

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for staff-
assisted rate case in Bay County
by Bayside Utilities, Inc.

DOCKET NO. 971401-WS
ORDER NO. PSC-98-1269-FOF-WS
ISSUED: September 24, 1998

The following Commissioners participated in the disposition of this matter:

JULIA L. JOHNSON, Chairman
J. TERRY DEASON
SUSAN F. CLARK
JOE GARCIA
E. LEON JACOBS, JR.

ORDER GRANTING TEMPORARY RATES IN THE EVENT OF A PROTEST AND
NOTICE OF PROPOSED AGENCY ACTION
ORDER APPROVING INCREASED RATES AND CHARGES

BY THE COMMISSION:

NOTICE IS HEREBY GIVEN by the Florida Public Service Commission that the action discussed herein, except for the granting of temporary rates, subject to refund, in the event of a protest and decision not to initiate show cause proceedings, is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code.

BACKGROUND

Bayside Utilities, Inc. (Bayside or utility) is a class C water and wastewater utility currently serving approximately 218 residential and 10 recreational vehicle customers. These numbers do not include vacant lots which are connected in the mobile home park. Bayside is a reseller utility purchasing water and wastewater service from the City of Panama City Beach and is considered non-jurisdictional by the Northwest Florida Water Management District. The utility has been providing wastewater service since 1973, but the certification process was delayed due to legal proceedings involving a former owner. The Commission granted wastewater operating Certificate No. 358-S to Buckaroo Ranch, Inc., d/b/a Bayside Mobile Home Park (Buckaroo Ranch) by Order No. 12760, issued December 9, 1983. On May 23, 1984,

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Buckaroo Ranch filed an application to transfer Certificate No. 358-S to Jevne Enterprises and Whitton Corporation (a partnership d/b/a Bayside Partnership). The Commission granted the transfer by Order No. 15205, issued October 8, 1985.

The utility originally claimed exemption under Section 367.022(8), Florida Statutes, for its water service because they are a consecutive water system providing water to customers which is purchased from Bay County. However, the utility never filed reports as required by Section 367.022(8), Florida Statutes. Faced with a possible show cause action, the utility decided to apply for a water certificate. The utility filed for and received water Certificate No. 469-W by Order No. 16414, issued July 24, 1986.

On October 22, 1997, Bayside filed an application for a staff-assisted rate case and subsequently paid the appropriate filing fees. We audited the utility's records for compliance with our rules and orders and examined all components necessary for rate setting. Our staff engineer also conducted a field investigation, which included a visual inspection of the water distribution and wastewater collection facilities along with the service area. The utility's operating expenses, maps, files, and rate application were also reviewed to determine reasonableness of maintenance expenses, regulatory compliance, utility plant in service, and quality of service. We selected a historical test year ended December 31, 1997 for this rate case.

The utility's test year revenue was \$59,617 for the water system and \$65,452 for the wastewater system. Test year operating expenses were \$55,846 for water and \$64,372 for wastewater. This resulted in a net operating income of \$3,772 for water, and \$1,081 for wastewater. Customer meetings were held on July 29, 1998 in Panama City Beach.

QUALITY OF SERVICE

Bayside has neither a water treatment plant nor a wastewater treatment plant. Water and wastewater disposal service is purchased from the City of Panama City Beach. The City of Panama City Beach is a municipality that must comply with standards set by the Environmental Protection Agency (EPA) and enforced by the State of Florida Department of Environmental Protection (DEP). The DEP has no citations or corrective orders pending against the City of Panama City Beach. Water and wastewater services provided to Bayside meet or exceed all quality standards for safe drinking water. Since there is neither a water treatment plant nor a

wastewater treatment plant, the issue of operational conditions at the plant is moot.

As stated in the case background, two customer meetings were held on July 29, 1998, at the Optimist Club Center in Panama City Beach, Florida. Approximately 3 customers attended the afternoon meeting. The president of the homeowners association presented our staff with a list of questions and concerns. All but one issue was found to either be rate or accounting related. The one engineering issue relating to operations concerned the electric meter at a lift station known as the "Eastern" lift station. The utility shares the electric meter with at least one other customer. This makes it impossible to tell exactly how much of the electrical expense is attributable to the utility. Therefore, the utility shall have an electric meter solely dedicated to the Eastern lift station and shall remove all non-utility related users from the power meter at the "Eastern" lift station within 90 days of the issuance date of this Order.

At the evening meeting, approximately 92 customers and four utility persons were present. The president of the homeowners association spoke and advised those in attendance about the earlier meeting that was held. After his presentation, nine customers came forward with comments and concerns. One customer related an incident of her sewage backing up during July, 1993. Another customer commented that there was black sand in the water.

After the customer meeting had adjourned, one customer informed our staff that he thought the utility had not installed the new force main addition as its records showed. Because he lived in the park "year round" on the street where the force main was installed and had not seen trenching equipment and construction, the customer was convinced that the force main had not been installed.

Sewage Backups

Concerning those customers that have experienced problems with sewage back-ups, it is difficult to determine if the backup problems are due to lift station malfunctions or clogs in the laterals. Should the problem be with the lift stations, the problem appears to have been corrected with recent upgrades (central lift station now has dual pumps). However, during the latest inspection, our staff discovered that the emergency lights at each lift station were not visible from the nearest road. These lights are the primary indicator of a malfunction, and alert the

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utility and the general public, giving them time to correct any and all problems before they become health hazards. Therefore, the utility shall install emergency lights for each lift station where customers can easily see the light when it is on, indicating a malfunction, and can call the utility. The utility shall be given 90 days from the issuance date of this Order to properly install lift station emergency lights.

The service area is primarily a mobile home park that was built in the late sixties to early seventies. Four-inch lines were used as service laterals which "Y" together in pairs (and possibly in triplet on a couple of connections) before reaching the utility's main collection system. Tree roots and other encumbrances periodically clog these laterals which require the lines to be cleared of obstruction. It appears from customer testimony, that when this happens, a dispute occurs between the customer and the utility as to who is responsible. These are old lines and only a licensed plumber can determine and verify if the clog is located beyond the customer's property. Therefore, the utility has agreed that the customer should call a plumber of his/her choice, and if it is determined by the licensed plumber (stated on the bill) that the clog is beyond the customer's property, the utility has agreed to be responsible for the bill. Otherwise, the customer shall be held responsible.

Sand in the Water

Our staff engineer has been to this service area three times during the course of this rate case, and, each time, sampled and visually inspected the water. The second and third visits were after the customer meeting and particular attention was given to finding black sand in the water. None was found. It is common to find sand and other organic particles in the water after a repair has been made or a new customer has been "tapped-in" to the water main. When this occurs, the customer finding this problem should report their findings to the utility so the lines can be flushed and the foreign matter can be purged from the mains.

Installation of Force Main

With regard to customer comment on whether the utility really installed a new force main, our staff scheduled a dig with the utility to expose the newly constructed force main. On August 5, 1998, the utility exposed the force main in three different locations along Big Daddy Drive. The customer that made the

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allegation was present and verified that the line was indeed installed.

Conclusion

Based on the above, we find the utility's quality of service to be satisfactory.

RATE BASE

Our calculation of the appropriate rate base for the purpose of this proceeding is depicted on Schedule No. 1, and our adjustments are itemized on Schedule No. 1-A. Those adjustments which are self-explanatory or which are essentially mechanical in nature are reflected on those schedules without further discussion in the body of this Order. The major adjustments are discussed below.

Used and Useful Plant

Since the utility no longer has water and wastewater treatment plant facilities, a calculation for a used and useful percentage for plant accounts is not applicable. There is not a water treatment facility to evaluate other than the interconnecting pipe work to the city's main which is considered a component of the distribution system. Likewise, there is not a wastewater treatment plant to evaluate. Wastewater generated by the residents of Bayside is transported to the City of Panama City Beach via three in-line lift stations which are considered components of the collection system.

The network of water distribution and wastewater collection mains are engineered and constructed to adequately serve the potential capacity of 283 customer connections estimated to be 283 equivalent residential connections (ERCs). A final count revealed that the utility served 22 single family residences, 207 mobile homes, nine camper/trailer/RVs, or a total of 238 ERCs. In addition, the utility shall charge a base facility charge for the 55 vacant lots since there are connections available, which brings the total to 283 connections. During the last rate case, it was determined that nothing less than the existing network of mains could serve the current number of customers, and the Commission determined that the mains were 100% used and useful. Therefore, we find that the utility's facilities are 100% used and useful.

