

State of Florida



Public Service Commission

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

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

DATE: JULY 11, 2002

TO: DIRECTOR, DIVISION OF THE COMMISSION CLERK &
ADMINISTRATIVE SERVICES (BAYÓ)

FROM: DIVISION OF ECONOMIC REGULATION (RENDELL, DAVIS LINGO)
OFFICE OF THE GENERAL COUNSEL (HARRIS)

RE: DOCKET NO. 011481-WS - APPLICATION FOR STAFF-ASSISTED RATE
CASE IN POLK COUNTY BY BIEBER ENTERPRISES, INC. D/B/A
BREEZE HILL UTILITIES, HOLDER OF CERTIFICATE NOS. 598-W
AND 513-S.
COUNTY: POLK

AGENDA: 07/23/2002 - REGULAR AGENDA - PROPOSED AGENCY ACTION
EXCEPT FOR ISSUES 11, 12, AND 13 - INTERESTED PERSONS MAY
PARTICIPATE

CRITICAL DATES: 15-MONTH EFFECTIVE DATE: 04/18/2003 (SARC)

SPECIAL INSTRUCTIONS: NONE

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CASE BACKGROUND

Breeze Hill Utilities, Inc. (Breeze Hill or utility) is a Class C utility which provided water and wastewater service to 116 residential customers and one general service customer during the year ended December 31, 2001. The Board of County Commissioners of Polk County adopted a resolution on May 14, 1996, which made the utilities in the County subject to the jurisdiction of the Florida Public Service Commission (PSC or Commission). The resolution was acknowledged by this Commission in Order No. PSC-96-0896-FOF-WS issued July 11, 1996, in Docket No. 960674-WS. By Order No. PSC-98-1550-FOF-WS, issued November 23, 1998, in Docket No. 971192-WS, the Commission granted Certificates Nos. 598-W and 513-S to Bieber Enterprises, Inc. d/b/a Breeze Hill Utilities.

The utility's previous rate case took place in 1999. By Order No. PSC-99-2394-FOF-WS, Docket No. 990356-WS, issued December 7, 1999, the Commission approved rate base, expenses, and rates for this utility. Since the last rate case, several customers have installed private wells at their homes. Because the customers have installed these wells, consumption of potable water provided by the utility has decreased. In the utility's last rate case, the Commission set rates based upon the approved revenue requirement and test year consumption. Since there has been a decrease in consumption of potable water by the customers, the utility's current rates are not sufficient to recover the previously approved revenue requirement.

On June 4, 2001, the utility filed an application for transfer of majority organizational control from Paul E. Bieber to Terrance Hartigh. By Order No. PSC-01-1985-FOF-WS, issued October 5, 2001, in Docket No. 010801-WS, the Commission approved the transfer of majority organizational control to Mr. Hartigh.

On November 5, 2001, the utility applied for this staff assisted rate case (SARC). Staff has audited the utility's records for compliance with Commission rules and orders and examined all components necessary for rate setting. Staff also conducted a field investigation, which included a visual inspection of the water and wastewater 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

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quality of service. Staff has selected a historical test year ended December 31, 2001.

Based on the staff analysis, the utility recorded test year revenues of \$24,263 for the water system and \$26,056 for the wastewater system. Utility recorded test year operating expenses were \$20,682 for water and \$28,352 for wastewater. This resulted in an operating income of \$3,581 for water and an operating loss of \$2,296 for wastewater.

A customer meeting was held in the service area on April 25, 2002. Approximately 19 customers attended the meeting; 4 customers chose to give comments. Staff also conducted an informal afternoon meeting with the board of the homeowners' association and an open meeting with the homeowners' association members. Approximately 50 homeowners' association members attended the afternoon meeting. Some of the quality of service concerns raised were low water pressure and sand in the water. Quality of service will be addressed in Issue No. 1. The majority of the comments centered around the level of the rate increase and the effect that the private irrigation wells have on rates. This issue is addressed throughout the recommendation.

The following is a list of acronyms and commonly used technical terms which are used throughout the staff report:

COMPANY AND PARTY NAMES

<u>DEP</u>	Department of Environmental Protection
<u>FPSC</u>	Florida Public Service Commission
<u>NARUC</u>	National Association of Regulatory Utility Commissioners
<u>OPC</u>	Office of Public Counsel
<u>SWFWMD</u>	Southwest Florida Water Management District

GLOSSARY OF TECHNICAL TERMS

<u>BFC</u>	Base Facility Charge - A charge designed to recover the portion of the total expenses required to provide water and sewer service incurred whether or not the customer actually uses the services and regardless of how much is
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- CIAC Contributions In Aid Of Construction - Any amount or item of money, services, or property received by a utility, from any person or governmental agency, any portion of which is provided at no cost to the utility, and which is utilized to offset the acquisition, improvement, or construction costs of the utility's property, facilities, or equipment used to provide utility services to the public. The term includes, but is not limited to, system capacity charges, main extension charges, and customer connection charges.
- ERCs Equivalent Residential Connections - A statistic used to quantify the total number of water or wastewater connections that can be served by a plant of some specific capacity. The consumption of each connection is considered to be that of a single family residential connection, which is usually considered to be a unit comprised of 3.5 persons.
- gpd Gallons Per Day - The amount of liquid that can be delivered or actually measured during a 24-hour period.
- gpm Gallons Per Minute - The amount of liquid that can be delivered or actually measured during a one-minute time period.
- O&M Operations and Maintenance Expense
- RAF Regulatory Assessment Fees
- SARC Staff Assisted Rate Case
- UPIS Utility Plant in Service - The land, facilities, and equipment used to generate, transmit, and/ or distribute utility service to customers.
- Used and Useful The amount of plant capacity that is used by current customers including an allowance for the margin reserve.
- USOA Uniform System of Accounts - A list of accounts for the purpose of classifying all plant and expenses associated with a utility's operations.

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ISSUE 1: Should the quality of service provided by Breeze Hill be considered satisfactory?

RECOMMENDATION: The quality of service provided by Breeze Hill should be considered satisfactory. (DAVIS)

STAFF ANALYSIS: Rule 25-30.433(1), Florida Administrative Code, states that:

The Commission in every rate case shall make a determination of the quality of service provided by the utility. This shall be derived from an evaluation of three separate components of water and wastewater utility operations: quality of utility's product (water and wastewater); operational conditions of utility's plant and facilities; and the utility's attempt to address customer satisfaction. Sanitary surveys, outstanding citations, violations and consent orders on file with the Department of Environmental Protection (DEP) and county health departments or lack thereof over the proceeding 3-year period shall also be considered. DEP and health department officials' comments and testimony concerning quality of service as well as the comments and testimony of the utility's customers shall be considered.

Staff's recommendation concerning the overall quality of service provided by the utility is derived from an evaluation of three separate components of water and wastewater utility operations:

- 1) Quality of Utility's Product (compliance with drinking water standards),
- 2) Operational Conditions of Utility's Plant or Facility,
- 3) Utility's Attempt to Address Customer Satisfaction.

The president of the homeowner's association requested to meet with staff at 2:00 pm on Tuesday, April 25, 2002. When staff arrived for the meeting, a full board meeting was in progress, and staff was asked to join in a question and answer type forum. The primary issue of discussion was the potential for increasing rates.

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There was one customer (Mr. Dave Carson) that complained about low water pressure. There were several questions about the utility's capacity to provide fire protection, and if staff had included fire protection in its recommendation. One customer asked if there was sand in the water, who should they call to complain. From the overall comments, questions, and statements expressed at that meeting; it became clear that the customers were concerned most about the higher rates. However, they understood the need for the utility to collect a prescribed level of revenue in order to continue business. The higher rates (especially the gallonage charges) gave rise to numerous statements about drilling private irrigation wells. It was discussed that this would repeat the cycle of events that occurred from the last rate case. The final request from the board was that staff attempt to design future rates based on higher base facility charges rather than higher gallonage charges.

The general customer meeting was held at 6:00 pm in the Polk County Public Library, in Lake Wales. There were 19 residents in attendance. Of which, four customers went on record with comments and opinions concerning the increase of service rates. Out of those four that went on record with comments and opinions, two customers commented on issues relating to the quality of service. Ms. Flo Waldman said her water pressure was low, and said she had sand in her water. Other comments and questions were concerning the high rates being proposed, fire protection, and irrigation wells.

QUALITY OF UTILITY'S PRODUCT

Water

In Polk county, the potable water program is regulated by the Environmental Engineering Division of the Polk County Department of Health. According to county health records for the last three years, the utility has had only minor deficiencies that are now corrected, and is currently up-to-date with all chemical analysis. All test results are satisfactory.

Consumptive use in Polk County is permitted by the South Florida Water Management District. The utility obtained its

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Consumptive Use Permit (CUP) on January 11, 2000, which allows the average daily withdrawal of 54,000 gallons with a maximum daily withdrawal of 100,000 gallons. The utility is currently not exceeding this allowance. This permit is a twenty year permit which will expire on January 11, 2020.

The utility serves water which meets or exceeds all standards for safe, potable water at an acceptable rate of extraction.

Wastewater

Jurisdiction over wastewater facilities is regulated by the Southwest District of the DEP. The utility's operating permit expired on January 02, 2000. A new five-year permit was issued on May 26, 2000 and is valid until May 25, 2005. With the renewal of the operation permit, the utility had to submit an Operations and Performance Report, verify that no areas of equipment/operation were of immediate concern, and provide proof that wastewater treatment plant was operating well within its capacity. The quality of wastewater service appears to meet or exceed regulatory standards, and is considered satisfactory.

OPERATIONAL CONDITIONS AT THE PLANT

Water

The quality of the utility's plant-in-service is generally reflective of the quality of the utility's product. Over the last three years, the most important plant-in-service issue was the replacement of the hydropneumatic tank. During the last rate case, a pro forma allowance was granted to replace the hydropneumatic tank. The tank was installed, and that issue has been resolved. Maintenance of the well and pump at the water treatment plant is satisfactory. The work and storage building appears well maintained. The operator's work space inside the building and the plant-site appears adequate with limited clutter. The quality of the water treatment plant-in-service is considered satisfactory.

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Wastewater

The wastewater plant-in-service is also reflective of the product provided by the utility. The overall capacity of the wastewater plant is sufficient to process the average daily flows of the on-line customers. The wastewater plant is located behind a 6 foot chain-link fence with natural vegetation to partially obstruct its view from the public. Behind the fence, the plant appears well maintained with the exception of some normal aging. With these exceptions, appearances at the plant remain satisfactory and no foul or obnoxious odors were detected during the engineering investigation. The quality of the wastewater plant in service is considered satisfactory.

UTILITY'S ATTEMPT TO ADDRESS CUSTOMER SATISFACTION

During the afternoon of April 25, 2002, staff participated in a board meeting of the homeowner's association which was held in the clubhouse at the Breeze Hill subdivision. An informal customer meeting was later held in the Polk County Public Library in the city of Lake Wales. Both meetings gave the customers of Breeze Hill an opportunity to go on record with specific concerns about the utility's attitude and responsiveness to quality of service issues. The primary issue of concern was the higher rates. The two quality of service issues that were discussed were low water pressure and sand in the water.

