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: April 12, 2007

TO: Commission Clerk (Cole)

FROM: Division of Economic Regulation (Merta, Bruce, Lingo, Massoudi, Rendell)
Office of the General Counsel (Bennett)

RE: Docket No. 060599-WU – Application for staff-assisted rate case in Pasco County by Pasco Utilities, Inc.

AGENDA: 04/24/07 – Regular Agenda – Proposed Agency Action, Except for Issues 11, 12, 15, and 16 - Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: McMurrian

CRITICAL DATES: 02/02/08 (15-Month Effective Date (SARC))

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECR\WP\060599.RCM.DOC

Table of Contents

Case Background

Pasco Utilities, Inc. (Pasco or utility) is a Class C water utility providing service to approximately 674 customers in Pasco County. Wastewater service is provided by septic tanks. The utility is located in Wesley Chapel, approximately 20 miles north of Tampa. The utility's 2005 annual report shows operating revenues of $110,742, operating expenses of $288,174, and a net operating loss of $177,432.

The utility began operating in 1967. Water rates were last established for the utility in 1980.[1] Water rate base was established in 1986.[2] On September 5, 2006, the utility filed an application for a staff-assisted rate case (SARC) and paid the appropriate filing fee on that date.

Staff audited the utility's records for compliance with Commission rules and orders and determined the components necessary for rate setting. The staff engineer 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 operating cost. Staff has selected a historical test year ending June 30, 2006, for this rate case.

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

[1] Order No. 9327, issued April 11, 1980, in Docket No. 770268-W(CR), In re: Application of Pasco Utilities, Inc., for a rate increase to its water customers in Pasco County, Florida.
[2] Order No. 16112, issued May 14, 1986, in Docket No. 850303-WU, In Re: Investigation of the water rates of Pasco Utilities, Inc., in Pasco County, Florida, to determine potential overearnings.

Discussion of Issues

QUALITY OF SERVICE

Issue 1: Is the quality of service provided by Pasco Utilities, Inc., satisfactory?

Recommendation: Yes. The quality of service provided by Pasco Utilities, Inc., should be considered satisfactory. (Massoudi)

Staff Analysis: Rule 25-30.433(1), Florida Administrative Code (F.A.C.), states:

> 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 or lack thereof over the proceeding 3-year period shall also be considered. DEP and county health departments 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.

QUALITY OF UTILITY'S PRODUCT

The water treatment plants (WTPs) of Pasco utility are regulated by the Department of Environmental Protection (DEP). The DEP inspected the Pasco utility WTP on May 14, 2005. The utility has conformed to all testing and chemical analyses required by DEP and the test results have been satisfactory. The quality of the water service appears to meet or exceed the regulatory standards and is considered satisfactory.

OPERATIONAL CONDITIONS AT THE PLANT

The quality of the utility's plant-in-service is generally reflective of the quality of the utility's product. According to the DEP's sanitary Survey Report dated May 31, 2005, the DEP's inspector observed one deficiency during his site inspection. The DEP inspector stated that excessive caulk was used on the well head. The utility proposed a Capital Improvement Plan (Plan) to staff to resolve this deficiency. According to the utility's proposed Plan, the utility intends to rehabilitate the well heads at an estimated cost of $10,103. This pro forma project is discussed in Issue 3.

Maintenance at the plant-site appears to have been given adequate attention. Consumptive use in Pasco County is permitted by the Southwest Florida Water Management

District (SWFWMD). The utility obtained its Water Use Permit No. 2000799.003 from the water management office on February 18, 2005 and will expire on February 18, 2015.

All things considered, the operational conditions at the water plant should be considered satisfactory at this time.

UTILITY'S ATTEMPT TO ADDRESS CUSTOMER SATISFACTION

An informal customer meeting was held on March 5, 2007, in the Tampa Bay Golf and Country Club Ballroom in San Antonio, Florida. The meeting was open to all customers at 6:00 p.m. There was one customer (one couple) and three representatives from the utility that attended this meeting. There was only one customer that went on record with comments and concerns about the utility. The customer was concerned about the rate increase and the quality of the water.

Regarding the rate increase, staff explained to the customer that the major cost of this increase rate is for the rehabilitation of the well heads and other improvements at the water plant. Staff also mentioned that the utility has not had an increase in rates during its operation.

Regarding the quality of the water service, staff explained to the customer that the quality of the water appears to meet the regulatory standards and is considered satisfactory.

All things considered, it is believed that the owner of the utility is putting forth a sufficient good faith effort to justify a "satisfactory" determination concerning its attempts to resolve customer complaints. It is recommended that the quality of service be considered satisfactory.

Issue 2: What are the used and useful percentages for Pasco's water system?

Recommendation: The water treatment plant should be considered 100% used and useful and the water distribution system should be considered 81.07% used and useful. (Massoudi)

Staff Analysis:

Water Treatment Plant

Pasco has two water treatment plants with two active wells which are interconnected via pressure switches. This water system is a closed system. These two production wells are designated as Well Nos. 3 and 4. Well No. 4 is the main well and operates 24 hours per day, 7 days per week. Well No. 3 is considered a standby well. The switches are located at each well. As the demand increases, the pressure drop triggers the pumps to come on and sustain peak usage. Well No. 3 has a diameter of 6 inches equipped with a 25 horsepower (hp) submersible pump with a capacity of 300 gpm. Well No. 4 has a diameter of 8 inches equipped with a 30 horsepower (hp) submersible pump with a capacity of 350 gpm. The raw water from both wells pumps into two separate 5,000-gallon hydropneumatic tanks after receiving chlorination by using liquid sodium hypochlorite solution. The treated water from the tanks is then pumped into the water distribution system.

In accordance with the American Waterworks Association Manual of Water Supply Practices, the highest capacity well should be removed from the calculation to determine the plant's reliability. To calculate the firm reliable capacity, staff removed Pasco's largest well, operating at 350 gpm. By using the lowest volume capacity well (300 gpm), and recognizing the utility has no usable storage, the firm reliable capacity of the water plant was determined to be 300 gpm.

During the 12-month test year review period, the peak month of water usage occurred during June 2006. The single maximum day (SMD) in the test year period was 180.56 gpm. Since the water plant is a closed system operation having one hydro-tank (no storage tank), the actual peak hours of the maximum days should be considered. Therefore, the actual peak hours {2 x (Single Maximum day – excessive unaccounted water)} was used in the used and useful formula. The average daily flow was 107.55 gpm. Since there is no fire hydrant within the distribution system, the fire flow is considered zero gpm in the calculations. A regression analysis was performed indicating a growth of 9 ERCs for the next year resulting in a projection of 24.25 gpm for the statutory growth period defined in Section 367.081(2)(a)2.b., F.S. Based on the utility's provided information and from the flow analysis, there does not appear to be an excessive unaccounted for water in the test year period. Therefore, in accordance with the calculation sheet (Attachment A, Page 1 of 2), 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 882 customers (estimated to be 882 ERCs) in the test year period. The average number of customers served during the test year was 670 customers (estimated to be 670 ERCs). A regression analysis of growth over the past five years indicates the growth will be 9 ERCs per year. When the 9 ERCs are applied to the statutory growth period, the future growth is calculated to be 45 ERCs. By the formula approach, staff calculates the distribution system to be 81.07% used and useful (Attachment A, page 2 of 2).