Wastewater Treatment Plant Contributions-in-Aid-of-
Construction (CIAC)

The utility interconnected its wastewater system to the City of Panama City Beach in 1988. At that time, the utility retired the appropriate wastewater plant and retired the accumulated depreciation balances as of the retirement date. By Order No. 18624, issued January 4, 1988, the Commission allowed an extraordinary loss of \$23,417 to be amortized over 10 years for this retirement. The \$23,417 calculation did not include any retirement of wastewater CIAC, CIAC accumulated amortization, or an additional \$71,043 in wastewater plant which was retired.

We recalculated the appropriate net loss for the retirement which included all retired plant, retired accumulated depreciation, retired CIAC, retired CIAC accumulated amortization, and the salvage value of the retired plant. The result was a net loss of \$15,699. The calculations show the utility was afforded an additional amortization expense of \$7,718, or \$772 per year, over a ten-year period. Therefore, we find that since all wastewater treatment plant and associated accumulated depreciation has been retired, the \$40,344 of wastewater CIAC and \$27,662 of accumulated amortization shown on the utility's books, shall be retired.

Test Year Rate Base

The appropriate components of Bayside's rate base include depreciable plant in service, CIAC, accumulated depreciation, accumulated amortization of CIAC, and working capital allowance. Utility plant, depreciation, and CIAC balances were last determined as of December 31, 1987 in the utility's last staff assisted rate case by Order No. 18624, issued January 4, 1988. We used the amounts set forth in that Order as a base for rate base components updated in this Order. Further adjustments are necessary to reflect test year changes. A discussion of each component follows.

Plant in Service

Bayside is a reseller utility which purchases water from the City of Panama City Beach via a transmission main. Bayside has no water treatment plant facilities.

According to the plans and records reviewed, the distribution system is a composite network of approximately 4,825 linear feet of eight-inch ductile iron pipe, approximately 3,530 linear feet of six-inch PVC pipe, approximately 8,840 linear feet of four-inch PVC

pipe, approximately 4,470 linear feet of two-inch PVC pipe, and approximately 4,700 linear feet of one-inch PVC pipe. The distribution system contains seven fire hydrants located in various places along the utility's six-inch mains.

There is also no wastewater treatment plant facility. Wastewater generated by the residents of Bayside is transported to the City of Panama City Beach via a force main. This force main interconnects with the utility's three lift stations to centralize and transport raw wastewater to the city's collection system.

According to the records reviewed, the collection system is a network of approximately 5,000 linear feet of ten-inch gravity pipe, about 2,700 linear feet of six-inch PVC gravity pipe, and over 17,000 linear feet of four-inch lateral service connectors. A newly replaced four-inch PVC force main that is about 2,640 linear feet was added to the utility's existing 3,670 linear feet of ten-inch force main.

The utility recorded utility plant in service balances of \$181,352 for water and \$349,524 for wastewater at the end of the test year. We calculated utility plant by starting with Order No. 18624, which established utility plant of \$164,898 for water and \$387,736 for wastewater as of December 31, 1987, and made adjustments for plant additions and retirements through the test year. We made adjustments to wastewater plant to reflect \$5,000 of pro forma plant required by the Department of Environmental Protection (DEP), and \$2,694 of pro forma plant required by the Commission. The DEP required pro forma plant consists of the replacement of two lift station pumps, and the Commission required pro forma plant includes replacement of five rubberized plastic manhole lids, replacement of an electrical panel box, and replacement of a sewage flow meter. The utility shall submit proof of completion of pro forma plant allowed in this Order, within twelve months of the issuance date of this Order. An averaging adjustment of (\$7,506) was also made to wastewater plant. Accordingly, we find that utility plant in service is \$181,352 for water and \$349,712 for wastewater.

Non-Used and Useful Plant and Water Distribution and Wastewater Collection Systems

There is no water or wastewater plant, and all distribution and collection system accounts shall be considered 100% used and useful.

Contributions in Aid of Construction

The utility recorded CIAC balances of (\$52,911) for water and (\$40,344) for wastewater at the end of the test year. By Order No. 18624, the Commission established water CIAC of (\$52,911) and wastewater CIAC of (\$74,026). No additional CIAC has been added since the last rate case. We made an adjustment of (\$40,344) to wastewater CIAC to reflect the retirement of the wastewater plant. Therefore, we find that water CIAC is (\$52,911) and the wastewater CIAC balance is \$0.

Accumulated Depreciation

The utility books reflected accumulated depreciation balances of (\$112,502) for water and (\$171,788) for wastewater at the end of the test year. We calculated accumulated depreciation starting with balances from Order No. 18624 and used the depreciation rates set forth in that Order to calculate depreciation up to the test year. We made adjustments of \$5,509 to water and \$27,806 to wastewater. Pro forma plant depreciation of (\$1,382) was included in wastewater accumulated depreciation. Averaging adjustments of \$3,501 for water and \$4,560 for wastewater were also made. Based on these adjustments, accumulated depreciation balances are (\$103,492) for water and (\$140,804) for wastewater.

Accumulated Amortization

The utility recorded accumulated amortization balances of \$37,736 for water, and \$27,662 for wastewater at the end of the test year. We calculated amortization of CIAC by starting with balances from Order No. 18624, and amortized CIAC by using a yearly composite rate. Wastewater CIAC amortization shall be retired due to the interconnection with the City of Panama City. We made an adjustment of (\$27,662) to reflect the removal of the wastewater plant CIAC amortization. An averaging adjustment of (\$1,021) for water brings the total recommended accumulated amortization balances to \$36,715 for water and \$0 for wastewater.

Working Capital Allowance

Consistent with Rule 25-30.443, Florida Administrative Code, we find that the one-eighth of operation and maintenance expense (O & M) formula approach shall be used for calculating working capital allowance. Applying that formula, we approve a working capital allowance of \$5,916 for water and \$5,786 for wastewater (based on O & M of \$47,327 for water and \$46,288 for wastewater).

Rate Base Summary

Based on the foregoing, we find the appropriate balance for test year rate base is \$67,580 for water and \$214,694 for wastewater.

COST OF CAPITAL

Our calculation of the appropriate cost of capital, including our adjustments, is depicted on Schedule No. 2. Those adjustments which are self-explanatory or which are essentially mechanical in nature are reflected on that schedule without further discussion in the body of this Order. The major adjustments are discussed below.

Return on Equity

Based on our audit, the utility's capital structure consists of \$9,500 of notes payable with an interest rate of 10.00%, \$272,820 of notes payable with an interest rate of 10.00%, \$24,242 of notes payable with an interest rate of 4.00%, and negative retained earnings of \$42,935. Using the current leverage formula approved under Docket No. 970006-WS, Order No. PSC-97-0660-FOF-WS, issued June 10, 1997, the rate of return on common equity shall be 10.46% with a range of 9.46% - 11.46% for utilities with equity ratios of less than 40%, which includes Bayside. Since including a negative common equity would penalize the utility's capital structure by understating the overall rate of return, we have adjusted the negative common equity to zero.

Applying the weighted average method to the total capital structure yields an overall rate of return of 9.53%. The company's test year capital structure balance have been adjusted to match the total of the water and wastewater rate bases.

NET OPERATING INCOME

Our calculation of net operating income is depicted on Schedule No. 3, and our adjustments are itemized on Schedules Nos. 3-A and 3-B. Those adjustments which are self-explanatory or which are essentially mechanical in nature are reflected on those schedules without further discussion in the body of this Order. The major adjustments are discussed below.

Test Year Revenues

The utility recorded water revenues of \$52,199 and wastewater

revenues of \$58,370 during the test period. These amounts did not include base facility charges on vacant lots which are connected in the mobile home park.

Because the number of vacant lots was in question, our staff conducted a physical count of the vacant lots on the morning following the July 29, 1998 customer meeting. A total of 283 connected lots were counted by staff. Our staff auditors supplied a billing analysis for 1997 which showed an average of 228 customers for 1997. We imputed water revenues of \$7,418, and wastewater revenues of \$7,082, which included base facility charges for 55 additional connected vacant lots for the test year. Therefore, we find that test year water revenue is \$59,617 and test year wastewater revenue is \$65,452.