Upon staff's investigation of the low water pressure, it appears that the only time the customers experience low water pressure is when their irrigation systems are in operation. When further questioned, it appears that the problem has not been that bad lately. Mr. Gene Jeffers of the Polk County Health Department stated that his office has not received any complaints of low water pressure at the Breeze Hill development. Staff made the offer to Mr. Carson to request that the county health department put a recording device on his water-line to determine if the pressure drops below the minimum 20 psi, and he declined. It is suspect that the low water pressure problems experienced by these customers was at its greatest during the replacement of the hydropneumatic tank. During the last rate case the hydropneumatic tank ruptured, and the utility was forced to rely on two 300 gallon tanks to

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supply drinking water to its customers. During this period of emergency, the former owner of the utility requested that irrigation be postponed until after the new tank was installed. The former owner has complained to staff that his request was ignored.

The issue of sand in the water was reviewed and is believed to be a result of previous meter installations. The system prior to the last rate case was on flat rates. As a result of proceedings during the last rate case, the utility was ordered to install individual customer meters to the already existing services. The type soil local to this area is very sandy, and it is suspect that sand was introduced into the lines during the meter installations. No record appears to exist to confirm that sufficient flushing of the lines occurred to rid the system of sand. Since the customer meeting, the new owner has flushed the lines and reported to staff the locations of the specific valves used for flushing to clear the lines of sand.

It is recommended that the quality of service provided by Bieber Enterprises, Inc., should be considered satisfactory.

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USED AND USEFUL

ISSUE 2: What portions of Breeze Hill are used and useful?

RECOMMENDATION: The Breeze Hill water treatment plant, water distribution system, and wastewater collection system are considered 100% used and useful; the wastewater treatment plant is considered to be 56.63% used and useful. (DAVIS)

STAFF ANALYSIS:

Water Treatment Plant

The water treatment plant is a closed system with one 6" well equipped with a 10 horsepower (hp) vertical turbine pump. This one pump resources the ground water table at a rate of 200 gallons per minute (gpm). The calculation for used and useful plant was achieved using the minimum standard of 1.1 gpm per customer in accordance with General Waterworks Design Criteria. This standard is backed by the American Water Works Association (AWWA), and is recommended to be met by the lowest capacity well.

The design criteria method of analysis represents the highest potential need that may be required of a system during any given peak day. Since this system has only one well, no less than the actual capacity of 200 gpm could serve the existing customers. The distribution system contains fire hydrants that would be virtually useless during an emergency. Staff does not believe that Breeze Hill MHP will ever contain 350 persons to meet the requirement of Rule 62-555.315, F.A.C., for a second well. However, should the utility plan to utilize the fire hydrants, a second well should be considered.

Customer growth is calculated using the most recent five-year period including the test year. During the last rate case, the utility experienced a more healthy growth than the one reviewed for this rate case. The regression analysis for the most recent five-years indicates the anticipated growth for the next year to be 1 ERC. The calculation for the statutory five-year growth rate then becomes five (5) ERCs which converts to 7 gallons per minute to be used in the formula calculation (See Attachment "A", Sheet 1 of 4).

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After considering all of the above, the formula calculation used as an indicator of useful plant indicates that the water treatment plant is 100% used and useful.

Water Distribution System

The water distribution system has the potential of serving 131 customers (estimated to be 105 ERCs) without the construction of additional distribution mains. The average number of customers served during the test year was 117 customers (estimated to be 95 ERCs). During the last rate case, the used and useful percentage for the water distribution system was calculated to be 100%. This was mainly driven by a more steady growth projection than we have today. The utility has added only one customer since the last rate case. Today, the regression analysis indicates that the anticipated growth rate for Breeze Hill subdivision has shifted from 3 ERCs per year to 1 ERC per year. The calculation for the statutory five-year growth rate then becomes five (5) ERCs which contrasts with the projection of 15 ERCs in the last rate case. By the formula (See Attachment "D", Page 2 of 2) which is used as an indicator of useful plant, the difference in projected growth skews the formula to 95.2% used and useful as compared to the 100% determined in the last rate case.

A few vacant lots available for growth are scattered throughout the service area rendering the water distribution system fully functional just to serve the existing customers. This is a modular home subdivision where prefabricated homes are installed within days as opposed to months for a stick-built home. The original, five-year, customer growth projection of 15 ERCs could very well be obtained by the end of the next three years.

Because the utility still has three years left to complete the original five-year projection, and this is a modular home community new customers can be added very quickly, the 100% used and useful from the last rate case should be considered reasonable, and applied in this rate proceeding.

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Wastewater Treatment Plant

The wastewater treatment plant is permitted by the DEP as a 40,000 gpd Annual Average Daily Flow (AADF) plant operating in the extended aeration mode of treatment. During the original construction phase (1976), the wastewater treatment plant was constructed to process 20,000 gpd in the extended aeration mode of treatment. By 1981, an additional 20,000 gpd upgrade was constructed to meet future development phases. In the last rate case, the plant was determined to be 56.63% used and useful. This was calculated using an AADF of 19,470 gallons, and a projected growth of 4,924 gpd based on the estimated addition of 15 ERCs during the next five years. Today, flows for the 40,000 gpd facility are measured by a meter at the effluent lift station which registers treated water leaving the plant-site after all solids have been removed. During the peak month in the most current test year (September), the highest consecutive five day average was 26,000. The Annual Average Daily Flow (AADF) for the plant was measured and calculated to be 9,063 gpd.

Approximately 45% of the customers are seasonal and only live in the subdivision a portion of each year. This skews the AADF and should have been addressed during the permit renewal process. However, staff is required to calculate the used and useful based on the same parameters as the permitted capacity which is based on the AADF.

The statutory five year growth period is based on the regression analysis of the most recent five-years. That analysis for this rate case indicates a growth rate of one (1) ERC which converts to 477 gallons per day to be used in the formula calculation (See Attachment "A", Sheet 3 of 4). Based on the formula method which is used as an indicator of useful plant, useful plant is calculated to be 23.85 percent.

It is believed that a more practical perspective should, at least, be considered in this analysis. The service territory currently can serve 131 homesites. In accordance with Rule 62-600.400(1)(b) F.A.C., "For new facilities and modifications of existing facilities, it shall be the design objective to select treatment processes and equipment that will efficiently and

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reliably meet required effluent limitations." The design criteria for a wastewater system is based on premise that 80% of drinking water consumed will flow through to the wastewater plant. DEP mandates that a wastewater utility build a plant designed to meet 80% of the base unit 350 gpd per Single Family Resident (which is equal to one ERC-wastewater). In a modular community such as Breeze Hill, the ERC equivalent is 0.8 ERC per modular unit which is supported by Rule 25-30.055, F.A.C. Therefore, the minimum design parameters necessary for permit approval is 224 gpd per modular unit (350 gpd X 80% X 0.8 per ERC) whether used or not.

Phase I and Phase II of construction consisted of 76 lots which required a minimum plant capacity of 17,024 gpd. The normal production size of an aeration tank is 5,000 gallons. The developer constructed a 20,000 gpd plant with four aeration tanks. In 1981, when the developer applied to the DEP with plans for Phase III containing an additional 56 lots, the DEP required the developer to add additional capacity to the plant. The developer added a second 20,000 gallon plant to operate in unison with the original plant.

Today, the block of land to the north that once served as potential development has reverted back to agricultural status and the probability of expanding utility plant beyond its current capacity is unlikely. This yields the wastewater treatment plant valuable only to the existing subdivision which is 131 lots. That means that the pro rata share of each customer to the wastewater treatment plant is 305 gpd, and with an active customer base of 117, the estimated volume of treatment capacity would be 35,685 gpd (117 cust X 305 gpd per cust). A growth rate of five ERCs for the statutory five year growth period (based on the current regression analysis yields one ERC growth per year) would increase that total by 1,525 gpd to equal 37,210 gpd. This logic indicates the useful plant is about 93%, which is in concert with the other used and useful percentages.

As noted above, the wastewater treatment plant was found to be 56.63% used and useful in the last rate case. Any and all wastewater plant additions/upgrades since the last rate case has been either for maintenance or compliance with regulatory standards. The plant capacity remains the same. What has changed

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is the usage patterns of the same customer base due to metered rates as opposed to flat rates. The capacity of the plant is sized according to mandated design criteria by the DEP which is necessary to obtain a construction/operation permit for the existing development. Since the purpose of the used and useful is to establish an economic association between the fair share cost of plant between existing customers and future customers, staff believes the 56.63% used and useful determined in the last rate case is reasonable and prudent. It is recommended that the 56.63% used and useful established in the last rate case be carried forward in this rate case.

Wastewater Collection System

The wastewater collection system has the potential of serving 131 customers (estimated to be 105 ERCs) without the construction of additional collection mains. The average number of customers served during the test year was 117 customers (estimated to be 95 ERCs). During the last rate case, the used and useful percentage for the wastewater collection system was calculated to be 100%. As noted above, this was mainly driven by a more steady growth projection that we have today which has caused a reduced growth potential. Projected growth today, based on regression analysis, is 1 ERC per year which yields five (5) ERCs for the statutory five-year growth period. By the formula (See Attachment "A", Page 4 of 4), it is calculated that the distribution system is 95.2% used and useful.

As with the water distribution system, those few vacant lots available for future wastewater connections are scattered throughout the service area rendering the wastewater collection system fully functional just to serve the existing customers. Again, this is a modular home subdivision where homes are prefabricated and can be installed within days as opposed to months required to build a stick-built home. The original, five-year, customer growth projection of 15 ERCs could very well be obtained by the end of the next three years.

Because the utility still has three years left to complete the original five-year projection, and this is a modular home community that can add customers very quickly, the 100% used and useful from

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the last rate case should be considered reasonable, and applied in this rate proceeding.

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ISSUE 3: What is the utility's appropriate average test year rate base?

RECOMMENDATION: The appropriate average test year rate base should be \$68,257 for the water system and \$45,552 for the wastewater system. (RENDELL)

STAFF ANALYSIS: The appropriate components of the utility's rate base include utility plant in service (UPIS), land, non-used and useful plant, contributions-in-aid-of-construction (CIAC), accumulated depreciation, amortization of CIAC and a working capital allowance.

Staff selected a December 31, 2001, test year for this rate case. Staff received the utility's annual report on March 31, 2002. The utility has reconciled its books to meet the staff auditor's calculated amounts for the test year. A summary of each component and the adjustments follows:

Utility Plant in Service (UPIS): The utility recorded \$127,032 for water and \$251,809 for wastewater in this account for the test year. Staff has made no adjustments to this account.

Land: The utility recorded amounts of \$2,997 for water and \$18,519 for wastewater in this account for the test year. These amounts were set forth in Order No. PSC-99-2394-FOF-WS, in Docket No. 990356-WS, issued December 7, 1999.

Through review of the utility's records, the staff auditor has determined that there has been no change in land holdings since the last rate case. Therefore, staff has made no adjustments to this account.

Non-Used and Useful Plant: As discussed in Issue No. 3, the water treatment plant, the water distribution system, and the wastewater collection system should be considered 100% used and useful. The wastewater treatment plant should be considered 56.63% used and useful. The non-used and useful percentages applied to the appropriate accounts results in average non-used and useful wastewater plant of \$41,838 and average non-used and useful wastewater accumulated depreciation of \$41,784. Therefore, staff

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has decreased this account by \$54 to reflect non-used and useful wastewater plant net of applicable accumulated depreciation.