RATE BASE

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

Recommendation: The appropriate average test year rate base for this utility is $72,556 for water. The utility should be required to complete the pro forma upgrades within nine months of the issuance date of the Consummating Order. (Merta)

Staff Analysis: The utility's rate base was last established by Order No. 16112, supra. Staff has selected an average test year ended June 30, 2006, for this rate case. Rate base components established in Order No. 16112 have been updated through June 30, 2006, using information obtained from staff's audit and engineering reports. A summary of each component and the adjustments follow:

Utility Plant in Service (UPIS): The utility recorded UPIS of $553,632 for water for the test year ending June 30, 2006. According to Audit Finding No. 2, the utility did not record retirements appropriately when it added plant to replace existing plant. Staff decreased UPIS for water by $33,756 for retirements. In addition, Audit Finding No. 2 identified plant for which the utility was unable to provide supporting documentation. Staff decreased plant by $105,187 for unsupported plant. Audit Finding No. 2 also identified Plant Held for Future Use that was excluded in the last rate case. The amounts were for new water mains extending into areas that were not yet serving customers. According to the utility, customers were connected to these water mains within months of the last rate case and all water mains are now fully utilized. Therefore, staff increased plant by $63,350 for these mains. Audit Finding No. 7 identified two items that were expensed that should have been capitalized. Thus, staff increased plant by $1,670 to reclassify office equipment from Account 675, Miscellaneous Expense, and by $961 to reclassify meters from Account 636, Contractual Services – Other.

Pasco requested pro forma capital costs of $80,753 for the following capital projects:

1) replacement of control panels - $2,404
2) fencing around the wells - $8,000
3) rehabilitation of the well heads - $10,103
4) replacement of Mercoid switches - $1,846
5) replacement of the pressure gauges - $900
6) purchase of two emergency LP gas generators - $56,000
7) replacement of corroded piping - $1,500.

Staff reviewed the estimates of these costs and believes they are reasonable. Therefore, staff increased UPIS by $80,753. In addition staff decreased plant by $12,565 for retirements on the pro forma plant being replaced. The utility should be required to complete the pro forma upgrades within nine months of the issuance date of the Consummating Order.

Finally, staff decreased UPIS by $3,842 for an averaging adjustment. Staff recommends a UPIS balance of $545,017 for water.

Land: Pasco recorded land of $19,300 for the test year. According to Audit Finding No. 3, the utility did not make the adjustment decreasing land to $4,000 required by Order No. 16112. In addition, in 1987, the utility abandoned and capped a non-productive well, disposed of the property where the well was located, and decreased the value of land by $700. Therefore, staff decreased land by $16,000 to $3,300, the amount approved in the last rate case minus $700 for the land no longer in use ($4,000 - $700). Staff recommends a land balance of $3,300.

Non-used and Useful Plant: In Issue 2, staff determined the used and useful percentages for each plant account including pro forma plant items. Applying the non-used and useful percentages to the water distribution plant results in non-used and useful plant of $66,496. The non-used and useful accumulated depreciation is $39,668 for the water distribution plant. In addition, the non-used and useful pro forma plant is $520. Non-used and useful pro forma accumulated depreciation is immaterial. The water treatment plant was determined to be 100% used and useful. Staff's net average non-used and useful adjustment is a decrease of $27,349.

Contributions in Aid of Construction (CIAC): The utility recorded a CIAC balance of $404,497 for the test year. Staff agrees with this amount. However, staff has decreased this account by $1,013 for an averaging adjustment. Staff recommends a CIAC balance of $403,485.

According to the audit workpapers, Pasco collected $144,900 in water connection fees ($900 per connection) between 1985 and June 30, 2006. Pasco recorded the connection fees as CIAC. The utility does not have a tariff authorizing this charge, thus the CIAC collected was unauthorized. However, recording the fees as CIAC benefited customers by decreasing rate base and thereby the return on investment the utility was allowed to earn. Therefore, staff does not believe customers were harmed. In addition, the Commission allowed Burkim Enterprises, Inc. (Burkim) to keep unauthorized CIAC collections which benefited the customers.[3] Further, the utility is not over contributed and staff is recommending a main extension charge in Issue 12. Staff recommends that the charges collected remain on the utility's books as CIAC. This apparent violation of Florida Statutes is discussed further in Issue 13.

Accumulated Depreciation: The utility recorded an accumulated depreciation balance of $369,892 for the test year. Staff calculated accumulated depreciation using the prescribed rates in Rule 25-30.140, F.A.C. Staff's calculated accumulated depreciation on June 30, 2006, is $319,210. Therefore, staff decreased water accumulated depreciation by $50,682 to reflect depreciation calculated by staff. In addition, staff increased this account by $2,122 to reflect accumulated depreciation on pro forma plant and decreased this account by $12,565 to remove pro forma retirements. Further, staff decreased accumulated depreciation by $4,096 for an averaging adjustment. These adjustments result in an accumulated depreciation balance of $304,672.

Accumulated Amortization of CIAC: The utility recorded an accumulated amortization of CIAC balance of $271,564 for the test year. Staff recalculated amortization of CIAC using rates prescribed in Rule 25-30.140, F.A.C. Based on this recalculation, staff decreased accumulated

[3] Order No. PSC-01-2511-PAA-WS, issued December 24, 2001, in Docket No. 010396-WS, In re: Application for staff-assisted rate case in Brevard County by Burkim Enterprises, Inc.

amortization of CIAC by $22,672 to reflect a balance of $248,892. In addition, staff decreased this account by $6,085 to reflect an averaging adjustment. Staff recommends accumulated amortization of CIAC of $242,807.

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 used the one-eighth of the O&M expense formula approach for calculating working capital allowance. Applying this formula, staff recommends a working capital allowance of $16,937 (based on O&M of $135,496). Working capital has been increased by $16,937 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 $72,556.

A calculation of rate base is shown on Schedule Nos. 1-A and 1-B.

COST OF CAPITAL

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 11.54% with a range of 10.54% - 12.54%. The appropriate overall rate of return is 8.64%. (Merta)

Staff Analysis: According to staff's audit, the utility recorded the following items in capital structure: common stock of $1,200, paid in capital of $241,016, negative retained earnings of $485,506, long term debt of $199,000, and customer deposits of $13,713. The long term debt consists of a promissory note to Homecoming Financial with an interest rate of 9.25%. Thus, capital structure consists of long term debt and customer deposits.

The utility's capital structure has been reconciled with staff's recommended rate base. 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 11.54%.

Staff recommends a return on equity of 11.54% with a range of 10.54% - 12.54% and an overall rate of return of 8.64%.

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

NET OPERATING INCOME

Issue 5: What are the appropriate test year revenues?

Recommendation: The appropriate test year revenues are $135,629. (Merta)

Staff Analysis: The utility recorded revenues of $123,592 for the test year. Staff calculated annualized revenue for the test period using the current rates times the number of bills and consumption provided in the billing analysis. Test year revenues were increased by $11,435 to reflect annualized revenue based on the existing rates. Further, in Issue 12, staff is recommending a $7.00 increase in miscellaneous service revenues. Based on the number of connections and reconnections in 2006, staff calculated a $602 increase in miscellaneous revenues ($7.00 x 86 connections and reconnections). Staff recommends test year revenues of $135,629.