Test Year Operating Expense

The utility recorded operating expenses of \$56,232 for water and \$66,893 for wastewater. The components of these expenses include operation and maintenance expenses, depreciation expense (net of related amortization of CIAC), and taxes other than income taxes.

The utility's test year operating expenses have been reviewed and invoices and other supporting documentation have been examined. Adjustments have been made to reflect unrecorded test year expenses and to reflect recommended allowances for plant operations.

O & M Expenses

The utility charged \$51,466 to water O & M and \$49,515 to wastewater O & M during the test year. A summary of adjustments that were made to the utility's recorded expenses follows:

Salaries and Wages - Employees

The utility recorded employee salaries and wages of \$6,235 for water and \$6,235 for wastewater. The company's amounts were not fully supported by the utility's books and records. Our staff auditors found salaries and wages amounts of \$5,321 for water and \$5,321 for wastewater on the utility's books during the test year.

Our original intention was to increase salaries based on our approved yearly indexes, starting with the amounts approved in Order 18624. Information obtained at the customer meetings indicate the relations between the utility and its customers are

very poor and have not improved since Order No. 18624 was issued. In that order, the utility was ordered to prepare a log of every written complaint that it received. The primary complaint at the customer meetings for this rate case was the alleged harassment and verbal abuse customers receive from employees of the utility.

Order No. 18624, issued January 4, 1988, granted salaries and wages of \$13,771 for water and \$12,597 for wastewater. These amounts were based on estimated labor for utility operations after the interconnections with the City of Panama Beach. Because it appears customer relations appear to be just as bad, or worse, since the last rate case when the utility, according to Order 18624, "expressed a willingness to improve customer relations," we approve maintaining the amount of salaries which were booked by the utility in the test year with the exception of the maintenance man/meter reader. Customers also alleged that meters are not being read on a monthly basis, but according to the utility, meters are read on the 20th of each month. We therefore increase the maintenance man/meter reader's salary by \$408 for water and \$408 for wastewater to insure an appropriate amount for monthly meter reading and maintenance. We approve employee salaries and wages of \$5,729 for water and \$5,729 for wastewater.

Purchased Utility Services

The utility recorded purchased water expense of \$28,939, and purchased sewage treatment of \$23,308 during the test year. We made an adjustment of (\$635) to reduce the amount of purchased water cost due to an unacceptable level of unaccounted for water. We also made an adjustment of \$1,674 to purchased water, and \$1,674 to purchased sewage treatment, to increase the amount of base facility charge cost paid by the utility to the City of Panama City Beach. We determined the number of lots with available service in the mobile home park is 283. The City of Panama City Beach charges Bayside by the number of lots with available service. Presently the City of Panama Beach charges Bayside for 265 lots. Since the physical count of the number of lots (including vacant lots) total 283, we included water and wastewater base facility charge costs for an additional 18 lots. Therefore, we find purchased water cost is \$29,978, and purchased sewage treatment cost is \$24,982.

Sludge Removal Expense

The utility recorded no sludge removal expense during the test year. Upon inspection, odors were detected at the middle lift station. Therefore, we find that sludge removal of the three lift

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stations shall be part of the utility's regular maintenance. Sludge hauling should occur when telltale signs such as odor and sludge buildup deem it appropriate. Since the customer base appears seasonal, one clean-out per lift station every three years after the peak season at a typical cost of \$275 per clean-out is appropriate for this utility. Therefore, we find that the appropriate sludge removal expense is \$275 for wastewater.

Purchased Power

The utility recorded no purchased power expense for water and \$507 for wastewater during the test year. There was no water purchased power expense due to the utility purchasing water for resale. Power consumption for the wastewater collection system relates solely to the three lift stations. Two of the three lift stations are metered separately and have undisputed amounts for purchased power. The third lift station draws power through a meter that is common with at least one other user. We approve a \$35.71 monthly estimate for this meter. Therefore, we find that the appropriate purchased power expense is \$1,037 ($\$35.71 + \$35.71 + \14.96×12 months).

Chemicals

The utility recorded no water or wastewater chemical expense during the test year. All water treatment is performed by the City of Panama City Beach, and no chemicals for additional treatment are necessary. Currently, the utility does not purchase chemicals to pretreat wastewater influent at the lift stations. Upon the engineer's field audit, the middle lift station had a build-up of sludge/grease that was creating some septic odors. There is an enzyme pretreatment which will reduce unwanted buildup and temporarily keep odors under control. This enzyme can be purchased for approximately \$10 per container. One container per month would be sufficient to treat all three lift stations. Therefore, we find that the appropriate wastewater chemical expense is \$120.

Contractual Services - Professional

The utility recorded professional contractual services of \$450 for water and \$545 for wastewater for accounting and engineering fees. Fifteen manholes which are showing signs of age and are suspected of leaking shall be repaired, at an estimated cost of \$4,875 over a five-year period. We find \$975 per year appropriate

these manholes. Therefore, we find that the appropriate test year professional contractual services are \$450 for water and \$1,520 for wastewater.

Contractual Services - Testing

The utility recorded no contractual services - testing expenses during the test year. DEP considers this utility to be a reseller utility, and as such, requires monthly microbiological monitoring and normal lead and copper testing. Therefore, we find that the appropriate water contractual services - testing is \$450 for the test year.

Transportation Expenses

The utility recorded water transportation expense of \$340, and wastewater transportation expense of \$1,176, for a total of \$1,516 for the test year. We find that an updated appropriate figure for transportation expense is \$1,000 per system or \$2,000 total, which is a \$484 increase over what was recorded in the test year.

Insurance Expense

A customer at the utility customer meeting was concerned about the fact that the utility had no insurance when Hurricane Opal damaged the utility property. Since the utility did not have insurance to cover the damage caused by the hurricane, it was able to obtain a Small Business Administration Loan and restore utility service. As a requirement of this loan, the utility had to obtain hazard and flood insurance, which is presently in effect. We find that the appropriate insurance expense is \$839 for water and \$839 for wastewater.

Regulatory Commission Expense

The utility recorded regulatory commission expenses of \$2,264 for water and \$2,417 for wastewater during the test year. We made adjustments of (\$2,264) to water regulatory commission expense and (\$2,417) to wastewater regulatory commission expense to reclassify regulatory assessment fees to taxes other than income. The filing fee for this staff-assisted rate case amounted to \$1,000 for water and \$1,000 for wastewater. We made an adjustment of \$250 to water regulatory commission expense and \$250 to wastewater regulatory commission expense to amortize the filing fee for this staff-assisted rate case over four years ($\$1,000/4$). We find that the

appropriate regulatory commission expense is \$250 for water and \$250 for wastewater.

Bad Debt Expense

The utility recorded bad debt expense of \$4,513 for water and \$4,697 for wastewater during the test year. The utility has compiled bad debt expenses over a number of years and written them off in 1997. We find that the utility's bad debt expenses shall be reduced to \$745 for water and \$745 for wastewater. We made adjustments of (\$3,768) to water and (\$3,952) to wastewater, which result in test year bad debt expenses of \$745 for water and \$745 for wastewater.

O & M Expenses Summary

Total O & M adjustments are (\$4,140) for water and (\$3,228) for wastewater. We find operation and maintenance expenses of \$47,327 for water and \$46,288 for wastewater. Operation and maintenance expenses are shown in Schedule Nos. 3C and 3D.

Depreciation Expense (Net of Amortization of CIAC)

The utility recorded \$4,201 of water depreciation expense and \$16,633 of wastewater depreciation expense on its books for the test year. Consistent with our practice, we calculated test year depreciation expense using the rates prescribed in Rule 25-30.140, Florida Administrative Code. We made a \$2,801 adjustment to water depreciation expense and a (\$4,317) adjustment to wastewater depreciation expense. As allowed by Rule 25-30.140, Florida Administrative Code, we made a change in the useful life of pumping equipment contained in Account No. 370. Because of the location of the utility on the gulf, salt water causes the pumping equipment in the lift stations to wear out more quickly than the 15 years recommended in Rule 25-30.140, Florida Administrative Code. We find that a useful life of five years for the pumping equipment in this account is appropriate. A CIAC amortization adjustment amounted to (\$2,043) for water. We also made an adjustment of \$1,766 to wastewater to include depreciation expense on pro forma plant. We find that the appropriate depreciation expenses net of CIAC are \$4,959 for water and \$14,082 for wastewater for the test year.

