FLORIDA PUBLIC SERVICE COMMISSION
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M E M O R A N D U M

JULY 18, 1996

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

FROM: DIVISION OF WATER & WASTEWATER (CHASE, GOLDEN, MCROY, WALKER)
DIVISION OF LEGAL SERVICES (AGARWAL)

RE: DOCKET NO. [redacted] - WS - LITTLE SUMTER UTILITY COMPANY - APPLICATION FOR WATER AND WASTEWATER CERTIFICATES IN SUMTER COUNTY
COUNTY: SUMTER

AGENDA: JULY 30, 1996 - REGULAR AGENDA - PROPOSED AGENCY ACTION FOR ISSUES 2, 3, 4, 5, AND 6 - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: AUGUST 1, 1996 - Statutory deadline for original certificates pursuant to Section 367.031, Florida Statutes

SPECIAL INSTRUCTIONS: I:\PSC\WAW\WP\960305WS.RCM

CASE BACKGROUND

On March 8, 1996, Little Sumter Utility Company (LSU or utility) filed its application for original water and wastewater certificates in Sumter County. The utility anticipates serving a total of approximately 8,800 equivalent residential connections (ERCs) when it reaches buildout in 19 years. The operating revenues of the utility at buildout will be approximately $1,540,000 for water and $2,340,000 for wastewater based upon staff's recommended rates, making this a Class A utility. The net operating income for the utility based upon staff's recommended rates will be approximately $338,000 and $665,000 for water and wastewater, respectively.

The utility's application was found to be deficient. The utility corrected the deficiencies on May 3, 1996. Therefore, May 3, 1996, is the official filing date of the completed application, and this docket is now under the statutory 90 day deadline.

LSU was incorporated on November 17, 1994. The affiliated developer, The Villages of Lake-Sumter, Inc. (developer or VLS), will be developing the proposed service territory. The developer plans to construct single family conventionally built retirement homes, recreational and mail pickup facilities, golf course clubhouses, neighborhood shopping centers, and a health care and wellness center. The application states that the developer has already constructed in excess of 6,500 homes in other developments and has averaged sales of over 500 homes per year for the last 10 years. The developer and utility anticipate that the first residents will be moving into the service area in April, 1997.

The utility's facilities will consist of one water treatment plant, one water transmission and distribution system, one wastewater treatment plant, and one wastewater collection system. The application indicates that the utility will be built in three phases. The utility plans to serve approximately 2,931 ERCs during the first phase of development and anticipates reaching buildout of Phase I in six years. It is the goal of the utility to treat wastewater to levels acceptable for public-access reuse via golf course irrigation. Backup disposal will be to percolation ponds during periods of wet weather or when effluent criteria is not met for golf course irrigation.

The application states that there are no other utilities in close proximity to the area which might be able to provide service to this territory or which have the ready ability to expand their capacity to meet the immediate and anticipated needs of this area. The three utilities which are closest to the service area are the Village Center CDD (CDD), the City of Wildwood (City), and Spruce Creek South Utilities, Inc. (Spruce Creek).

The CDD currently serves the areas which were previously developed by VLS. In expectation of needing initial wastewater services for the first few customers, the utility has made arrangements with the CDD to obtain temporary bulk wastewater service during the start-up phase of the development. The applicant has provided a letter from the Chairman of the CDD that states that the CDD does not have the capacity to enable it to meet the demands of the new development and it does not plan to construct such capacity to provide service outside the areas where it is currently committed for service. It further states that the CDD is willing to assist LSU in its start-up phase and to provide temporary wastewater service during this phase in recognition of the fact that the new utility cannot begin operation of a treatment plant with only one, two or very few customers. The CDD will provide temporary bulk service until such time as sewage flows will allow operation of LSU's own treatment and disposal facilities.

However, the CDD is not willing to provide that service on a long-term basis nor to expand it to allow connection of customers beyond those necessary for start-up of LSU's own treatment operation.

Regarding obtaining service from the City, the application states that the City's facilities are over five miles from the proposed service area. Also, the City's charges and impact fees exceed those proposed by the utility. Therefore, the applicant believes that obtaining service from the City is not a viable option.

Finally, the application states that the Spruce Creek development is approaching buildout and is also approaching the limits of it capacity. Further, Spruce Creek does not plan to expand its wastewater treatment plant nor is it in a position to be able to expand those facilities to provide service outside its development.

The application states that the utility reviewed all viable options prior to its decision to seek a certificate and has found that no such viable alternatives exist. The applicant believes it is in a position, because of its experience and its available land and resources to construct the necessary facilities to provide the least cost service to the proposed service territory. The following is staff's recommendation regarding the utility's request to be granted water and wastewater certificates.

ISSUE 1: Should the application of Little Sumter Utility Company for water and wastewater certificates be granted?

RECOMMENDATION: Yes, Little Sumter Utility Company should be granted Water Certificate No. 580-W and Wastewater Certificate No. 500-S to serve the territory described in Attachment A. The utility should file an executed and recorded copy of the warranty deeds within thirty days of the issuance date of the Order granting the certificates. (GOLDEN, MCROY)

STAFF ANALYSIS: On March 8, 1996, Little Sumter Utility Company filed its application for original water and wastewater certificates to provide service in Sumter County. The application is in compliance with the governing statute, Section 367.045, Florida Statutes, and other pertinent statutes and administrative rules concerning an application for original certificates and initial rates and charges. The application contains a check in the amount of $6,000, which is the correct filing fee pursuant to Rule 25-30.020, Florida Administrative Code.

The applicant has not provided evidence that the utility owns the land upon which the utility's facilities are located as required by Rule 25-30.033(1)(j), Florida Administrative Code. However, the Rule allows the applicant to submit a contract for the purchase and sale of the land with an unexecuted copy of the warranty deed, provided the applicant files an executed and recorded copy of the deed, or executed copy of the lease, within 30 days after the Order granting the certificates. Accordingly, the applicant has submitted a copy of the contract for the purchase and sale of the land and an unexecuted copy of the warranty deed. The application states that the deed will be executed immediately upon approval of the certificates by the Florida Public Service Commission. Further, the deed will provide for the continuous use of the land on which the utility treatment facilities are located.