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

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

Recommendation: The appropriate amount of pre-repression operating expense for the utility is $148,464. The utility should be required to complete the pro forma repairs within nine months of the issuance date of the Consummating Order. (Merta)

Staff Analysis: The utility recorded operating expenses of $126,070 for the test year ending June 30, 2006. 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:

Operation and Maintenance Expenses (O&M)

Salaries and Wages – Officers – (603/703) - The utility recorded $19,500 in this account as a management fee to Mr. Maynard Fernandez, the owner. In accordance with Audit Finding 7, staff increased this account by $4,500 for management fees from July 2005 through September 2005 that the utility failed to record. Mr. Fernandez manages the utility, and is also responsible for the installation of new services, maintenance greater than $250, main service extension, general ledger and tax accounting, financial statements and the PSC Annual Report. According to audit workpapers, Mr. Fernandez spends 28 hours per week on utility-related duties. Staff's recommended salaries and wages expense is $24,000.

Purchased Power – (615/715) – The utility recorded $7,101 in this account for the test year. In accordance with Audit Finding 7, staff increased this account by $139 to include a power bill for the test year that was not recorded by the utility. Therefore, staff recommends purchased power of $7,240.

Contractual Services – Professional – (631/731) – The utility recorded legal expenses of $15,920 in this account for the test year. Staff decreased this account by $10,571 to remove prior period legal expenses as identified in Audit Finding 7. In addition, staff decreased this account by $994 to remove nonutility legal expenses. Staff further decreased this account by $3,484 to amortize the remaining legal expense over 5 years ($4,355/5 years = $871 - $4,355 = $3,484) in accordance with Rule 25-30.433(8), F.A.C. Therefore, staff recommends Contractual Services – Professional expenses of $871.

Contractual Services – Testing – (635/735) – The utility recorded $5,472 in this account for the test year. Staff decreased this account by $5,472 to remove testing expenses that are included in the annualized management fee. Staff recommends contractual services – testing expense of $0.

Contractual Services – Other (636/736) – The utility recorded $55,355 in this account for the test year. Staff made the following adjustments as recommended in Audit Finding 7: decreased this account by $1,496 for a credit received, decreased this account by $961 to reclassify meters to plant Account 334, decreased this account by $1,000 for an unsupported expense, and increased this account by $1,990 to reverse a journal entry in December 2005, to capitalize out of period expenses thereby decreasing the current period test year expense.

On February 1, 2006, the utility entered into an agreement with U.S. Water Services Corporation (USWSC) for operations, maintenance and customer service of the utility system. The monthly fee as of April 2007 is $5,898 or $70,772 annually. The management fee includes plant operation, testing, transportation, grounds maintenance, field customer service, billing, collection, rate support, Monthly Operating Reports, meter reading, and minor field repairs and maintenance. Repairs that require more than simple hand tools, parts, additional manpower, or more than a few minutes of the operator's time are the responsibility of the owner.

The management fee includes some expenses that were included in the test year prior to February 2006. These expenses have been identified and excluded by staff. Staff decreased this account by $5,553 to remove meter reading, answering service, testing, meter turn ons/offs, and line locates that are included in the management fee. Further, staff increased this account by $42,776 to annualize the management fee ($70,772 annually less $27,996 management fee included in test year expenses).

Finally, Pasco requested pro forma maintenance and repair costs of $16,682 for the following projects:

1) removal of an abandoned hydro tank - $250
2) removal of an abandoned mobile home - $250
3) tank inspections required by DEP - $5,000
4) repair of the well houses - $8,000
5) painting the hydro tanks - $636.

These items are nonrecurring and should be amortized pursuant to Rule 25-30.433(8), F.A.C. Tank inspections of $5,000 should be amortized over three years, the length of time between inspections, and the other items should be amortized over five years. Staff increased this account by $4,003 to include these amortized costs in expenses. Therefore, staff recommends $95,114 for contractual services – other expense. The utility should be required to complete the pro forma repairs within nine months of the issuance date of the Consummating Order.

Initially, staff was concerned because the owner's management fee plus the USWSC operations fee was 70 percent of total O&M expenses ($94,772/$135,496). However, staff notes that there are few other components of Pasco's O&M and the amount in these accounts is minimal. In addition, staff compared Pasco's total O&M to the total O&M, indexed to 2006, of similarly sized utilities. Pasco's total O&M of $135,496 fell within the range of the other utilities ($117,810 to $140,984).

<u>Transportation Expense – (650/750)</u> – The utility recorded $3,755 in this account for the test year. Consistent with Audit Finding 7, staff decreased this account by $1,000 for unsupported expenses. In addition, staff decreased this account by $2,755 to remove transportation expense included in the management fee. Staff recommends $0 for transportation expense.

<u>Regulatory Commission Expense – 665/765</u> - The utility recorded $0 in this account for the test year. The utility paid a $1,000 filing fee in this rate case. Pursuant to Section 367.0816, F.S.,

rate case expense is amortized over a four-year period. Therefore, staff increased this account by $250 ($1,000/4).

Further, the utility is required by Rule 25-22.0407(9)(b), F.A.C., to mail notices of the customer meeting to its customers and by Rule 25-30.475(1)(a), F.A.C., to mail notices of any rate increase to its customers. Staff believes that $1,335 is a reasonable amount to be recovered, based on the number of customers, for additional mailing and copying expenses associated with this rate case (674 customers x $0.39 postage + 6 pages x 674 customers x $0.10 paper and envelopes = $667 x 2 mailings = $1,335). Staff increased this account by $334 to amortize the notice expenses over four years. Staff recommends that total rate case expense is $2,335 ($1,000 + $1,335), which amortized over four years results in regulatory commission expense of $584.

Miscellaneous Expense – 675/775 – The utility recorded $2,816 in this account for the test year. Consistent with Audit Finding No. 7, staff decreased this account by $1,670 to reclassify office equipment to plant Account 340 and further decreased this account by $1,136 to remove unsupported expenses. Staff recommends miscellaneous expense of $10.

Operation and Maintenance Expense (O&M) Summary – The total O&M adjustment is an increase of $17,899. Staff recommends O&M expenses of $135,496. O&M expenses are shown on Schedules 3-B and 3-C.

Depreciation Expense (Net of Amortization of CIAC) – The utility recorded depreciation expense of $8,459 and CIAC amortization of $8,544 for the test year. Amortization of CIAC has a negative impact on depreciation expense. Therefore, the utility recorded net depreciation expense of negative $85.

Depreciation was calculated by staff using the prescribed rates in Rule 25-30.140, F.A.C. Staff increased this account by $6,850 to reflect staff's calculated depreciation of $15,309. In addition, staff decreased this account by $1,763 for depreciation on non-used and useful plant and increased this account by $1,632 to include depreciation expense on pro forma plant less depreciation expense on pro forma retirements ($2,122 - $490).

Staff calculated amortization of CIAC based on rates prescribed in Rule 25-30.140, F.A.C. Staff further increased this account by $3,626 to reflect staff's calculated amortization of CIAC of $12,170. Amortization of CIAC has a negative impact on depreciation expense. Therefore, staff recommends annual net depreciation expense of $3,008.

Taxes Other Than Income – The utility recorded taxes other than income of $8,558 for the test year. This amount includes property taxes of $3,550, other taxes of $25, and regulatory assessment fees (RAFs) of $4,983. Staff increased this account by $542 to include the appropriate RAFs on staff's annualized revenue adjustment.