Taxes Other Than Income Taxes

The utility recorded taxes other than income of \$565 for water and \$745 for wastewater. We made adjustments to water taxes other than income to reclassify \$2,264 of regulatory assessment fees from O & M, increase regulatory assessment fees by \$419 and includes payroll taxes of \$312 on salaries and wages. We made adjustments to wastewater taxes other than income to reclassify \$2,417 of regulatory assessment fees from O & M, increase regulatory assessment fees by \$528 to reflect regulatory assessment fees on test year revenue, and include s payroll taxes of \$312 on salaries and wages. Therefore, we approve test year taxes other than income of \$3,560 for water and \$4,002 for wastewater.

Operating Revenues

We have adjusted revenues by \$2,791 for water and \$20,283 for wastewater to reflect the increase in revenue required to cover expenses and allow the approved rate of return on investment.

Taxes Other Than Income Taxes

We increased this expense by \$126 for water and \$913 for wastewater to reflect the regulatory assessment fee of 4.5% on the increase in revenue.

Operating Expenses Summary

The application of our adjustments to the utility's test year operating expenses results in approved operating expenses of \$55,971 for water and \$65,284 for wastewater.

REVENUE REQUIREMENT

Based upon our review of the utility's books and records and based upon the adjustments discussed above, we find that the appropriate annual revenue requirement for this utility is \$2,791 for water and an annual increase of \$20,283 for wastewater. This revenue requirement represents an annual increase in revenue of 4.68% for water and 30.99% for wastewater. This revenue requirement will allow the utility to recover its operating expenses and will allow it the opportunity to earn a 9.53% return on its investment. The revenue requirements and resulting annual increases are shown on Schedules Nos. 3 and 3A.

RATES, CHARGES, AND RATE STRUCTURE

During the test year, Bayside provided water and wastewater service to approximately 218 residential and 10 recreational vehicle customers. These amounts did not include vacant lots which are connected in the mobile home park. A total of 283 connected lots were counted by staff. Therefore, we have included an additional 55 connections for ratemaking purposes.

In addition, we discovered the RV base facility charge which was set in the last rate case for temporary customers no longer shall apply. The RV base facility charge was based on 40% of the 5/8-inch x 3/4-inch base facility charge used for permanent residents. The utility customers who now live in RVs are long-term residents of the park, and are pretty much equivalent to any other mobile home resident. As such, they shall be charged as other customers of the utility using the 5/8-inch x 3/4-inch meters. Therefore, the RV base facility charge in the utility's tariff shall be discontinued.

The utility's tariff provides for a base facility/gallage charge rate structure for all customers. The Commission has a memorandum of understanding with the Florida Water Management Districts which recognizes that a joint cooperative effort is necessary to implement an effective, state-wide water conservation policy. The 5/8-inch x 3/4-inch meter residential customers average consumption is approximately 4,185 gallons per month, which is not considered excessive.

We calculated a base facility/gallage charge for water and wastewater customers based on test year data. The base facility/gallage charge rate structure is the preferred 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 readiness to serve all customers connected to the system. This ensures that ratepayers pay their share of the costs of providing service through the consumption or gallage charge and also pay their share of the fixed costs of providing service through the base facility charge.

Approximately 65% (or \$40,669) of the water revenue requirement and 61% (or \$52,395) of the wastewater revenue requirement are associated with the fixed costs of providing service. Fixed costs are recovered through the base facility charge based on annualized number of factored ERCs. The remaining

35% (or \$21,740) of the water revenue requirement and 39% (or \$33,341) of the wastewater revenue requirement represent the consumption charge based on the estimated number of gallons consumed during the test period. Schedules of the utility's existing rates and approved final rates are as follows:

RESIDENTIAL WATER RATES

<u>Type of Service</u>	Existing	Commission
	Base Facility	Approved
	Charge	Base Facility
	<u>Charge</u>	<u>Charge</u>
5/8" x 3/4"	\$ 11.24	\$ 11.98
3/4"	16.88	17.96
1"	28.13	29.94
 <u>Type of Service</u>		
Gallonage Charge		
Per 1,000 gallons	\$ 1.82	\$ 1.90

GENERAL SERVICE WATER RATES

Base Facility	Existing	Commission
	Monthly	Approved
<u>Charge</u>	Monthly	Monthly
<u>Meter Size</u>	<u>Rate</u>	<u>Rate</u>
5/8" x 3/4"	\$ 11.24	\$ 11.98
3/4"	16.88	17.96
1"	28.13	29.94
1-1/2"	56.23	59.88

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2"	89.96	95.80
3"	179.93	191.61
4"	281.14	299.39
6"	562.28	598.77

Gallonage Charge		
Per 1,000 gallons	\$ 1.82	\$ 1.90

RESIDENTIAL WASTEWATER RATES

<u>Type of Service</u>	Existing	Commission
	Base Facility	Approved
	<u>Charge</u>	<u>Base Facility</u>
		<u>Charge</u>
All meter sizes	\$ 10.73	\$ 15.43
Gallonage Charge		
Per 1,000 gallons	\$ 3.15	\$ 3.80
(6,000 gallon maximum per month)		

GENERAL SERVICE WASTEWATER RATES

<u>Meter Size</u>	Existing	Commission
	Monthly	Approved
	<u>Rate</u>	<u>Monthly</u>
		<u>Rate</u>
5/8" x 3/4"	\$ 10.73	\$ 15.43
3/4"	16.07	23.14
1"	26.82	38.57

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1-1/2"	53.63	77.14
2"	85.80	123.43
3"	171.61	246.85
4"	268.16	385.71
6"	536.31	771.42

Gallonge Charge

Per 1,000 gallons (No Maximum)	\$ 3.73	\$ 4.56
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Using the 228 test year residential water customers currently being served with average use of 4,185 gallons/month per customer, average residential MONTHLY water bill comparison would be as follows:

	Average <u>MONTHLY</u> Bill Using Existing Rates	Average <u>MONTHLY</u> Bill Using Approved Rates	Percent Increase
Base Facility Charge	\$11.24	\$ 11.98	
Gallonge Charge	<u>7.62</u>	<u>7.95</u>	
Total	\$18.86	\$ 19.93	5.67%

Using the 228 test year residential wastewater customers currently being served with average use of 3,208 gallons/month per customer, average residential MONTHLY wastewater bill comparison would be as follows:

	Average <u>MONTHLY</u> Bill Using Existing <u>Rates</u>	Average <u>MONTHLY</u> Bill Using Approved <u>Rates</u>	Percent <u>Increase</u>
Base Facility Charge	\$10.73	\$ 15.43	
Gallorage Charge	<u>10.11</u>	<u>12.19</u>	
Total	\$20.84	\$ 27.62	32.53%

Repression Adjustment

We find that our approved increases for the water and wastewater systems will not result in customers repressing consumption for the respective systems. Therefore, a repression adjustment is not appropriate in this instance.

EFFECTIVE DATE

The rates shall be effective for service rendered as of the stamped approval date on the tariff sheets provided the customers have received notice. The tariff sheets shall be approved upon our staff's verification that the tariffs are consistent with our decision, and that the customer notice is adequate. The utility shall provide proof of the date notice was given within 10 days after the date of the notice.

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

cycle on or after the effective date of the new rates.

In no event shall the rates be effective for service rendered prior to the stamped approval date.

STATUTORY RATE REDUCTION AND RECOVERY PERIOD

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 reflects 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 each water and wastewater system. The reduction in revenues will result in the approved rates on Schedules Nos. 4 and 4A.

The utility shall be required to file revised tariff sheets no later than one month prior to the actual date of the required rate reduction. The utility shall also 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.

