

FLORIDA PUBLIC SERVICE COMMISSION

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M E M O R A N D U M

January 09, 1997

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

FROM : DIVISION OF WATER AND WASTEWATER (OKOME, RIEGER) *OKOME*  
DIVISION OF LEGAL SERVICE (REYES) *REYES*

RE : UTILITY: INDIAN SPRINGS UTILITIES, INC.  
DOCKET NO.: 960561-SU  
COUNTY: CITRUS  
CASE: STAFF-ASSISTED RATE CASE

AGENDA : 01/21/97 - REGULAR AGENDA - PROPOSED AGENCY ACTION  
EXCEPT FOR ISSUE 13 and 14 - INTERESTED PERSONS MAY  
PARTICIPATE

CRITICAL DATES: FIFTEEN MONTHS EXPIRES OCTOBER 3, 1997

RECOMMENDATION FILE NAME: I:\PSC\WAW\WP\960561.RCM  
LOTUS WORKSHEET FILE NAME: R:\SPRINGS.WK3

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FPSC-RECORDS/REPORTING

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CASE BACKGROUND

Indian Springs Utilities, Inc. (Indian Springs, ISU or utility) is a Class C wastewater utility located in Citrus County. The utility currently serves 55 single family residences, 74 condominiums, a 36 unit apartment complex and a 106 room motel that includes a recently opened family restaurant. In 1995, the utility recorded wastewater operating revenues of \$34,303 and operating expenses of \$74,950, which resulted in an operating loss of \$40,647.

On August 2, 1983, Indian Springs filed its application for a certificate to operate a water utility in Citrus County. By Order No. 13385, issued June 6, 1984, Indian Springs was granted Certificate No. 429-W. On July 24, 1987, NASI, Inc., and Indian Springs filed a joint application for a transfer of NASI's wastewater certificate. By Order No. 18907, issued February 22, 1988, the transfer of Certificate No. 136-S from NASI, Inc., to Indian Springs was approved.

On June 29, 1990, Indian Springs filed an application for a staff-assisted rate case (SARC). At that time, it was recognized that the water provided by the utility did occasionally have salt water intrusion due to the well's proximity to the Gulf of Mexico. A permanent solution proposed in the rate case involved the utility interconnecting with the City of Crystal River (the City), or installing additional treatment facilities such as reverse osmosis. However, corrections were not required because of the expense involved and the effect it would have had on the rates. By Order No. 24211, issued March 11, 1991, the utility was granted an increase in its water and wastewater rates.

Subsequent to that staff-assisted rate case, the Citrus County Health Department (CCHD) determined that unacceptable levels of bacteria existed in the utility's water. The CCHD recommended that the utility find another water source. The utility began negotiating with the City to interconnect to the City's water supply. Recognizing the increases in expenses that would result from the interconnection, the utility filed for another staff assisted rate case. However, the utility and the City failed to reach an agreement and the interconnection did not take place. By Order No. PSC-93-1823-FOF-WS, issued December 23, 1993, the utility was granted an increase in its water and wastewater rates and was ordered to find an alternative water source.

The utility began negotiating again with the City and a sales agreement was reached in March of 1995. Order No. PSC-95-0900-FOF-WS, issued on July 26, 1995, acknowledged the sale and cancelled

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the water certificate of ISU.

On May 3, 1996, ISU applied for this SARC and has paid the appropriate filing fees. Staff has selected a historical test year ended June 30, 1996. In preparation for this report, Staff has audited the utility's records for compliance with Commission rules and orders and determined all components necessary for rate setting. The Staff engineer has also conducted a field investigation of the utility's wastewater plants and the 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 and operating costs.

A customer meeting was held on October 9, 1996, in the utility's service area to receive quality of service testimony. The results of the meeting are discussed in Issue No. 1.

Staff is recommending that the operating ratio method be used for calculating the revenue requirement for the wastewater system. By Order No. PSC-96-0357-FOF-WU, issued March 13, 1996, in Docket No. 950641-WU, the Commission implemented the use of the operating ratio methodology and established threshold criteria for applicability.

Staff deferred the recommendation that was filed on December 5, 1995, due to discovery of some new information with regards to advances for construction which is discussed in Issue No. 3.

DISCUSSION OF ISSUES

QUALITY OF SERVICE

ISSUE 1: Is the quality of service provided by Indian Springs Utilities, Inc., satisfactory?

RECOMMENDATION: The quality of service provided by Indian Springs should be considered satisfactory. (RIEGER)

STAFF ANALYSIS: The customer meeting was held on October 9, 1996, at the Crystal River City Hall in Crystal River, Florida. There were approximately 17 customers who attended the meeting. Of the eight customers who spoke, there were three who brought up quality of service concerns.

One customer was troubled about pavement settling close to a utility manhole located on a street outside his home. He was concerned about the condition of the manhole and questioned if past repairs to a broken line located near the manhole were done correctly. When asked about this situation, the utility maintains that the manhole and nearby line are in satisfactory condition, and that the settled pavement is merely the result of soil that has settled since the repairs were made. The utility has agreed to fill in the settled part with asphalt and will inform staff upon the project's completion. Staff believes that the utility is acting appropriately in this situation.

Another customer had noticed a leak and smelled an odor at a street intersection. After the customer meeting, staff searched for the problem but could not locate it. The customer has since been contacted and agrees that the situation no longer exists. It is assumed that the problem has been corrected.

One customer at the meeting complained that the treatment plant was unsightly. Staff also received a letter from a customer, complaining of noise and odor emanating from the treatment plant site. Staff has visited the plant site several times during the course of this rate case and has noticed nothing abnormal for this type of facility. These complaints are about problems that are aesthetic in nature. They are often received when residential communities are in close proximity to the treatment facility. No changes are recommended at this time.

In addition to the above, the utility has recently been cited by the Department of Environmental Protection (DEP) for not operating its effluent disposal percolation ponds as originally permitted. Although vegetation control is been performed on a

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regular basis by the utility, more maintenance is needed in order for the ponds to function properly. The utility has submitted a maintenance plan which will allow for alternating loading, the annual removal of vegetation, and the revitalization of the pond bottoms. DEP is currently reviewing the utility's proposal. The utility maintains that increased funds are necessary in order to achieve compliance and has requested that the costs of this maintenance program be allowed. The proposed maintenance costs of \$3,282 have been reviewed for reasonableness. Staff believes that these costs are not a result of deferred maintenance and recommends that they be allowed. The utility appears to be actively cooperating with the DEP. Staff will continue to monitor this situation. There is no need at this time to require the utility to do more.

In consideration of the nature of customer concerns and the utility's willingness to work towards compliance with DEP, it is recommended that the quality of service provided by the utility be considered satisfactory.

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**RATE BASE**

**ISSUE 2:** What are the appropriate used and useful percentages for the wastewater treatment plant and wastewater collection system?

**RECOMMENDATION:** The wastewater treatment plant should be considered 61% used and useful, and the wastewater collection system should be considered 84% used and useful. (RIEGER)

**STAFF ANALYSIS:**

Wastewater Treatment Plant - Originally constructed in 1965, with a capacity of 30,000 gallons per day, the wastewater treatment facility in late 1995 was expanded to a capacity of 50,000 gallons per day. This plant is an activated sludge facility made of two dual treatment units made of concrete. Disinfection is achieved through hypochlorination with the treated effluent flowing to two percolation/evaporation basins.