Adequate service territory and system maps and a territory description have been provided as prescribed by Rule 25-30.033(1)(l),(m) and (n), Florida Administrative Code. A description of the territory requested by the applicant is appended to this memorandum as Attachment A.

In addition, the application contains proof of compliance with the noticing provisions set forth in Rule 25-30.030, Florida Administrative Code. No objections to the notice of application have been received and the time for filing such has expired.

The application states that the applicant has the financial and technical ability to provide water and wastewater service to

the proposed service area. Regarding the applicant's financial ability, the application states that the developer will provide financial support and backing to ensure the safe, efficient, and sufficient provision of water and wastewater service to the territory applied for and the expansion of that service as needed. The applicant provided an affidavit from Mr. Harold S. Schwartz, President of VLS, to assure the Commission that the developer will provide or assist the utility in securing necessary funding to meet all reasonable capital needs and any operating deficits which may arise as the result of the utility's operation. The affidavit states that the funding will be provided on an as and when needed basis. Additionally, the applicant provided the consolidated financial statements for the developer for the years 1993 through 1995. Staff has reviewed the financial statements of VLS and believes it has adequate resources to support the utility during the initial years of operation.

Regarding the applicant's technical ability, related parties owned and operated Sunbelt Utilities, Inc. from its formation in 1976 until its sale in November, 1993. At that time, the utility was providing service to approximately 8,000 ERCs in Lake and Sumter Counties. The utility was regulated by the Commission during many of those years. Additionally, the application states that the utility will employ operations, maintenance, technical and management personnel necessary to ensure the efficient provision of water and wastewater service to the various customers of the utility.

The application states that there is currently a need for water and wastewater service within the proposed service territory. As discussed in the case background, the developer anticipates that the first residents will be moving into the area in April, 1997. Further, as discussed in the case background, the applicant believes there are no other utilities near the proposed service area which can provide the necessary water and wastewater service, and construction of LSU is the only viable alternative. The application states that the provision of service in the proposed service territory, as outlined in the application, is consistent with the water and wastewater sections of the local comprehensive plan for Sumter County, as approved by the Department of Community Affairs. Further, the application contains a letter from a Planner employed by the utility, which states that because of the requirements of the Sumter County Comprehensive Plan, the provision of central water and wastewater service by the developer related utility is required. The Withlacoochee Planning Council was provided notice of the application and did not file an objection.

Based on the above information, staff believes it is in the public interest to grant the application for original certificates. Accordingly, staff recommends that Little Sumter Utility Company be granted Water Certificate No. 580-W and Wastewater Certificate No. 500-S to serve the territory described in Attachment A. The utility should be required to file an executed and recorded copy of the warranty deeds within thirty days of the issuance date of the Order granting the certificate.

DOCKET NO. 960305-WS
DATE: JULY 18, 1996

ATTACHMENT A

Little Sumter Utility Company

TERRITORY DESCRIPTION

The following described lands located in portions of Sections 1, 2, 3, 4, 9, 10, 11, 12, 15 and 16, Township 18 South, Range 23 East, Sumter County, Florida:

Begin at the Southwest corner of the S 1/2 of the SE 1/4 of Section 9; from said **Point of Beginning** run North to the Northwest corner of aforesaid S 1/2 of SE 1/4; thence East to the Southwest corner of the NE 1/4 of the SE 1/4 of Section 9; thence North to the Northwest corner of the SE 1/4 of the NE 1/4 of Section 9; thence West to the Southwest corner of the N 1/2 of the NE 1/4; thence North to the Southeast corner of the E 1/2 of the SW 1/4 of Section 4; thence West to the Southwest corner of said E 1/2 of SW 1/4; thence North to the Northwest corner of said E 1/2 of SW 1/4; thence East to the Northeast corner of said E 1/2 of SW 1/4; thence North to the Southeast corner of the NE 1/4 of the NW 1/4 of Section 4; thence West to the Southwest corner of said NE 1/4 of NW 1/4; thence North to the Northwest corner of said NE 1/4 of NW 1/4; thence East along the North line of Section 4 to the Northwest corner of Section 3; thence continue East along the North line of Section 3 to the Northeast corner of the NW 1/4 of Section 3; thence South to the Northwest corner of the S 1/2 of the NE 1/4 of Section 3; thence East to the Northwest corner of the NE 1/4 of the SE 1/4 of the NE 1/4 of Section 3; thence South to the Southwest corner of said NE 1/4 of SE 1/4 of NE 1/4; thence East to the Northwest corner of the S 1/2 of the S 1/2 of the NW 1/4 of Section 2; thence continue East along the North line of said S 1/2 of S 1/2 of NW 1/4 to a point that is 330 feet West of the East line of the NW 1/4 of Section 2; thence parallel with said East line run South to the East-West mid-section line of Section 2; thence along said mid-section line run East to the Northwest corner of the N 1/2 of the SW 1/4 of Section 1; thence continue East to the Northeast corner of said N 1/2 of SW 1/4; thence Northeast to an intersection of the East line of the W 1/2 of SW 1/4 of NE 1/4 of Section 1 with the Southwesterly Right-of-Way line of U.S. Highway 441/27 (being 200 feet wide); thence S41° 21' 52"E along said Southwesterly Right-of-Way line of U.S. Highway 441/27, 2497.32 feet, more or less, to a point that is N41° 21' 52"W, 533.33 feet from an intersection with the East line of Section 1; thence departing said Right-of-Way, S27° 37' 55"W, 1006.24 feet; thence N89° 05' 33"W,