Contributions-in-Aid-of-Construction (CIAC): The utility recorded \$31,433 for water and \$117,903 for wastewater in this account. Staff determined that no adjustments were necessary to this account.

Accumulated Depreciation: The utility recorded accumulated depreciation of \$57,412 for water and \$210,365 for wastewater for the test year. Staff has decreased this account \$2,459 for water and \$2,339 for wastewater to include an averaging adjustment for the test year. The adjustments result in balances of \$54,953 for water and \$208,026 for wastewater for the test year.

Accumulated Amortization of CIAC: The utility recorded accumulated amortization of \$22,947 for water and \$101,283 for wastewater for the test year. Staff has recalculated amortization of CIAC based on composite depreciation rates. Staff has decreased this account by \$2,166 for wastewater to meet staff calculated amortization of CIAC for the test year. Staff has decreased this account to include averaging adjustments of \$608 for water and \$1,092 for wastewater. Staff recommends accumulated CIAC amortization of \$22,339 for water and \$98,025 for wastewater.

Working Capital Allowance: Working Capital is defined as the investor-supplied funds necessary to meet operating expenses or going-concern requirements of the utility. Pursuant to Rule 25-30.433, Florida Administrative Code, staff recommends that the one-eighth of operation and maintenance expense formula approach be used for calculating working capital allowance. Applying that formula, staff recommends a working capital allowance of \$2,275 for water and \$3,182 for wastewater based on water operation and maintenance expenses of \$18,199 and wastewater operation and maintenance expenses of \$25,460.

Rate Base Summary: Based on the foregoing, the appropriate rate base balance for rate setting purposes is \$68,257 for the water system and \$45,552 for the wastewater system.

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Rate base is shown on Schedules Nos. 1A and 1B; the related adjustments are shown on Schedule No. 1C.

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COST OF CAPITAL

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

RECOMMENDATION: The appropriate rate of return on equity should be 10.69% with a range of 9.69% to 11.69% and the appropriate overall rate of return should be 9.30% with a range of 8.73% to 9.86%. (RENDELL)

STAFF ANALYSIS: The utility is a subsidiary of Bieber Enterprises, Inc. Because the utility did not sufficiently record capital structure, staff has elected to use the capital structure of the parent company. Bieber Enterprises, Inc. was purchased by the current utility owner in June 2001, for \$320,000. The original purchase price consisted of cash and cash equivalents of \$182,000 and a promissory note payable to the previous owner of \$138,000 at a rate of 7.5%. Staff has determined the parent company's capital structure as follows; common stock of \$133, negative retained earnings of \$4,288, paid in capital of \$181,867, and the average remaining balance on the promissory note of \$137,097.

Using the current leverage formula approved by Order No. PSC-01-2514-FOF-WS, issued December 24, 2001, in Docket No. 010006-WS, the appropriate rate of return on equity is 10.69%. The weighted average cost of debt for this utility is 7.50%. Staff has determined the total weighted average cost of capital to be 9.30%.

The utility's capital structure has been reconciled with staff's recommended rate base. Staff recommends a return on equity of 10.69% with a range of 9.69% - 11.69% and an overall rate of return of 9.30%.

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 revenue for this utility?

RECOMMENDATION: The appropriate test year revenue should be \$24,606 for the water system and \$26,314 for the wastewater system. (RENDELL)

STAFF ANALYSIS: During the test year the utility provided water and wastewater services to an average 116 customers, and one general service customer. The utility reported revenues for the test year ended December 31, 2001 in the amount of \$24,263 and \$26,056 for the water and wastewater systems, respectively. Staff increased this account \$343 and \$258 for water and wastewater, respectively, to include unrecorded revenues from unbilled related-party services. Staff recommends test year revenue of \$24,606 for water, and \$26,314 for wastewater.

Test year revenues are shown on Schedule No. 3-A and Schedule No. 3-B, adjustments are shown on Schedule No. 3-C.

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ISSUE 6: What is the appropriate amount of operating expense?

RECOMMENDATION: The appropriate amount of operating expense is \$23,776 for the water system and \$30,118 for the wastewater system. (RENDELL)

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

Test Period Operating Expenses

The utility recorded test year water system operating expenses of \$20,682 and wastewater system operating expenses of \$28,352. A summary of adjustments to operating expenses are as follows:

OPERATION AND MAINTENANCE EXPENSE

Salaries and Wages-Employees (601/701) - The utility recorded employee salaries and wages of \$4,061 for water and \$4,061 for wastewater for the test year.

The new owner of the utility (Mr. Hartigh) employs Mr. Donald McNabb as resident maintenance person and general manager of the utility. As a resident maintenance person and general manager, Mr. McNabb is responsible for acting as a liaison between customers and the utility, investigating complaints, performing regular maintenance checks of the water distribution and wastewater collection systems, picking up parts for plant repairs, performing general system repairs, and assisting/supervising contract service projects. Mr. McNabb will not be responsible for bookkeeping and billing. Those duties are being performed by contract via an accounting firm, Kohl and Company.

The utility requested salaries for Mr. McNabb of 15 hours per week at a rate of \$10.50 per hour. Staff reviewed the allocation previously approved by the Commission for salaries in the utility's last rate case. In that Order, the Commission approved the maintenance person a total of ten hours per week at a rate of \$10.00 per hour. Staff's review of company records indicated that there has been no significant growth in the number of utility

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customers. Further, the duties of the maintenance personnel have not significantly increased since the last rate case. Therefore, staff finds the utility's request to be excessive and higher than the Commission typically allows for a utility of this size.

Staff believes a reasonable and prudent number of hours that Mr. McNabb will devote to utility functions is 10 hours per week at a rate of \$10.50 per hour. Staff has made an adjustment to reduce employee salary and wages \$1,331 for water and \$1,331 for wastewater. Total adjusted Salaries and Wages-Employees Expense is \$2,730 each for water and wastewater.

Salaries and Wages-Officers (603/703) - The utility recorded officers salaries and wages of \$1,337 for water and \$1,337 for wastewater.

Mr. Hartigh works as the owner/chief supervisor for the utility. Throughout a typical week, Mr. McNabb spends time with development issues, as well as utility issues. Mr. Hartigh is responsible for all of Mr. McNabb's duties when he is occupied with duties associated with the mobile home park. His duties include acting as a liaison between customers and the utility, investigating complaints, performing regular maintenance checks of the water distribution and wastewater collection systems, picking up parts for plant repairs, performing general system repairs, and assisting/supervising contract service projects.

The utility requested a salary for Mr. Hartigh of ten hours per week at a rate of \$15.00 per hour. As with the Salaries and Wages - Employees (601/701), staff has compared this allocation with that allowed in the utility's last rate case. In that Order, the Commission approved a total of six hours per week at a rate of \$15.00 per hour. Again, staff has not discovered any indication that the utility duties have increased for the utility owner since the last rate case. Staff's further investigation would indicate that the current utility owner performs fewer duties than the previous owner, Mr. Bieber.

Staff believes that 6 hours per week at a rate of \$15.00 per hour is prudent and reasonable considering his duties and for a utility of this size. Therefore, staff has made an adjustment to

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increase officers salaries and wages \$1,003 for water and \$1,003 for wastewater. Total Salaries and Wages-Officers Expense is \$2,340 each for water and wastewater.

Sludge Removal Expense (711) - It was estimated during the last rate case that this utility needed to pump out and dispose of excess sludge twice a year at a cost of \$310 per load. Since then, the dynamics of the wastewater operations have changed and the need to remove waste sludge has increased. During the test year, there were three full loads (3,000 gallons each) and one smaller load (2,000 gallons) hauled from the plant which the operator contends should have been four full loads (one each quarter).

After discussing test results for Biochemical Oxygen Demand (BOD) with the operator, it appeared that raw influent has become more concentrated over the last couple of years. There are a couple of plausible explanations for which neither may be the sole cause, but, both may be contributing factors.

First, during the latter half of the test year used in the last rate case, the utility made repairs to the wastewater collection system which reduced infiltration. This lowered the volume of influent causing the influent reaching the plant to be richer in nutrients. Second, the shift from flat-rate water use to metered water sold has shifted the estimated use of about 400 gpd per customer to 130 gpd per customer. It appears that while the customers were billed flat rates, the higher volume of raw influent was more diluted (longer showers, multiple washdays, etc.) which produced a higher ratio of graywater influent to primary influent. Now that metered rates have promoted a more conservative use of water, influent is lower in volume but richer in nutrients which results in more excess sludge.

The utility recorded \$1,575 of sludge removal expense during the test year. Staff estimates that the utility should remove sludge four times each year. The most current flat rate quote for this service is \$350 per load. It is recommended that \$1,400 per year (4 X \$350) be considered reasonable for sludge hauling expenses. Therefore, staff has made an adjustment to decrease this account \$175 to comport with staff's recommendation of \$1,400 per year.

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Purchased Power (615/715) - The utility recorded purchased power expense of \$956 for the water system, and \$4,145 for the wastewater system.

Power is purchased from the Peace River Electric Cooperative, Inc. During the 1999 rate case, the average monthly bill was \$233 per month for the water system which was based on purchased power demands under a flat rate structure. Metered rates established in the 1999 rate case resulted in a more conservative use of utility supplied water. As a consequence, demand for purchased power has decreased. Staff finds the utility balance of \$956 to be a reasonable and prudent amount and has made no adjustments for water.

The power consumed by the wastewater system is also purchased from the Peace River electric Cooperative, Inc. During the 1999 rate case, purchased power averaged \$329 per month while processing an Annual Average Daily Flow (AADF) of 20,000 gpd. The purchased power for the current test year averaged \$301.50 per month while processing AADF's of 9,063 gpd. As previously stated, conservative water use has resulted in a richer influent. A richer influent requires additional air permeation and extended detention time to maintain the proper stabilization of excess biological sludge, especially when an operator is attempting to postpone the expense of hauling sludge. Therefore, the disproportionate demand for air at a lower rate of flow volume is considered reasonable and prudent.

Staff has determined that \$3,741 is an appropriate amount for wastewater electrical expenses for the test year. Staff has reduced this account \$404 to comport with staff's recommended amount.

Since the test year ended, additional customers have installed irrigation wells in the service area. Staff estimated the number of gallons no longer pumped and treated by the utility. Staff has also made a repression adjustment in Issue No. 9. Staff has decreased this account by \$312 for water and \$631 for wastewater to reflect staff's recommended repression adjustment and reduction of gallons lost through irrigation wells.

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Staff has determined total purchased power expense for the test year to be \$644 for water and \$3,110 for wastewater.

Chemicals (618/718)- The utility recorded test year chemical expenses of \$509 for water and \$735 for wastewater. The utility purchases gas chlorine in 150 pound cylinders for the disinfection of raw water. The utility incorrectly recorded \$166 in Materials and Supplies (620) during the test year. Therefore, staff increased this account by \$166 for water to correctly record the chemicals from Materials and Supplies. Staff also has decreased this account \$20 for water to comport with staff's recommended amount for chemicals for the test year.