Income Tax – The utility is an 1120 corporation. Because of continuing net operating losses, no income taxes have been paid by the utility and no income tax liability is anticipated in the future. Therefore, no income taxes have been included.

Operating Revenues – Revenues have been increased by $19,101 to reflect the change in revenue required to cover expenses and allow the recommended return on investment.

Taxes Other Than Income – Taxes other than income has been increased by $860 to reflect RAF 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 pre-repression operating expenses of $148,464. Operating expenses are shown on Schedules 3-A through 3-C.

REVENUE REQUIREMENT

Issue 7: What is the appropriate pre-repression revenue requirement?

Recommendation: The appropriate pre-repression revenue requirement is $154,729. (Merta)

Staff Analysis: The utility should be allowed an annual increase of $19,101 (14.08%). This will allow the utility the opportunity to recover its expenses and earn an 8.64 percent return on its investment. The calculations are as follows:

	Water
Adjusted Rate Base	$72,556
Rate of Return	x .0864
Return on Rate Base	$6,266
Adjusted O & M expense	$135,496
Depreciation expense (Net)	$3,008
Amortization	$0
Taxes Other Than Income	$9,959
Income Taxes	$0
Revenue Requirement	$154,729
Adjusted Test Year Revenues	$135,629
Percent Increase/(Decrease)	14.08%

Revenue requirements are shown on Schedule No. 3-A.

RATES AND CHARGES

Issue 8: Should the utility's current water system rate structure be changed, and, if so, what is the appropriate rate structure?

Recommendation: Yes. The utility's current water system rate structure, which includes a 3,000 (3 kgal) water allotment in the base facility charge (BFC) should be changed to the traditional BFC/uniform gallonage charge rate structure with no usage allotments. The BFC cost recovery percentage for the water system should be set at 30%. (Lingo)

Staff Analysis: The utility's current water system rate structure consists of a BFC/gallonage charge rate structure, with a 3 kgal usage allotment included in the BFC. Prior to filing for rate relief, the BFC for 5/8" x 3/4" meter customers was $8.00 per month. The consumption charge for usage in excess of 3 kgal was a uniform charge of $1.80 per kgal.

Staff performed a detailed analysis of the utility's billing data in order to evaluate various BFC cost recovery percentages, usage blocks, and usage block rate factors for the residential rate class. The goal of the evaluation was to select the rate design parameters that: 1) allow the utility to recover its revenue requirement; 2) equitably distribute cost recovery among the utility's customers; and 3) implement, where appropriate, water conserving rate structures consistent with the Commission's Memorandum of Understanding with the state's Water Management Districts.

On January 9, 2007, a public hearing was held at the headquarters of the Southwest Florida Water Management District (SWFWMD or District). Specific data presented at the hearing included but was not limited to: 1) rainfall data indicating that several counties, including Pasco County, were experiencing rainfall deficits categorized as critically abnormal; 2) the U.S. Drought Monitor indicates that all sixteen counties within the District were experiencing drought or drought-like conditions; 3) the Standard Precipitation Index indicates that Pasco County is among the most affected, generally experiencing critically abnormal conditions (the most pronounced level of abnormality defined in the District's water shortage plan); and 4) the Long Term Palmer Index indicates that Pasco County was experiencing extremely abnormal conditions. Based upon the testimony, data, District staff recommendations and public comments, the Executive Director of the SWFWMD ordered that a Phase II Severe Water Shortage be declared for all ground and surface waters within the District's 16 county area.

Based on the District's declared severe water shortage, and consistent with the results of the statewide Water Conservation Initiative and Water Management Districts' desire to eliminate nonconserving water rate structures, staff does not believe it is appropriate to continue the kgal allotment in the BFC. Based on staff's analysis of the utility's billing data, the customers' average monthly consumption of 6.5 kgal would suggest that implementing an inclining-block rate structure might be appropriate. However, staff's inspection of the consumption patterns in the utility's service area suggest a greater number of families versus retirees, which would result in more modest amounts of discretionary usage. Therefore, in the alternative, staff recommends the implementation of the traditional BFC/uniform gallonage charge rate structure.

Due to the severe water shortage in the SWFWMD, staff believes it is appropriate to design rates such that the gallonage charge is increased to induce the greatest amount of conservation. Staff's recommended BFC cost recovery allocation of 30% would increase the gallonage charge from $1.80 to $2.05. Although staff's recommended rate structure results in a reduction of the current BFC, the reduction is sufficiently offset by the gallonage charge increase to produce anticipated price-induced conservation at monthly consumption of 8 kgal or greater.

Based on the foregoing, staff recommends that the utility's current water system rate structure, which includes a 3,000 (3 kgal) water allotment in the base facility charge (BFC) be changed to the traditional BFC/uniform gallonage charge rate structure with no usage allotments. The BFC cost recovery percentage for the water system should be set at 30%.

Issue 9: Is a repression adjustment appropriate in this case, and, if so, what is the appropriate adjustment, what are the corresponding expense adjustments to make, what are the resulting final revenues from monthly service, and what is the final revenue requirement for the water system?

Recommendation: Yes, a repression adjustment is appropriate for this utility. Test year consumption should be reduced by 839 kgals, or 1.6%. Purchased power expense should be reduced by $115, chemicals expense should be reduced by $65, and regulatory assessment fees (RAFs) should be reduced by $9. The final post-repression revenues from monthly service, which excludes miscellaneous revenues of $2,631, should be $151,910. The final revenue requirement should be $154,541. (Lingo)

In order to monitor the effect of the changes to rate structure and revenue, the utility should be ordered to file reports detailing the number of bills rendered, the consumption billed and the revenues billed on a monthly basis. In addition, the reports should be prepared, by customer class and meter size. The reports should be filed with staff, on a quarterly basis, for a period of two years beginning the first billing period after the approved rates go into effect. To the extent the utility makes adjustments to consumption in any month during the reporting period, the utility should be ordered to file a revised monthly report for that month within 30 days of any revision. (Lingo)

Staff Analysis: Staff conducted a detailed analysis of the consumption patterns of the utility's residential customers as well as the effect of increased revenue requirements on the amount paid by residential customers at varying levels of consumption. This analysis showed that approximately 39% the residential bills rendered during the test year were for consumption levels at or below 3 kgal per month. This does not indicate a highly seasonal customer base. Staff's analysis also showed that average residential monthly consumption per customer was 6.5 kgal, indicating that there is some level of discretionary, or non-essential, consumption, such as outdoor irrigation. Non-essential consumption is relatively responsive to changes in price, and is therefore subject to the effects of repression.

Using our database of utilities that have previously had repression adjustments made, staff calculated a repression adjustment for this utility based upon the recommended increase in revenues from monthly service in this case, and the historically observed response rates of consumption to changes in price. This is the same methodology for calculating repression adjustments that the Commission has approved in prior cases. Based on this methodology, staff calculated that test year residential water sold should be reduced by 839 kgals, or 1.6%. Purchased power expense should be reduced by $115, chemicals expense should be reduced by $65, and regulatory assessment fees (RAFs) should be reduced by $9. The final post-repression revenues from monthly service, which excludes miscellaneous revenues of $2,631, should be $151,910. The final revenue requirement should be $154,541.