979.95 feet; thence S76° 37' 00"W, 512.93 feet; thence S53° 39' 25"W, 661.67 feet; thence S38° 28' 11"W, 29.14 feet, more or less, to an intersection with the North line of Section 12; thence continue S38° 28' 11"W, 740.59 feet, more or less; thence S22° 00' 48"W, 346.72 feet to a point on a non-tangent curve concave Easterly, having a radius of 745.00 feet and a central angle of 06° 46' 35"; thence Southerly, along the arc of said curve, 88.11 feet to a point of tangency; thence S00° 05' 27"E, 449.53 feet; thence N89° 16' 28"W, 79.53 feet; thence N74° 00' 58"W, 254.18 feet; thence S80° 26' 07"W, 75.25 feet to a curve concave Southeasterly, having a radius of 100.00 feet and a central angle of 35° 58' 33"; thence Southwesterly, along the arc of said curve, 62.79 feet; thence S44° 27' 34"W, 186.05 feet to a curve concave Northerly, having a radius of 450.00 feet and a central angle of 78° 06' 55"; thence Westerly, along the arc of said curve, 613.51 feet; thence N57° 25' 31"W, 159.55 feet to a curve concave Southerly, having a radius of 100.00 feet and a central angle of 63° 09' 25"; thence Westerly, along the arc of said curve, 110.23 feet; thence S59° 25' 04"W, 277.28 feet to a curve concave Northerly having a radius of 450.00 feet and a central angle of 64° 09' 50"; thence Westerly, along the arc of said curve, 323.53 feet, more or less, to an intersection with the East line of Section 11; thence continue Westerly, along said arc, 180.41 feet, more or less; thence N73° 22' 28"W, along a non-tangent line, 781.39 feet; thence S69° 02' 49"W, 253.31 feet; thence S67° 46' 25"W, 639.15 feet; thence S22° 53' 09"W, 97.61 feet; thence S43° 31' 09"W, 81.52 feet; thence S83° 16' 40"W, 64.19 feet; thence S58° 25' 29"W, 611.18 feet; thence S16° 09' 24"W, 786.28 feet; thence N89° 34' 18"W, 16.11 feet, more or less, to an intersection with the North-South mid-section line of Section 11; thence North, along said mid-section line, to the Southeast corner of the W 1/2 of Section 2; thence along the East line of the W 1/2 of Section 2, run N00° 04' 27"W, 109.72 feet, more or less, to the Southwesterly Right-of-Way line of a Florida Power Corporation transmission line easement; thence along said Southwesterly Right-of-Way line run N44° 26' 00"W, 622.28 feet; thence S00° 04' 35"E, 506.40 feet to a point that is 50.00 feet North of the South line of the SW 1/4 of Section 2; thence parallel with said South line, run West to the West line of the SW 1/4 of Section 2 also being the East line of the SE 1/4 of Section 3; thence, parallel with and 50.00 feet North of the South line of the SE 1/4 of Section 3, run West to the West line of said SE 1/4; thence South to the Southwest corner of said SE 1/4; thence continue South to the Southeast corner of the NE 1/4 of the SW 1/4 of Section 10; thence along the South line of said NE 1/4 of SW 1/4, run West to the Southwest corner of said NE 1/4 of the SW 1/4 of Section 10; thence South to the Southeast corner of the W 1/2 of the SW 1/4 of Section 10. Said point also being on the North line of the NW 1/4 of Section 15; thence, along said North line, run

West 185.91 feet, more or less, to a 4-inch concrete monument; said monument being N89° 59' 15"E, 1142.39 feet from the Northwest corner of Section 15; from said concrete monument run South 1334.50 feet to the South line of the N 1/2 of the NW 1/4 of Section 15; thence continue South 77.99 feet to a point on the arc of a curve in the North Right-of-Way line of County Road C-466 (being 100 feet wide); said curve being concave Southwesterly, having a radius of 1959.86 feet and a central angle of 16° 57' 10"; thence run Northwesterly, along the arc of said curve, 579.89 feet, to the point of tangency of said curve; thence N89° 29' 27"W, along said North Right-of-Way line, to the East line of the NE 1/4 of Section 16; thence continue West along said Right-of-Way line to the West line of the NE 1/4 of Section 16; thence North along said West line to the **Point of Beginning.** Said territory lying and being situate in Sumter County, Florida and contains approximately 2393 acres.

ISSUE 2: Should the utility's request for an inclining block rate structure be approved?

RECOMMENDATION: Staff recommends that an inclining block rate structure be implemented for the residential customer class as described in the staff analysis. An escrow account should be established prior to the implementation of the rates in accordance with the terms set forth in the staff analysis. Any requests for withdrawals from the escrow account should be accompanied by an explanation of the specific use of the funds, and documentation that the funds will be used to further the conservation program approved by the water management district for this utility. Further, staff recommends that the utility be required to file quarterly reports with the Commission staff which contain the following information for the months included in the quarter: number of customer bills, gallons billed, and revenue collected, separated by usage block. This information should be filed for each customer class and meter size. The utility should file this information for a period of two years from the effective date of the rates. (CHASE)

STAFF ANALYSIS: As part of this application for original certificate rates, LSU is proposing the implementation of an inclining block rate structure. In support of this request, the utility states that such a rate structure is required by the Southwest Florida Water Management District (SWFWMD) as a condition of obtaining a consumptive use permit (CUP). In correspondence to staff, the utility states that the inclining block rate structure is appropriate due to the high water consumption per ERC in this area and the water management district's attempts to reduce water consumption. LSU's service area will be developed as an adult residential golfing community similar to the existing Villages developments in Lake and Sumter Counties. According to the utility, actual average daily usage per ERC has been 488 gallons per day (gpd) in these other areas of The Villages development, equating to almost 15,000 gallons per month per ERC.

Staff contacted SWFWMD to discuss this utility's CUP application and that agency's concerns about the level of water usage in the area. According to SWFWMD, the CUP application is on hold awaiting a PSC certificate and additional information regarding expected use per capita. Apparently, in the CUP application, the utility is projecting a usage of 238 gallons per capita per month, which equates to approximately 14,000 gallons per month per ERC. Since the 1994 public supply water use database indicates an average usage of only about 140 gpd in Sumter County, SWFWMD asked for additional information to justify the 238 gpd per capita requested by the utility. Additionally, they requested that

the utility submit a plan as to what conservation measures they would be taking to reduce the water consumption. This plan could include a conservation rate structure among other measures such as low flow plumbing fixtures, customer education programs, and so forth.

The utility has informed the SWFWMD staff that they got their usage projections from similar type developments located nearby LSU's service area but within the St. Johns River Water Management District (SJRWMD). LSU's proposed service area is totally within Sumter County but borders Lake County to the east and Marion County to the north. This location also puts it on the border between the two water management districts. When a utility's service area crosses into both water management districts, the districts have agreed that it is where the water distribution system originates that determines which district regulates the utility with regard to water resources. Therefore, utilities that are near the LSU service area and even within Sumter County may be regulated by SJRWMD and not SWFWMD.