CUSTOMER DEPOSITS

The utility presently does not have a provision for customer deposits in its tariff. Rule 25-30.311(1), Florida Administrative Code, states, "Each utility may require applicant for service to satisfactorily establish credit, but such establishment of credit shall not relieve the customer from complying with utilities' rules for prompt payment of bills." Rule 25-30.311(7), Florida Administrative Code, states:

A utility may require, upon reasonable written notice of not less than 30 days, such request or notice being separate and apart from any bill for service, a new deposit, where previously waived or returned, or additional deposit, in order to secure payment of current bills; provided, however, that the total amount of the required deposit shall not exceed amount equal to the average actual charge for water and/or wastewater service for two

billing periods for the 12 month period immediately prior to the date of notice. In the event the customer has had service less than 12 months, then the utility shall base its new or additional deposit upon the average monthly billing available.

Pursuant to Rule 25-30.311(5), Florida Administrative Code, if a customer has established a satisfactory payment record, and has had continuous service for a period of 23 months, the deposit shall be refunded. Therefore, for those customers who meet this requirement, the utility shall not charge any additional deposit.

The utility has experienced a high amount of bad debt expense over the past few years, largely due to loss of customers from Hurricane Opal and its transient customer base. We find it appropriate that the utility initiate a customer deposit provision in its tariff to reduce the amount of bad debt expense. Therefore, we approve customer deposits of \$40.00 for water and \$55.00 for wastewater for 5/8-inch x 3/4-inch meters. The deposit amounts shall be effective in accordance with Rule 25-30.475, Florida Administrative Code.

MISCELLANEOUS SERVICE CHARGES

The utility's current tariff contains miscellaneous service charges which were approved in Commission Order No. 18624, issued January 4, 1988. We approve the following updated charges:

Existing Miscellaneous Service Charges

	<u>Water</u>		<u>Wastewater</u>	
	Normal <u>Hours</u>	After <u>Hours</u>	Normal <u>Hours</u>	After <u>Hours</u>
Initial Connection	\$10.00	\$15.00	\$10.00	\$15.00
Normal Reconnection	\$10.00	\$15.00	\$10.00	\$15.00
Violation Reconnection	\$10.00	\$15.00	Actual Cost	Actual Cost
Premises Visit (in lieu of disconnection)	\$ 5.00	N/A	\$ 5.00	N/A

Approved Miscellaneous Service Charges

	<u>Water</u>	<u>Wastewater</u>
Initial Connection	\$15.00	\$15.00
Normal Reconnection	\$15.00	\$15.00
Violation Reconnection	\$15.00	Actual Cost
Premises Visit (in lieu of disconnection)	\$10.00	\$10.00

These charges are designed to more accurately reflect the costs associated with each service and to place the burden of payment on the person who causes the cost to be incurred (the "cost causer"), rather than on the entire ratepaying body as a whole.

Therefore, we find it appropriate that the utility's tariff be revised to incorporate the charges discussed above. The miscellaneous service charge amounts shall be effective in accordance with Rule 25-30.475, Florida Administrative Code.

SERVICE AVAILABILITY CHARGES

The utility's wastewater tariff Second Revised Sheet No. 25.0 provides for a wastewater plant capacity charge of \$300 per ERC and actual cost for all others. Since the utility interconnected to the City of Panama City Beach for wastewater treatment and disposal, the plant capacity charge is no longer applicable.

As a result of the retirement of the wastewater treatment plant and related CIAC, the utility's level of CIAC would be lower than what is prescribed in Rule 25-30.580(1)(b), Florida Administrative Code. Pursuant to Rule 25-30.580(1)(b), Florida Administrative Code, the minimum amount of contributions-in-aid-of-construction should not be less than the percentage of such facilities and plant that is represented by the water transmission and distribution and sewage collection systems. Since the utility's CIAC level would be lower than minimum, as prescribed by rule, we discontinue the \$300 plant capacity fee and approve a \$300 main extension charge. We find that the \$300 main extension charge would allow the utility to increase its CIAC level and would help to ensure that future customers would pay their pro-rata share of the cost of the interconnect.

The utility shall be required to file a revised tariff sheet within 10 days of the effective date of this Order. Upon timely receipt and our staff's verification that the tariffs are consistent with our decision, our staff shall administratively approve the revised tariff sheet. If our Order is protested, the utility shall maintain the existing service availability charges until the final Order is issued. If no protest is filed and the revised tariff sheet is approved, the charges shall become effective for connections made on or after the stamped approval date of the revised tariff sheet pursuant to Rule 25-30.475(2), Florida Administrative Code.

TEMPORARY RATES IN THE EVENT OF A PROTEST

This order contains increase in water and wastewater rates. A timely protest might delay what may be a justified rate increase resulting in unrecoverable loss of revenue to the utility. Therefore, in the event of a protest filed by a party other than the utility, we hereby authorize the utility to collect the rates approved herein on a temporary basis, subject to refund.

The utility shall collect the temporary rates upon our staff's approval of security for both the potential refund and a copy of the proposed customer notice. The security shall be in the form of a bond or letter of credit in the amount of \$15,953. Alternatively, the utility could establish escrow agreement with independent financial institution.

If the utility chooses a bond as security, the bond shall contain wording to the affect 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 shall 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 final Commission order is rendered, either approving or denying the rate increase.

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

- 1) No funds in the escrow account may be withdrawn by the utility without the express approval of the Commission.
- 2) The escrow account shall be 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 shall the maintenance and administrative costs associated with the refund be borne by the customers. These costs are the responsibility of, and shall be borne by, the utility. Irrespective of the form of security chosen by the utility, account of all monies received as result of the rate increase shall 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 shall be paid with interest calculated pursuant to Rule 25-30.360(4), Florida Administrative Code.

The utility shall maintain a record of the amount of the bond, and the amount of revenues that are subject to refund. In addition, after the increased rates are in effect, 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.

NO SHOW CAUSE REQUIRED

During the test year, the utility's books were not maintained in conformity with the Uniform System of Accounts. Paragraph (1) of Rule 25-30.115, Florida Administrative Code, entitled "Uniform System of Accounts for Water and Sewer Utilities", states:

Water and Sewer Utilities shall, effective January 1, 1998, maintain its [sic] accounts and records in conformity with the 1996 NARUC Uniform System of Accounts adopted by the National Association of Regulatory Utility Commissioners.

Although the test year for this rate case ended December 31, 1997, the utility did not maintain its books consistent with the prior 1984 NARUC system of accounts. Violations included depreciation which was not calculated using Rule 25-30.140, Florida Administrative Code, CIAC which was not calculated properly, some unsupported operation and maintenance expenses in 1997, and sewer pipe which was not accounted for correctly. We find that the utility has the expertise necessary to maintain the utility's records in conformity with Rule 25-30.115, Florida Administrative Code. In 1986, the utility set up its books and records in accordance with Commission requirements, and by Order No. 18624, issued January 4, 1988, the Commission allowed the expense of setting up its books to be amortized over a ten-year period. We find it appropriate that the utility maintain its books and records in conformity with the 1996 NARUC Uniform System of Accounts. Also, the utility shall be placed on a monitor status and our staff

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auditors shall review the utility books and records within 12 months to verify the utility is following the NARUC system of accounts.

Our staff auditors also discovered all utility records prior to November 1995 were destroyed by Hurricane Opal and we were not notified. Rule 25-30.110(1)(a), Florida Administrative Code, states "Each utility shall preserve its records in accordance with the "Regulations to Govern the Preservation of Records of Electric, Gas, and Water Utilities" as issued by the National Association of Regulatory Utility Commissioners (NARUC), as revised May 1985".

The NARUC Regulations to Govern the Preservation of Records General Instructions state:

The public utility or licensee shall provide reasonable protection for records subject to the regulations in this part from damages by fires, floods, and other hazards and, in the selection of storage spaces, safeguard the records from unnecessary exposure to deterioration from excessive humidity, dryness, or lack of proper ventilation.

The NARUC Regulations further state:

When any records are destroyed before the expiration of the prescribed period of retention, a certified statement listing, as far as may be determined, the records destroyed and describing the circumstances of accidental or other premature destruction shall be filed with the Commission within (90) days from the date of discovery of such destruction. Discovery of loss of records is to be treated in the same manner as in the case of premature destruction.

