

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for staff-
assisted rate case in Lee County
by Useppa Island Utility, Inc.

DOCKET NO. 960975-WS
ORDER NO. PSC-97-0930-FOF-WS
ISSUED: AUGUST 5, 1997

The following Commissioners participated in the disposition of this matter:

JULIA L. JOHNSON, Chairman
J. TERRY DEASON
SUSAN F. CLARK
DIANE K. KIESLING
JOE GARCIA

ORDER DECLINING TO INITIATE SHOW CAUSE PROCEEDINGS,
GRANTING TEMPORARY RATES IN THE EVENT OF A PROTEST
AND REQUIRING CONFORMITY WITH NARUC SYSTEM OF ACCOUNTS
AND
NOTICE OF PROPOSED AGENCY ACTION
ORDER APPROVING INCREASED RATES

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein regarding granting increased rates is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code.

BACKGROUND

Useppa Island Utility, Inc. (Useppa or Utility) is a Class C water and wastewater utility located in Lee County. Useppa Island is located off the coast of North Fort Myers. The island covers approximately 100 acres which offers over two miles of waterfront. The utility serves a membership of clients known as the Useppa Island Club. Members of the Useppa Island Club create a seasonal customer base that visits the island for holidays and special events. Only a limited number of the utility's customers are year-round residents. The utility is a 100% owned subsidiary of the Useppa Inn and Dock Company. The utility provides service to approximately 144 water customers and 137 wastewater customers.

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FPSC-RECORDS/REPORTING

Lee County came within our jurisdiction in February, 1970. Useppa was organized in 1981, and by Order No. 10900, issued June 16, 1982, in Docket No. 810268-WS, we granted the utility Certificates Nos. 354-W and 310-S.

On August 26, 1996, the utility applied for this staff assisted rate case and paid the appropriate filing fee. The official filing date has been set as October 25, 1996. Useppa has waived the fifteen month staff assisted rate case statutory deadline as a result of a customer request to postpone the customer meeting from February 5, 1997 to March 19, 1997. We have audited the utility's records for compliance with Commission rules and orders and determined all components necessary for rate setting. A field investigation of the utility's water and wastewater plants and the service area has also been conducted. A review of the utility's operating expenses, maps, files and rate application was also performed to obtain information about reasonableness of maintenance expenses, regulatory compliance, utility plant-in-service and quality of service. We have selected an historical test year ended July 31, 1996.

Lee County is located in the South Florida Water Management District (SWFWMD). The utility is located in a critical use county on environmentally sensitive land. The SWFWMD does not have a consumptive use permit on file for the utility and is presently contacting the utility to investigate this matter.

QUALITY OF SERVICE

A customer meeting was held on March 19, 1997, in the Tarpon Room of the Marina Side Club House, on Useppa Island. Thirteen customers attended the meeting. During the course of the meeting, quality of service issues were discussed concerning the need for an auxiliary power generator, the condition of the primary wastewater effluent pond, and periodic drops in water pressure.

Those customers attending the customer meeting did not express dissatisfaction with the utility. They did express concern about a power generator (due to outages) and periodic drops in water pressure per square inch.

Useppa Island is supplied electricity via a subaqueous power cable from the mainland. Periodic outages do occur. One such occurrence took place on October 18, 1996, when one leg of the electric service lost power. According to the utility, "brown"

outs are common on the island which cause the high service pumps (located at the twin ground storage tanks) to shut down. When the high service pumps are out-of-service, water for the island is limited to stored supplies and remaining psi in the pressure tank. The utility has a full-time operator that commutes to the island daily and is on duty during normal business hours. During normal business hours he checks and resets the high service controls as needed. After normal business hours, other maintenance staff have been instructed and are expected to reset the high service pumps if needed. A power generator with automatic switch-over capabilities is not required by Rule until a utility serves more than 350 persons. Useppa Island Utilities is exempt from the DEP requirement to provide auxiliary power. Useppa Island Club would not be precluded from purchasing a generator and contributing it to the utility if the club members believe that a generator is truly needed.

According to the utility's log, a repair was made to a four-inch main near the fire station on December 13, 1996. This was considered to be an emergency outage and repairs appear to have been completed in a timely manner. The drops in water pressure are considered to be associated to emergency outages and electrical "brown" outs. Any drops in water pressure related to plant capacity and water demand should be improved with the new upgrade that is now providing additional capacity. According to the utility's records, the county health department has not cited the utility for failure to maintain the minimum required water pressure.