For the wastewater system, disinfection in the chlorine contact chamber is accomplished with the use of a hypo-mechanical chlorine pump along with a liquid chlorine concentrate. Additionally, the utility purchases enzall, a degreasing agent to clean and treat the lift station, root begone, which eliminates encroaching roots, and lime which is necessary for disinfection and "cleanup" at the wastewater plant site. Staff made an adjustment of \$678 to reclassify a wastewater chemical expense incorrectly recorded in Materials and Supplies (720). Staff also increased this account by \$291 to allow the staff's recommended amount of \$1,704 for chemicals for the test year.

Since the test year ended, additional customers have installed irrigation wells in the service area. Staff has estimated the number of gallons no longer pumped and treated by the utility. Staff has also made a repression adjustment in Issue No. 9. Staff has decreased this account by \$213 for water and \$288 for wastewater to reflect staff's recommended repression adjustment and reduction of gallons lost through irrigation wells.

Staff recommends chemical expense of \$442 for water and \$1,416 for wastewater.

Materials and Supplies (620/720) - The utility recorded test year materials and supplies expense of \$1,823 for water and \$2,871 for wastewater. The utility recorded several expenses incorrectly in this account during the test year. A breakdown of these expenses are:

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<u>Expenses</u>	<u>Water</u>	<u>Wastewater</u>
Phone Expense	\$1,130	\$1,044
Chemicals Expense	\$166	\$678
Meter Repair	\$75	\$0
Grounds Keeping Expense	<u>\$0</u>	<u>\$420</u>
Total	<u>\$1,371</u>	<u>\$2,142</u>

Staff has made an adjustment to transfer phone expense to Miscellaneous Expenses (675/775), chemical expense to Chemicals (618/718), and meter repair and grounds keeping expense to Contractual Services-Other (636/736). Total adjustments to materials and supplies results in a decrease of \$1,371 for water and \$2,142 for wastewater. Staff recommends test year materials and supplies of \$452 for water and \$729 for wastewater.

Contractual Services - Billing (630/730) - The utility recorded billing expenses of \$1,717 for water and \$1,717 for wastewater during the test year. In Order No. PSC-99-2394-FOF-WS, issued December 7, 1999, the Commission allowed \$3,666 (\$1,833 per year, per system) for billing and collections. This amount represented a contract amount with Kohl and Company. During the test year, the utility entered into a new contract for its billing services with Kohl and Company which includes data entry, invoicing, and collections of water and wastewater service revenues. This new contract requires an annual expense of \$6,600 (\$3,300 each for water and wastewater). Staff does not believe that this increase in the billing and collection services is reasonable due to the fact that the number of customers has not increased since the last rate case. Staff believes that the amount of billing and collection expense approved in the utility's last rate case, increased for inflation, is appropriate. Therefore, staff has increased this account \$255 for water and \$255 for wastewater to allow a total of \$1,972 each for water and wastewater billing services for the test year.

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The utility recorded meter reading expense of \$360 in Contractual Services-Other (636). Staff has increased this account \$180 for water and \$180 for wastewater to correctly record meter reading expenses. During the test year, the contracted meter reader increased his fee by \$180 each for water and wastewater. Staff finds this amount to be prudent and has increased the account accordingly.

Total contractual services billing is \$2,332 for water and \$2,332 for wastewater.

Contractual Services - Professional (631/731) - The utility recorded test year Contractual Services-Professional Expense of \$2,761 for water and \$3,045 for wastewater. Staff made an adjustment to transfer \$397 for electrical repairs to Account No. 736 for wastewater.

The utility's bookkeeping services are provided by the local accounting firm of Kohl and Company Accounting Services. The utility owner has negotiated a contract with Kohl and Company by which they will perform all bookkeeping and accounting services for the utility. The amount of the contract is \$4,950 annually. The contract includes; monthly check writing services, quarterly payroll returns, annual payroll returns, year-end adjustments and corporate return preparation, tangible tax returns, and PSC annual report preparation. Staff finds the prices for each of these services reasonable except for the monthly check writing. According to the contract, the utility is charged \$250 per month or \$3,000 annually for check writing services. Staff finds this amount to be unreasonable considering the size of the utility and the small number of disbursements made during the course of the year. Further, staff is allowing an amount for an officer who can write checks for the utility.

Based on the above staff believes that the appropriate expense for this account is \$1,950 (\$4,950 - \$3,000) or \$975 per system. Therefore, staff has decreased this account by \$1,786 (\$975 - \$2,761) for water and by \$1,673 (\$975 - \$3,045 - \$397) for wastewater to annualize contacted accounting services.

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Total contractual services professional is \$975 for water and \$975 for wastewater.

Contractual Services - Testing (635-735) - The utility recorded test year Contractual Services-Testing Expense of \$395 for water and \$1,243 for wastewater. State and local authorities require that several analysis be submitted in accordance with Rule 62-550, Florida Administrative Code. A schedule of the required water and wastewater tests, frequency, and costs are as follows:

<u>Water DEP Required Testing</u>		
<u>Description</u>	<u>Frequency</u>	<u>Annual Cost</u>
Microbiological	Monthly	\$780
Primary Inorganics	36 Months	\$49
Secondary Inorganics	36 Months	\$29
Asbestos	1/ 9 Years	\$35
Nitrate & Nitrite	12 Months	\$80
Volatile Organics	qtr'ly/1st yr/ 36 Months	\$110
	Subsequent/Annual	
Pesticides & PCB	36 Months	\$146
Radionuclides		
Group I	36 Months	\$42
Group II	36 Months	\$250
Unregulated Organics		
Group I	qtr'ly/1st yr/9 yr	\$112
Group II	36 Months	\$18
Group III	36 Months	\$83
Lead & Copper	Biannually	<u>\$300</u>
	Total Amount	<u>\$2,034</u>

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Wastewater DEP Required Testing

<u>Description</u>	<u>Frequency</u>	<u>Annual Cost</u>
Biochemical O ₂ Demand (includes Nitrate, Nitrite)	Monthly	\$940
Total Suspended Solids	Monthly	\$780
Fecal Coliform	Monthly	\$480
Sludge Analysis	Yearly	<u>\$450</u>
Total Amount		<u>\$2,650</u>

Staff made increases of \$1,639 to water and \$1,407 to wastewater to allow for the DEP required testing expense. Staff recommends contractual services-testing expense of \$2,034 for water and \$2,650 for wastewater.

Contractual Services - Other (636/736) - The utility recorded \$4,891 for the water system and \$5,135 for the wastewater system in this account for the test year. Staff increased this account \$75 for a water repair incorrectly recorded in Materials and Supplies (620) and \$420 to wastewater to include grounds keeping expense from Materials and Supplies (720). Staff also decreased this account \$360 to water to transfer meter reading expenses of \$180 each for water and wastewater to Contractual Services-Billing (630/730). Staff increased wastewater \$397 to include electrical repairs incorrectly recorded in Contractual Services-Professional (731).

Staff decreased this account \$604 for water, and \$778 for wastewater for nonrecurring amortization included in Order No. PSC-99-2394-FOF-WS. Staff has increased this account by \$264 for water and \$144 for wastewater to meet the operator contracted amount. Total adjustments for this account results in a decrease of \$625 for water and an increase of \$183 for wastewater. Staff recommends Contractual Services-Other expense of \$4,266 for water and \$5,318 for wastewater.

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Rent Expense (640/740) - The utility recorded \$0 in this account during the test year. Currently, the main office is located in a spare room of the previous utility owner's mobile home. Mr. Hartigh, the current owner, has indicated to staff that the office will be moving to a spare room in the residence of Donald McNabb, who is serving as the utility manager and maintenance person.

Mr. Hartigh requested monthly rents of \$400 for a total of \$4,800 per year. Staff found this amount to be excessive for a utility of this size and allowed \$100 per month for rents. The office expenses are divided equally, between the systems resulting in an increase to this account of \$600 each for water and wastewater.

Transportation Expense (650/750) - The utility recorded \$0 in this account during the test year.

In the performance of utility duties, the utility owner is required to tour the service area, attend meetings with regulatory personnel, run errands, pick up parts for repairs, transport chemicals, etc. This is done in a personal vehicle. During the last rate case, it was estimated that an average of 200 miles per week was required in travel.

After a discussion with the utility owner, staff has determined that 50 miles per week is a more reasonable estimation in this case. The same travel allowance granted to state employees of twenty-nine cents per mile was considered reasonable for utility travel in personal vehicles. Total Transportation Expense is \$377 for water and \$377 for wastewater for the test year to meet staff's recommended amount of \$754 ($.29 \times 50 \text{ miles} \times 52 \text{ weeks}$) for the test year.

Regulatory Expense (665/765) - The utility recorded \$0 in this account for the test year. The cost for this Staff Assisted Rate Case (SARC) consists of a filing fee of \$1,000, \$71 for printing expenses, \$44 for postage expenses, and \$12 for envelopes, totaling \$1,122 for Regulatory Commission Expense. Rate case expenses are amortized over a 4 year period, therefore, staff has increased this account by \$140 each for water and wastewater.

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Miscellaneous Expense (675/775) - The utility recorded \$72 each for water and wastewater for this account during the test year. Staff increased this account \$1,130 to water and \$1,044 to wastewater for phone expenses incorrectly recorded in Materials and Supplies (620/720). Staff also increased this account \$75 each for water and wastewater to include corporate filing fees incorrectly recorded in Taxes Other Than Income (TOTI), and \$13 (\$50/4) to wastewater to include the DEP permit amortized over 4 years.

The utility recorded phone expenses of \$1,130 for water and \$1,044 for wastewater. In a discussion with the utility, the owner indicated that the phone bill averages \$210 per month and that 2/3 of that can be attributed to the utility for a total of \$140 per month or \$1,680 per year. Staff reviewed a recent phone bill and discovered the rate included two lines, a yellow page advertisement, and a number of out of state calls that did not appear to be utility related. Staff also received a letter from the homeowner's association that indicated that one of the phone lines and the yellow page advertisement were paid for as part of the association dues. Therefore, these costs should not be included in the utility's phone expense.

In the course of business, the utility also utilizes cellular phones for long distance services and to contact the owner and maintenance person in case of emergency. Staff has determined that \$75 per month is a reasonable and prudent amount for phone expense for the utility which includes the regular phone line as well as a reasonable amount of the cellular service used by the utility.

Staff has decreased this account \$680 for water and \$594 to remove the excess phone expenses and to meet staff recommended amounts.

Total adjustments to Miscellaneous Expense is an increase of \$525 for water and an increase of \$538 for wastewater. Total Miscellaneous Expense is \$597 for water and \$610 for wastewater.

Operation and Maintenance Expenses (O & M) Summary - Total operation and maintenance adjustments are a decrease of \$593 for water and \$1,208 for wastewater. Staff recommends operation and maintenance expenses of \$18,199 for water and \$25,460 for

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wastewater. Operation and maintenance expenses for water are shown in Schedule No. 3C and operation and maintenance expenses for wastewater are shown in Schedule No. 3D.