Section 367.161, Florida Statutes, authorizes the Commission to assess a penalty of not more than \$5,000 per day for each offense, if a utility is found to have knowingly refused to comply with, or to have willfully violated any Commission rule, order, or provision of Chapter 367, Florida Statutes. 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 consistent with the NARUC system of accounts and failure to notify the Commission of the loss of its books and records within 90 days, would meet the standard for a "willful violation." In Order No. 24306, issued April 1, 1991, in Docket No. 890216-TL, entitled In Re: Investigation Into The Proper Application of Rule 25-14.003, Florida Administrative Code, Relating To Tax Savings Refund for 1988 and 1989 For GTE Florida, Inc., the Commission, having found that the company had not intended to violate the rule, nevertheless found it appropriate to order it to show cause why it should not be fined, stating that "'willful' implies intent to do act, and this is distinct from intent to violate a statute or rule." Id. at 6.

Although we note that the utility did not maintain its books in accordance with the NARUC Uniform System of Accounts, and did not notify us of the loss of its books and records within 90 days, we find that a show cause proceeding in this case is not warranted and should not be initiated. The violations of maintaining its books in compliance with the NARUC Uniform System of Accounts were minor. While it is true that the utility did not notify us of the loss of its books and records within 90 days, it was due to the amount of destruction caused by Hurricane Opal. The utility's office was flooded by saltwater due to the force of the hurricane. All utility efforts after the hurricane were geared to restoring utility operations.

Therefore, we find it appropriate not to show cause Bayside for its violation of Rules 25-30.115 and 25-30.110(1)(a), Florida Administrative Code. However, the utility shall maintain its books and records in conformity with the 1996 NARUC Uniform System of Accounts, and preserve its records in accordance with the "Regulations to Govern the Preservation of Records of Electric, Gas, and Water Utilities" as issued by the National Association of Regulatory Utility Commissioners (NARUC), as revised May 1985." The utility shall also be placed on a monitor status and our staff auditors shall review the utility books and records within 12 months to verify the utility is following the NARUC system of accounts.

CLOSING THE DOCKET

If no timely protest is received upon expiration of the protest period, this docket shall remain open for an additional ninety days from the effective date of this Order to verify that

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this work has been completed, then the docket shall be closed administratively.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Bayside Utilities, Inc.'s application for increased water and wastewater rates and charges is hereby approved as set forth in the body of this Order. It is further

ORDERED that the provisions of this Order regarding our granting increased rates and charges, except for the provision of temporary rates in event of protest, are issued as proposed agency action and shall become final unless an appropriate petition in the form provided by Rule 25-22.029, Florida Administrative Code, is received by the Director, Division of Records and Reporting, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings or Judicial Review" attached hereto. It is further

ORDERED that each of the findings made in the body of this Order is hereby approved in every respect. It is further

ORDERED that all matters contained in the schedules attached hereto are incorporated herein by reference. It is further

ORDERED that Bayside Utilities, Inc. shall submit proof of completion of pro forma plant allowed in this Order, within twelve months of the issuance date of this Order. It is further

ORDERED that Bayside Utilities, Inc. is hereby authorized to charge the new rates and charges as set forth in the body of this Order. It is further

ORDERED that prior to its implementation of the rates and charges approved herein, Bayside Utilities, Inc. shall submit and have approved revised tariff pages. The revised tariff pages will be approved upon our staff's verification that the pages are consistent with our decision herein, that the protest period has expired, and that the customer notice is adequate and that any required security has been provided. It is further

ORDERED that Bayside Utilities, Inc.'s rates and charges shall be effective for service rendered on or after the stamped approval date on the tariff sheet pursuant to Rule 25-30.475(1), Florida Administrative Code, provided that the customers have received

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proper notice. It is further

ORDERED that Bayside Utilities, Inc. shall provide proof that the customers have received notice within ten days of the date of the notice. It is further

ORDERED that in the event of a protest by any substantially affected person other than the utility, Bayside Utilities, Inc. is authorized to collect the rates approved on a temporary basis, subject to refund in accordance with Rule 25-30.360, Florida Administrative Code, provided that Bayside Utilities, Inc. first furnishes and has approved by Commission staff, adequate security for any potential refund and a proposed customer notice. It is further

ORDERED that the rates shall be reduced at the end of the four-year rate case expense amortization period, consistent with our decision herein. The utility shall file revised tariff sheets no later than one month prior to the actual date of the reduction and shall file a customer notice. It is further

ORDERED that in the event of a protest prior to its implementation of the rates and charges on a temporary basis approved herein, Bayside Utilities, Inc. shall submit and have approved a bond or letter of credit in the amount of \$15,953 as a guarantee of any potential refund of revenues collected on a temporary basis. Alternatively, the utility may establish an escrow account with an independent financial institution. It is further

ORDERED that in the event of a protest, Bayside Utilities, Inc. shall submit monthly reports no later than 20 days after each monthly billing which shall indicate the amount of revenue collected on a temporary basis subject to refund. It is further

ORDERED that Bayside Utilities, Inc. shall not be ordered to show cause in writing for violation of Rule 25-30.115 and 25-30.110(1)(a), Florida Administrative Code. It is further

ORDERED that Bayside Utilities, Inc. shall maintain its books and records in conformity with the NARUC Uniform System of Accounts. It is further

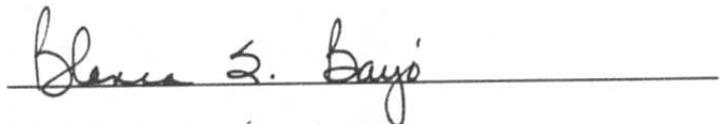
ORDERED that Bayside Utilities, Inc. shall have all non-utility related users removed from the power meter at the "Eastern" lift station, and shall install emergency lights for each lift

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station where they can be seen from the nearest road within 90 days of the issuance date of this Order. It is further

ORDERED that upon staff verification that Bayside Utilities, Inc. has removed all non-utility related users from the power meter at the "Eastern" lift station, and installed emergency lights for each lift station and has approved revised tariff sheets reflecting the new rates, this docket shall be closed administratively.

By ORDER of the Florida Public Service Commission this 24th day of September, 1998.

A handwritten signature in cursive script, reading "Blanca S. Bayó", is written over a solid horizontal line.

BLANCA S. BAYÓ, Director
Division of Records and Reporting

(S E A L)

SRF

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for administrative hearing or judicial review will be granted or result in the relief sought.

As identified in the body of this order, our action is preliminary in nature, except for the granting of temporary rates, subject to refund, in the event of a protest and decision not to initiate show cause proceedings. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Director, Division of Records and Reporting, at 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on October 15, 1998. If such a petition is filed, mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing. In the absence of such a petition, this order shall become effective on the date subsequent to the above date.

Any objection or protest filed in this docket before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

If the relevant portion of this order becomes final and effective on the date described above, any party adversely affected may request judicial review by the Florida Supreme Court in the case of electric, gas or telephone utility or by the First District Court of Appeal in the case of a water or wastewater utility by filing a notice of appeal with the Director, Division of Records and Reporting and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days of the effective date of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.

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Any party adversely affected by the Commission's final action in this matter may request: (1) reconsideration of the decision by filing a motion for reconsideration with the Director, Division of Records and Reporting within fifteen (15) days of the issuance of this order in the form prescribed by Rule 25-22.060, Florida Administrative Code; or (2) judicial review by the Florida Supreme Court in the case of electric, gas or telephone utility or the First District Court of Appeal in the case of a water or wastewater utility by filing a notice of appeal with the Director, Division of Records and Reporting and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days after the issuance of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.