At the time of the engineering investigation, the effluent appearance was good. However, it was noted that the water color content within the aeration treatment units of the recent expansion appeared dark and unaerated. This is usually an indication that the sludge age has exceeded optimal limits, or not enough air is being delivered because of piping restriction problems, inadequate aeration time, or inadequately sized blowers. Complaints about foul odors have been made to the Department of Health and Rehabilitative Services (HRS). The HRS determined that the blowers are of inadequate sizing and do need to be enlarged. It is suspected that the odors are caused by the insufficient air supply system. The utility is in the process of enlarging the blower sizes. Details of the costs of the replacement blowers will be made in the pro forma section to this report.

By Order No. PSC-93-1823-FOF-WS, issued December 23, 1993, the used and useful for the wastewater treatment facility was determined to be 100% used and useful. At that time, the plant design capacity was 30,000 gallons per day. To accommodate increased flows due to customer growth, the plant was expanded to 50,000 gallons per day in late 1995. Based on current capacity and average flows for the peak month during the test year, and with 743 gallons per day considered for margin reserve, the wastewater treatment plant should be considered 61% used and useful. (Attachment "B")

Wastewater Collection Systems - The wastewater collection system is composed of VCP and PVC pipe, with four lift stations located in the service area. At the time of the engineering investigation, two of the liftstations were operating with only one

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of the two pumps functioning. There appears to have been no problems with back-ups. Presently, the utility is in the process of correcting this problem. Other than the mechanical problems with the two liftstations, the rest of the collection system appeared to be operating properly.

The wastewater collection system has a capacity of 222 ERC's. The number of test year connections is 181 ERC's. With 4.5 ERC's added for margin reserve considerations, it is recommended that the wastewater collection system be considered 84% used and useful (Attachment "B").



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**ISSUE 3:** What is the average test year rate base for the system?

**RECOMMENDATION:** The average test year rate base is \$16,807.  
(OKOME)

**STAFF ANALYSIS:** The appropriate components of the utility's rate base include depreciable plant in service (including proforma plant), land, non-used and useful plant, contributions in aid of construction (CIAC), advances for construction, accumulated depreciation (including the effects of pro forma plant), accumulated amortization of CIAC and working capital. Staff has selected a historical test year ending June 30, 1996, for this rate case. All rate base components have been updated through June 30, 1996, to include additions and reclassification. A discussion of each component of rate base follows:

**Utility Plant in Service (UPIS):** The utility recorded UPIS of \$190,570. UPIS has been decreased by \$1,555 to bring the utility's balance to the appropriate amount pursuant to Order PSC-93-1823-FOF-WS. UPIS was increased by \$900 to reflect a pro forma plant improvement that has been completed. The pro form plant improvement consists of a 7.5 hp blower unit with 10 hp units that will improve the blower capacity and reduce odor complaints. Averaging adjustments reducing wastewater UPIS by \$23,292 were also made. The total adjustment is a decrease in UPIS by \$23,947. Therefore, total recommended utility plant in service is \$166,623.

**LAND:** The utility has not recorded any values on its books. Adjustments of \$3,000 were made to reflect the appropriate balances in wastewater system per Order No. 24211. There have been no changes to the account since the issuance of that Order.

**Non-Used & Useful Plant:** The staff engineer has determined the used and useful percentage of each plant account. Applying the non-used and useful percentages as determined by the staff engineer, staff made an adjustment to reflect average non-used and useful plant of \$46,168. An adjustment was made to reflect average non-used and useful accumulated depreciation of \$18,166. The average non-used and useful CIAC is \$12,039. Staff also made an adjustment to reflect average non-used and useful amortization of CIAC by \$6,214. Therefore, staff recommends that the total non-used and useful plant balance is \$22,17 for the wastewater system.

**Contributions-in-Aid-of Construction (CIAC):** The utility recorded no CIAC during the test period. CIAC has been increased by \$75,241 to bring CIAC to the correct amount approved by Order No. PSC-93-1823-FOF-WS. CIAC has been decreased by \$100 to reflect averaging adjustments. An adjustment was made for \$1,125 to reflect CIAC

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associated with margin reserve. This adjustment imputes 50% of the amount of CIAC attributed to margin reserve because the total amount imputed would be collected over the life of the margin reserve period rather than at the beginning of the period. The Commission approved this departure from standard practice in Order Nos. PSC-96-1320-FOF-WS and PSC-96-1338-FOF-WS issued on October 30, 1996 and November 7, 1996, respectively. Total recommended average CIAC balance is \$76,266.

**ADVANCES FOR CONSTRUCTION:** The utility recorded \$33,600 in notes payable from various parties. The staff audit discovered that the notes have no debt instrument and no payments of principal or interest have been made. Upon further investigation, staff discovered that in 1987, ISU entered into a sewer agreement with Pelican Cove Development Corporation. The agreement states the following terms.

In as much as Pelican Cove Development Corporation is in need of sewer hook-ups and capacity, Pelican Cove Development Corporation agrees to furnish the money needed to purchase the existing sewer plant from Holidays Inn Hotel, and further to furnish the money necessary for improvement and expansion of the sewer plant.

In return, Indian Springs Utilities, Inc. agrees to operate and maintain the sewer system as a privately owned public utility for the benefit of the surrounding neighborhoods and Pelican Cove Development Corporation. In consideration of Pelican Cove Development Corporation providing the up front money, Indian Springs Utilities, Inc. agrees to furnish Pelican Cove Development Corporation up to a maximum of 100 sewer connections at no additional cost other than the purchase and expansion of the sewer system.

In light of the above agreement, staff has recorded these notes as advances for construction. The hook-ups the utility recorded during this test year were for other customers.

Since advances for construction have a negative impact on rate base, the wastewater plant has been decreased by \$33,600.

**Accumulated Depreciation:** The utility's books reflected accumulated depreciation balance of \$77,229. Consistent with Commission practice, staff has calculated accumulated depreciation using the prescribed rates in Rule 25-30.140, Florida Administrative Code, and started with Commission Order No PSC-93-1823-FOF-WS. Staff has decreased accumulated depreciation to the correct amount by \$8,830. Averaging adjustments of \$2,861 were

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also made. Total recommended average accumulated depreciation is \$65,538.

**Amortization of CIAC:** Amortization of CIAC has been calculated consistent with staff's calculation of accumulated depreciation. The utility recorded no amortization of CIAC during the test period. Staff made an adjustment of \$38,838 to increase the balance to the approved amount pursuant to Order PSC-93-1823-FOF-WS. Staff reduced amortization of CIAC by \$1,378 to reflect averaging adjustments. An adjustment was made for \$19 to reflect the amortization of CIAC associated with margin reserve. The resulting balance is \$37,479 accumulated amortization of CIAC for the system.

**Working Capital Allowance:** Consistent with Rule 25-30.443, Florida Administrative Code, staff recommends that the one-eighth of operation and maintenance expense formula approach be used for calculating working capital allowance. The utility recorded working capital allowance of \$4,993 for the test year. Staff made an adjustment of \$2,293 to bring the utility's balance to staff's recommended amount. Applying that formula, staff recommends a working capital allowance of \$7,286 (based on O&M of \$58,288).

**Rate Base Summary:** Based on the foregoing, the appropriate balance for test year rate base is \$16,807.

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

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**COST OF CAPITAL**

**ISSUE 4:** What is the appropriate rate of return on equity, and what is the appropriate overall rate of return for this utility?

**RECOMMENDATION:** The appropriate rate of return on equity is 11.21% with a range of 10.21% - 12.21%, and the appropriate overall rate of return is 9.71% with a range of 9.39% - 10.03%. (OKOME)

**STAFF ANALYSIS:** The utility's capital structure reflected an equity balance of \$25,058, a short term debt balance of \$53,200. and customer deposits of \$675. Staff made an adjustment of \$675 to customer deposits to reflect all deposits returned to customers March 1995.

