY	STAFF ADJUST- MENT	TOTAL PER STAFF
(701) SALARIES AND WAGES - EMPLOYEES	\$0	\$5,200	\$5,200
(703) SALARIES AND WAGES - OFFICERS	\$24,000	(\$12,000)	\$12,000
(704) EMPLOYEE PENSIONS AND BENEFITS	\$0	\$0	\$0
(710) PURCHASED SEWAGE TREATMENT	\$26,955	(\$26,955)	\$0
(711) SLUDGE REMOVAL EXPENSE	\$0	\$5,670	\$5,670
(715) PURCHASED POWER	\$11,014	\$2,147	\$13,161
(716) FUEL FOR POWER PRODUCTION	\$0	\$0	\$0
(718) CHEMICALS	\$1,440	\$3,150	\$4,590
(720) MATERIALS AND SUPPLIES	\$3,760	(\$2,412)	\$1,348
(730) CONTRACTUAL SERVICES - BILLING	\$6,909	\$0	\$6,909
(731) CONTRACTUAL SERVICES - PROFESSIONAL	\$6,835	(\$2,708)	\$4,127
(735) CONTRACTUAL SERVICES - TESTING	\$1,995	\$385	\$2,380
(736) CONTRACTUAL SERVICES - OTHER	\$44,186	(\$26,661)	\$17,526
(740) RENTS	\$837	\$563	\$1,400
(750) TRANSPORTATION EXPENSE	\$4,872	\$0	\$4,872
(755) INSURANCE EXPENSE	\$11,494	\$0	\$11,494
(765) REGULATORY COMMISSION EXPENSES	\$0	\$458	\$458
(770) BAD DEBT EXPENSE	\$0	\$0	\$0
(775) MISCELLANEOUS EXPENSES	<u>\$5,309</u>	<u>\$11,874</u>	<u>\$17,183</u>
	<u>\$149,606</u>	<u>(\$41,289)</u>	<u>\$108,317</u>

CROOKED LAKE PARK SEWERAGE COMPANY				SCHEDULE NO. 4
TEST YEAR ENDING 12/31/2005				DOCKET NO. 060406-SU
MONTHLY WASTEWATER RATES				
	UTILITY'S EXISTING RATES	COMMISSION APPROVED INTERIM	STAFF RECOMMENDED RATES	4-YEAR RATE REDUCTION
<u>Residential Service</u>				
Base Facility Charge All Meter Sizes	\$11.10	\$16.67	\$15.51	\$0.05
<u>Gallonge Charge</u>				
Per 1,000 Gallons (8,000 gallon cap)	\$2.56	\$3.84	\$3.07	\$0.01
<u>General Service</u>				
Base Facility Charge by Meter Size:				
5/8"X3/4"	\$11.10	\$16.67	\$15.51	\$0.05
3/4"	\$16.65	\$25.00	\$23.27	\$0.08
1"	\$27.75	\$41.67	\$38.79	\$0.13
1-1/2"	\$55.49	\$83.33	\$77.57	\$0.27
2"	\$88.79	\$133.34	\$124.12	\$0.43
3"	\$177.57	\$266.67	\$248.24	\$0.86
4"	\$277.46	\$416.69	\$387.87	\$1.35
6"	\$554.94	\$833.41	\$775.74	\$2.70
Gallonge Charge per 1,000 gallons	\$3.07	\$4.61	\$3.68	\$0.01
<u>Typical Residential 5/8" x 3/4" Meter Bill Comparison</u>				
3,000 Gallons	\$18.78	\$28.19	\$24.72	
5,000 Gallons	\$23.90	\$35.87	\$30.86	
8,000 Gallons	\$31.58	\$47.39	\$40.07	