Depreciation Expense (Net of Amortization of CIAC) - The utility recorded no depreciation expense for the test year. Consistent with Commission practice, staff calculated test year depreciation expense using the rates prescribed in Rule 25-30.140, Florida Administrative Code. Staff made an increase of \$4,738 to water and an increase of \$4,673 to wastewater to include staff's calculated depreciation expense. Staff calculated CIAC amortization resulted in decreases of \$1,172 for water and \$2,193 for wastewater. A decrease of \$5 was made to wastewater to reflect non-used and useful test year depreciation. Staff recommends depreciation expenses net of CIAC is \$3,566 for water and \$2,475 for wastewater for the test year.

Taxes Other Than Income Taxes - The utility recorded \$1,890 for water and \$1,684 for wastewater in this account for the test year. Staff has increased this account \$525 for water and \$525 for wastewater to allow for payroll taxes on staff's recommended salaries. Staff decreased this account \$75 for water and \$75 for wastewater to reclassify corporate filing fees to the Miscellaneous Expense Account (675/775). Staff also decreased this account \$50 for wastewater to remove DEP permit, and \$488 to water to remove county taxes previously paid. Staff has made a further adjustment to decrease property taxes by \$108 for water and \$282 for wastewater to remove property taxes paid by the homeowners.

Adjustments to test year revenues result in an increase in Regulatory Assessment Fees of \$19 for water and \$20 for wastewater. Total adjustments to Taxes Other Than Income result in a decrease to water of \$127 and in increase to wastewater of \$138. Staff recommends test year taxes other than income of \$1,763 for the water system and \$1,822 for the wastewater system.

Operating Revenues - Revenues have been adjusted by \$5,518 for the water system and \$8,041 for the wastewater system to reflect the increase in revenue required to cover expenses and allow the utility the opportunity to earn the recommended rate of return on investment.

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Regulatory Assessment Fees (RAFs) - Due to an increase in revenues, RAFs will be increased \$248 for water and \$362 for wastewater to reflect the Regulatory Assessment Fee of 4.5%.

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 \$23,776 and \$30,118 for water and wastewater, respectively.

Operating expenses for water are shown on Schedule No. 3A and operating expenses for wastewater are shown on Schedule No. 3B. Adjustments are shown on Schedule No. 3C.

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REVENUE REQUIREMENT

ISSUE 7: What is the appropriate revenue requirement for each system?

RECOMMENDATION: The appropriate revenue requirement should be \$30,124 for water and \$34,355 for wastewater. (RENDELL)

STAFF ANALYSIS: The utility should be allowed an annual increase in revenue of \$5,518 (22.43%) for water and an annual increase of \$8,041 (30.56%) for wastewater. This will allow the utility the opportunity to recover its expenses and earn the recommended 9.30% return on its investment. The calculations are as follows:

	<u>Water</u>	<u>Wastewater</u>
Adjusted Rate Base	\$ 68,257	\$ 45,552
Rate of Return	<u>x .0930</u>	<u>x .0930</u>
Return on Investment	\$ 6,348	\$ 4,236
O & M Expenses	18,199	25,460
Depreciation Expense (Net)	3,566	2,475
Taxes Other Than Income Taxes	<u>2,011</u>	<u>2,184</u>
Revenue Requirement	<u>\$ 30,124</u>	<u>\$ 34,355</u>
Annual Revenue Increase	\$ 5,518	\$ 8,041
Percentage Increase	<u>22.43%</u>	<u>30.56%</u>

The revenue requirements and resulting annual increases are shown on Schedules Nos. 3A and 3B.

It should be noted that the revenue requirement approved in Order No. PSC-99-2394-FOF-WS, issued December 7, 1999, was \$32,304 for water and \$36,985 for wastewater. Therefore, due to the unique circumstances of this case, this recommended increase represents a 6.7% decrease in revenue requirement for water and a 7.1% decrease in revenue requirement for wastewater from the previous rate case.

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RATES AND CHARGES

ISSUE 8: Is a continuation of the current base facility charge (BFC)/gallonge charge rate structure appropriate for this utility?

RECOMMENDATION: Yes, a continuation of the current rate structure is appropriate for this utility. **However, a negative (reverse) conservation adjustment of 40% should be made.** (LINGO)

STAFF ANALYSIS: The utility's current water system rate structure was approved in its most recent staff-assisted rate case (SARC) in Docket No. 990356-WS. The rate structure consists of a traditional monthly BFC/gallonge charge rate structure, in which the BFC is \$11.83, and all gallons used per month are charged \$1.20 per thousand gallons (kgal). This has traditionally been the Commission's preferred rate structure, because it is a usage sensitive rate structure which allows customers to reduce their total bill by reducing their water consumption.

Since the utility's last SARC, a number of customers have sunk private wells to provide for their outdoor water needs. This process has been facilitated by three factors. First, many of the wells were sunk by driving pointed pipe into the ground to tap into the shallow water supply. These "drive-point" wells do not require a permit from Polk County. Second, for those wells which are deeper and required the services of a well drilling company, permits were issued by Polk County. Third, the average cost to sink a well is approximately \$1,200. The cost is further reduced if two or more households share the cost and the access to the water. The proliferation of wells subsequent to the most recent SARC has greatly reduced the number of gallons sold by the utility. Ultimately, this has resulted in the utility not achieving its Commission-approved rate of return for its water system, which led to the utility filing the instant case.

Breeze Hill is located in Polk County, within the South Florida Water Management District (District). As a result of the Commission's Memorandums of Understanding with the state's five Water Management Districts and the Governor's stated water conservation policy that inclining-block rate structures be implemented whenever possible, staff originally contemplated

recommending an inclining-block rate structure (IBRS). In fact, we designed an IBRS and discussed the rate structure in our preliminary staff report that was presented and discussed during the customer meeting held on April 25th, 2002. The IBRS was met with considerable opposition, with many customers threatening to install wells for their outdoor water needs as a way to avoid the higher gallonage charge in the second usage block.

Since the customer meeting, we have been notified that 12 additional customers have sunk private wells, allowing a total of 16 customers access to those wells to provide water for their outdoor needs. The ease of installation of wells, coupled with their relatively low cost, presents staff with a unique situation from a ratesetting perspective. We must account for the anticipated loss of gallonage sales attributable to those 16 customers who now have access to newly-sunk wells before a rate structure may be designed and the appropriate rates set.

A review of the historical billing analysis revealed that the average overall occupancy of the service area is 74%. The number of bills that would have a corresponding reduction in gallons sold because of the use of new wells is 142 (16 customers x 12 bills per year x 74%). A further review of the billing analysis indicates that 134 bills during the test year were billed at usage levels above 9 kgal. Because this represents a difference of only 8 annual bills (142 - 134 = 8), staff believes this difference is immaterial, and has therefore based its analysis of potential gallons lost on 134 bills, rather than 142 bills.

Staff has no customer-specific information regarding the 16 customers who now take advantage of private wells, nor do we know what each of these customers' usage was during the test year. Absent this information, staff believes it is reasonable to assume that the 16 customers who now have access to newly-sunk wells have the greatest amount to gain in terms of avoided gallonage charges; that is, those customers have the highest individual levels of gallons sold during the test year. Therefore, we believe a reasonable basis for calculating the anticipated gallons lost would be that those 16 customers accounted for the 134 highest levels of billed gallons during the test year (134 highest bills).

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The residential gallons sold during the test year were 5,406.971 kgal. Staff subtracted the kgal associated with the 134 highest bills during the test year (1,869.601 kgal), leaving a remainder of 3,537.370 kgal. However, it is not appropriate to remove all of the gallons associated with the 134 highest bills, because these gallons represent both indoor and outdoor usage. Staff then determined a reasonable estimate of the gallons associated with the 134 bills which represented indoor use to add back to the gallons for ratesetting calculation.

As mentioned previously, removing the 134 highest bills effectively eliminates consumption above 9 kgal in the billing analysis. Based on our review of the test year billing distribution for consumption between 0 kgal and 9 kgal, we believe 3 kgal is a reasonable approximation of gallons associated with indoor usage for each bill (134 x 3 kgal = 402 kgal) that should be added back to the gallons for ratesetting calculation. Therefore, the gallons for ratesetting calculation is as follows:

	Test Year Residential Gallons Sold	5,406.971 kgal
less	Gallons Associated w/134 Highest Bills	1,869.601 kgal
plus	Gallons of Indoor Use Assoc w/134 Bills	402.000 kgal
equals	Residential Gallons for Ratesetting	3,939.370 kgal

As mentioned previously, we initially contemplated recommending an inclining-block rate structure for this utility. However, due to the ease of well installation to avoid higher gallonage charges, coupled with the resulting elimination of consumption above 9 kgal, we do not believe an IBRS is appropriate for this utility. In the alternative, staff recommends that the current BFC/gallonage charge rate structure be retained.

We believe an important rate design goal, consistent with Commission practice, is to recover no more than 40% of the overall revenue requirement through the BFC. This rate structure guideline was developed by the Southwest Florida Water Management District, and has been generally accepted by the remaining four Water Management Districts. This rate design goal is tempered, however, by the Commission's practice of considering revenue sufficiency and revenue stability when designing rates.

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Based upon initial accounting allocations, the utility would recover approximately 50% of the revenue requirement from the BFC, and the remaining 50% from the gallonage charge. Under most circumstances, staff would make a "conservation adjustment," whereby a portion of the fixed cost recovery would be shifted to the gallonage charge rate. However, staff does not believe a conservation adjustment of that nature is appropriate in this case.

An analysis of the utility's residential bills indicates that Breeze Hill has an exceptionally seasonal customer base. During the test period, approximately 25% of all residential bills are captured at a usage level of 1 kgal or less. This level of consumption is indicative of customers who are not occupying their residences during that time. In addition, while the months of January through April exhibit an average of 12% of bills with consumption at 1 kgal or less, the average percentage of bills with consumption at 1 kgal or less during the remaining months of May through December is 33%, or more than 2.5 times greater than the rate of the earlier months.

A consumption analysis of the utility's residential customers, after the gallons for ratesetting adjustments discussed previously, revealed similar results. The total number of kgals expected to be sold during January through April averages approximately 393 kgal per month, while the average for the remaining months of the year is 296 kgals, or 25% less than the average for the earlier months of the year. In particular, the average consumption for the months of July and August was approximately 40% less than the corresponding average of January through April.

Due to the loss of gallons attributable to new wells, the highly seasonal customer base and repression of consumption associated with the price increase (to be discussed in detail in a subsequent issue), staff is concerned that without some shift in cost recovery from the gallonage charge to the fixed charge (negative or reverse conservation adjustment), the utility's ability to pay its bills during the months of May through December may be compromised. Staff analyzed several scenarios in which a portion of the gallonage charge cost recovery was shifted to the BFC.

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Staff analyzed several scenarios (post-repression) in which a portion of the gallonage charge cost recovery was shifted to the BFC. The results of this analysis are shown below.