The utility's return on equity, when based on the leverage graph formula in Order No. PSC-96-0729-FOF-WS, issued May 31, 1996, is 11.21% with a range of 10.21% to 12.21%, and the overall rate of return is 9.71% with a range of 9.39% to 10.03%. Staff made pro rata adjustments to reconcile the capital structure downward to match the recommended rate base.

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

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**NET OPERATING INCOME**

**ISSUE 5:** What is the appropriate test year operating revenue?

**RECOMMENDATION:** The appropriate test year operating revenue should be \$34,099 (OKOME)

**STAFF ANALYSIS:** The utility recorded test year wastewater system revenue of \$38,089. A revenue check based on the test year billing analysis reflects test year revenue of \$34,099 for the system. Staff has decreased revenue by \$3,990 to reflect the appropriate test year revenue.

Test year revenue is shown on Schedule Nos 3 and 3A, and the adjustments are shown on Schedule No. 3B.

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**ISSUE 6:** Should the Commission approve the operating ratio methodology as permitted in Rule 25-30.456, Florida Administrative Code, to be used for calculating the revenue requirement for the wastewater system and if so, what is the appropriate margin?

**RECOMMENDATION:** Yes, the Commission should approve the operating ratio methodology for calculating the revenue requirement for the wastewater system. The margin should be 10% of operation and maintenance expenses. (OKOME)

**STAFF ANALYSIS:** By Order No. PSC-96-0357-FOF-WU, issued March 13, 1996, in Docket No. 950641-WU, the Commission approved the use of the operating ratio methodology for setting rates. The Order also established criteria to determine the use of the operating ratio method and a guideline margin of 10% of operation and maintenance expenses.

Staff believes there are many factors involved in deciding whether to implement an operating ratio (ORM). The following discusses the threshold criteria established in Order No. PSC-96-0357-FOF-SU, and how they apply to ISU:

1) Whether utility's operation and maintenance expense exceed rate base. In the instant case, the rate base is substantially lower than the level of operation and maintenance expense. Based on the staff audit, rate base for the test year was \$16,807, while operation and maintenance expenses were \$58,288.

2) Whether the utility is expected to become a Class B in the foreseeable future. According to Chapter 367.0814(7), Florida Statutes, the alternative forms of regulation being considered in this case apply to Class C utilities only. ISU is a Class C utility and the revenue requirement of \$74,205 is substantially below the threshold level for Class B status (\$150,000 per system). In addition, the historic customer growth rate suggests that ISU will not become a Class B utility in the foreseeable future.

#### OTHER FACTORS

3) Quality of service and condition of plant. As mentioned in Issue No. 1, the quality of service provided by ISU is considered satisfactory. However, the utility is currently under a DEP citation with regards to the performance of its percolation ponds. As discussed in Issue 1, the utility has submitted to the DEP a proposal for maintaining the ponds that it believes will improve their performance. However, because the utility operates in an environmentally sensitive area and it is as yet unknown why the ponds are not functioning properly, there is a great deal of uncertainty as to whether or not the utility's plan will solve the

problem or whether the DEP will even accept it. It appears likely that the DEP will require additional engineering studies and additional rehabilitation or maintenance of the ponds, the costs of which are not included in this case. Moreover, the utility may ultimately be forced to increase its effluent disposal capacity through expanding existing or constructing additional ponds.

4) Whether the utility is developer owned. Although the utility owner is a developer, the service territory is not in the early stages of growth and the customer growth rate is very slow. Moreover, due to the utility's poor cash flow and the uncertainty of future regulatory requirements, the developer status should not disqualify the utility from the ORM.

5) Whether the utility operates treatment facilities or is simply a distribution and/or collection system. ISU operates a wastewater treatment plant and a wastewater collection system.

#### MARGIN PERCENTAGE

By Order No. PSC-96-0357-FOF-WU, issued March 13, 1996, in Docket No. 950641-WU, the Commission determined that a margin of 10% shall be used unless unique circumstances justify the use of a greater or lesser margin. The Commission settled on the 10% margin due to lack of economic guidance on developing an operating ratio method rate of return. The Commission believed that it would be a futile and unwarranted exercise to try to establish a precise return applicable to all small utilities. The important question was not what the return percentage should be, but what level of operating margin will allow the utility to provide safe and reliable service and remain a viable entity. The answer to this question requires a great deal of judgement based upon the particular circumstances of the utility.

Several factors must be considered in determining the reasonableness of a margin. First, the margin must provide sufficient revenues for the utility to cover its interest expense. Indian Springs' interest expense is approximately \$1,000 annually.

Second, use of the CRM rests on the contention that the principal risk to the utility resides in operating cost rather than in capital cost of the plant. The fair return on a small rate base may not adequately compensate the utility owner for incurring the risk associated with covering the much larger operating cost. Therefore, the margin should adequately compensate the utility owner for that risk. Under the rate base method, the return to Indian Springs' owners amounts to only \$600, which is enough to cover only a 1% variance in O&M expenses. Staff believes \$600 is too little of a cushion given this utility's circumstances.

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Third, if the return on rate base method were applied, a normal return would generate such a small level of revenues that in the event staff estimates revenues or expenses incorrectly, the utility could be left with insufficient funds to cover operating expenses. Therefore, the margin should provide adequate revenues to protect against potential variability in revenues and expenses. The return on rate base method would provide Indian Springs only \$1,600 in operating income. Deducting interest expense from this total leaves only \$600 to cover revenue and expense variances. The following gives an indication of the level of risk facing Indian Springs under the return on rate base approach. If as a result of the rate increase the customers reduce consumption by 10%, only 300 gallons per month, revenues would drop by approximately \$3,200. By the same token, an expense variance of only 5% amounts to approximately \$2,900.

In conclusion, Staff believes the above factors show that the utility needs a higher margin of revenues over operating expenses than the traditional return on rate base method would allow. Therefore, in order to provide the utility adequate cash flow to satisfy environmental requirements and to provide some assurance of safe and reliable service, Staff recommends application of the operating ratio methodology at a margin of 10% of operation and maintenance expenses.



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**ISSUE 7:** What are the appropriate amounts for operating expense for the system?

**PRIMARY RECOMMENDATION:** The appropriate amounts for ISU operating expense, based on the "operating margin," should be \$68,376. (OKOME)

**ALTERNATE RECOMMENDATION:** The appropriate amount for ISU operating expense, based on the "rate base method," should be \$68,178. (OKOME)

**PRIMARY STAFF ANALYSIS:** The components of the utility's operating expenses include operation and maintenance expenses, depreciation expense, amortization of CIAC, and taxes other than income taxes.

The utility's test year operating expenses have been traced to invoices. Adjustments have been made to reflect unrecorded test year expenses and reflect recommended allowances for plant operations.

**OPERATION AND MAINTENANCE EXPENSES (O & M):** The utility charged \$39,942 to wastewater O & M during the test year. A summary of adjustments that were made to the utility's recorded expenses follows:

- 1) Salaries and Wages - Employees - The utility recorded no salaries and wages expense for the bookkeeper in this account. The utility recorded salaries and wages expense in contractual services. Staff reclassified this expense from contractual service to this account. The bookkeeper was paid \$200 a month which resulted in a \$2,400 annual salary. An adjustment was made for \$2,400 for annual bookkeeping expense.

An officer of the utility will perform maintenance duties with reference to liftstation maintenance. Staff made an adjustment of \$9,288 to reflect the annual salaries and wages.

- 2) Sludge Removal Expense - The utility recorded \$2,863 for sludge removal expenses during the test year. The utility hauled approximately 23,500 gallons of sludge for \$2,653. Staff made adjustments of \$210 to reduce the sludge removal expense amount for the test year. Staff recommends sludge removal expense of \$2,653 for the wastewater system.