In Lee County, the potable water program is regulated by the Lee County Public Health Unit (LCPHU). By the nature of the raw water available to the island, the utility must treat its water resource by reverse osmosis (RO). According to the LCPHU, the utility is currently up to date with all chemical analyses and all test results are satisfactory. The LCPHU has determined that the utility serves water which meets or exceeds all standards for safe, potable water.

However, one customer did express concern over the condition of the effluent retention/percolation pond. This customer noted that the pond had become "unsightly." The Department of Environmental Protection (DEP) has cited the utility for several deficiencies relating to the operating conditions of the wastewater which included the following: violation of Rule 62-600.440(4)b, Florida Administrative Code, concerning failure to maintain proper

chlorine level for at least 15 minutes contact time; violation of Rule 62-600.440(2)(b)4, Florida Administrative Code, for exceeding 800 fecal coliform colonies per 100 ml in fecal coliform grab sample; violation of Rule 62-600.740(1)(b)1.d, Florida Administrative Code, for exceeding 60 ml of carbonaceous biochemical oxygen demand; violation of Rule 62-600.410(6), Florida Administrative Code, for allowing sludge to build up in the holding pond; and violation of Rule 62-600.410(6), Florida Administrative Code, for allowing sludge to build up in the chlorine contact chamber.

DEP has recently drafted a consent order against Useppa, File Number 97-0280-36-DW, which was drafted to correct the above violations concerning the treatment and disposal of Useppa's domestic wastewater. According to DEP, the effluent being discharged does not meet standards, and the disposal ponds are being deteriorated as a result.

Under these conditions, plant operations are unsatisfactory. The Florida Statutes and case law authorize us to reduce Useppa's return on equity based upon unsatisfactory quality of service. See, Section 367.111(2), Florida Statutes, and Gulf Power Co. v. Wilson, 597 So. 2d 270 (Fla. 1992). However, we believes that such action should not be taken at this time, based on the type of violations being cited. The violations are plant deficiencies due to growth and the application of current regulatory standards. Growth has increased flows that challenge the existing plant capacity, and current regulatory standards are being applied to a plant that was constructed under previous, less strict, standards.

In addition, the parties have not yet met to lay out a course of action for the appropriate corrective measures. When this meeting occurs, the finalization of the consent order will be the primary issue. After signing the consent order, the utility will be under strict deadlines to provide an independent engineering study to determine corrective options which will precede the filing for a construction permit with DEP. An engineering study of this nature will take weeks of analysis before completion and the issuance of a construction permit is a three month process, at minimum. The above violations are symptoms of a more serious problem, which is a plant that is hydraulically overloaded. The utility will need to expand the wastewater treatment plant in order to correct these violations. Determining the costs associated with compliance will not be possible until DEP issues the construction permit, and the utility signs contracts to have the approved

corrections performed. Commission action would be premature at this time, since it is estimated that the utility will need approximately two years to accomplish full compliance. A pro forma allowance to correct these treatment plant violations is not practical.

The quality and capacity of the water treatment plant is the primary influence on water quality. The RO water plant has just been upgraded to increase water production from 30,000 gallons per day (gpd) to 60,000 gpd. The utility's engineer has certified the construction with the county health department, and the new units have been placed into operation. The new RO units were installed within the frame building as a direct replacement of the units purchased in 1991. While the analyses results for the old RO units indicated the water met or exceeded standards for safe drinking water, providing adequate supplies at sufficient pressure was becoming more difficult. The utility believes that the new units will more efficiently meet current demands while maintaining water quality criteria required by the board of health. Therefore, we find the quality of water service to be satisfactory.

RATE BASE

Our calculations of the appropriate water and wastewater rate bases for the purpose of this proceeding are depicted on Schedules Nos. 1 and 1-A, respectively. Our adjustments are itemized on Schedule No. 1-B. Those adjustments which are self-explanatory or which are essentially mechanical in nature are reflected on those schedules without further discussion in the body of this Order. The major adjustments are discussed below.