BAYSIDE UTILITIES, INC.
 TEST YEAR ENDING DECEMBER 31, 1997
 SCHEDULE OF WATER RATE BASE

SCHEDULE NO. 1
 DOCKET NO. 971401-WS

	BALANCE PER COMMISSION	COMM. ADJUST. TO UTIL. BAL.	BALANCE PER COMM.
UTILITY PLANT IN SERVICE	\$ 181,352	\$ 0	\$ 181,352
LAND/NON-DEPRECIABLE ASSETS	0	0	0
NON-USED AND USEFUL PLANT	0	0	0
CIAC	(52,911)	0	(52,911)
ACCUMULATED DEPRECIATION	(112,502)	9,010 C	(103,492)
AMORTIZATION OF CIAC	37,736	(1,021) D	36,715
WORKING CAPITAL ALLOWANCE	0	5,916 E	5,916
WATER RATE BASE	\$ 53,675	\$ 13,905	\$ 67,580

BAYSIDE UTILITIES, INC.
 TEST YEAR ENDING DECEMBER 31, 1997
 SCHEDULE OF WASTEWATER RATE BASE

SCHEDULE NO. 1A
 DOCKET NO. 971401-WS

	COMMISSION PER UTILITY	COMM. ADJUST. TO UTIL. BAL.	BALANCE PER COMM.
UTILITY PLANT IN SERVICE	\$ 349,524	\$ 188 A	\$ 349,712
LAND/NON-DEPRECIABLE ASSETS	0	0	0
NON-USED AND USEFUL PLANT	0	0	0
CIAC	(40,344)	40,344 B	0
ACCUMULATED DEPRECIATION	(171,788)	30,984 C	(140,804)
AMORTIZATION OF CIAC	27,662	(27,662) D	0
WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>5,786 E</u>	<u>5,786</u>
WASTEWATER RATE BASE	\$ 165,054	\$ 49,640	\$ <u>214,694</u>

BAYSIDE UTILITIES, INC.
DOCKET NO. 971401-WS

SCHEDULE NO. 1B

CALCULATION OF NET LOSS FOR RETIREMENTS

CALCULATION PER ORDER NO. 18624, ISSUED JANUARY 4, 1988

Original Cost	\$41,337	
Accumulated Depreciation (less)	<u>(\$17,920)</u>	
NET LOSS	<u>\$23,417</u>	\$23,417

RECALCULATED NET LOSS		
Original Cost	\$112,380	
Accumulated Depreciation (less)	<u>(\$48,718)</u>	
Contribution-in-aid-of construction (less)	<u>(\$74,026)</u>	
Accumulated CIAC (add)	\$28,063	
Net Costs Incurred (add) (Salvage value - Removal Cost)	<u>(\$2,000)</u>	
NET LOSS RECALCULATED	<u>\$15,699</u>	(\$15,699)

DIFFERENCE IN CALCULATION OF NET LOSS		<u>\$7,718</u>
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BAYSIDE UTILITIES, INC.
 TEST YEAR ENDING DECEMBER 31, 1997
 ADJUSTMENTS TO RATE BASE

SCHEDULE NO. 1C
 DOCKET NO. 971401-WS

	<u>WATER</u>	<u>WASTEWATER</u>
A. UTILITY PLANT IN SERVICE		
1. To reflect averaging adjustment.	\$ 0	\$ (7,506)
2. To include DEP required pro forma plant.	0	5,000
3. To include Commission approved average pro forma plant.	<u>0</u>	<u>2,694</u>
	<u>\$ 0</u>	<u>\$ 188</u>
B. CIAC		
1. To reflect retirement of plant.	<u>\$ 0</u>	<u>\$ 40,344</u>
C. ACCUMULATED DEPRECIATION		
1. To bring utility balance to Commission approved amount.	\$ 5,509	\$ 27,806
2. To include depreciation on pro forma plant.	0	(1,382)
3. To reflect averaging adjustment.	<u>3,501</u>	<u>4,560</u>
	<u>\$ 9,010</u>	<u>\$ 30,984</u>
D. AMORTIZATION OF CIAC		
1. To reflect retirement of plant.	\$ 0	\$ (27,662)
2. To reflect averaging adjustment.	<u>(1,021)</u>	<u>0</u>
	<u>\$ (1,021)</u>	<u>\$ (27,662)</u>
E. WORKING CAPITAL ALLOWANCE		
1. To reflect 1/8 of test year O & M expenses.	<u>\$ 5,916</u>	<u>\$ 5,786</u>

BAYSIDE UTILITIES, INC.
 TEST YEAR ENDING DECEMBER 31, 1997
 SCHEDULE OF CAPITAL STRUCTURE

SCHEDULE NO. 2
 DOCKET NO. 971401-WS

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	PER UTILITY	SPECIFIC ADJUSTMENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUSTMENTS	BALANCE PER COMM	PERCENT OF TOTAL	COST	WEIGHTED COST
RETAINED EARNINGS	\$ (42,935)	\$ 42,935	\$ 0	\$ 0	\$ 0	0.00%	10.46%	0.00%
NOTES PAYABLE	9,500	0	9,500	(753)	8,747	3.10%	10.00%	0.31%
NOTES PAYABLE	272,820	0	272,820	(21,615)	251,205	88.99%	10.00%	8.90%
NOTES PAYABLE	24,242	0	24,242	(1,921)	22,321	7.91%	4.00%	0.32%
CUSTOMER DEPOSITS	0	0	0	0	0	0.00%	6.00%	0.00%
TOTAL	\$ 263,827	\$ 42,935	\$ 306,562	\$ (24,288)	\$ 282,274	100.00%		9.53%

RANGE OF REASONABLENESS	LOW	HIGH
RETURN ON EQUITY	9.46%	11.46%
OVERALL RATE OF RETURN	9.53%	9.53%

BAYSIDE UTILITIES, INC.
 TEST YEAR ENDING DECEMBER 31, 1997
 SCHEDULE OF WATER OPERATING INCOME

SCHEDULE NO. 3
 DOCKET NO. 971401-WS

	TEST YEAR PER UTILITY	COMM. ADJ. TO UTILITY	COMMISSION ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	TOTAL PER COMM.
OPERATING REVENUES	\$ 52,199	\$ 7,418 A	\$ 59,617	\$ 2,791 E	\$ 62,408
				4.68%	
OPERATING EXPENSES:					
OPERATION AND MAINTENANCE	51,466	(4,140) B	47,327	0	47,327
DEPRECIATION (NET)	4,201	758 C	4,959	0	4,959
AMORTIZATION	0	0	0	0	0
TAXES OTHER THAN INCOME	565	2,995 D	3,560	126 F	3,686
INCOME TAXES	0	0	0	0	0
TOTAL OPERATING EXPENSES	\$ 56,232	\$ (387)	\$ 55,846	\$ 126	\$ 55,971
OPERATING INCOME/(LOSS)	\$ (4,033)		\$ 3,772		\$ 6,437
WATER RATE BASE	\$ 53,675		\$ 67,580		\$ 67,580
RATE OF RETURN	<u>-7.51%</u>		<u>5.58%</u>		<u>9.53%</u>

BAYSIDE UTILITIES, INC.
 TEST YEAR ENDING DECEMBER 31, 1997
 SCHEDULE OF WASTEWATER OPERATING INCOME

SCHEDULE NO. 3A
 DOCKET NO. 971401-WS

	TEST YEAR PER UTILITY	COMM. ADJ. TO UTILITY	COMMISSION ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	TOTAL PER COMM.
OPERATING REVENUES	\$ 58,370	\$ 7,082 A	\$ 65,452	\$ 20,283 E	\$ 85,735
				30.99%	
OPERATING EXPENSES:					
OPERATION AND MAINTENANCE	49,515	(3,228) B	46,288	0	46,288
DEPRECIATION (NET)	16,633	(2,551) C	14,082	0	14,082
AMORTIZATION	0	0	0	0	0
TAXES OTHER THAN INCOME	745	3,257 D	4,002	913 F	4,915
INCOME TAXES	0	0	0	0	0
TOTAL OPERATING EXPENSES	\$ 66,893	\$ (2,522)	\$ 64,372	\$ 913	\$ 65,284
OPERATING INCOME/(LOSS)	\$ (8,523)		\$ 1,081		\$ 20,451
WASTEWATER RATE BASE	\$ 165,054		\$ 214,694		\$ 214,694
RATE OF RETURN	<u>-5.16%</u>		<u>0.50%</u>		<u>9.53%</u>