- 3) Purchased Power - The utility recorded \$5,543 for purchased power expense during the test year. Staff increased the expense by \$3,172 to reflect recommended test year purchased power amount.
- 4) Materials and Supplies - The utility recorded \$234 for the system during the test year. Staff increased this expense by \$624 to record test year postage and fax expense. An adjustment was made for \$211 to record the annual expense for a billing software package (\$844/4yrs).
- 5) Contractual Services - The utility recorded \$15,689 for the system during the test period. Numerous adjustments were made to reflect reclassifications, allowances and disallowances. Staff's recommended balance is \$18,504 for the system.
- 6) Rents - The utility recorded \$2,400 for rent expense during the test year. Staff made an adjustment of \$3,468 to reflect test year expense of \$5,868 requested by the utility.
- 7) Transportation Expense - The utility did not record transportation expense for the test year. Staff made an adjustment of \$1,088 for transportation expense for overseeing plant operations for the test year.
- 8) Regulatory Commission Expense - This expense has been decreased by \$1,636 to reclassify regulatory assessment fees to taxes other than income. Staff reclassified rate case expense of \$1,000 from contractual services. An adjustment of \$750 was made to record the utility's rate case expense amortized over four years.
- 9) Miscellaneous Expenses - The utility charged \$4,932 to the wastewater system during the test year. Staff decreased this expense by \$800 to record DEP licenses expense amortized over five years and \$2,324 to record permitting expense amortized over five years. The recommended balance for the system is \$1,808.

**Operation and Maintenance Expenses (O & M) Summary:** Total operation and maintenance adjustments are \$18,346. Staff recommends test year operation and maintenance expenses of \$58,288.

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**Depreciation Expense:** The utility did not record depreciation expense during the test period. Applying the prescribed depreciation rates to the appropriate used and useful plant in service account balances results in depreciation expense of \$4,572 for the test year for the system.

**Amortization of CIAC:** Amortization of CIAC has a negative impact on depreciation expense. Amortization of CIAC has been calculated using the rate prescribed by Rule 25-30.140, Florida Administrative Code. The utility did not record amortization expense for the test year. Staff recommends \$2,074 to reflect calculated test year amortization expense.

**Taxes Other Than Income:** The utility recorded taxes other than income of \$88. Staff has adjusted this account by \$1,434 to include ad valorem tax for the test year, by \$2,729 to reflect taxes on recommended salaries, by \$1,636 to reclassify regulatory assessment fees from regulatory commission expense and by \$102 to reflect regulatory assessment fees for the staff's test year revenue. Staff made a total adjustment of \$5,697 to adjust the utility balance to staff's recommended balance.

**Operating Revenues:** Revenues have been adjusted by \$40,106 to reflect the increase in revenue required to cover expenses and allow the recommended rate of return on investment.

**Taxes Other Than Income Taxes:** This expense has been increased by \$1,805 to reflect the regulatory assessment fee of 4.5% on the increase in revenue.

**Operating Expenses Summary:** The application of staff's recommended adjustments to the utility's test year operating expenses results in staff's recommended operating expenses of \$68,376.

Operating expenses are shown on Schedules Nos. 3 and 3A  
Adjustments are shown on Schedule No. 3B.

**ALTERNATE STAFF ANALYSIS:** Should the Commission decide to establish the rate of return based on rate base considerations, the two differences to the above analysis would be the revenue requirement and the level of regulatory assessment fees. Revenues will be adjusted by \$35,711 to reflect the increase in revenue required to cover utility expense and allow a recommended rate of return on investment. This expense has been increased by \$1,607 to reflect the regulatory assessment fee of 4.5% on the increase in revenue. The application of staff's recommended adjustments to the utility's test year operating expenses result in staff's recommended operating expense of \$68,178.

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**REVENUE REQUIREMENT**

**ISSUE 8:** What is the appropriate revenue requirement?

**PRIMARY RECOMMENDATION:** The appropriate revenue requirement, based on the "operating ratio method" of calculating the revenue requirement, is \$74,205. (OKOME)

**ALTERNATE RECOMMENDATION:** The appropriate revenue requirement, based on the "rate base method" of calculating the revenue requirement, is \$69,810. (OKOME)

**PRIMARY STAFF ANALYSIS:** Based on the "operating ratio method" of calculating the revenue requirement, ISU should be allowed an annual increase in revenue of \$40,106 (117.62%) for the wastewater system. The calculations are as follows:

	<u>Wastewater</u>
Operation and maintenance expense	\$ 58,288
Rate of Return % (ORM)	<u>10%</u>
Rate of return \$	5,829
Depreciation	4,572
Amortization of CIAC	(2,074)
Taxes Other Than Income Taxes	4,251
Adjusted O&M	<u>58,288</u>
Total Expense	70,866
RAF's	<u>.955</u>
Revenue Requirement	74,205
Unadjusted Revenue	<u>34,099</u>
Revenue Increase	<u>\$ 40,106</u>
Percentage Increase	<u>117.62%</u>

The revenue requirements and resulting annual increases are shown on Schedule No. 3.

**ALTERNATE STAFF ANALYSIS:** Based on the "rate base method" of calculating the revenue requirement, ISU should be allowed an annual increase in revenue of \$35,711. This will allow the utility the opportunity to recover its expenses and earn a 9.71% return on investment. The calculation is as follows:

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Wastewater

Adjusted Rate Base	\$ 16,807
Rate of Return	<u>x .0971</u>
Return on Investment	\$ 1,632
Adjusted Operation Expenses	58,288
Net Depreciation Expense	2,498
Taxes Other Than Income Taxes	7,392
Revenue Requirement	<u>\$ 69,810</u>
Annual Revenue Increase	\$ 35,711
Percentage Increase	<u>104.73%</u>

The revenue requirements and resulting annual increases are shown on Schedule No. 3A.

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**RATES AND CHARGES**

**ISSUE 9:** What is the appropriate rate structure, and what are the recommended rates for this utility?

**PRIMARY RECOMMENDATION:** The recommended rates using the operating ratio methodology should be designed to produce revenue of \$74,205 using the base facility charge rate structure. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), Florida Administrative Code. The rates should not be implemented until proper notice has been received by the customers. The utility should provide proof of the date notice was given within 10 days after the date of the notice. (OKOME)

**ALTERNATE RECOMMENDATION:** The recommended rates using the return on rate base methodology should be designed to produce revenue of \$69,810 using the base facility charge rate structure. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), Florida Administrative Code. The rates should not be implemented until proper notice has been received by the customers. The utility should provide proof of the date notice was given within 10 days after the date of the notice. (OKOME)

**PRIMARY STAFF ANALYSIS:** The preferred rate structure is the base facility and gallonage charge rate structure, because it is designed to provide for the equitable sharing by the ratepayers of both the fixed and variable costs of providing service. The base facility charge is based upon the concept of the readiness to serve all customers connected to the system. This ensures that ratepayers pay their share of variable costs of providing service through the consumption or gallonage charge and also their share of the fixed cost of providing service through the base facility charge.

In past rate cases, the base facility and gallonage charge rate structure was not practical for ISU's wastewater customers. There was a large segment of the wastewater customer base who were not customers of ISU's water system. These customers either had their own wells or purchased water from the City. Therefore, consistent with the Commission's decisions in ISU's past rate cases, staff retained the wastewater system's flat rate structure.

However, as mentioned in the case background, the Commission, by Order No. PSC-95-0900-FOP-WS, acknowledged the sale and cancellation of the water certification of ISU. The City provides water for ISU's service area. Now the utility is able to obtain through the City meter readings for its wastewater customers.