NEGATIVE CONSERVATION ADJUSTMENT ANALYSIS					
	Magnitude of Shift from Gallonage Charge to BFC				
	0%	10%	20%	30%	40%
Allocation BFC %	50%	55%	60%	65%	70%
Allocation Gal %	50%	45%	40%	35%	30%
Average Revenue Surplus During Four On-Peak Months	\$375	\$339	\$299	\$263	\$228
Average Revenue Shortfall During Eight Off-Peak Months	(\$20)	(\$17)	(\$17)	(\$14)	(\$11)

As indicated in the table above, a 40% shift from the gallonage charge to the BFC results in a BFC cost recovery allocation of 70%. Although this level of fixed charge cost recovery allocation is substantially greater than Commission practice and is outside the Water Management Districts' guidelines, staff believes this allocation results in the best "smoothing" of the revenue stream peaks and valleys associated with its exceptionally seasonal customer base, especially if additional customers install wells for their outdoor water needs. We contacted the District to discuss our recommended rate structure. We were informed that, although certainly outside their desired guidelines, the utility's revenue stability and sufficiency issues were such that it would not oppose our recommendation.

Therefore, a continuation of the current rate structure is appropriate for this utility. However, a negative (reverse) conservation adjustment of 40% should be made.

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ISSUE 9: Is an adjustment to reflect repression of consumption appropriate due to the price increase in this case, and, if so, what are the appropriate repression adjustments for the water and wastewater systems?

RECOMMENDATION: Yes, a repression adjustment of 331 kgal is appropriate for the water system, with a corresponding adjustment of 265 kgal for the wastewater system. In order to monitor the effects of the recommended revenue increase, the utility should be ordered to prepare monthly reports detailing the number of bills rendered, the consumption billed and the revenue billed. These reports should be provided, by customer class and meter size, on a quarterly basis for a period of two years, beginning with the first billing period after the increased rates go into effect. (LINGO)

STAFF ANALYSIS: Based on information contained in our database of utilities receiving rate increases and decreases, there were three water utilities that had experienced the same sort of price increase changes as Breeze Hill. These three utilities' prior prices and average consumptions matched very well with those of Breeze Hill. Furthermore, the average price increase experienced by the three utilities of approximately 35% is virtually identical to the corresponding increase of 34% expected by the Breeze Hill customers.

The reductions in quantity demanded for the three utilities were 1.7%, 11.0% and 12.5%. Due to the wide range of reductions exhibited by the three utilities, coupled with the close match of the utilities' average price increase to that of Breeze Hill, staff believes it is reasonable to base Breeze Hill's anticipated water consumption reduction on an average of the three utilities' consumption reductions. This results in an anticipated annual reduction in water consumption for Breeze Hill of 8.4%, or 331 kgal. The corresponding adjustment for the wastewater system is 265 kgal.

Therefore, a repression adjustment of 331 kgal is appropriate for the water system, with a corresponding adjustment of 265 kgal for the wastewater system. In order to monitor the effects of both the changes in rate structure and the recommended revenue increases, the utility should be ordered to prepare monthly reports

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detailing the number of bills rendered, the consumption billed and the revenue billed. These reports should be provided, by customer class and meter size, on a quarterly basis for a period of two years, beginning with the first billing period after the increased rates go into effect.

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ISSUE 10: What are the appropriate water and wastewater rates?

RECOMMENDATION: The recommended rates should be as shown in the staff analysis. The utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheet, pursuant to Rule 25-30.475(1), Florida Administrative Code. The rates should not be implemented until 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. Staff should be given administrative authority to approve the tariff sheets upon staff verification that the tariffs are consistent with the Commission's decision. (RENDELL, LINGO)

STAFF ANALYSIS: During the test year, Breeze Hill provided water and wastewater service to an average 116 customers, and one general service customer. As discussed in Issue 7, the appropriate water system revenue requirement, excluding miscellaneous service charges, is \$30,124, and the corresponding wastewater system revenue requirement is \$34,355. As discussed in Issue No. 8, staff recommends that the water system rate structure remain a traditional BFC/ gallonage charge rate structure and that a negative 40% conservation adjustment be implemented. As discussed in Issue No. 9, staff recommends that the appropriate repression adjustment for the water system is 331 kgals, and that the corresponding repression adjustment for the wastewater system is 265 kgals.

Staff's recommended increase in revenue requirements is \$5,518, or approximately 22.43% for the water system and \$8,041, or approximately 30.56% for the wastewater system.

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Monthly Rates - Water
RESIDENTIAL & GENERAL SERVICE

	<u>Test Year</u>	<u>Staff's</u> <u>Recommended Rates</u>
<u>Base Facility Charge</u>		
<u>Meter Sizes</u>		
5/8" x 3/4"	\$11.83	\$14.02
3/4"	\$17.75	\$21.03
1"	\$29.58	\$35.05
1 1/2"	\$59.16	\$70.10
2"	\$94.66	\$112.16
3"	\$189.32	\$224.32
4"	\$295.81	\$350.50
6"	\$591.61	\$701.00
<u>Gallage Charge</u>		
Per 1,000 gallons	\$1.20	\$2.45

Monthly Rates - Wastewater

RESIDENTIAL

	<u>Test Year</u> <u>Rates</u>	<u>Staff's</u> <u>Recommended Rates</u>
<u>Base Facility Charge</u>		
<u>Meter Size:</u>		
All Meter Sizes	\$12.65	\$16.03
<u>Gallage Charge</u>		
Per 1,000 Gallons	\$1.75	\$2.85
(6,000 gallon cap)		

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Monthly Rates - Wastewater

GENERAL SERVICE

	<u>Test Year</u>	<u>Staff's Recommended Rates</u>
<u>Base Facility Charge</u>		
<u>Meter Sizes</u>		
5/8" x 3/4"	\$12.65	\$16.03
3/4"	\$18.97	\$24.05
1"	\$31.61	\$40.08
1 1/2"	\$63.23	\$80.16
2"	\$101.17	\$128.26
3"	\$202.33	\$256.56
4"	\$316.14	\$400.81
6"	\$632.28	\$801.61
<u>Gallonge Charge</u>		
Per 1,000 Gallons	\$1.75	\$3.42

The differential in the gallonge charge for residential and general service wastewater customers is designed to recognize that a portion of a residential customer's water usage will not be returned to the wastewater system.

Approximately 70% (\$21,036) of the water system revenue requirement is recovered through the recommended base facility charge. The fixed costs are recovered through the BFC based on the number of factored ERCs. The remaining 30% of the revenue requirement (\$9,088) represents revenues collected through the consumption charge based on the number of gallons. Approximately 70% (\$24,048) of the wastewater system revenue requirement is recovered through the recommended base facility charge. The fixed costs are recovered through the BFC based on the number of factored ERCs. The remaining 30% of the revenue requirement (\$10,306) represents revenues collected through the consumption charge based on the number of factored gallons.

The following is a comparison of residential water and wastewater rates at 3,000, 5,000, and 10,000 gallons.

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	<u>Existing Rates</u>		<u>Recommended Rate</u>	
	<u>Water</u>	<u>Wastewater</u>	<u>Water</u>	<u>Wastewater</u>
3,000 Gal	\$15.43	\$17.90	\$21.36	\$24.59
5,000 Gal	\$17.83	\$21.40	\$26.25	\$30.30
10,000 Gal	\$23.83	\$23.15	\$38.48	\$33.15

The recommended rates are designed to produce revenue of \$30,124 for the water system and \$34,355 for the wastewater system. The utility should file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), Florida Administrative Code, provided the customers have received notice. The rates may 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. Staff should be given administrative authority to approve the tariff sheets, and approve that the tariffs are consistent with the Commission's decision.

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ISSUE 11: What is the appropriate amount by which rates should be reduced four years after the established effective date to reflect the removal of the amortized rate case expense as required by Section 367.0816, Florida Statutes?

RECOMMENDATION: The water and wastewater rates should be reduced as shown on Schedules 4A and 4B, to remove rate case expense grossed-up for regulatory assessment fees and amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the four year rate case expense recovery period, pursuant to Section 367.0816, Florida Statutes. The utility should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. If the utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense. (RENDELL)

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 \$147 annually. Using the utility's current revenues, expenses, capital structure and customer base the reduction in revenues will result in the rate decreases as shown on Schedules No. 4A and 4B.

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

If the utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data should be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense.

ISSUE 12: Should the recommended rates be approved for the utility on a temporary basis in the event of a timely protest filed by a party other than the utility?

RECOMMENDATION: Yes, the recommended rates should be approved for the utility on a temporary basis in the event of a timely protest filed by a party other than the utility. The utility should be authorized to collect the temporary rates after staff's approval of the security for potential refund, the proposed customer notice, and the revised tariff sheets. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), Florida Administrative Code, the utility should file reports with the Division of Commission Clerk and Administrative Services no later than 20 days after each monthly billing. These reports should indicate the amount of revenue collected under the increased rates. (HARRIS, RENDELL)

STAFF ANALYSIS: This recommendation proposes an increase in water and 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 timely protest filed by a party other than the utility, staff recommends that the recommended rates be approved as temporary rates. The recommended rates collected by the utility shall be subject to the refund provisions discussed below.

The utility should be authorized to collect the temporary rates upon the staff's approval of the security for potential refund and proposed customer notice. The security should be in the form of a bond or letter of credit in the amount of \$9,190. 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.

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If the utility chooses a letter of credit as 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 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 funds in the escrow account may be withdrawn by the utility without the express approval of the Commission.
- 2) The escrow account should be an interest bearing account.
- 3) If a refund to the customers is required, all interest earned by the escrow account should be distributed to the customers.
- 4) If a refund to the customers is not required, the interest earned by the escrow account should revert to the utility.
- 5) All information on the escrow account should be available from the holder of the escrow account to a Commission representative at all times.
- 6) The amount of revenue subject to refund should 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

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DCA 1972), escrow accounts are not subject to garnishments.

- 8) The Director of Commission Clerk and Administrative Services must be a signatory to the escrow agreement.

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 addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), Florida Administrative Code, the utility should file reports with the Division of Commission Clerk and Administrative Services no later than 20 days after each monthly billing. These reports should indicate the amount of revenue collected under the increased rates.

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ISSUE 13: Should the docket be closed?

RECOMMENDATION: Yes. If no timely protest is filed by a substantially affected person, this docket should be closed upon the issuance of a Consummating Order. (HARRIS, RENDELL)

STAFF ANALYSIS: If no timely protest is filed by a substantially affected person, this docket should be closed upon the issuance of a Consummating Order. If a protest is filed within 21 days of the issuance of the Order, the tariffs should remain in effect with any increase held subject to refund pending resolution of the protest, and the docket should remain open.

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WATER TREATMENT PLANT - USED AND USEFUL DATA

Docket No. 011481-WS - Bieber Enterprises, Inc.