Because of the location of the service area, staff also contacted SJRWMD to discuss water usage patterns of utilities in the neighboring area. We were told that there are utilities located in this part of the St. John's district with consumption similar to that projected by LSU. These utilities usually serve adult golf course communities, similar to that planned by LSU. According to information provided by SJRWMD, the Villages developments in Lake and Sumter counties, used 301 gallons per day per capita in 1994, equating to more than 17,000 gallons per month per ERC. Further, staff checked the average usage of customers of Spruce Creek South Utilities, Inc. in Marion County, a utility regulated by this Commission and located immediately adjacent to LSU's proposed service territory. According to the annual reports, the average consumption of the customers in Spruce Creek South was 14,000 gallons per month in 1994 and 15,000 in 1995.

Based on the above discussion, staff believes an inclining block rate structure may be appropriate in this case. The Commission's policy has been that the base facility charge rate structure with a uniform gallonage charge provides a sufficient conservation incentive in many cases. However, alternate conservation rate structures should be considered to combat high consumption in any particular situation. The Commission has approved an inclining block rate structure for only three utilities and never in an original certificate case. Those three utilities are: Hobe Sound Water Company (Dockets No. 900656-WU and 940475-WU); Sanlando Utilities Corporation (Docket No. 900338-WS); and General Development Corporation (Dockets No. 920733-WS and 920734-

WS). While the Commission has never approved an inclining block rate structure in an original certificate case, we believe there is a clear indication that usage may be high in this service area and, thus a stronger conservation price signal is warranted. However, we disagree with the utility's proposed inclining block rates for the reasons discussed below.

Calculation of the Inclining Block Rate

The Company's proposed water rates are as follows:

Base Facility Charge	$5.26
0-9,000 gallons	$ .46 per 1,000 gallons
Over 9,000 gallons	1.27 per 1,000 gallons

These rates are based on expected consumption of 410 gallons per day per ERC, or approximately 12,500 gallons per month. Normally, original certificate rates are based on consumption of 350 gallons per day per ERC, or approximately 10,000 gallons per month, which is the DEP estimated usage for new plants. The utility proposes a breakpoint in the usage blocks of 9,000 gallons based on SWFWMD's target consumption of 285 gallons per day per connection (150 gpd per capita x 1.9 persons). Further, the utility proposes to set the rate in the second tier 2.75 times higher than the gallonage rate in the first block. The utility states that the second tier must be sufficiently higher than the first to have any impact on water usage. Additionally, the utility proposes to implement the inclining block rate structure for the residential and general service customers.

Staff believes that the price signal sent by the above inclining gallonage rates will be of minimal value since the rate levels are so low, even at the second block. Conservation cannot be achieved by rate structure alone if the resulting rates are too low to impact usage. In an effort to send a stronger price signal, staff recommends changes to the utility's proposed rate structure, affecting the gallons on which the rate is based, the usage block breakpoint, and the rate tier factor.

Usage Assumptions and Usage Block Breakpoint

Staff recommends that the rates be calculated assuming usage of 350 gallons per day as is customary in original certificate cases, rather than the 410 gallons per day that the utility proposes. Reducing the consumption over which to spread the gallonage revenue has the effect of raising the gallonage rate. Further, we believe the breakpoint should be set at 10,000 gallons

and that the entire gallonage revenue requirement be recovered from the first tier rate. In this way, if customers truly do change the expected consumption patterns, the utility will still recover its total revenue requirement. Any revenue recovered from the second tier rate would be above that needed for the revenue requirement, and should, therefore, be escrowed to be used for conservation programs approved by the water management district. As mentioned earlier, the SWFWMD has asked the utility to design conservation measures to help reduce the expected consumption in this golf course community. By using the funds collected from usage in the second tier, the customers responsible for the excess consumption will be paying for the conservation programs targeted to get them to reduce their usage. This is similar to what the Sanlando inclining block rate is designed to do, except that the escrow funds in that case are targeted to be used to build a reuse system.

The escrow account should be established between the utility and an independent financial institution pursuant to a written escrow agreement. The Commission should be a party to the written escrow agreement, and this agreement should contain the following conditions:

1) The escrow account is established by the direction of the Florida Public Service Commission for the purpose 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.

2) The amount of revenue from the second tier rate shall be deposited in the escrow account within seven days of receipt.

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

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

5) All withdrawals from the escrow account must have prior approval of the Commission through the Director of the Division of Records and Reporting.

Any requests for withdrawals from the escrow account should be accompanied by an explanation of the specific use of the funds, and documentation that the funds will be used to further the conservation program approved by the water management district for this utility.

In order to adequately monitor this escrow fund and to evaluate the conservation effects of this rate structure, staff recommends that the utility be required to file quarterly reports with the Commission staff which contain the following information for the months included in the quarter: number of customer bills, gallons billed, and revenue collected, separated by usage block. This information should be filed for each customer class and meter size. The utility should file this information for a period of two years from the effective date of the rates. At that time, the rate structure should be reevaluated, as well as the need for the escrow account. Staff can monitor the escrow account on an informal basis through its tickler file system. Therefore, this docket does not need to be kept open for this purpose.

Rate tier factor

The staff recommended methodology described above results in a first tier rate of $.85 per 1,000 gallons, using the revenue requirement which will be discussed in Issue 4. As mentioned above, the utility proposes a rate tier factor of 2.75 to affect a sufficiently higher rate in order to have any impact on consumption. However, the utility's first tier rate is $.46 per 1,000 gallons. Since the staff recommended first tier rate is significantly higher than the company proposed, we believe a rate tier factor of 2.0 will be sufficient to affect a proper conservation signal. However, if data we collect in monitoring this rate structure indicates that a 2.0 tier factor is ineffective in promoting conservation, we will be bringing this back to the Commission to increase the differential between the first and second block.

Applicability

The utility is proposing to apply the inclining block rate structure to both the general service and residential classes of customers. According to the application, the general service customers will consist of recreational and mail pickup facilities, golf course clubhouses, neighborhood shopping centers, and a health care and wellness center. Irrigation on the golf course is expected to be through reuse of reclaimed water. Staff believes it is appropriate to implement this rate structure for the residential class only since the need for a conservation rate is based on the expected excess usage due to irrigation of the residential customers within the community. There is no indication that the proposed general service customers will use excessive amounts of water.