Used and Useful

Water Treatment Plant

Due to the recent installation of a new RO package plant, the capacity of the water treatment plant has been increased to 60,000 gpd. This was constructed to provide sufficient water flow to the potential customer base of 188 ERCs, as well as, the existing 170 ERCs. The pro-rata share of the 60,000 gpd plant with the potential 188 ERCs is 319 gpd, which is less than the national standard of 350 gpd for an ERC. With the new plant, the flow from the plant going into the twin ground storage tank is less than 42 gallons per minute (gpm). The total pumping capacity of the high service pumps is approximately 130 gpm and feeds directly into a

500 gallon hydropneumatic tank. The local fire code requires a minimum of 500 gpm which must be sustained over a four hour period of time. However, there is not sufficient reserve capacity to include fire flow in the used and useful formula. During the last rate case, we found that the water treatment plant was 100% used and useful. Because the utility has expanded its capacity, we have evaluated this used and useful calculation on a pro-rata share of the number of potential customers compared to the pro-rata demand of the existing customers. The used and useful formula, valuable as an indicator of useful plant, yields a percentage based on the quantitative association of plant facilities available compared to plant facilities used. Using the formula calculation, we find that the water treatment plant is 91.12% used and useful.

Water Distribution System

During the last rate case, we applied the used and useful formula to the water distribution system and found that it was 89.53% used and useful. In the present docket, we find that the water distribution system is 91.22% used and useful. The one exception to this is Account No. 334 (Meters and Meter Installations) which is based on growth demand. We find that the meter and meter installation account is 100% used and useful.

Wastewater Treatment Plant

The capacity of the wastewater treatment plant is 15,000 gpd. During the last rate case, we found that the wastewater treatment plant was 100% used and useful. This was based on the highest five-day average, measured by lapse time meters at each lift station and recorded on the monthly operator's report (MOR). During the field audit for this rate proceeding, it was noted that salty air and harsh weather conditions have rendered most of the lapse time meters non-functional. Flows recorded on the MOR are considered unreliable. While the highest five-day average of water production occurred in July, 1996, the highest average of metered water sold occurred in November, 1995. Our used and useful analysis of the wastewater plant relies upon figures for water sold during November, 1995, which was 35,000 gpd. Because the marina dock and the croquet/tennis court do not provide waste to the wastewater plant, metered water sold to these connections was excluded. Normally, 70% of metered water sold is passed to the

wastewater plant. In this case, it is estimated that during the peak month of November, 1995, 24,500 gpd flowed into the treatment plant. By the formula calculation, we find that the wastewater treatment plant is 100% used and useful.

Wastewater Collection System

The collection system on Useppa Island was constructed to employ numerous lift stations for the transport of raw influent into the plant. In the last rate case, we found that the wastewater collection system was 89.53% used and useful. Based on our calculation during this rate case, we find that the wastewater collection system is 91.22%, except for account number 363 (Services to Customers) which we find is 100% used and useful.

Test Year Rate Base

The appropriate components of Useppa's rate base include depreciable plant in service (including pro forma plant), land, non-used and useful plant, contributions in aid of construction (CIAC), accumulated depreciation (includes the effects of pro forma plant), accumulated amortization of CIAC, and working capital allowance. Utility plant, land, depreciation, and CIAC balances were last determined as of September 30, 1992 in the utility's last staff assisted rate cases by Order No. PSC-93-0930-FOF-WS, issued June 21, 1993. We used the amounts set forth in that order as a base for rate base components in this docket. All rate base components have been updated through July 31, 1996, to include additions and reclassifications. A discussion of each component of rate base follows.

Utility Plant in Service(UPIS)

During the latter part of 1991 and the early part of 1992, the utility installed a used RO package unit, on the skid, at a cost of \$43,133. The utility installed this newer unit after filing the appropriate application with the Lee County Board of Health and obtaining a construction permit. This newer unit was a two-stage hollow fine fiber (HFF) membrane system that took the place of the existing Polymetrics RO system installed in 1978.