In order to monitor the effect of the changes to rate structure and revenues, the utility should be ordered to file reports detailing the number of bills rendered, the consumption billed and the revenues billed on a monthly basis. In addition, the reports should be prepared, by customer class and meter size. The reports should be filed with staff, on a quarterly basis, for a period of two years beginning the first billing period after the approved rates go into effect. To the extent the utility makes adjustments to consumption in any month during the reporting period, the utility should be ordered to file a revised monthly report for that month within 30 days of any revision.

Issue 10: What are the appropriate monthly rates for the water system for the utility?

Recommendation: The appropriate monthly water rates are shown on Schedule No. 4-A. Excluding miscellaneous service charges, the recommended water rates produce revenues of $151,910. The utility should file revised water tariff sheets and a proposed customer notice to reflect the Commission-approved rates for the respective systems. 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 approved rates should not be implemented until staff has approved the proposed customer notice. The utility should provide proof of the date notice was given no less than 10 days after the date of the notice. (Lingo, Merta)

Staff Analysis: The appropriate pre-repression revenue requirement, excluding miscellaneous service charges, is $152,098. As discussed in Issue 8, staff recommends that the appropriate rate structure for the water system is the traditional BFC/uniform gallonage charge rate structure with the elimination of the current 3 kgal usage allotment in the BFC. The BFC cost recovery percentage should be set at 30%. As discussed in Issue 9, staff recommends that a repression adjustment of 839 kgal be made to the water system. Applying these rate design and repression adjustments to the recommended pre-repression revenues from monthly service results in the final rates contained in Schedule No. 4-A. These rates are designed to recover a post-repression revenues for the water system of $151,910.

The utility should file revised water 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. The approved rates should not be implemented until staff has approved the proposed customer notice. 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 shall be prorated based on the number of days in the billing cycle before the effective date of the new rates. The new charge shall 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 shall the rates be effective for service rendered prior to the stamped approval date.

A comparison of the utility's original rates and staff's recommended water rates are shown on Schedule No. 4.

Issue 11: Should the recommended rates be approved for the utility on a temporary basis, subject to refund, in the event of a protest by a party other than the utility?

Recommendation: Yes. Pursuant to Section 367.0814(7), F.S., 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 shall 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), F.A.C., 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. (Merta)

Staff Analysis: This recommendation proposes an increase in water 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 shall be subject to the refund provisions discussed below.

The utility should be authorized to collect the temporary rates upon the staff's approval of 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 $13,180. 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; and

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; and

9) 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), 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'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.

The utility should file revised tariff sheets which are consistent with the Commission's vote. Staff should be given administrative authority to approve the revised tariff sheets upon staff's verification the tariffs are consistent with the Commission's decision. If revised tariff sheets are filed and approved, the customer deposit should become effective for connections made on or after the stamped approval date of the revised tariff sheets.

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

Recommendation: The water 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, F.S. 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. (Merta)

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 regulatory assessment fees which is $584 annually. 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 13: Should the utility be authorized to revise its miscellaneous service charges, and, if so, what are the appropriate charges?

Recommendation: Yes. The utility should be authorized to revise its miscellaneous service charges. The appropriate charges are reflected below. The utility should file a proposed customer notice to reflect the Commission-approved charges. The approved charges should be effective for service rendered on or after the stamped approval date of the tariff, pursuant to Rule 25-30.475(1), F.A.C., provided the notice has been approved by staff. Within 10 days of the date the order is final, the utility should be required to provide notice of the tariff changes to all customers. The utility should provide proof the customers have received notice within 10 days after the date that the notice was sent. (Merta)

Staff Analysis: The miscellaneous service charges were approved for Pasco on June 18, 1990, and have not changed since that date. The approved charges have been the industry standard charge since at least 1990 – a period of 17 years. Staff believes these charges should be updated to reflect current costs. The utility agrees with this update. Staff recommends that Pasco be allowed to increase its water miscellaneous service charges from $15 to $22 and to $44 for after hours, and to modify its Premises Visit (in lieu of disconnection) charge. The current and recommended charges are shown below.

Water Miscellaneous Service Charges

	Current Charges		Staff Recommended	
	Normal Hrs	After Hrs	Normal Hrs	After Hrs
Initial Connection	$15	N/A	$22	N/A
Normal Reconnection	$15	N/A	$22	$44
Violation Reconnection	$15	N/A	$22	$44
Premises Visit (in lieu of disconnection)	$10	N/A	N/A	N/A
Premises Visit	N/A	N/A	$22	$44

Miscellaneous service charges have not been updated in over 17 years and costs for fuel and labor have risen substantially since that time. Further, the Commission's price index has increased approximately 60% in that period of time. By Order No. PSC-96-1320-FOF-WS, issued October 30, 1996, involving Southern States Utilities Inc.,[4] the Commission expressed "concern that the rates [miscellaneous service charges] are eight years old and cannot possibly cover current costs" and directed staff to "examine whether miscellaneous service charges should be indexed in the future and included in index applications." Currently, miscellaneous service charges may be indexed if requested in price index applications pursuant to Rule 25-30.420, F.A.C. However, few utilities request their miscellaneous service charges be indexed. Staff applied the approved price indices from 1990 through 2007 to Pasco's $15 miscellaneous service

[4] Docket No. 950495-WS, In Re: Application for rate increase and increase in service availability charges by Southern States Utilities, Inc. for Orange-Osceola Utilities, Inc. in Osceola County, and in Bradford, Brevard, Charlotte, Citrus, Clay, Collier, Duval, Highlands, Lake, Lee, Marion, Martin, Nassau, Orange, Osceola, Pasco, Putnam, Seminole, St. Johns, St. Lucie, Volusia, and Washington Counties.

charge and the result was a charge of $22.00. Therefore, staff believes a $22 charge is reasonable and is cost based. By Order No. PSC-06-0684-PAA-WS, issued August 8, 2006,[5] and by Order No. PSC-05-0776-TRF-WS, issued July 26, 2005,[6] the Commission approved a $20 charge for connection and reconnections during normal hours and a $40 after hours charge for MSM Utilities, LLC, and for Mad Hatter Utilities, Inc.

Pasco's current tariff includes a Premises Visit (in lieu of disconnection) charge. This charge is levied when a service representative visits a premises for the purpose of discontinuing service for non-payment of a due and collectible bill and does not discontinue service, because the customer pays the service representative or otherwise makes satisfactory arrangements to pay the bill. Staff recommends the "Premises Visit In Lieu of Disconnection" charge should be replaced with what will be called a "Premises Visit." In addition to those situations described in the definition of the current Premises Visit In Lieu of Disconnection, the new Premises Visit charge will also be levied when a service representative visits a premises at a customer's request for a complaint resolution or for other purposes and the problem is found to be the customer's responsibility. This charge is consistent with Rule 25-30.460(1)(d), F.A.C. In addition, by Order No. PSC-05-0397-TRF-WS, issued April 18, 2005,[7] the Commission approved a Premises Visit Charge to be levied when a service representative visits a premises at the customer's request for complaint and the problem is found to be the customer's responsibility. Based on the foregoing, staff recommends the Premises Visit (in lieu of disconnection) be eliminated and the Premises Visit charge is reasonable and should be approved.