Conclusion

Based on the above discussion and using the revenue requirement calculated in Issue 4, staff recommends the following inclining block water rates be approved for the residential customer class in this case:

Base Facility Charge	$5.26
0-10,000 gallons	$ .85 per 1,000 gallons
Over 10,000 gallons	1.70 per 1,000 gallons

A comparison of average residential bills at the company proposed and staff recommended rate structures follows:

	Company Proposed	Staff Recommended	Diff.	%
3,000 Gallons	$ 6.64	$ 7.81	$ 1.17	18%
5,000 Gallons	7.56	9.51	1.95	26%
10,000 Gallons	10.67	13.76	3.09	29%
15,000 Gallons	17.02	22.26	5.24	31%
30,000 Gallons	36.07	47.76	11.69	32%
50,000 Gallons	61.47	81.76	20.29	33%

ISSUE 3: Should a reuse rate be established for Little Sumter Utility Company?

RECOMMENDATION: Not at this time. However, the utility should be put on notice that prior to providing any reuse service, it must file a proposed reuse rate with the Commission along with a reuse cost analysis, a discussion of the utility's alternatives for effluent disposal, and irrigation alternatives available to the potential reuse customers. Further, as part of the subsequent filing addressing a reuse rate, the utility should be required to provide an analysis of whether and how much of the costs associated with the reuse facilities should be spread to its water customers, and the impact on the utility's wastewater rates. (CHASE)

STAFF ANALYSIS: According to the utility's master plan, wastewater effluent will be reused as much as possible via golf course irrigation, consistent with the requirements of the Southwest Florida Water Management District. An estimated six golf courses will be constructed in the LSU service area. Staff notes that the wastewater treatment facility will not be in operation until December, 1998. The utility has made arrangements with a neighboring wastewater utility to obtain temporary bulk wastewater service during the start up phase of the development.

In this application, the utility has not requested that a reuse rate be established. In essence, this means that the utility is proposing to provide this service at no cost, or a zero rate. Staff believes the utility should explore whether and how much the end users should be charged for the reuse irrigation service. However, since the utility will not be providing wastewater service until December, 1998, it would be premature to attempt that analysis in this docket. Rather, staff believes the utility should be put on notice that prior to providing any reuse service, it must file a proposed reuse rate with the Commission. Such filing should contain a justification for the requested rate, including a reuse cost analysis, as well as a discussion of both the utility's alternatives for effluent disposal and the irrigation alternatives available to the potential reuse customers.

Further, staff notes that in Section 367.0817, Florida Statutes, the Legislature finds that reuse benefits water, wastewater and reuse customers. In light of this statute, the utility should also be required, as part of the subsequent filing addressing a reuse rate, to provide an analysis of whether and how much of the costs associated with the reuse facilities should be spread to its water customers, and the impact this would have on the utility's wastewater rates.

ISSUE 4: What initial water and wastewater rates and return on equity are appropriate for this utility?

RECOMMENDATION: The rates set forth in the staff analysis are appropriate and the return on equity should be established at 11.88%. The utility should file tariff sheets reflecting the approved rates and charges within thirty days of the effective date of the order. The rates should be effective for services rendered on or after the stamped approval date on the tariff sheets. (GOLDEN, MCROY)

STAFF ANALYSIS: As discussed in the case background, LSU proposes to provide water and wastewater service to approximately 2393 acres located in Sumter County. The utility anticipates serving a total of approximately 8,800 ERCs when it reaches buildout in 19 years. The utility will be providing service to single family retirement homes, recreational and mail pickup facilities, golf course clubhouses, neighborhood shopping centers, and a health care and wellness center.

The utility facilities will be built in three phases. The water treatment plant will have an ultimate capacity of 10.0 million gallons per day (mgd) with three 3.26 mgd wells plus one standby well, four 3.5 mgd high service pumps plus one standby pump, chlorination equipment, and a 2 million gallon storage tank. The wastewater treatment plant will have an ultimate capacity of 1.35 mgd to be achieved through three 0.45 mgd plant expansions. As discussed previously, the utility plans to dispose of treated effluent through golf course irrigation to the extent possible.

It is anticipated that the utility will serve 2,750 residential customers and 47 general service customers in the first phase. The developer and utility anticipate that the first residents will be moving into the service area in April, 1997. Based upon historic sales and growth in the adjacent development The Villages of Lady Lake, the utility has estimated that the capacity of Phase I will reach buildout in six years. The utility anticipates that Phases II and III will be comprised of a similar mix of residential and general service customers.

Normally, in original certificate applications, staff determines rates which will allow the utility to earn a fair rate of return on investment when the treatment plant reaches 80% of capacity. When the utility is built in phases, the rates are calculated based upon the projected costs for the first phase. From the information supplied by the applicant, staff was able to calculate proforma schedules of rate base, operating income and capital structure to be used in determining initial rates.

Staff has reviewed the utility's preliminary cost estimates for Phase I and believes they are reasonable for the purpose of calculating initial rates and charges. Staff's Schedule of Rate Base appears on Schedules Nos. 1 and 3 for water and wastewater, respectively. Staff determined that no adjustments were necessary to the utility's preliminary rate base estimates.

Similarly, staff has reviewed the utility's projected operating expenses and believes they are reasonable. Staff's Schedule of Operations appears on Schedules Nos. 2 and 4 for water and wastewater, respectively.

Likewise, staff reviewed the utility's proforma capital structure and determined that no adjustments were necessary. Staff calculated the return on common equity to be 11.88% using the current Commission approved leverage formula, authorized by Order No. PSC-95-0982-FOF-WS, issued August 10, 1995. The utility's proforma capital structure appears on Schedule No. 5.

The above schedules are being presented only as a tool to aid the Commission in establishing initial rates and are not intended to establish rate base. This is consistent with Commission policy in original certificate applications. However, we do recommend that the Commission establish a return on equity of 11.88% to be used in future proceedings involving such things as calculation of interim rates.

Staff's recommended water rates were calculated using an inclining block rate structure for residential service and the base facility charge rate structure for general service as discussed in Issue 2. The utility's proposed and staff's recommended private fire protection rates were calculated in accordance with Rule 25-30.465, Florida Administrative Code, which states in part that the rate shall be one-twelfth of the current base facility charge of the utility's meter sizes.