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Therefore, staff recommends conversion from a flat rate to a base facility charge/gallonage rate structure. Based on the consumption data provided by the City, the average residential consumption is 3,037 gallons per month for the wastewater system. This figure is not indicative of high consumption; therefore, no additional rate structure conservation measures are necessary.

The utility currently provides service to approximately 167 residential and 2 general service customers. Rates have been calculated based on test year customers and consumption levels. Schedules of the utility's existing rates and rate structure and staff's recommended rates and rate structure are as follows:

MONTHLY WASTEWATER RATES

OPERATING RATIO METHOD

Residential and General Service

	<u>Current Rates</u>
<u>Monthly Flat Rates :</u>	
Residential :	\$ 14.30
Multi-Residential:	\$ 14.30
Motel:	\$ 757.79

Base Facility Charge

<u>Meter Sizes:</u>	<u>Staff's Recommended Rates</u>
5/8" x 3/4"	\$ 18.45
1"	46.12
1 1/2"	92.23
2"	147.57
3"	295.15
4"	461.17
6"	922.34

Gallonage Charge

Per 1,000 Gallons

Residential (6,000 gallons max.)	\$ 2.99
General Service	\$ 3.59

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A schedule of an average residential customer bill based on existing and staff's recommended rates are as follows:

Average bill using recommended rates	\$	27.53
Average bill using existing rates		<u>(14.30)</u>
Increase in average bill	\$	13.23
Percentage increase in average bill =		92.52% (\$13.23/\$14.30)

Staff's recommended rates are designed to produce revenue of \$74,205, using the base facility charge rate structure. If the Commission approves staff's recommendation, these rates should be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), Florida Administrative Code, provided the customers have received notice. The rates should not be implemented until proper notice has been received by the customers. The utility should provide proof of the date notice was given within 10 days after the date of the notice.

**ALTERNATE STAFF ANALYSIS:** The preferred rate structure is the base facility and gallonage charge rate structure, because it is designed to provide for the equitable sharing by the ratepayers of both the fixed and variable costs of providing service. The base facility charge is based upon the concept of the readiness to serve all customers connected to the system. This ensures that ratepayers pay their share of variable costs of providing service through the consumption or gallonage charge and also their share of the fixed cost of providing service through the base facility charge. Using the return on rate base methodology, schedules of the utility's existing rates and rate structure and staff's recommended rates and rate structure are as follows:

MONTHLY WASTEWATER RATES

RATE BASE METHOD

Residential and General Service

Current Rates

Monthly Flat Rates :

Residential :	\$	14.30
Multi-Residential:	\$	14.30
Motel:	\$	757.79



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Base Facility Charge

<u>Meter Sizes:</u>	<u>Staff's Recommended Rates</u>
5/8" x 3/4"	\$ 18.45
1"	46.12
1 1/2"	92.24
2"	147.58
3"	295.16
4"	461.19
6"	922.37

Gallorage Charge

Per 1,000 Gallons

Residential (6,000 gallons max.)	\$ 2.58
General Service	\$ 3.09

A schedule of an average residential customer bill based on existing and staff's recommended rates are as follows:

Average bill using recommended rates	\$ 26.29
Average bill using existing rates	<u>(14.30)</u>
Increase in average bill	\$ 11.99
Percentage increase in average bill	= 83.85% (\$11.99/\$14.30)

Staff's recommended rates are designed to produce revenue of \$69,810, using the base facility charge rate structure. If the Commission approves staff's recommendation, these rates should be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), Florida Administrative Code, provided the customers have received notice. The rates should not be implemented until proper notice has been received by the customers. The utility should provide proof of the date notice was given within 10 days after the date of the notice.

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**ISSUE 10:** Should the utility's request to implement a late charge be approved, and, if so, what are the appropriate charges?

**RECOMMENDATION:** Yes, the utility's request to implement a late charge should be approved. The appropriate charge should be \$3.00. The new charges should be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), Florida Administrative Code. (OKOME)

**STAFF ANALYSIS:** Pursuant to Section 367.091(5), Florida Statutes, a utility may apply to establish, increase, or change a rate or charge other than monthly rates for service or service availability charges. These applications are to be accompanied by a cost justification. The utility has requested that it be allowed to charge a late charge. Staff recommends that the utility be allowed to implement a late charge of \$3.00. The purpose of this charge is not only to provide an incentive for customers to make timely payments, thereby reducing the number of delinquent accounts, but also to place the cost burden of processing such delinquent notices and accounts solely upon those who are the cost causers. Statistics cost justification filed with this request show that the percentage of revenue associated with delinquent bills was \$4,035 which is 11% of total revenue for the past year.

In the past, late payment fee requests have been handled on a case-by-case basis. Recommendations have been made upon the conditions presented by each individual utility. The Commission has authorized late payment charges for wastewater companies based on demonstration by the company of a service delinquency problem. In Order No. 8157, issued on February 2, 1978, a 5% late charge was approved for residential customers of Santa Villa Utilities. Santa Villa is a sewer-only utility. In Order No. 20779, issued on February 20, 1988, the Commission authorized a 1.5% late charge on all customers of Longwood Utilities, also a sewer-only company. The Commission has approved a late charge for sewer-only operations because of the difficulty in shutting off a customer's sewer service.

Late charges for both water and wastewater operations have also been approved by the Commission. In Docket No. 891365-WS, Ortega Utility submitted cost justification for a late charge request of \$5.00. The Commission approved a \$3.00 late charge. The utility reported that 30% of its customer base was establishing a trend of paying late, and it intended to discourage this practice by charging late payers. In 1992, the Commission approved a \$3.00 late payment charge for Palm Coast Utility Corporation, a water and wastewater utility in Flagler County, in Docket No. 920349-WS, and for Ferncrest Utilities, Inc., a water and wastewater utility in Broward County, in Docket No. 920535-WS. In 1993, the Commission

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also approved a \$3.00 late payment charge for Rolling Oaks Utilities, Inc. in Citrus County and for Hydratech Utilities, Inc. in Marion County.

Presently, Commission rules provide that late payers may be required by the utility to provide an additional deposit. However, there is no further incentive for either delinquent or late paying customers to pay their bills on time. Staff believes that the cost causer should pay the additional costs incurred to the utility by late payments, rather than the general body of the utility's rate payers. Therefore, staff recommends that the utility's request to implement a late payment charge of \$3.00 should be approved.

If the Commission approves staff's recommendation, this charge should be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), Florida Administrative Code.

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**ISSUE 11:** Should the utility's service availability charges be revised, and if so, what are the appropriate charges for the system?

**RECOMMENDATION:** Yes, the utility's current service availability charges should be increased to allow for a main extension charge of \$200 and a plant capacity charge of \$300. (OKOME, RIEGER)

**STAFF ANALYSIS:** The utility's existing tariff authorizes a wastewater service availability charge of \$100. Staff is recommending a main extension charge of \$200 and a plant capacity charge of \$300 for future connections. In order to evaluate the utility's service availability charges, staff relied on Rule 25-30.580, Florida Administrative Code, which states in part that:

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

The wastewater system is at a 39.71% contribution level which is less than the 75% level referenced in the rule. The minimum contribution thresholds have not been met. The customer growth using regression analysis in ERC's for the most recent five years including the test year is 3 ERC's. Therefore, staff recommends that the utility's service availability charge be increased to allow for a main extension charge of \$200 and \$300 for a plant capacity charge.

**OTHER ISSUES**

**ISSUE 12:** What is the appropriate amount by which revenues should be reduced four years after the established effective date to reflect the removal of the amortized rate case expense as required by Section 367.0816, Florida Statutes?