- | | | |
|--|---------|--------------------|
| 1) Capacity of Plant | 200 | gallons per minute |
| 2) Average of 5 Highest Days From
Maximum Month (117 cust X 1.1 gpm
X 2) | 257 | gallons per minute |
| 3) Average Daily Flow (117 cust X 1.1
gpm) | 129 | gallons per minute |
| 4) Fire Flow Capacity | N/A | gallons per minute |
| a) Required Fire Flow: 500 gallons per minute for 4 hours is N/A | | |
| 5) Growth | 7 | gallons per minute |
| a) Test year Customers in ERCs: | Begin | 94 |
| | End | 95 |
| | Average | 95 |
| (Use average number of customers) | | |
| b) Customer Growth in ERCs using Regression
Analysis for most recent 5 years including
Test Year | 1 | ERC |
| c) Statutory Growth Period | 5 | Years |
| (b)x(c)x [3\ (a)] = 7 gallons per minute for growth | | |
| 6) Excessive Unaccounted for Water | 0 | gallons per minute |
| a) Total Unaccounted for Water | N/A | gallons per minute |
| Percent of Average Daily Flow | 10% | |
| b) Reasonable Amount | N/A | gallons per minute |
| (10% of average Daily Flow) | | |
| c) Excessive Amount | 0 | gallons per minute |

USED AND USEFUL FORMULA

$$[(2)+(4)+(5)-(6)] / (1) = 100\% \text{ Used and Useful}$$

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WATER DISTRIBUTION SYSTEM - USED AND USEFUL DATA

Docket No. 011481-WS - Bieber Enterprises, Inc.

1)	Capacity of System (Number of Potential Customers, ERCs or Lots Without Expansion)	105	ERCs
2)	Test year connections		
	a)Beginning of Test Year	94	ERCs
	b)End of Test Year	95	ERCs
	c)Average Test Year	95	ERCs
3)	Growth	5	ERCs
	a)customer growth in connections for last 5 years including Test Year using Regression Analysis	1	ERCs
	b)Statutory Growth Period	5	Years
	(a)x(b) = 5 connections allowed for growth		

USED AND USEFUL FORMULA

$$[2+3]/(1) = *95.2\% \text{ Used and Useful}$$

*It is recommended that the 95.2% used and useful not be used and the water distribution system be considered 100% used and useful as described in staff analysis.

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WASTEWATER TREATMENT PLANT - USED AND USEFUL DATA

Docket No. 011481-WS - Bieber Enterprises, Inc.

1)	Permitted Capacity of Plant (AADF)	40,000	gallons per day
2)	Maximum Daily Flow	26,000	gallons per day
3)	Average Daily Flow (AADF)	9,063	gallons per day
4)	Growth	477	gallons per day
a)	Test year Customers in ERCs:	Beginning	94
		Ending	95
		Average	95
b)	Customer Growth in ERCs using Regression Analysis for most recent 5 years including Test Year	1	ERCs
c)	Statutory Growth Period	5	Years
	(b x c) x [3/(a)] = 477 gallons per day for growth		
5)	Excessive Infiltration or Inflow (I&I)	N/A	gallons per day
a)	Total I&I:	N/A	gallons per day
	Percent of Average Daily Flow	N/A	
b)	Reasonable Amount	4,886	gallons per day
	(500 gpd per inch dia pipe per mile)		
c)	Excessive Amount	N/A	gallons per day

USED AND USEFUL FORMULA

$$[(3)+(4)-(5)]/(1) = *23.85\% \text{ Used and Useful}$$

*It is recommended that the 23.85% used and useful not be used and the wastewater treatment plant be considered 56.53% used and useful as described in staff analysis.

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WASTEWATER COLLECTION SYSTEM - USED AND USEFUL DATA

Docket No. 011481-WS - Bieber Enterprises, Inc.

- | | | | |
|----|---|-----|-------|
| 1) | Capacity of System (Number of potential ERCs) | 105 | ERCs |
| 2) | Test year connections | | |
| | a)Beginning of Test Year | 94 | ERCs |
| | b)End of Test Year | 95 | ERCs |
| | c)Average Test Year | 95 | ERCs |
| 3) | Growth | 5 | ERCs |
| | a)customer growth in connections for last 5 years including Test Year using Regression Analysis | 1 | ERC |
| | b)Statutory Growth Period | 5 | Years |
| | (a)x(b) = 5 ERCs allowed for growth | | |

USED AND USEFUL FORMULA

$$[(2)+(3)]/(1) = *95.2\% \text{ Used and Useful}$$

*It is recommended that the 95.2% used and useful not be used and the wastewater collection system be considered 100% used and useful as described in staff analysis.

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BREEZE HILL UTILITY TEST YEAR ENDING 12/31/01 SCHEDULE OF WATER RATE BASE		SCHEDULE NO. 1-A DOCKET NO. 011481-WS	
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	\$127,032	\$0	\$127,032
2. LAND & LAND RIGHTS	2,997	0	\$2,997
3. NON-USED AND USEFUL COMPONENTS	0	0	\$0
4. CIAC	(31,433)	0	(\$31,433)
5. ACCUMULATED DEPRECIATION	(57,412)	2,459	(\$54,953)
6. AMORTIZATION OF CIAC	22,947	(608)	\$22,339
7. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>2,275</u>	<u>\$2,275</u>
8. WATER RATE BASE	\$64,131	\$4,126	\$68,257

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BREEZE HILL UTILITY TEST YEAR ENDING 12/31/01 SCHEDULE OF WASTEWATER RATE BASE		SCHEDULE NO. 1-B DOCKET NO. 011481-WS	
DESCRIPTION	BALANCE PER UTILITY	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	\$251,809	\$0	\$251,809
2. LAND & LAND RIGHTS	18,519	0	\$18,519
3. NON-USED AND USEFUL COMPONENTS	0	(54)	(\$54)
4. CIAC	(117,903)	0	(\$117,903)
5. ACCUMULATED DEPRECIATION	(210,365)	2,339	(\$208,026)
6. AMORTIZATION OF CIAC	101,283	(3,258)	\$98,025
7. WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>3,182</u>	<u>\$3,182</u>
8. WASTEWATER RATE BASE	\$43,343	\$2,209	\$45,552

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BREEZE HILL UTILITY TEST YEAR ENDING 12/31/01 ADJUSTMENTS TO RATE BASE		SCHEDULE NO. 1-C DOCKET NO. 011481-WS	
		<u>WATER</u>	<u>WASTEWATER</u>
<u>UTILITY PLANT IN SERVICE</u>			
1. No adjustments necessary		<u>\$0</u>	<u>\$0</u>
<u>LAND</u>			
1. No adjustments necessary		<u>\$0</u>	<u>\$0</u>
<u>NON-USED AND USEFUL PLANT</u>			
1. To reflect non-used and useful plant.		\$0	(\$41,838)
2. To reflect non-used and useful accumulated depreciation.		<u>0</u>	<u>\$41,784</u>
Total		<u>\$0</u>	<u>(\$54)</u>
<u>CIAC</u>			
1. No adjustments necessary		<u>\$0</u>	<u>\$0</u>
<u>ACCUMULATED DEPRECIATION</u>			
1. Averaging Adjustment		<u>\$2,459</u>	<u>\$2,339</u>
<u>AMORTIZATION OF CIAC</u>			
1. Reduce to meet staff calculation		0	(2,166)
2. Averaging Adjustment		<u>(608)</u>	<u>(1,092)</u>
Total		<u>(\$608)</u>	<u>(\$3,258)</u>
<u>WORKING CAPITAL ALLOWANCE</u>			
1. To reflect 1/8 of test year O & M expenses.		<u>\$2,275</u>	<u>\$3,182</u>

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BREEZE HILL UTILITY TEST YEAR ENDING 12/31/01 SCHEDULE OF CAPITAL STRUCTURE						SCHEDULE NO. 2 DOCKET NO. 011481-WS		
CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUST- MENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUST- MENTS	BALANCE PER STAFF	PERCENT OF TOTAL	COST	WEIGHTED COST
1. COMMON STOCK	\$133	\$0	\$133					
2. RETAINED EARNINGS	(4,288)	0	(4,288)					
3. PAID IN CAPITAL	181,867	0	181,867					
4. TREASURY STOCK	<u>0</u>	<u>0</u>	<u>0</u>					
5. TOTAL COMMON EQUITY	\$177,712	\$0	177,712	(113,466)	64,246	56.45%	10.69%	6.03%
6. LONG TERM DEBT	137,097	0	137,097	(87,534)	49,563	43.55%	7.50%	3.27%
7. LONG TERM DEBT	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	0.00%	0.00%
TOTAL LONG TERM DEBT	137,097	0	137,097	(87,534)	49,563	43.55%		
8. CUSTOMER DEPOSITS	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.00%</u>	6.00%	<u>0.00%</u>
9. TOTAL	<u>\$314,809</u>	<u>\$0</u>	<u>\$314,809</u>	<u>(\$201,000)</u>	<u>\$113,809</u>	<u>100.00%</u>		<u>9.30%</u>
RANGE OF REASONABLENESS						<u>LOW</u>	<u>HIGH</u>	
RETURN ON EQUITY						<u>9.69%</u>	<u>11.69%</u>	
OVERALL RATE OF RETURN						<u>8.73%</u>	<u>9.86%</u>	

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BREEZE HILL UTILITY TEST YEAR ENDING 12/31/01 SCHEDULE OF WATER OPERATING INCOME			SCHEDULE NO. 3-A DOCKET NO. 011481-WS		
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$24,263</u>	<u>\$343</u>	<u>\$24,606</u>	<u>\$5,518</u> 22.43%	<u>\$30,124</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	18,792	(593)	18,199	0	18,199
3. DEPRECIATION (NET)	0	3,566	3,566	0	3,566
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	1,890	(127)	1,763	248	2,011
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$20,682</u>	<u>\$2,846</u>	<u>\$23,528</u>	<u>\$248</u>	<u>\$23,776</u>
8. OPERATING INCOME/(LOSS)	<u>\$3,581</u>		<u>\$1,078</u>		<u>\$6,348</u>
9. WATER RATE BASE	<u>\$64,131</u>		<u>\$68,257</u>		<u>\$68,257</u>
10. RATE OF RETURN	<u>5.58%</u>		<u>1.58%</u>		<u>9.30%</u>

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BREEZE HILL UTILITY TEST YEAR ENDING 12/31/01 SCHEDULE OF WASTEWATER OPERATING INCOME			SCHEDULE NO. 3-B DOCKET NO. 011481-WS		
	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1. OPERATING REVENUES	<u>\$26,056</u>	<u>\$258</u>	<u>\$26,314</u>	<u>\$8,041</u> 30.56%	<u>\$34,355</u>
OPERATING EXPENSES:					
2. OPERATION & MAINTENANCE	26,668	(1,208)	25,460	0	25,460
3. DEPRECIATION (NET)	0	2,475	2,475	0	2,475
4. AMORTIZATION	0	0	0	0	0
5. TAXES OTHER THAN INCOME	1,684	138	1,822	362	2,184
6. INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
7. TOTAL OPERATING EXPENSES	<u>\$28,352</u>	<u>\$1,405</u>	<u>\$29,757</u>	<u>\$362</u>	<u>\$30,118</u>
8. OPERATING INCOME/(LOSS)	<u>(\$2,296)</u>		<u>(\$3,443)</u>		<u>\$4,236</u>
9. WASTEWATER RATE BASE	<u>\$43,343</u>		<u>\$45,552</u>		<u>\$45,552</u>
10. RATE OF RETURN	-5.30%		-7.56%		9.30%

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**BREEZE HILL UTILITY
TEST YEAR ENDING 12/31/01
ADJUSTMENTS TO OPERATING INCOME**