Over the past six years the utility incurred membrane failures, pump breakdowns, unanticipated expenses to clean the two-stage membranes, and periodic failures in meeting treatment standards. By the end of 1996, all the membranes for the two-stage

system needed replacing. The make and model of the two-stage system was not commonly manufactured and membrane replacement proved to be expensive. Replacing all the needed membranes was estimated to cost the utility \$35,000. After studying the situation for several months in-house, the utility believed it to be more prudent to replace the two-stage HFF system with another RO system. This led the utility into a formal study for the appropriate membranes to handle their specific treatment needs. During February, 1997, the engineering consulting firm of Source, Inc. produced a study "to summarize the basis of design of the reverse osmosis water plant replacement at Useppa Utility Company..." This report recommended that the two-stage, HFF, system be replaced with a single-stage, spiral-wound RO system. The new system would increase total production from 30,000 gpd to 60,000 gpd, have more common (less expensive) replacement membranes and be less trouble to operate. The utility purchased such a plant through Hydropro, Inc. at a cost of \$66,175. An additional \$5,725 was paid for engineering/consulting and permits, which totaled \$71,900. A total of 12 membranes for the new plant cost \$1,025 each (\$12,300), and are separated from the \$71,900, recorded in Account Number 320.2, and depreciated over a five year period. The remaining cost was recorded in Account Number 320 and depreciated over 17 years in accordance with Rule 25-30.140(2)(a), Florida Administrative Code. The old two-stage RO system installed during 1991 and 1992, along with the old membranes, was retired following procedures established in the National Association of Regulatory Utility Commissioners (NARUC) system of accounts.

After a careful analysis, we find that the installation of the two-stage RO system in 1991 and 1992 was, at the time, a reasonable approach to resolve plant production problems. The county health department did review and approve the utility's plans to make the installation. The county health department did give the utility final clearance for operation. After the two-stage HFF plant was in full production, it became apparent to the utility and to the board of health that the HFF membrane system was not the optimum system for Useppa's specific treatment demands.

There remain two artesian wells on the island which are rated to have a total capacity of 150 gpm. There are three storage tanks which include a single ground storage tank with 10,000 gallon capacity, along with two 15,000 gallon tanks south of the main dock at the Collier Inn.

The distribution system is composed of approximately 2,750 linear feet of six-inch polyvinyl chloride (PVC) pipe, approximately 8,208 linear feet of four-inch PVC pipe, and approximately 2,250 linear feet of two-inch PVC pipe. There are two fire hydrants located on the distribution network.

The wastewater treatment plant is a typical concrete Davco-Defiance structure, rated at 15,000 gpd operating in the extended aeration mode of treatment. Effluent leaving the plant is transported to a primary holding/percolation pond and any overflow is directed to a secondary percolation pond.

The collection system is made up of approximately 5,600 linear feet of six-inch PVC pipe. Lateral connections into the six-inch mains consist of approximately 5,500 linear feet of four-inch PVC pipe. There are eleven lift stations to move the wastewater influent to the plant for treatment. The eleven lift stations transfer the influent by force mains through approximately 280 linear feet of six-inch PVC, 7,400 linear feet of four-inch PVC, and 1,050 linear feet of two-inch PVC.

The utility recorded UPIS balances of \$200,251 for water and \$228,091 for wastewater at the end of the test year. We calculated utility plant by starting with Order No. PSC-93-0930-FOF-WS, in which we established utility plant of \$300,283 for water and \$233,591 for wastewater as of September 30, 1992, and added plant additions through the test year.

We made an adjustment of \$132,310 to water plant to bring the utility balance to the appropriate test year balance. We also made an adjustment of \$71,900 to water utility plant to include pro forma plant. The water pro forma plant consists of the new single-stage, spiral-wound RO system mentioned above. We made adjustments of negative \$42,133 to retire the old RO plant, and negative \$23,054 to retire the old RO membranes. An averaging adjustment of negative \$8,824 was also made.

We made an adjustment of \$9,050 to wastewater plant to bring the utility balance to the appropriate test year balance. We also made an adjustment of \$11,400 to wastewater utility plant to include pro forma plant which consists of the DEP required fencing around two ponds. An averaging adjustment of negative \$1,432 for wastewater was also made. Therefore, we find that the total utility plant in service is \$330,450 for water and \$247,109 for wastewater.

Land

The utility books did not include a land cost during the test year. By Order No. PSC-93-0930-FOF-WS, we established a land cost of \$10,463 for the water system and \$3,487 for the wastewater system. We made adjustments of \$10,463 to water and \$3,487 to wastewater to reflect our approved land costs.