**RECOMMENDATION:** Revenues should be reduced by a total of \$262 annually to reflect the removal of rate case expense grossed-up for regulatory assessment fees which is being amortized over a four year period. Using the utility's current revenues, expenses, capital structure and customer base, the effect of the revenue reduction results in rate decreases as shown on Schedule No. 4. The decrease in rates should become effective immediately following the expiration of the four year rate case expense recovery period, pursuant to Section 367.0816, Florida Statutes. The utility should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. (OKOME)

**STAFF ANALYSIS:** Section 367.0816, Florida Statutes, requires that the rates be reduced immediately following the expiration of the four year period by the amount of the rate case expense previously included in the rates. The reduction will reflect the removal of revenues associated with the amortization of rate case expense and the gross-up for regulatory assessment fees which is \$262 annually for wastewater. Using the utility's current revenues, expenses, capital structure and customer base the reduction in revenues will result in the rate decreases as shown on Schedule No. 4.

The utility should be required to file revised tariff sheets no later than one month prior to the actual date of the required rate reduction. The utility also should be required to file a proposed customer notice setting forth the lower rates and the reason for the reduction.

If the utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data shall 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.

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**ISSUE 13:** Should the recommended rates be approved for the utility on a temporary basis, subject to refund, in the event of a protest filed by a party other than the utility?

**RECOMMENDATION:** Yes, 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. 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. (OKOME, RIEGER, REYES)

**STAFF ANALYSIS:** This recommendation proposes an increase in wastewater rates. A timely protest might delay what may be a justified rate increase resulting in an unrecoverable loss of revenue to the utility. Therefore, 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 staff's approval of security for both the potential refund and a copy of the proposed customer notice. The security should be in the form of a bond or letter of credit in the amount of \$27,753, if the "operating ratio method" of calculating the revenue requirement is accepted, or \$24,712, if the "rate base method" is used. Alternatively, the utility could establish an escrow agreement with an independent financial institution.

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

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

If the utility chooses a letter of credit as a security, it should contain the following conditions:

- 1) The letter of credit is irrevocable for the period it is in effect.
- 2) The letter of credit will be in effect until a final Commission order is rendered, either approving or denying the rate increase.

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

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

In no instance should the maintenance and administrative costs associated with the refund be borne by the customers. These costs are the responsibility of, and should be borne by, the utility. Irrespective of the form of security chosen by the utility, an account of all monies received as result of the rate increase should be maintained by the utility. This account must specify by whom and on whose behalf such monies were paid. If a refund is ultimately required, it should be paid with interest calculated pursuant to Rule 25-30.360(4), Florida Administrative Code.

The utility should maintain a record of the amount of the bond, and the amount of revenues that are subject to refund. In

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addition, after the increased rates are in effect, the utility should file reports with the Division of Water and Wastewater no later than 20 days after each monthly billing. These reports shall indicate the amount of revenue collected under the increased rates.



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**ISSUE 14:** Should the Commission order Indian Springs Utility, Inc. to show cause in writing within twenty days why it should not be fined for violation of Rule 25-30.115, Florida Administrative Code, and Order Nos. 24211 and PSC-93-1823-FOF-WS requiring the utility to maintain its books and records in conformity with the 1984 NARUC Uniform System of Accounts. (USOA)?

**RECOMMENDATION:** No; however, the utility should be required to maintain its books and records in conformity with the 1984 NARUC Uniform System of Accounts and should also be put on notice that future violations will result in initiation of a show cause proceeding. The utility should also be admonished for its failure to comply with previous Commission orders. (REYES)

**STAFF ANALYSIS:** Paragraph (1) of Rule 25-30.115, Florida Administrative Code, entitled "Uniform System of Accounts for Water and Sewer Utilities", states:

- 1) Water and Sewer Utilities shall, effective January 1, 1986, maintain its [sic] accounts and records in conformity with the 1984 NARUC Uniform System of Accounts adopted by the National Association of Regulatory Utility Commissioners.

By Order Nos. 24211 and PSC-93-1823-FOF-WS, issued March 11, 1991, and December 23, 1993, respectively, the utility was ordered to maintain its books and records in conformity with the USOA. However, the utility's books were not maintained in conformity with the USOA, although the utility's annual reports, prepared by a C.P.A., were in conformity with the USOA. Section 367.161, Florida Statutes, authorizes the Commission to assess a penalty of not more than \$5,000 for each offense, if a utility is found to have knowingly refused to comply with or to have willfully violated any lawful rule or order of the Commission.

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). Thus, any intentional act, such as the utility's failure to maintain its books and records in conformity with the USOA, is an apparent violation of Rule 25-30.115, Florida Administrative Code. In 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

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"[i]n our view, '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 the utility has failed to maintain its books and records in conformity with the USOA, staff does not believe that the violation of Rule 25-30.115, Florida Administrative Code, and Order Nos. 24211 and PSC-93-1823-FOF-WS rises in these circumstances to the level of warranting initiation of show cause proceedings. The utility's bookkeeper previously had no experience or knowledge of the USOA and was hired after the last Order was issued. Therefore, the bookkeeper was unaware that the utility was in violation of any Commission Order. However, during the course of this SARC, the bookkeeper has subsequently been advised by staff of the steps necessary to convert and maintain the utility's records in conformity with the above-referenced rule. Staff discussed with the utility's bookkeeper the failure to maintain the utility's books and records in conformity with USOA and advised the bookkeeper to obtain the information from NARUC on how to maintain its books and records in conformity with 1984 NARUC USOA. The utility has obtained the information from NARUC and has advised staff that the bookkeeper is in the process of studying the NARUC system of accounting. The utility will bring its books and records into compliance with the USOA starting January 1997.

Based on the foregoing, staff does not recommend that the utility be ordered to show cause why it did not comply with Rule 25-30.115, Florida Administrative Code, and Order Nos. 24211 and PSC-93-1823-FOF-WS requiring the utility to maintain its books and records in conformity with 1984 NARUC USOA. However, the utility should be admonished for its failure to comply with the previous orders. Staff recommends that the utility be required to maintain its books and records in conformity with the 1984 NARUC Uniform System of Accounts and should also be put on notice that future violations will result in initiation of a show cause proceeding.

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**ISSUE 15:** Should this docket be closed?

**RECOMMENDATION:** Yes, upon expiration of the protest period, if no timely protest is received from a substantially affected person within 21 days from the issuance of the Order, this docket should be closed administratively. (OKOME, RIEGER, REYES)

**STAFF ANALYSIS:** Upon expiration of the protest period, if no timely protest is received within 21 days from the issuance of the Order, this docket should be closed administratively.