**SCHEDULE NO. 3-C
DOCKET NO. 011481-WS
PAGE 1 OF 2**

	<u>WATER</u>	<u>WASTEWATER</u>
OPERATING REVENUES		
1. a. To include unbilled revenues	<u>\$343</u>	<u>\$258</u>
OPERATION AND MAINTENANCE EXPENSES		
1. Salaries and Wages Employees (601/ 701)		
a. Reduce to meet previous Order	<u>(\$1,331)</u>	<u>(\$1,331)</u>
2. Salaries and Wages Officers (603/ 703)		
a. Increase to meet pro-forma annualized amount	<u>\$1,003</u>	<u>\$1,003</u>
3. Sludge Removal Expense (711)		
a. To meet engineers recommended amount	<u>\$0</u>	<u>(\$175)</u>
4. Purchased Power (615/ 715)		
a. Adjust to meet engineers rec. amount	<u>\$0</u>	<u>(\$404)</u>
b. Repression Adjustment	<u>(312)</u>	<u>(631)</u>
Subtotal	<u>(\$312)</u>	<u>(\$1,035)</u>
5. Chemicals (618/ 718)		
a. Reclassify from Acct. No. 620/720	<u>\$166</u>	<u>\$678</u>
b. To meet engineers recommended amount	<u>(20)</u>	<u>291</u>
c. Repression Adjustment	<u>(213)</u>	<u>(288)</u>
Subtotal	<u>(\$67)</u>	<u>\$681</u>
6. Materials & Supplies (620/ 720)		
a. Remove phone expense to Acct. No. 675/775	<u>(\$1,130)</u>	<u>(\$1,044)</u>
b. Remove chemicals to Acct. No. 618/718	<u>(166)</u>	<u>(678)</u>
c. Remove water repair to Acct. No. 636	<u>(75)</u>	<u>0</u>
d. Remove grounds keeping expense to Acct. No. 736	<u>0</u>	<u>(420)</u>
Subtotal	<u>(\$1,371)</u>	<u>(\$2,142)</u>
7. Contractual Services - Billing (630/ 730)		
a. Include for meter reading expense new contract	<u>\$180</u>	<u>\$180</u>
b. Increase to amount in last rate case - adjusted for inflation	<u>255</u>	<u>255</u>
c. Include from Act. 636	<u>180</u>	<u>180</u>
Subtotal	<u>\$615</u>	<u>\$615</u>
8. Contractual Services- Professional (631/731)		
a. Remove electrical repairs to Acct. No. 736	<u>\$0</u>	<u>(\$397)</u>
b. Annualize Accounting Contract	<u>(1,786)</u>	<u>(1,673)</u>
Subtotal	<u>(\$1,786)</u>	<u>(\$2,070)</u>
9. Contractual Services - Testing (635/ 735)		
a. To Include engineers recommended amount	<u>\$1,639</u>	<u>\$1,407</u>

(O & M EXPENSES CONTINUED ON NEXT PAGE)

BREEZE HILL UTILITY TEST YEAR ENDING 12/31/01 ADJUSTMENTS TO OPERATING INCOME		SCHEDULE NO. 3-C DOCKET NO. 011481-WS PAGE 2 OF 2	
(O & M EXPENSES CONTINUED)		<u>WATER</u>	<u>WASTEWATER</u>
10. Contractual Services - Other (636/ 736)			
a. Reclassify water repair expense from Acct. No. 620	\$75	\$0	
b. Remove \$180 meter reading expense to Acct. No. 630/730	(360)	0	
c. Reclassify grounds keeping expense from Acct. No. 720	0	420	
d. Reclassify for electrical repairs from Acct. No. 731	0	397	
e. Remove for nonrecurring amortization from previous case	(604)	(778)	
f. Include to meet operator contracted amount	264	144	
Subtotal	<u>(\$625)</u>	<u>\$183</u>	
11. Rents (640/ 740)			
a. To include rent expense	<u>\$600</u>	<u>\$600</u>	
12. Transportation Expense (650/ 750)			
a. Increase to meet staff calculated amount	<u>\$377</u>	<u>\$377</u>	
13. Regulatory Expense (665/ 765)			
a. Amortize Rate Case Expense (\$1122/4)/2	<u>\$140</u>	<u>\$140</u>	
14. Miscellaneous Expense (675/ 775)			
a. Reclassify phone expense from Acct. No. 620/720	\$1,130	\$1,044	
b. Decrease for excessive phone expense	(680)	(594)	
c. Include corporate filing fees from TOTI	75	75	
d. Include DEP permit amortized over 5 years	0	13	
Subtotal	<u>\$525</u>	<u>\$538</u>	
TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	<u>(\$593)</u>	<u>(\$1,208)</u>	
DEPRECIATION EXPENSE			
1. To reflect test year depreciation calculated per 25-30.140, FAC	\$4,738	\$4,673	
2. Non-used and useful depreciation	0	(5)	
3. To reflect test year CIAC amortization calculated by staff	<u>(1,172)</u>	<u>(2,193)</u>	
Total	<u>\$3,566</u>	<u>\$2,475</u>	
TAXES OTHER THAN INCOME			
1. To remove corporate filing fee	(\$75)	(\$75)	
2. To remove DEP permit	0	(50)	
3. To remove County Tax	(488)	0	
4. To remove Property Taxes	(108)	(282)	
5. Adjust RAF's to Annualized Revenue	19	20	
6. Payroll Tax	525	525	
Total	<u>(\$127)</u>	<u>\$138</u>	

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BREEZE HILL UTILITY TEST YEAR ENDING 12/31/01 ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE		SCHEDULE NO. 3-D DOCKET NO. 011481-WS		
	TOTAL PER UTILITY	STAFF PER ADJUST.		TOTAL PER PER STAFF
(601) SALARIES AND WAGES - EMPLOYEES	\$4,061	(\$1,331) [1]		\$2,730
(603) SALARIES AND WAGES - OFFICERS	1,337	1,003 [2]		\$2,340
(604) EMPLOYEE PENSIONS AND BENEFITS	0	0		\$0
(610) PURCHASED WATER	0	0		\$0
(615) PURCHASED POWER	956	(312) [4]		\$644
(616) FUEL FOR POWER PRODUCTION	0	0		\$0
(618) CHEMICALS	509	(67) [5]		\$442
(620) MATERIALS AND SUPPLIES	1,823	(1,371) [6]		\$452
(630) CONTRACTUAL SERVICES - BILLING	1,717	615 [7]		\$2,332
(631) CONTRACTUAL SERVICES - PROFESSIONAL	2,761	(1,786) [8]		\$975
(635) CONTRACTUAL SERVICES - TESTING	395	1,639 [9]		\$2,034
(636) CONTRACTUAL SERVICES - OTHER	4,891	(625) [10]		\$4,266
(640) RENTS	0	600 [11]		\$600
(650) TRANSPORTATION EXPENSE	0	377 [12]		\$377
(655) INSURANCE EXPENSE	270	0		\$270
(665) REGULATORY COMMISSION EXPENSE	0	140 [13]		\$140
(670) BAD DEBT EXPENSE	0	0		\$0
(675) MISCELLANEOUS EXPENSES	<u>72</u>	<u>525</u> [14]		<u>\$597</u>
	18,792	(593)		18,199

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BREEZE HILL UTILITY TEST YEAR ENDING 12/31/01 ANALYSIS OF WASTEWATER OPERATION AND MAINTENANCE EXPENSE		SCHEDULE NO. 3-E DOCKET NO. 011481-WS		
	TOTAL PER UTILITY	STAFF ADJUST- MENT		TOTAL PER STAFF
(701) SALARIES AND WAGES - EMPLOYEES	\$4,061	(\$1,331) [1]		\$2,730
(703) SALARIES AND WAGES - OFFICERS	1,337	1,003 [2]		\$2,340
(704) EMPLOYEE PENSIONS AND BENEFITS	0	0		\$0
(710) PURCHASED SEWAGE TREATMENT	0	0		\$0
(711) SLUDGE REMOVAL EXPENSE	1,575	(175) [3]		\$1,400
(715) PURCHASED POWER	4,145	(1,035) [4]		\$3,110
(716) FUEL FOR POWER PRODUCTION	0	0		\$0
(718) CHEMICALS	735	681 [5]		\$1,416
(720) MATERIALS AND SUPPLIES	2,871	(2,142) [6]		\$729
(730) CONTRACTUAL SERVICES - BILLING	1,717	615 [7]		\$2,332
(731) CONTRACTUAL SERVICES - PROFESSIONAL	3,045	(2,070) [8]		\$975
(735) CONTRACTUAL SERVICES - TESTING	1,243	1,407 [9]		\$2,650
(736) CONTRACTUAL SERVICES - OTHER	5,135	183 [10]		\$5,318
(740) RENTS	0	600 [11]		\$600
(750) TRANSPORTATION EXPENSE	0	377 [12]		\$377
(755) INSURANCE EXPENSE	732	0		\$732
(765) REGULATORY COMMISSION EXPENSES	0	140 [13]		\$140
(770) BAD DEBT EXPENSE	0	0		\$0
(775) MISCELLANEOUS EXPENSES	<u>72</u>	<u>538</u> [14]		<u>\$610</u>
	<u>26,668</u>	<u>(1,208)</u>		<u>25,460</u>

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RECOMMENDED RATE REDUCTION SCHEDULE

BREEZE HILL UTILITY
TEST YEAR ENDING 12/31/01

SCHEDULE NO. 4
DOCKET NO. 011481-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> BASE FACILITY CHARGE:	<u>MONTHLY PRELIMINARY RATES</u>	<u>MONTHLY RATE REDUCTION</u>
Meter Size:		
5/8"X3/4"	\$ 14.02	0.07
3/4"	21.03	0.10
1"	35.05	0.17
1-1/2"	70.10	0.34
2"	112.16	0.55
3"	224.32	1.09
4"	350.50	1.71
6"	701.00	3.41
RESIDENTIAL AND GENERAL SERVICE GALLONAGE CHARGE Per 1,000 Gallons	\$ 2.45	0.01

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RECOMMENDED RATE REDUCTION SCHEDULE		
BREEZE HILL UTILITY	SCHEDULE NO. 4A	
TEST YEAR ENDING 12/31/01	DOCKET NO. 011481-WS	
<u>CALCULATION OF RATE REDUCTION AMOUNT</u>		
<u>AFTER RECOVERY OF RATE CASE EXPENSE AMORTIZATION PERIOD OF FOUR YEARS</u>		
<u>MONTHLY WASTEWATER RATES</u>		
	MONTHLY PRELIMINARY RATES	MONTHLY RATE REDUCTION
<u>RESIDENTIAL</u>		
BASE FACILITY CHARGE:		
Meter Size: All Meter Sizes	\$ 16.03	0.07
GALLONAGE CHARGE:		
PER 1,000 GALLONS (6,000 gallon cap)	\$ 2.85	0.01
<u>GENERAL SERVICE</u>		
BASE FACILITY CHARGE:		
Meter Size:		
5/8"X3/4"	\$ 16.03	0.07
3/4"	24.05	0.10
1"	40.08	0.17
1-1/2"	80.16	0.34
2"	128.26	0.55
3"	256.52	1.09
4"	400.81	1.71
6"	801.61	3.42
GALLONAGE CHARGE:		
PER 1,000 GALLONS	\$ 3.42	0.01