Staff's recommended wastewater rates were calculated using the base facility charge rate structure. Staff is recommending two changes to the utility's proposed wastewater rate structure. As discussed in Issue 2, the daily usage estimates provided by the utility are above those normally used in original certificate cases. The utility used 329 gallons per day (gpd) in its wastewater gallonage charge calculation. Commission practice has been to estimate residential wastewater flows at 80% of the residential water flows. Accordingly, the standard wastewater usage utilized in original certificate cases is 280 gpd (80% x 350 water gpd.) In conjunction with using the standard 350 gpd to

calculate water rates, staff believes it is appropriate to use the corresponding 280 gpd estimate for calculating wastewater rates.

Additionally, the utility has proposed the same wastewater gallonage charge for the residential and general service customers. Commission policy is to establish a general service gallonage charge which is 20% higher than the residential wastewater gallonage charge to recognize that general service customers typically return a higher volume of wastewater to the wastewater system. The utility explained to staff that it requested the same rate for both classes of service because it believed that incorporating the rate differential into the calculation would lower the residential gallonage charge which would discourage conservation. Also, the utility believes that its general service customers may use quite a bit of irrigation water and thus will not return a higher percentage of wastewater to the system than will be returned by the residential customers. Although the utility may ultimately be correct, we will not have actual usage statistics for these customers for quite some time. Therefore, staff believes it would be more appropriate to maintain the current practice of establishing a higher general service gallonage charge at this time. Further, staff believes that incorporating the rate differential in this instance does not materially affect the residential gallonage charge.

The utility has proposed implementation of customer deposits and miscellaneous revenue charges. The utility's proposed customer deposits were calculated in compliance with Rule 25-30.311(7), Florida Administrative Code. Also, the proposed miscellaneous service charges are consistent with Staff Advisory Bulletin No. 13, 2nd revised. Therefore, staff recommends that the utility's proposed customer deposits and miscellaneous service charges are reasonable and should be approved.

The utility's proposed and staff's recommended rates, customer deposits, and miscellaneous service charges are shown on Schedule No. 6. The recommended rates are based on a revenue requirement of $405,048 and $625,470, for the water and wastewater systems, respectively.

The applicant filed a sample tariff as part of its application for certificates. However, since staff is recommending rates which are different that those proposed by the utility, it will be necessary that tariff sheets reflecting the approved rates and charges be filed. Staff recommends that the utility be required to file these tariff sheets within thirty days of the effective date of the order. The rates should be effective for meter readings on

or after thirty days from the stamped approval date on the tariff sheets.

LITTLE SUMTER UTILITY COMPANY
Schedule of Water Rate Base
At 80% of Design Capacity

DOCKET NO. 960305-WS
Schedule No. 1

Description	Balance Per Filing	Staff Adjust.	Commission Staff
Utility Plant in Service	4,012,171	0	4,012,171
Land	55,324	0	55,324
Accumulated Depreciation	(652,040)	0	(652,040)
Contributions-in-aid-of-Construction	(2,063,600)	0	(2,063,600)
Accumulated Amortization of C.I.A.C.	161,110	0	161,110
Non-Used and Useful Plant	(698,344)	0	(698,344)
Working Capital Allowance	23,800	0	23,800
TOTAL	838,421	0	838,421

LITTLE SUMTER UTILITY COMPANY
Schedule of Water Operations
At 80% of Design Capacity

DOCKET NO. 960305-WS
Schedule No. 2

Description	Balance Per Utility	Staff Adjust.	Balance Per Staff
Operating Revenues	405,048	0	405,048
Operating and Maintenance	190,400	0	190,400
Depreciation Expense	46,179	0	46,179
Taxes Other Than Income	79,596	0	79,596
Income Taxes	0	0	0
Total Operating Expenses	316,175	0	316,175
Net Operating Income	88,873	0	88,873
Rate Base	838,421		838,421
Rate of Return	10.60%		10.60%

LITTLE SUMTER UTILITY COMPANY
Schedule of Wastewater Rate Base
At 80% of Design Capacity

DOCKET NO. 960305-WS
Schedule No. 3

Description	Balance Per Filing	Staff Adjust.	Balance Per Staff
Utility Plant in Service	5,658,747	0	5,658,747
Land	262,789	0	262,789
Accumulated Depreciation	(1,279,254)	0	(1,279,254)
Contributions-in-aid-of-Construction	(1,969,800)	0	(1,969,800)
Accumulated Amortization of C.I.A.C.	143,956	0	143,956
Non-Used and Useful Plant	(1,165,486)	0	(1,165,486)
Working Capital Allowance	27,675	0	27,675
TOTAL	1,678,627	0	1,678,627

LITTLE SUMTER UTILITY COMPANY
Schedule of Wastewater Operations
At 80% of Design Capacity

DOCKET NO. 960305-WS
Schedule No. 4

Description	Balance Per Utility	Staff Adjust.	Balance Per Staff
Operating Revenues	625,470	0	625,470
Operating and Maintenance	221,400	0	221,400
Depreciation Expense	121,197	0	121,197
Taxes Other Than Income	104,939	0	104,939
Income Taxes	0	0	0
Total Operating Expenses	447,536	0	447,536
Net Operating Income	177,934	0	177,934
Rate Base	1,678,627		1,678,627
Rate of Return	10.60%		10.60%

LITTLE SUMTER UTILITY COMPANY
Schedule of Capital Structure
At 80% of Design Capacity

DOCKET NO. 960305-WS
Schedule No. 5

Description	Balance Per Filing	Staff Adjust.	Balance Per Staff	Recon. Adjust.	Recon. Balance	Weight	Cost Rate	Weighted Cost
Common Equity	1,006,819	0	1,006,819	0	1,006,819	40.00%	11.88%	4.75%
Long and Short-Term Debt	1,510,229	0	1,510,229	0	1,510,229	60.00%	9.75%	5.85%
Customer Deposits	0	0	0	0	0	0.00%	6.00%	0.00%
Advances from Associated Companies	0	0	0	0	0	0.00%	0.00%	0.00%
Other	0	0	0	0	0	0.00%	0.00%	0.00%
	2,517,048	0	2,517,048	0	2,517,048	100.00%		10.60%

Range of Reasonableness:	High	Low
Common Equity	12.88%	10.88%
Overall Rate of Return	11.00%	10.20%