BAYSIDE UTILITIES, INC.
TEST YEAR ENDING DECEMBER 31, 1997
ADJUSTMENTS TO OPERATING INCOME

SCHEDULE NO. 3B
DOCKET NO. 971401-WS

	WATER	WASTEWATER
A. OPERATING REVENUES		
1. To impute revenue for 55 vacant connected lots.	\$ 7,418	\$ 7,082
B. OPERATION AND MAINTENANCE EXPENSES		
1. Salaries and Wages - Employees	\$ (914)	\$ (914)
a. To reduce payroll by overstated amount.	408	408
b. To bring employee salaries to Commission approved amount.	<u>\$ (507)</u>	<u>\$ (507)</u>
2. Purchased Water		
a. To reflect an adjustment for unaccounted-for water over the allowable 10% figure.	\$ (635)	\$ 0
b. To allow for an additional 18 units charged by the City of Panama City Beach (283 - 265).	1,674	1,674
	<u>\$ 1,039</u>	<u>\$ 1,674</u>
3. Sludge Removal Expense		
a. To reflect Commission approved test year sludge expense.	\$ 0	\$ 275
4. Purchased Power		
a. To adjust to Commission approved purchased power expense.	\$ 0	\$ 530
5. Chemicals		
a. To allow Commission approved chemical expense.	\$ 0	\$ 120
6. Contractual Services - Professional		
a. To include pro forma replacement of 15 manholes.	\$ 0	\$ 975
7. Contractual Services - Testing		
a. To include Commission approved testing amount.	\$ 450	\$ 0
8. Transportation Expenses		
a. To reflect Commission approved transportation expense.	\$ 680	\$ (176)
9. Regulatory Commission Expense		
a. To include \$1,000 per system SARC filing fee amortized over 4 years.	\$ 250	\$ 250
b. To reclassify regulatory assessment fees to taxes other than income.	(2,264)	(2,417)
	<u>\$ (2,014)</u>	<u>\$ (2,167)</u>
10. Bad Debt Expense		
a. To adjust bad debt expense to test year amount.	\$ (3,768)	\$ (3,952)
TOTAL O & M ADJUSTMENTS	<u>\$ (3,226)</u>	<u>\$ (2,314)</u>
C. DEPRECIATION EXPENSE		
1. To reflect test year depreciation calculated per 25-30.140, F.A.C.	\$ 2,801	\$ (4,317)
2. To reflect test year amortization expense.	(2,043)	0
3. To include depreciation expense on pro forma plant.	0	1,766
	<u>\$ 758</u>	<u>\$ (2,551)</u>
D. TAXES OTHER THAN INCOME		
1. To reclassify regulatory assessment fees from O & M.	\$ 2,284	\$ 2,417
2. To adjust to correct test year regulatory assessment fees.	419	528
3. To adjust payroll tax for Commission approved salaries.	312	312
	<u>\$ 2,995</u>	<u>\$ 3,257</u>
E. OPERATING REVENUES		
1. To reflect Commission approved increase in revenue	\$ 2,791	\$ 20,283
F. TAXES OTHER THAN INCOME		
1. To reflect additional regulatory assessment fee associated with recommended revenue requirement	\$ 126	\$ 913

BAYSIDE UTILITIES, INC.
 TEST YEAR ENDING DECEMBER 31, 1997
 ANALYSIS OF WATER OPERATION AND
 MAINTENANCE EXPENSE

SCHEDULE NO. 3C
 DOCKET NO. 971401-WS

	TOTAL PER UTIL.	COMMISSION ADJUST.	TOTAL PER COMM.
(601) SALARIES AND WAGES - EMPLOYEES	\$ 6,235	\$ (507)	\$ 5,729
(603) SALARIES AND WAGES - OFFICERS	0	0	0
(604) EMPLOYEE PENSIONS AND BENEFITS	0	0	0
(610) PURCHASED WATER	26,939	1,039	29,978
(615) PURCHASED POWER	0	0	0
(616) FUEL FOR POWER PRODUCTION	0	0	0
(618) CHEMICALS	0	0	0
(620) MATERIALS AND SUPPLIES	2,073	0	2,073
(630) CONTRACTUAL SERVICES - BILLING	0	0	0
(631) CONTRACTUAL SERVICES - PROFESSIONAL	50	0	50
(635) CONTRACTUAL SERVICES - TESTING	0	450	450
(636) CONTRACTUAL SERVICES - MAINTENANCE	0	0	0
(640) RENTS	1,919	0	1,919
(650) TRANSPORTATION EXPENSE	0	0	0
(655) INSURANCE EXPENSE	839	0	839
(655) REGULATORY COMMISSION EXPENSE	0	0	0
(670) BAD DEBT EXPENSE	4,513	(3,768)	745
(675) MISCELLANEOUS EXPENSES	0	0	0
	\$ 51,466	\$ (4,140)	\$ 47,327

BAYSIDE UTILITIES, INC.
TEST YEAR ENDING DECEMBER 31, 1997
ANALYSIS OF WASTEWATER OPERATION AND
MAINTENANCE EXPENSE

SCHEDULE NO. 3D
DOCKET NO. 971401-WS

	TOTAL PER UTIL.	COMMISSION ADJUST.	TOTAL PER COMM.
(701) SALARIES AND WAGES - EMPLOYEES	\$ 6,235	\$ (507)	\$ 5,729
(703) SALARIES AND WAGES - OFFICERS	0	0	0
(704) EMPLOYEE PENSIONS AND BENEFITS	0	0	0
(710) PURCHASED SEWAGE TREATMENT	0	275	275
(711) SLUDGE REMOVAL EXPENSE	0	275	275
(715) PURCHASED POWER	0	0	0
(716) FUEL FOR POWER PRODUCTION	0	0	0
(718) CHEMICALS	0	0	0
(720) MATERIALS AND SUPPLIES	4,220	0	4,220
(730) CONTRACTUAL SERVICES - BINDING	0	0	0
(731) CONTRACTUAL SERVICES - PROFESSIONAL	545	975	1,520
(735) CONTRACTUAL SERVICES	0	0	0
(736) CONTRACTUAL SERVICES - OTHER	2,467	0	2,467
(740) RENTS	0	0	0
(750) TRANSPORTATION EXPENSE	1,176	(176)	1,000
(755) INSURANCE EXPENSE	0	0	0
(765) REGULATORY COMMISSION EXPENSES	2,417	(2,167)	250
(770) BAD DEBT EXPENSES	0	0	0
(775) MISCELLANEOUS EXPENSES	1,719	0	1,719
	<u>\$ 49,515</u>	<u>\$ (3,228)</u>	<u>\$ 46,288</u>

COMMISSION APPROVED RATE REDUCTION SCHEDULE

BAYSIDE UTILITIES, INC.
 TEST YEAR ENDING DECEMBER 31, 1997

SCHEDULE NO. 4
 DOCKET NO. 971401-WS

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

MONTHLY WATER RATES

<u>RESIDENTIAL AND GENERAL SERVICE</u>	<u>COMMISSION APPROVED MONTHLY RATES</u>	<u>MONTHLY RATE REDUCTION</u>
BASE FACILITY CHARGE:		
Meter Size:		
5/8"X3/4"	\$ 11.98	0.05
3/4"	17.96	0.08
1"	29.94	0.13
1-1/2"	59.88	0.25
2"	95.80	0.40
3"	191.61	0.80
4"	299.39	1.26
6"	598.77	2.51
 RESIDENTIAL GALLONAGE CHARGE PER 1,000 GALLONS	 \$ 1.90	 0.01

COMMISSION APPROVED RATE REDUCTION SCHEDULE

BAYSIDE UTILITIES, INC.
 TEST YEAR ENDING DECEMBER 31, 1997

SCHEDULE NO. 4A
 DOCKET NO. 971401-WS

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

MONTHLY WASTEWATER RATES

	COMMISSION APPROVED MONTHLY RATES	MONTHLY RATE REDUCTION
RESIDENTIAL SERVICE		
All Meter Sizes	\$ 15.43	\$ 0.05
GENERAL SERVICE		
BASE FACILITY CHARGE:		
Meter Size:		
5/8"X3/4"	\$ 15.43	0.05
3/4"	23.14	0.07
1"	38.57	0.12
1-1/2"	77.14	0.24
2"	123.43	0.38
3"	246.85	0.75
4"	385.71	1.18
6"	771.42	2.36
RESIDENTIAL GALLONAGE CHARGE		
PER 1,000 GALLONS	\$ 3.80	0.01
(10,000 GALLON MAX. PER MONTH)		
GENERAL SERVICE GALLONAGE CHARGE		
PER 1,000 GALLONS	\$ 4.56	0.01