Non-Used and Useful Plant

The utility books did not show any non-used and useful plant. Average non-used and useful plant has been calculated based on the non-used and useful percentages multiplied by average plant and average accumulated depreciation.

Adjustments were made to the water system to reflect non-used and useful plant of negative \$27,830, to reflect average non-used and useful accumulated depreciation associated with non-used and useful plant of \$7,932, to reflect average non-used and useful CIAC of \$10,078 and to reflect average accumulated amortization of non-used and useful CIAC of negative \$2,757. The net adjustment for the non-used and useful water plant account is negative \$12,577.

Adjustments were made to the wastewater system to reflect non-used and useful plant of negative \$15,800, to reflect average non-used and useful accumulated depreciation associated with non-used and useful plant of \$7,649, to reflect average non-used and useful CIAC of \$7,767 and to reflect average accumulated amortization of non-used and useful CIAC of negative \$4,217. The total adjustment for the non-used and useful wastewater plant account is negative \$4,601.

CIAC

The utility recorded CIAC balances of negative \$58,326 for water and negative \$60,713 for wastewater at the end of the test year. By Order No. PSC-93-0930-FOF-WS, issued June 21, 1993, in Docket No. 921049-WS, we established water CIAC of negative \$266,263 and wastewater CIAC of negative \$229,433. In the present docket, we made adjustments of negative \$207,937 to water CIAC and negative \$169,474 to wastewater CIAC to bring the CIAC levels to our approved amounts. We also made an adjustment of \$42,133 to water CIAC to retire the old RO donated plant. Because the utility

has no plant capacity or system capacity charges, no CIAC for margin reserve was calculated. Based on the foregoing, we find that the total water CIAC is negative \$224,130 and the total wastewater CIAC is negative \$230,187.

Accumulated Depreciation

The utility books reflected accumulated depreciation balances of negative \$178,191 for water and negative \$60,034 for wastewater at the end of the test year. We calculated accumulated depreciation starting with balances from Order No. PSC-93-0930-FOF-WS and used the prescribed rates described in Rule 25-30.140, Florida Administrative Code. We made adjustments of \$9,243 to water and negative \$74,077 to wastewater to bring the utility's figures to our approved amount. Adjustments of \$42,133 to retire the old RO plant, \$23,054 to retire the old RO membranes and negative \$5,964 to include one year of depreciation on pro forma plant were also made. Averaging adjustments of \$8,804 for water and \$5,104 for wastewater were also made.

Based on the foregoing, we find that the appropriate average accumulated depreciation balances are negative \$100,921 for water and negative \$129,007 for wastewater.

Amortization of CIAC

The utility did not record any accumulated amortization balances at the end of the test year. We calculated amortization of CIAC by starting with balances from Order No. PSC-93-0930-FOF-WS and then separated identifiable CIAC and used the appropriate depreciation rates for those accounts. The remaining CIAC was amortized by using a yearly composite rate. Adjustments of \$132,636 for water and \$135,239 for wastewater were made to bring the utility balances to the appropriate amount. An adjustment of negative \$42,133 was made to reflect the retirement of the old donated RO plant. Averaging adjustments of negative \$5,784 for water and negative \$4,993 for wastewater were also made. We find that the resulting balances of accumulated amortization of CIAC are \$84,719 for water and \$130,246 for wastewater.

Working Capital Allowance

Consistent with Rule 25-30.433, Florida Administrative Code, we used the one-eighth of operation and maintenance expense formula approach for calculating working capital allowance. Applying that

formula, and applying operation and maintenance expense of \$109,982, we find that the total working capital allowance is \$13,748 for water and \$7,536 for wastewater.

Rate Base Summary

Based on the foregoing, we find that the appropriate balance for test year rate base is \$101,752 for water and \$24,583 for wastewater.

COST OF CAPITAL

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

Return on Equity

The utility's capital structure consists of \$258,306 of long-term debt with an interest rate of 10.00% along with negative common equity of \$114,970. The utility took out a pro forma loan in the amount of \$65,000 at a cost of 8.75% to finance the new single-stage, spiral-wound RO system. The utility's return on equity, when based on the leverage graph formula in Order No. PSC-97-0660-FOF-WS, issued June 10, 1997, in Docket No. 970006-WS, is 10.46% with a range of 9.46% to 11.46%. Since including a negative common equity would penalize the utility's capital structure by understating the overall rate of return, we have adjusted the negative common equity to zero.