In summary, staff recommends the utility's miscellaneous service charges of $22 and after hours charges of $44, should be approved because the increased charges are cost-based, reasonable, and consistent with fees the Commission has approved for other utilities. The utility should file a proposed customer notice to reflect the Commission-approved charges. The approved charges should be effective for service rendered on or after the stamped approval date of the tariff, pursuant to Rule 25-30.475(1), F.A.C., provided the notice has been approved by staff. Within 10 days of the date the order is final, the utility should be required to provide notice of the tariff changes to all customers. The utility should provide proof the customers have received notice within 10 days after the date the notice was sent.

[5] Docket No. 050587-WS, In re: Application for staff-assisted rate case in Charlotte County by MSM Utilities, LLC.

[6] Docket No. 050369-TRF-WS, In re: Request for approval of change in meter installation fees and proposed changes in miscellaneous services charges in Pasco County by Mad Hatter Utility, Inc.

[7] Docket No. 050096-WS, In re: Request for revision of Tariff Sheets 14.0 and 15.1 to change request for meter test by customer and premise visit charge, by Marion Utilities, Inc.,

Issue 14: Should the utility's service availability charges be revised?

Recommendation: Yes. The utility's existing service availability charges should be revised to include a main extension charge of $250. The utility should file revised tariff sheets which are consistent with the Commission's vote. Staff should be given administrative authority to approve the revised tariff sheets upon staff's verification the tariffs are consistent with the Commission's decision. If revised tariff sheets are filed and approved, the service availability charges should become effective for connections made on or after the stamped approval date of the revised tariff sheets. (Merta)

Staff Analysis: The utility's existing tariff authorizes a meter installation and tap in charge of $125. In addition to this charge, staff is recommending a main installation charge of $250. A main installation charge represents the reimbursement by a developer or a customer to offset the cost of the lines. The utility's current contribution level is 67%. Pasco's water facility can accommodate additional connections. Therefore, staff calculated service availability charges based on existing capacity.

According to Rule 25-30.580, F.A.C., the guidelines for designing a utility's service availability policy are as follows:

> (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 and sewage collection systems.

Staff's calculated charges will not cause the utility to exceed the 75% maximum contribution level. Staff has designed service availability charges such that the utility's contribution level will approach the maximum level prescribed in Rule 25-30.580, F.A.C., in ten years. In addition, the ratio of net CIAC to net plant (66.85%) is greater than the ratio of net transmission and distribution plant to net plant (57.03%). Therefore, both Rule guidelines have been met. Based on the above, staff recommends a main installation charge of $250.

The utility should file revised tariff sheets which are consistent with the Commission's vote. Staff should be given administrative authority to approve the revised tariff sheets upon staff's verification the tariffs are consistent with the Commission's decision. If revised tariff sheets are filed and approved, the service availability charges should become effective for connections made on or after the stamped approval date of the revised tariff sheets.

OTHER ISSUES

Issue 15: Should the utility be required to show cause, in writing within 21 days, why it should not be fined for assessing main extension charges without an authorized tariff?

Recommendation: No. Show cause proceedings should not be initiated at this time. The utility should be put on notice that pursuant to Sections 367.081(1) and 367.091(3), F.S., it may only charge rates and charges approved by the Commission. (Bennett, Merta)

Staff Analysis: Section 367.081(1), F.S., provides that a utility may only charge rates and charges that have been approved by the Commission. Section 367.091(3), F.S., provides that "each utility's rates, charges, and customer service policies must be contained in a tariff approved by and on file with the Commission."

As stated previously, Pasco has been collecting a $900 main extension charge for approximately 20 years. The utility does not have a tariff authorizing this charge. However, the utility recorded these fees as CIAC, which benefited customers by decreasing rate base and thereby the return on investment the utility was allowed to earn. Therefore, staff does not believe current customers were harmed.

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), F.S., 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 above-noted Orders in a timely manner and Rule 25-30.115, F.A.C., the utility's acts were "willful" in the sense intended by Section 367.161, F.S. 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.

Although regulated utilities are charged with knowledge of the Commission's rules and statutes, staff does not believe that Pasco's apparent violation of Sections 367.081(1) and 367.091(3), F.S., rises in these circumstances to the level which warrants the initiation of a show cause proceeding. The CIAC collected is a reduction to the utility's investment and therefore a benefit to the customers. In addition, the utility is not over contributed and staff is recommending service availability charges in Issue 14. Further, under similar circumstances, the Commission allowed Burkim, supra, to keep unauthorized CIAC collections which benefited the customers. In Issue 3, staff is also recommending that the utility keep the unauthorized CIAC.

For the foregoing reasons, staff does not believe that the utility's apparent violation of Sections 367.081(1) and 367.091(3), F.S., rises in these circumstances to warrant a show cause proceeding. However, the utility should hereby be put on notice that it may only charge rates and charges that have been approved by the Commission.

Issue 16: Should the utility be required to provide proof, within 90 days of an effective order finalizing this docket, that it has adjusted its books for all the applicable NARUC USOA primary accounts associated with the Commission Approved adjustments?

Recommendation: Yes. To ensure that the utility adjusts its books in accordance with the Commission's decision, Pasco should provide proof, within 90 days of the final order issued in this docket, that the adjustments for all the applicable NARUC USOA primary accounts have been made. (Merta)

Staff Analysis: To ensure that the utility adjusts its books in accordance with the Commission's decision, Pasco should provide proof, within 90 days of the final order issued in this docket, that the adjustments for all the applicable NARUC USOA primary accounts have been made.

Issue 17: 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 at least nine months after the consummating order for staff's verification that the revised tariff sheets and customer notice have been filed by the utility and approved by staff, and the pro forma improvements and repairs have been completed. Upon verification by staff, the docket may be closed administratively. (Bennett, Merta)

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 at least nine months after the consummating order for staff's verification that the revised tariff sheets and customer notice have been filed by the utility and approved by staff, and the pro forma improvements and repairs have been completed. Upon verification by staff, the docket may be closed administratively.

Pasco Utilities, Inc **Docket No: 060559-WU**			**Attachment A, Page 1 of 2** **Historical Test Year July 05- June 06**	
WATER TREATMENT SYSTEM - USED AND USEFUL DATA				
1)		Capacity of Plant	300	gallons per min
2)		Single Maximum Day (SMD) in the Test Year	180.56	gallons per min
	a)	Maximum day @ peak	361.12	gallons per min
3)		Average Daily Flow	107.55	gallons per min
4)		Fire flow Capacity (FF) No fire hydrants within the system	0	gallons per min
5)		Growth	24.25	
	a)	Average Test Year Customers in ERCs: Historical Test Year: (July 05- June 06)	670	ERCs
	b)	Customer Growth in ERCs using Regression Analysis for most recent 5 years including Test Year	9	ERCs
	c)	Statutory Growth Period	5	Years
	d)	Growth = (5b)x(5c)X[2a\(5a)]	24.25	gallons per min
6)		Excessive Unaccounted for Water (EUW)	0	gallons per min
	a)	Percentage of Excessive amount		
	b)	Total Unaccounted for Water	5.95	gallons per min
	c)	Reasonable Amount (10% of average Daily Flow)	10.76	gallons per min
	d)	Excessive Amount	0	gallons per min