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Attachment "B"

WASTEWATER TREATMENT PLANT

USED AND USEFUL DATA

Docket No. 960561-SU Utility Indian Springs Date July 96  
1) Capacity of Plant 50,000 gallons  
per day  
2) Maximum Daily Flow 30,000+ gallons  
per day  
3) Average Daily Flow 30,000 gallons  
per day  
4) Fire Flow Requirements NOT APPLICABLE gallons  
per day  
5) Margin Reserve 743 gallons  
per day

\*Not to exceed 20% of  
present customers

- a) Test Year Customers in ERC's - Begin 181 End 181 Av. 181  
b) Customer Growth Using Regression Analysis in ERC's  
for Most Recent 5 Years Including Test Year 3  
ERC's  
c) Construction Time for Additional Capacity 1.5  
Years

$$(b) \times (c) \times \left[ (a) \frac{3}{1} \right] = \underline{743} \text{ gallons per day}$$

6) Excessive Infiltration none found gallons per day

a) Total Amount \_\_\_\_\_ gallons per day \_\_\_\_\_% of Av. Daily  
Flow

b) Reasonable Amount \_\_\_\_\_ gallons per day \_\_\_\_\_% of Av.  
Daily Flow

c) Excessive Amount \_\_\_\_\_ gallons per day \_\_\_\_\_% of Av.  
Daily Flow

PERCENT USED AND USEFUL FORMULA

$$\frac{[(3) + (5)] - 6}{1} = \underline{61} \% \text{ Used and Useful}$$

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Attachment "B"

WASTEWATER COLLECTION SYSTEM

USED AND USEFUL DATA

Docket No. 960561-SU Utility Indian Springs Date July 96

- 1) Capacity 222 ERC's (Number of potential customers without expansion)
- 2) Number of TEST YEAR Connections 181 ERC's
  - a) Begin Test Year 181 ERC's
  - b) End Test Year 181 ERC's
  - c) Average Test Year 181 ERC's
- 3) Margin Reserve (Not to exceed 4.5 ERC's  
20% of present customers)
  - a) Customer Growth Using Regression Analysis in ERC's for Most Recent  
5 Years Including Test Year 3 ERC's
  - c) Construction Time for Additional Capacity 1.5 Years
  - (a) x (b) = 4.5 ERC's Margin Reserve

PERCENT USED AND USEFUL FORMULA

$$\frac{(2 + 3)}{1} = \underline{84} \% \text{ Used and Useful}$$

INDIAN SPRINGS UTILITIES, INC.  
 SCHEDULE OF WASTEWATER RATE BASE  
 TEST YEAR ENDING JUNE 30, 1996

SCHEDULE NO. 1  
 DOCKET NO. 960561-SU

	<u>TEST YEAR PER UTILITY</u>	<u>STAFF ADJUST. TO UTIL. BAL.</u>	<u>BALANCE PER STAFF</u>
UTILITY PLANT IN SERVICE	\$ 190,570	\$ (23,947) A	\$ 166,623
LAND/NON-DEPRECIABLE ASSETS	3,000	0	3,000
NON-USED & USEFUL PLANT	0	(22,177) B	(22,177)
CIAC	0	(76,266) C	(76,266)
ADVANCES FOR CONSTRUCTION	0	(33,600) D	(33,600)
ACCUMULATED DEPRECIATION	(77,229)	11,691 E	(65,538)
ACCUMULATED AMORTIZATION OF CIAC	0	37,479 F	37,479
WORKING CAPITAL ALLOWANCE	<u>4,993</u>	<u>2,293 G</u>	<u>7,286</u>
WASTEWATER RATE BASE	\$ 121,334	\$ (104,527)	\$ <span style="border: 1px solid black; padding: 2px;">16,807</span>

INDIAN SPRINGS UTILITIES, INC.  
 ADJUSTMENTS TO RATE BASE  
 TEST YEAR ENDING JUNE 30, 1996

SCHEDULE NO. 1A  
 DOCKET NO. 960561-SU

<u>A. UTILITY PLANT IN SERVICE</u>	<u>WASTEWATER</u>
1. To bring utility balance to staff's recommended plant.	\$ (1,555)
2. To reflect pro forma plant.	900
3. To reflect averaging adjustment.	(23,292)
	<u>\$ (23,947)</u>
<u>B. NON-USED AND USEFUL PLANT</u>	
1. Average non-used & useful plant.	\$ (46,168)
2. Average non-used & useful accumulated depreciation.	18,166
3. Average non-used & useful CIAC.	12,039
4. Average non-used & useful amortization of CIAC.	(6,214)
	<u>\$ (22,177)</u>
<u>C. CONTRIBUTIONS IN AID OF CONSTRUCTION</u>	
1. To include CIAC not recorded by utility.	\$ (75,241)
2. To reflect averaging adjustment.	100
3. To reflect CIAC for margin reserve.	(1,125)
	<u>(76,266)</u>
<u>D. ADVANCES FOR CONSTRUCTION</u>	
1. To reflect cash advance for construction.	<u>\$ (33,600)</u>
<u>E. ACCUMULATED DEPRECIATION</u>	
1. To bring utility balance to staff's recommended amount.	\$ 8,830
2. To reflect averaging adjustment.	2,861
	<u>\$ 11,691</u>
<u>F. ACCUMULATED AMORTIZATION OF CIAC</u>	
1. To include acc/amort. not recorded by utility.	\$ 38,838
2. To reflect averaging adjustment.	(1,378)
3. To reflect amort. of CIAC for margin reserve.	19
	<u>\$ 37,479</u>
<u>G. WORKING CAPITAL ALLOWANCE</u>	
1. To bring utility's balance to staff's recommended amount of 1/8 of operation and maintenance expenses.	<u>\$ 2,293</u>

INDIAN SPRINGS UTILITIES, INC.  
 SCHEDULE OF CAPITAL STRUCTURE  
 TEST YEAR ENDING JUNE 30, 1996

SCHEDULE NO. 2  
 DOCKET NO. 960561-SU

	PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF	STAFF RECONC. ADJ.	ADJUSTED STAFF BALANCE	PERCENT OF TOTAL	COST	WEIGHTED COST
COMMON EQUITY	\$ 25,058	\$ 0	\$ 25,058	(19,676)	5,382	32.02%	11.21%	3.59%
SHORT TERM DEBT	53,200	0	53,200	(41,775)	11,425	67.98%	9.00%	6.12%
CUSTOMER DEPOSITS	675	(675)	0	0	0	0.00%	6.00%	0.00%
TOTAL	\$ 78,933	\$ (675)	\$ 78,258	(61,451)	16,807	100.00%		9.71%

<u>RANGE OF REASONABLENESS</u>	<u>LOW</u>	<u>HIGH</u>
RETURN ON EQUITY	10.21%	12.21%
OVERALL RATE OF RETURN	9.39%	10.03%



INDIAN SPRINGS UTILITIES, INC.  
 SCHEDULE OF WASTEWATER OPERATING INCOME  
 TEST YEAR ENDING JUNE 30, 1996  
 OPERATING RATIO METHOD

SCHEDULE NO. 3  
 DOCKET NO. 960561-SU

	TEST YEAR PER UTILITY	STAFF ADJ. TO UTILITY	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	TOTAL PER STAFF
OPERATING REVENUES	\$ <u>38,089</u>	\$ (3,990) A	\$ <u>34,099</u>	\$ <u>40,106</u> F	\$ <u>74,205</u>
OPERATING EXPENSES:					
OPERATION AND MAINTENANCE	\$ 39,942	\$ 18,346 B	\$ 58,288	\$ 0	\$ 58,288
DEPRECIATION	0	4,572 C	4,572	0	4,572
AMORTIZATION	0	(2,074) D	(2,074)	0	(2,074)
TAXES OTHER THAN INCOME	88	5,697 E	5,785	1,805 G	7,590
INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL OPERATING EXPENSES	\$ <u>40,030</u>	\$ <u>26,541</u>	\$ <u>66,571</u>	\$ <u>1,805</u>	\$ <u>68,376</u>
OPERATING MARGIN	\$ <u>(1,941)</u>		\$ <u>(32,472)</u>		\$ <u>5,829</u>
MARGIN % OF O&M	\$ <u>-4.80%</u>		\$ <u>-48.77%</u>		\$ <u>10.00%</u>
OPERATING RATIO (TOTAL OPERATING EXP./REVENUES)	\$ <u>105.10%</u>		\$ <u>195.23%</u>		\$ <u>92.14%</u>