Applying the weighted average method to the total capital structure yields an overall rate of return of 9.75%. We have made pro rata adjustments to reconcile the capital structure downward to match the total of the approved rate base.

NET OPERATING INCOME

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

Test Year Operating Revenues

The utility recorded water revenues of \$72,638 and wastewater revenues of \$33,525 during the test period. We completed a billing analysis and revenue check using the utility's most recent rates in effect. We discovered that the utility started charging 1 1/2% interest on all unpaid balances as of January 1, 1996 without our approval. We made an adjustment of negative \$1,185 to remove these unapproved finance charges from test year water revenue.

During our billing analysis, we also discovered errors in billing amounting to \$1,065. We made an adjustment of \$1,065 to increase wastewater revenue. Accordingly, Useppa's test year water revenue is \$71,453 and its test year wastewater revenue is \$34,590.

Test Year Operating Expenses

The utility recorded operating expenses of \$100,615 for water and \$57,055 for wastewater. The components of these expenses include operation and maintenance (O&M) expenses, depreciation expense, and taxes other than income.

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

O & M Expenses

The utility charged \$87,236 to water O & M and \$45,288 to wastewater O & M during the test year. A summary of adjustments that were made to the utility's recorded expenses follows:

Salaries and Wages - Employees

The utility recorded employee salaries and wages of \$17,373 for water and \$18,010 for wastewater. Utility employees include a utility manager who is the certified operator, maintenance man, accounting supervisor, secretary, and a maintenance pool of workers used for utility work when necessary. The utility provided a schedule of employee salaries with the percentage of time each spends on utility business. We made an adjustment of \$24,955 to

water and \$3,013 to wastewater employee salaries and wages to increase salaries and wages to our approved amounts. Accordingly, the total amount of employee salaries and wages is \$42,328 for water and \$21,023 for wastewater.

Salaries and Wages - Officers

The utility recorded officer salaries and wages of \$2,800 for water and \$2,941 for wastewater. Officer salaries include the general manager of the utility. We made an adjustment of \$3,700 to water and \$3,559 to wastewater officer salaries and wages to allow a general managers salary of \$13,000 per year. Accordingly, the total amount of officer salaries and wages is \$6,500 for water and \$6,500 for wastewater.

Sludge Removal Expense

The utility recorded \$866 for sludge removal expense during the test year. During our engineering field audit, it was apparent that the plant was in need of sludge removal. During a field inspection on October 14, 1996, DEP cited the utility for an accumulation of sludge in the chlorine contact chamber. DEP also cited the utility for build-up of sludge in the holding pond, which may interfere with its ability to function properly. The utility had excess sludge removed from the plant once during the test year. Sludge hauling should be performed once per month during the four month peak season with one additional off-season cleanout. At five cleanouts per year costing \$865.75 per cleanout, the total cost for sludge hauling service is estimated to be \$4,329 per year. We made an adjustment of \$3,463 to increase sludge removal expense to our approved amount of \$4,329.

Purchased Power

The utility recorded purchased power expense of \$15,536 for water and \$10,477 for wastewater during the test year. During our audit, we recalculated the electric expense based on actual bills for the twelve months ending July 31, 1996. We made an adjustment of \$2,263 to water purchased power and negative \$506 to wastewater purchased power to reflect the actual purchased power expenses. Accordingly, purchased power expense is \$17,799 for water and \$9,971 for wastewater.

Chemicals

The utility recorded chemical expense of \$7,762 for water and \$1,692 for wastewater during the test year. The water system chemicals include a polymer sequestering chemical to prevent precipitates from forming on the membrane filters, sulfuric acid to lower the pH level for optimum filtering, caustic soda to adjust the pH level to safe drinking water standards, and liquid chlorine to disinfect the treated water. The wastewater system chemicals consist of liquid chlorine for disinfection of the effluent being discharged and lime for disinfection and stabilization around the plant and lift stations.

We made an adjustment of \$1,722 to water chemical expense and negative \$174 to wastewater chemical expense to cover the purchase and barge delivery of chemicals. Accordingly, the total amount of chemical expense is \$9,484 for water and \$1,518 for wastewater.

Materials and Supplies

The utility recorded no material and supplies expense during the test year. We have estimated an annual office supplies expense of \$275 for water and \$275 for wastewater.