USED AND USEFUL FORMULA

[2 X (Max days – EUW) + FF + Growth] / Capacity of Plant

[2 X (180.56 – 0) + 0+ 24.25] / 300 = 100% Used & Useful

Pasco Utility, Inc. **Docket No: 060559-WU**			**Attachment A, Page 2 of 2** **Historical Test Year July 05- June 06**	
WATER DISTRIBUTION SYSTEM – USED AND USEFUL DATA				
1)		Capacity of System (ERCs)	882	ERCs
2)		Test Year Connections Average Test Year	670	ERCs
3)		Growth	45	
	a)	Customer growth in connections for last 5 years including test year using Regression Analysis	9	ERCs
	b)	Statutory Growth Period	5	Years
	c)	Growth = (a)x(b) Connections allowed for growth	45	ERCs

USED AND USEFUL FORMLA

[2+3]/(1) = 81.07% Used and Useful

PASCO UTILITIES, INC. **SCHEDULE NO. 1-A**
TEST YEAR ENDING 6/30/06 **DOCKET NO. 060599-WU**
SCHEDULE OF WATER RATE BASE

	DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
1.	UTILITY PLANT IN SERVICE	$553,632	($8,615)	$545,017
2.	LAND & LAND RIGHTS	19,300	(16,000)	$3,300
3.	NON-USED AND USEFUL COMPONENTS	0	(27,349)	($27,349)
4.	CIAC	(404,497)	1,013	($403,485)
5	ACQUISITION ADJUSTMENT	0	0	$0
6	ACCUMULATED DEPRECIATION	(369,892)	65,220	($304,672)
7	AMORTIZATION OF CIAC	271,564	(28,757)	$242,807
8	AMORTIZATION OF ACQUISITION ADJ.	0	0	$0
9	WORKING CAPITAL ALLOWANCE	0	16,937	$16,937
10	WATER RATE BASE	$70,107	$2,449	$72,556

PASCO UTILITIES, INC.		SCHEDULE 1-B	
TEST YEAR ENDING 6/30/06		DOCKET NO. 060599-WU	
ADJUSTMENTS TO RATE BASE			
	UTILITY PLANT IN SERVICE	**WATER**	**WASTEWATER**
1	Decrease for retirements (AF 2)	(33,756)	
2	Decrease for unsupported plant (AF-2)	(105,187)	
3	Increase for Plant Held for Future from prior Order (AF-2)	63,350	
4	Increase to reclassify office equip. from Acct. 620 (AF-7)	1,670	
5	Increase to reclassify meters from Acct. 636 (AF-7)	961	
6	Increase to include pro forma plant	80,753	
7	Decrease for retirements for pro forma plant	(12,565)	
8	Averaging adjustment	(3,842)	
	Total	($8,615)	$0
	LAND AND LAND RIGHTS		
1	Decrease per prior Order No. 16112 (AF-3)	($16,000)	$0
.			
	NON-USED AND USEFUL PLANT		
1	To reflect non-used and useful plant.	($66,496)	
2	To reflect non-used and useful accumulated depreciation.	39,668	
3	To reflect non-used and useful pro forma plant	(520)	
	Total	($27,349)	$0
	CIAC		
2	Averaging adjustment	$1,013	$0
.			
	ACCUMULATED DEPRECIATION		
1	Accumulated depreciation per Rule 25-30.140, FAC	$50,682	
2	Increase to include accumulated depreciation on pro forma plant	(2,122)	
3	Decrease to remove pro forma retirements	12,565	
4	Averaging adjustment	4,096	
	Total	$65,220	$0
	AMORTIZATION OF CIAC		
1	To adjust Amortization of CIAC based on staff's calculation	($22,672)	
.			
2	Averaging adjustment	(6,085)	
.	Total	($28,757)	$0
	WORKING CAPITAL ALLOWANCE		
1	To reflect 1/8 of test year O & M expenses.	$16,937	$0
.			

PASCO UTILITIES, INC.
TEST YEAR ENDING 6/30/06
SCHEDULE OF CAPITAL STRUCTURE

SCHEDULE NO. 2
DOCKET NO. 060599-WU

	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	$1,200	($1,200)	$0	0				
2.	RETAINED EARNINGS	(485,506)	485,506	0	0				
3.	PAID IN CAPITAL	241,016	(241,016)	0	0				
4.	OTHER COMMON EQUITY	0	0	0	0				
	TOTAL COMMON EQUITY	($243,290)	$243,290	$0	0	0	0.00%	11.54%	0.00%
	LONG TERM DEBT								
5.	Homecoming Financial	199,000		199,000	(140,157)	58,843	81.10%	9.25%	7.50%
6.				0	0	0	0.00%		0.00%
7.		0		0	0	0	0.00%		0.00%
	TOTAL LONG TERM DEBT	199,000	0	199,000	(140,157)	58,843	81.10%		
8.	CUSTOMER DEPOSITS	13,713	0	13,713	0	13,713	18.90%	6.00%	1.13%
9.	TOTAL	($30,577)	$243,290	$212,713	($140,157)	$72,556	100.00%		8.64%

RANGE OF REASONABLENESS	LOW	HIGH
RETURN ON EQUITY	10.54%	12.54%
OVERALL RATE OF RETURN	8.64%	8.64%

PASCO UTILITIES, INC. **SCHEDULE 3-A**
TEST YEAR ENDING 6/30/06 **DOCKET NO. 060599-WU**
SCHEDULE OF WATER OPERATING INCOME

		TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1.	**OPERATING REVENUES**	$123,592	$12,037	$135,629	$19,101	$154,729
					14.08%	
	OPERATING EXPENSES:					
2.	OPERATION & MAINTENANCE	117,597	17,899	135,496	0	135,496
3.	DEPRECIATION (NET)	(85)	3,093	3,008	0	3,008
4.	AMORTIZATION	0	0	0	0	0
5.	TAXES OTHER THAN INCOME	8,558	542	9,100	860	9,959
6.	INCOME TAXES	0	0	0	0	0
7.	**TOTAL OPERATING EXPENSES**	$126,070	$21,534	$147,604	$860	$148,464
8.	**OPERATING INCOME/(LOSS)**	($2,478)		($11,975)		$6,266
9.	**WATER RATE BASE**	$70,107		$72,556		$72,556
10.	**RATE OF RETURN**	-3.53%		-16.50%		8.64%

PASCO UTILITIES, INC.
TEST YEAR ENDING 6/30/06
ADJUSTMENTS TO OPERATING INCOME

Schedule No. 3-B
DOCKET NO. 060599-WU
Page 1 of 2

		WATER	WASTEWATER
	OPERATING REVENUES		
1	To adjust utility revenues to staff's calculated test year amount.	$11,435	
.	Increase for miscellaneous service revenue increase	602	
	Subtotal	$12,037	$0
	OPERATION AND MAINTENANCE EXPENSES		
1	Salaries and Wages – Officers (603/703)		
.	Increase to include management fees July - September 2005 (AF-7)	$4,500	$0
2	Purchased Power (615/ 715)		
.	Increase to reflect unrecorded test period expense (AF-7)	$139	$0
3	Chemicals (618/718)	$0	$0
.			
4	Materials and Supplies (620/720)	$0	$0
.			
5	Contractual Services - Billing (630/ 730)	$0	$0
.			
6	Contractual Services - Professional (631/ 731)		
.	Decrease for out of period expense (AF-7)	($10,571)	
	Decrease for nonutility legal expense	(994)	
	Amortize legal expense over 5 years	(3,484)	
	Subtotal	($15,049)	$0
7	Contractual Services - Testing (635/ 735)		
.	Decrease to remove testing included in management fee	($5,472)	$0
8	Contractual Services - Other (636/ 736)		
.	Decrease for credit received (AF-7)	($1,496)	
	Decrease for meters capitalized (AF-7)	(961)	
	Decrease to remove unsupported item (AF-7)	(1,000)	
	Increase to reverse Dec. 2005 JE (AF-7)	1,990	
	Decrease to remove services included in management fee	(5,553)	
	Increase to annualize management fee	42,776	
	Increase to include and amortize pro forma expenses	4,003	
	Subtotal	$39,759	$0