INDIAN SPRINGS UTILITIES, INC.  
 SCHEDULE OF WASTEWATER OPERATING INCOME  
 RATE BASE METHOD

SCHEDULE NO. 3A  
 DOCKET NO. 960561-SU

	<u>TEST YEAR PER UTILITY</u>	<u>STAFF ADJ. TO UTILITY</u>	<u>STAFF ADJUSTED TEST YEAR</u>	<u>ADJUST. FOR INCREASE</u>	<u>TOTAL PER STAFF</u>
OPERATING REVENUES	\$ 38,089	\$ (3,990) A	\$ 34,099	\$ 35,711 F	\$ 69,810
OPERATING EXPENSES:					
OPERATION AND MAINTENANCE	\$ 39,942	\$ 18,346 B	\$ 58,288	\$ 0	\$ 58,288
DEPRECIATION	0	4,572 C	4,572	0	4,572
AMORTIZATION	0	(2,074) D	(2,074)	0	(2,074)
TAXES OTHER THAN INCOME	88	5,697 E	5,785	1,607 G	7,392
INCOME TAXES	0	0	0	0	0
TOTAL OPERATING EXPENSES	\$ 40,030	\$ 26,541	\$ 66,571	\$ 1,607	\$ 68,178
OPERATING INCOME/(LOSS)	\$ (1,941)		\$ (32,472)		\$ 1,632
WASTEWATER RATE BASE	\$ 121,334		\$ 15,735		\$ 16,807
RATE OF RETURN	\$ -1.60%		\$ -206.37%		\$ 9.71%

INDIAN SPRINGS UTILITIES, INC.  
 ADJUSTMENTS TO OPERATING INCOME  
 TEST YEAR ENDING JUNE 30, 1996

SCHEDULE NO. 3B  
 DOCKET NO. 966531-SU  
 PAGE 1 OF 2

A. OPERATING REVENUES

1. To adjust utility figure to staff's billing analysis.

WASTEWATER  
 \$ (3,990)

B. OPERATION AND MAINTENANCE EXPENSES

1. (701) Salaries and Wages - Clerical  
 a. To record annual salaries and wages for the bookkeeper.  
 b. To record annual salaries and wages for the officer.

\$ 2,400  
 9,288  
11,688

2. (711) Sludge Removal Expense  
 a. To record sludge removal expense for the test year.

\$ (210)

3. (715) Purchased Power  
 a. To record test year purchase power expense.

\$ 3,172

4. (720) Materials and Supplies  
 a. To record test year postage & fax expenses.  
 b. To record annual expenses for utility billing package.

\$ 624  
 211  
835

5. (730) Contractual Services  
 a. To record test year repair and maintenance expense.  
 b. To record test year grounds keeping expense.  
 c. To record sludge analysis expense for the test year.  
 d. To reclassify bookkeeping expense to acct #701.  
 e. To reflect annual bookkeeping expense.  
 f. To record annual contract operator expense.  
 g. To record test year laboratory testing expense.  
 h. To reclassify rate case expense to account # 765.  
 i. To record annual meter reading expense from the city.  
 j. To record pavement repair expense.

\$ 2,486  
 3,282  
 390  
 (2,400)  
 (300)  
 (2,351)  
 1,200  
 (1,000)  
 1,200  
 308  
2,815

6. (740) Rents  
 a. To record test year rent expense.

\$ 3,468

7. (750) Transportation Expense  
 a. To record transportation expense for the test year.

\$ 1,088

8. (765) Regulatory Commission Expense  
 a. To reclassify reg. assessment fee to taxes other than income  
 b. To reclassify rate case expense from account #730.7.  
 c. To include rate case expense amortized over 4 years.

\$ (1,636)  
 1,000  
 (750)  
(1,386)

9. (775) Miscellaneous Expense  
 a. To record DEP licenses expense amortized over 5yrs.  
 b. To record permitting expense amortized over 5yrs.

\$ (800)  
 (2,324)  
(3,124)

O & M TOTAL

\$ 18,346

INDIAN SPRINGS UTILITIES, INC.  
ADJUSTMENTS TO OPERATING INCOME  
TEST YEAR ENDING JUNE 30, 1996

SCHEDULE NO. 3B  
DOCKET NO. 960561-SU  
PAGE 2 OF 2

C. <u>DEPRECIATION</u>	
1. To adjust to staff's recommended balance.	\$ <u>4,572</u>
D. <u>AMORTIZATION</u>	
1. To include staff's recommended amortization expense.	\$ <u>(2,074)</u>
E. <u>TAXES OTHER THAN INCOME</u>	
1. To include ad valorem tax.	\$ 1,434
2. To include payroll tax on staff's recommended salary.	2,729
3. To reclassify regulatory assessment fees from account #765.	1,636
4. To adjust regulatory assessment fees to staff's test year revenue.	(102)
	\$ <u>5,697</u>
F. <u>OPERATING REVENUES</u>	
1. To reflect staff's recommended revenue increase.	\$ <u>40,106</u>
G. <u>TAXES OTHER THAN INCOME</u>	
1. To reflect the additional regulatory assessment fee associated with staff's recommended revenue requirement.	\$ <u>1,805</u>

INDIAN SPRINGS UTILITIES, INC.  
 ANALYSIS OF WASTEWATER OPERATION AND  
 MAINTENANCE EXPENSE  
 TEST YEAR ENDING JUNE 30, 1996

SCHEDULE NO. 3C  
 DOCKET NO. 960561-SU

	<u>TOTAL PER UTIL.</u>	<u>STAFF ADJUST.</u>	<u>TOTAL PER STAFF</u>
(701) SALARIES AND WAGES - EMPLOYEES	\$ 0	\$ 11,688 [1]	\$ 11,688
(703) SALARIES AND WAGES - OFFICERS	4,800	0	4,800
(704) EMPLOYEE PENSIONS AND BENEFITS	0	0	0
(710) PURCHASED SEWAGE TREATMENT	0	0	0
(711) SLUDGE REMOVAL EXPENSE	2,863	(210) [2]	2,653
(715) PURCHASED POWER	5,543	3,172 [3]	8,715
(716) FUEL FOR POWER PRODUCTION	0	0	0
(718) CHEMICALS	1,845	0	1,845
(720) MATERIALS AND SUPPLIES	234	835 [4]	1,069
(730) CONTRACTUAL SERVICES	15,689	2,815 [5]	18,504
(740) RENTS	2,400	3,468 [6]	5,868
(750) TRANSPORTATION EXPENSE	0	1,088 [7]	1,088
(755) INSURANCE EXPENSE	0	0	0
(765) REGULATORY COMMISSION EXPENSE	1,636	(1,386) [8]	250
(770) BAD DEBT EXPENSE	0	0	0
(775) MISCELLANEOUS EXPENSES	4,932	(3,124) [9]	1,808
	\$ 39,942	\$ 18,346	\$ 58,288

RECOMMENDATION RATE REDUCTION SCHEDULE

INDIAN SPRINGS UTILITIES, INC.  
TEST YEAR ENDING JUNE 30, 1996

SCHEDULE NO. 4  
DOCKET NO. 960561-SU

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

MONTHLY WASTEWATER RATES

<u>RESIDENTIAL AND GENERAL SERVICE</u>	<u>RECOMMENDED RATES</u>	<u>RATE REDUCTION</u>
BASE FACILITY CHARGE: by meter size:		
5/8"X3/4"	\$ 18.45	\$ 0.07
1"	46.12	0.16
1-1/2"	92.23	0.33
2"	147.57	0.52
3"	295.15	1.04
4"	461.17	1.63
6"	922.34	3.26
RESIDENTIAL GALLONAGE CHARGE PER 1,000 GALLONS (6,000 gallons max. )	\$ 2.99	\$ 0.01
GENERAL GALLONAGE CHARGE PER 1,000 GALLONS	\$ 3.59	\$ 0.01