MONTHLY RATES AND CHARGES OF LITTLE SUMTER UTILITY COMPANY

Monthly Service Rates

WATER

	Utility Proposed Rates	Staff Recommended Rates
Residential Service		
Base Facility Charge		
Meter Size:		
5/8" x 3/4"	$ 5.26	$ 5.26
Full 3/4"	7.89	7.89
1"	13.15	13.15
1-1/2"	26.30	26.30
2"	42.08	42.08
3"	84.16	84.16
4"	131.50	131.50
6"	263.00	263.00
8"	420.80	420.80
Gallonage Charge		
per 1,000 gallons:		
First 9,000 gallons	$ .46	$ ---
Over 9,000 gallons	1.27	---
First 10,000 gallons	---	.85
Over 10,000 gallons	---	1.70

Typical Residential Bills

5/8" x 3/4" meter:		
3 M	$ 6.64	$ 7.81
5 M	$ 7.56	$ 9.51
10 M	$ 10.67	$ 13.76

Monthly Service Rates (Continued)

WATER (Continued)

	Utility Proposed Rates	Staff Recommended Rates
General Service		
Base Facility Charge		
Meter Size:		
5/8" x 3/4"	$ 5.26	$ 5.26
Full 3/4"	7.89	7.89
1"	13.15	13.15
1-1/2"	26.30	26.30
2"	42.08	42.08
3"	84.16	84.16
4"	131.50	131.50
6"	263.00	263.00
8"	420.80	420.80
Gallonage Charge per 1,000 gallons:		
First 9,000 gallons	$ .46	$ ---
Over 9,000 gallons	1.27	---
All Gallons	---	.85
Private Fire Protection		
Line Size:		
2"	$ 3.51	$ 3.51
3"	7.01	7.01
4"	10.96	10.96
6"	21.92	21.92
8"	35.07	35.07

Monthly Service Rates (Continued)

WASTEWATER

	Utility Proposed Rates	Staff Recommended Rates
Residential Service		
Base Facility Charge		
All Meter Size:	$ 9.53	$ 9.53
Gallonage Charge per 1,000 gallons: (10,000 gallon maximum)	$ 1.24	$ 1.45
Typical Residential Bills		
5/8" x 3/4" meter:		
3 M	$ 13.25	$ 13.88
5 M	$ 15.73	$ 16.78
10 M	$ 21.93	$ 24.03
General Service		
Base Facility Charge		
Meter Size:		
5/8" x 3/4"	$ 9.53	$ 9.53
Full 3/4"	14.30	14.30
1"	23.83	23.83
1-1/2"	47.65	47.65
2"	76.24	76.24
3"	152.48	152.48
4"	238.25	238.25
6"	476.50	476.50
8"	762.40	762.40
Gallonage Charge per 1,000 gallons:	$ 1.24	$ 1.74

CUSTOMER DEPOSITS

	Utility Proposed Charges	Staff Recommended Charges
WATER:		
Residential and General Service		
Meter Size:		
5/8" x 3/4"	$ 25.00	$ 25.00
1"	62.50	62.50
1-1/2"	125.00	125.00
2" and Over	200.00	200.00
WASTEWATER:		
Residential and General Service		
Meter Size:		
5/8" x 3/4"	$ 25.00	$ 25.00
1"	62.50	62.50
1-1/2"	125.00	125.00
2" and Over	200.00	200.00

MISCELLANEOUS SERVICE CHARGES

	Utility Proposed Charges	Staff Recommended Charges
Initial Connection	$ 15.00	$ 15.00
Normal Reconnection	15.00	15.00
Violation Reconnection:		
Water	15.00	15.00
Wastewater	Actual Cost	Actual Cost
Premises Visit (in lieu of disconnection)	10.00	10.00

ISSUE 5: What are the appropriate service availability charges for Little Sumter Utility Company?

RECOMMENDATION: The service availability charges set forth within the staff analysis are appropriate. The charges should be effective for connections made on or after the stamped approval date on the tariff sheets. (GOLDEN, MCROY)

STAFF ANALYSIS: Rule 25-30.580(1)(a), Florida Administrative Code, states that the maximum amount of contributions-in-aid-of-construction (CIAC), 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. Rule 25-30.580(1)(b), Florida Administrative Code, states that 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 wastewater collection systems.

In its application, the utility requested approval of service availability charges designed to result in the minimum CIAC levels as allowed by the Rule. Specifically, the utility is requesting approval of water and wastewater main extension charges and a meter installation fee. The utility stated that the maximum level of CIAC would result in service availability charges which are unacceptably high and produce rates so low that the utility would never achieve the water conservation goals that the Water Management District has urged the utility to pursue in this development. Also, the customers ultimately bear the cost of service availability charges, as well as service rates, therefore, the utility has tried to reach a reasonable balance between the two.

Additionally, the application contained the utility's proposed service availability policy. The policy states that the utility will construct all on-site, off-site, and treatment facilities and will access main extension and meter installation charges. The utility's requested charges will result in minimum CIAC levels of 55.55% for water and 37.31% for wastewater, in accordance with the Rule.

Ordinarily in original certificate dockets, staff recommends service availability charges which will achieve a 75% contribution level at buildout. Although the utility's proposed policy and charges will not result in a 75% contribution level, they will result in contribution levels which are within the guidelines of the Rule. Also, staff agrees with the utility that establishing

service availability charges designed to achieve the maximum 75% CIAC level would result in lower monthly service rates, which could discourage water conservation. Further, although the requested charges will only achieve the minimum CIAC levels, this utility's minimum levels are high compared to the minimum levels which are seen with many utilities. And finally, the requested charges result in total service availability charges to the customers which are in line with service availability charges the Commission has approved for other utilities. In consideration of these factors, staff believes the utility's requested service availability policy and charges are reasonable and should be approved, with one exception.

As discussed in Issues 2 and 4, the utility used daily usage estimates which are different from those normally used in original certificate cases. Similarly, the utility used different estimates in its service availability charge calculations. Specifically, the utility used 410 gpd for its water ERCs and 109 gpd for its wastewater ERCs. In keeping with staff's recommended change in the estimated gpd used to calculate the initial rates, staff believes the utility's proposed service availability charges should be adjusted to reflect the same gpd estimates. The utility's proposed and staff's recommended service availability charges are shown below. Staff recommends that these charges should be effective for services rendered on or after the stamped approval date on the tariff sheets.