(O & M EXPENSES CONTINUED ON NEXT PAGE)

PASCO UTILITIES, INC.
TEST YEAR ENDING 6/30/06
ADJUSTMENTS TO OPERATING INCOME

Schedule No. 3-B
DOCKET NO. 060599-WU
Page 2 of 2

	(O & M EXPENSES CONTINUED)	**WATER**	**WASTEWATER**
8.	Rents (640/740)	$0	$0
9.	Transportation Expense (650/750)		
	Decrease to remove unsupported item (AF-7)	($1,000)	
	Decrease to remove expense included in management fee	(2,755)	
	Subtotal	($3,755)	$0
10.	Insurance Expenses (655/ 755)	$0	$0
11.	Regulatory Expense (665/ 765)		
	Amortize Rate Case expense over 4 years ($1,000/4)	$250	
	Amortize notice expenses over 4 years ($1,335/4)	334	
	Subtotal	$584	$0
12.	Miscellaneous Expense (675/ 775)		
	Decrease to reclassify office equipment to 340 (AF-7)	($1,670)	
	Decrease for unsupported expense (AF-7)	(1,136)	
	Subtotal	($2,806)	$0
	TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	**$17,899**	**$0**
	DEPRECIATION EXPENSE		
1.	To reflect test year depreciation calculated per 25-30.140, F.A.C.	$6,850	$0
2.	Non-used and useful depreciation	(1,763)	
3.	To reflect test year CIAC amortization calculated by staff	(3,626)	0
4.	Increase to include pro forma depreciation net retirement dep exp	1,632	
	Total	$3,093	$0
	TAXES OTHER THAN INCOME		
1.	To include RAFs on Annualized Revenue	$542	$0
	INCOME TAX	$0	$0

PASCO UTILITIES, INC.
TEST YEAR ENDING 6/30/06
ANALYSIS OF WATER OPERATION
AND MAINTENANCE EXPENSE

SCHEDULE NO. 3-C
DOCKET NO. 060599-WU

	TOTAL PER UTILITY	STAFF ADJUST-MENT	TOTAL PER STAFF
(601) SALARIES AND WAGES - EMPLOYEES	$0	$0	$0
(603) SALARIES AND WAGES - OFFICERS	19,500	4,500	$24,000
(604) EMPLOYEE PENSIONS AND BENEFITS	0	0	$0
(610) PURCHASED WATER	0	0	$0
(615) PURCHASED POWER	7,101	139	$7,240
(616) FUEL FOR POWER PRODUCTION	0	0	$0
(618) CHEMICALS	4,078	0	$4,078
(620) MATERIALS AND SUPPLIES	0	0	$0
(630) CONTRACTUAL SERVICES - BILLING		0	$0
(631) CONTRACTUAL SERVICES - PROFESSIONAL	15,920	(15,049)	$871
(635) CONTRACTUAL SERVICES - TESTING	5,472	(5,472)	$0
(636) CONTRACTUAL SERVICES - OTHER	55,355	39,759	$95,114
(640) RENTS	3,600	0	$3,600
(650) TRANSPORTATION EXPENSE	3,755	(3,755)	$0
(655) INSURANCE EXPENSE		0	$0
(665) REGULATORY COMMISSION EXPENSES		584	$584
(670) BAD DEBT EXPENSE	0	0	$0
(675) MISCELLANEOUS EXPENSES	2,816	(2,806)	$10
	117,597	17,899	135,496

PASCO UTILITIES, INC.
TEST YEAR ENDING 6/30/06
MONTHLY WATER RATES

SCHEDULE 4
DOCKET NO. 050587-WS

	UTILITY'S EXISTING RATES	STAFF RECOMMENDED RATES	MONTHLY RATE REDUCTION
RESIDENTIAL AND GENERAL SERVICE			
Base Facility Charge by Meter Size			
All sizes	$8.00	N/A	N/A
5/8" X 3/4"		$5.62	$0.02
3/4"		$8.43	$0.03
1"		$14.05	$0.06
1-1/2"		$28.10	$0.11
2"		$44.96	$0.18
3"		$89.92	$0.36
4"		$140.50	$0.55
6"		$281.00	$1.11
Gallonage Charge per 1,000 gallons			
0 - 3,000 gallons	$0.00		
Over 3,000 gallons	$1.80		
All gallons		$2.05	$0.01
FIRE PROTECTION SERVICE			
	N/A		
Typical Residential 5/8" x 3/4" Meter Bill Comparison			
0 Gallons	$8.00	$5.62	
3,000 Gallons	$8.00	$11.77	
5,000 Gallons	$11.60	$15.87	
10,000 Gallons	$20.60	$26.12	

PASCO UTILITIES, INC.
DOCKET NO. 060599-WU **SCHEDULE NO. 5**

Staff Recommended:

Main Installation Charge:	**$250.00**
Meter Installation	**$125.00**
Plant Capacity	**$0.00**

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Capacity	432,000	432,000	432,000	432,000	432,000	432,000	432,000	432,000	432,000	432,000	432,000	432,000
Demand	154,872	154,872	158,022	161,172	164,322	167,472	170,622	173,772	176,922	180,072	183,222	186,372
% Used	35.85%	35.85%	36.58%	37.31%	38.04%	38.77%	39.50%	40.23%	40.95%	41.68%	42.41%	43.14%
Growth (in ERCs)		9	9	9	9	9	9	9	9	9	9	9
Utility Plant		545,017	549,442	550,567	551,692	552,817	553,942	555,067	556,192	557,317	558,442	559,567
Accumulated Depreciation		-304,672	-321,963	-339,253	-356,544	-373,835	-391,126	-408,416	-425,707	-442,998	-442,998	-442,998
Net Plant		240,345	227,479	211,313	195,148	178,982	162,816	146,650	130,485	114,319	115,444	116,569
CIAC		-403,485	405,735	409,110	412,485	415,860	419,235	422,610	425,985	429,360	432,735	436,110
Accumulated Amortization		242,807	-255,643	-268,551	-281,530	-294,581	-307,702	-320,896	-334,160	-347,496	-347,532	-347,568
Net CIAC		-160,677	150,091	140,558	130,954	121,279	111,532	101,714	91,824	81,863	85,203	88,542
Net Investment		401,022	77,388	70,755	64,193	57,703	51,284	44,937	38,660	32,456	30,241	28,027
CIAC Ratio:		**-66.85%**	**65.98%**	**66.52%**	**67.11%**	**67.76%**	**68.50%**	**69.36%**	**70.37%**	**71.61%**	**73.80%**	**75.96%**