	Utility Proposed Charges	**Staff Recommended Charges**
Main Extension Charge		
Water:		
Residential - per ERC	$780.00	$780.00
All others - per gallon		
At 410 GPD per ERC	1.90	---
At 350 GPD per ERC	---	2.23
Wastewater:		
Residential - per ERC	$840.00	$840.00
All others - per gallon		
At 109 GPD per ERC	7.71	---
At 280 GPD per ERC	---	3.00
Meter Installation Fee		
5/8" x 3/4"	$100.00	$100.00
Over 5/8" x 3/4"	Actual Cost	Actual Cost

ISSUE 6: Should the utility's proposed Allowance for Funds Used During Construction (AFUDC) rate be approved?

RECOMMENDATION: Yes. An annual AFUDC rate of 10.60% should be approved with a discounted monthly rate of 0.843100%. The approved rate should be applicable for eligible construction projects beginning on the date the certificate of authorization is issued. (WALKER)

STAFF ANALYSIS: Rule 25-30.033(4), Florida Administrative Code, states that "utilities obtaining initial certificates pursuant to this rule are authorized to accrue allowance for funds used during construction (AFUDC) for projects found eligible pursuant to Rule 25-30.116(1), Florida Administrative Code." In its application, LSU proposed an annual AFUDC rate of 10.60%, discounted to a monthly rate of .843100%. The application states that this rate would be applied to all future construction until changed by the Commission.

Rule 25-30.033(4)(a), Florida Administrative Code, states that "the applicable AFUDC rate shall be determined as the utility's projected weighted cost of capital as demonstrated in its application for original certificates and initial rates and charges." Further, Rule 25-30.033(4)(b), Florida Administrative Code, states that "a discounted monthly AFUDC rate calculated in accordance with Rule 25-30.116(3), Florida Administrative Code, shall be used to insure that the annual AFUDC charged does not exceed authorized levels." Staff has reviewed the utility's calculation and determined that it is compliance with these rules. Therefore, staff recommends that the utility's proposed AFUDC rate of 10.60%, discounted to a monthly rate of .843100% should be approved.

Rule 25-30.033(4)(c), Florida Administrative Code, states that "the date the utility shall begin to charge the AFUDC rate shall be the date the certificate of authorization is issued to the utility so that such rate can apply to the initial construction of the utility facilities." Accordingly, staff recommends that the utility's AFUDC rate should be effective for eligible construction projects beginning on the date the certificate of authorization is issued.

ISSUE 7: Should this docket be closed?

RECOMMENDATION: Yes, upon expiration of the protest period, if there are no timely protests to the proposed agency action issues (Issues 2, 3, 4, 5 and 6), this docket should be closed. (AGARWAL)

STAFF ANALYSIS: Upon expiration of the protest period, if there are no timely protests to the proposed agency action issues (Issues 2, 3, 4, 5 and 6), no further action will be required and this docket should be closed.

DOCKET NO. 960305-WS
DATE: JULY 18, 1996

ISSUE AND RECOMMENDATION SUMMARY

ISSUE 1: Should the application of Little Sumter Utility Company for water and wastewater certificates be granted?

RECOMMENDATION: Yes, Little Sumter Utility Company should be granted Water Certificate No. 580-W and Wastewater Certificate No. 500-S to serve the territory described in Attachment A. The utility should file an executed and recorded copy of the warranty deeds within thirty days of the issuance date of the Order granting the certificates. (GOLDEN, MCROY)

ISSUE 2: Should the utility's request for an inclining block rate structure be approved?

RECOMMENDATION: Staff recommends that an inclining block rate structure be implemented for the residential customer class as described in the staff analysis. An escrow account should be established prior to the implementation of the rates in accordance with the terms set forth in the staff analysis. Any requests for withdrawals from the escrow account should be accompanied by an explanation of the specific use of the funds, and documentation that the funds will be used to further the conservation program approved by the water management district for this utility. Further, staff recommends that the utility be required to file quarterly reports with the Commission staff which contain the following information for the months included in the quarter: number of customer bills, gallons billed, and revenue collected, separated by usage block. This information should be filed for each customer class and meter size. The utility should file this information for a period of two years from the effective date of the rates. (CHASE)

ISSUE 3: Should a reuse rate be established for Little Sumter Utility Company?

RECOMMENDATION: Not at this time. However, the utility should be put on notice that prior to providing any reuse service, it must file a proposed reuse rate with the Commission along with a reuse cost analysis, a discussion of the utility's alternatives for effluent disposal, and irrigation alternatives available to the potential reuse customers. Further, as part of the subsequent filing addressing a reuse rate, the utility should be required to provide an analysis of whether and how much of the costs associated with the reuse facilities should be spread to its water customers, and the impact on the utility's wastewater rates. (CHASE)

ISSUE 4: What initial water and wastewater rates and return on equity are appropriate for this utility?

RECOMMENDATION: The rates set forth in the staff analysis are appropriate and the return on equity should be established at 11.88%. The utility should file tariff sheets reflecting the approved rates and charges within thirty days of the effective date of the order. The rates should be effective for services rendered on or after the stamped approval date on the tariff sheets. (GOLDEN, MCROY)

ISSUE 5: What are the appropriate service availability charges for Little Sumter Utility Company?

RECOMMENDATION: The service availability charges set forth within the staff analysis are appropriate. The charges should be effective for connections made on or after the stamped approval date on the tariff sheets. (GOLDEN, MCROY)

ISSUE 6: Should the utility's proposed Allowance for Funds Used During Construction (AFUDC) rate be approved?

RECOMMENDATION: Yes. An annual AFUDC rate of 10.60% should be approved with a discounted monthly rate of 0.843100%. The approved rate should be applicable for eligible construction projects beginning on the date the certificate of authorization is issued. (WALKER)

ISSUE 7: Should this docket be closed?

RECOMMENDATION: Yes, upon expiration of the protest period, if there are no timely protests to the proposed agency action issues (Issues 2, 3, 4, 5 and 6), this docket should be closed. (AGARWAL)

STAFF ANALYSIS: Upon expiration of the protest period, if there are no timely protests to the proposed agency action issues (Issues 2, 3, 4, 5 and 6), no further action will be required and this docket should be closed.