Contractual Services

The utility recorded contractual services expenses of \$43,338 for water and \$10,965 for wastewater during the test year. We made adjustments to the water contractual services account in the amount of negative \$7,307 to amortize an engineering study over five years, negative \$2,341 to amortize legal costs for permit renewal over five years, negative \$3,840 to amortize a reverse discharge study over five years, negative \$8,532 to adjust repairs and maintenance expense to our approved amount, \$6,168 to include all DEP required testing expenses, and negative \$1,148 to reclassify a new blower to wastewater plant in service.

We made adjustments to the wastewater contractual services account in the amount of negative \$2,139 to amortize an engineering study over five years, negative \$831 to amortize legal costs for permit renewal over five years, \$5,360 to include an engineer recommended lift station pump replacement program, negative \$1,362 to adjust repairs and maintenance expense to our approved amount,

\$902 to include all DEP required testing expenses, and negative \$517 to reclassify an aluminum fence expense to wastewater plant in service.

The utility was recently confronted with the process of renewing its permit to discharge reject water from the RO water treatment plant. The procedure involved in the disposal of this reject water is permitted by DEP and issued every five years. Before the utility could renew its permit, numerous studies, environmental impact sampling, and engineering analysis were required to prove they qualify for certain discharge exceptions. The cost to submit the permit application, consultant's fees, legal fees, environmental impact studies, and engineering consultation was amortized over the five year permit life.

Most of the utility's water and wastewater system repairs are made in-house by the on-staff operator with the assistance of other maintenance personnel when needed. Limited contractual services are called upon for normal repairs and maintenance. We reviewed all repairs and maintenance expenses for reasonableness and separated non-recurring expenses which were amortized over five years.

State and local authorities require that several analyses for water testing be submitted in accordance with Chapter 17-22, Florida Administrative Code. The utility's monthly monitoring is a routine program that includes sampling and testing for Bacteria, Chlorides, Sodium and Hydrogen Sulfides. Other, less frequent tests, such as volatile organics and radionuclides testing, are required by DEP and total \$2,748 annually.

In addition to potable water testing, the utility also must perform tests on the backwash (reject water) from the RO filters at the water treatment plant. These tests are required by specific conditions listed in the body of the five year industrial waste permit and total \$5,274 annually.

DEP currently requires this utility to perform wastewater testing including an annual sludge analysis at \$250 per year, along with monthly sampling results for coliform bacteria and total dissolved solids at \$1,440 per year.

The installation of a second pump in each of the fifteen lift stations is a necessary part of the utility's on-going maintenance program. Each lift station is required to have two functioning pumps so that backup pumping is available to evacuate raw influent from the receiving well should one pump fail. Each pump replacement costs approximately \$1,250 on the island. Rule 25-30.140, Florida Administrative Code, indicates an estimated life of 15 years for pumping equipment in Account No. 370. The harsh, salt water conditions on the island lowers the life expectancy of items like lift station pumps. In reality, the life of these pumps is seven years. Therefore, it would be prudent for the utility to budget \$5,360 per year for the replacement of its thirty lift station pumps.

We reclassified two costs in the contractual services account. The utility included costs for a new blower for the wastewater plant in water contractual services. We reclassified this expense to wastewater utility plant in service. The utility expensed a new fence at the wastewater plant to wastewater contractual services. We reclassified this expense to wastewater plant in service.

Our adjustments total negative \$17,000 for water contractual services and \$1,413 for wastewater contractual services. Accordingly, the total amount of water contractual services is \$26,338, which includes \$8,667 for repairs and maintenance, \$8,022 for required DEP testing, \$1,100 for accounting fees, \$5,979 for the five-year amortized permit renewal, \$270 for contract labor, and \$2,300 for DEP's National Pollutant Discharge Elimination System fees.

The total for wastewater contractual services is \$12,378, which includes \$8,317 for repairs and maintenance, \$1,790 for required DEP testing and permit, \$1,100 for accounting fees, and \$1,171 for contract labor.

Rent Expense

The utility recorded no rent expense during the test year. By Order No. PSC-93-0930-FOF-WS, we approved a \$1,200 rent expense for water and \$1,200 rent expense for wastewater. We indexed these amounts forward using our approved index figures and made adjustments of \$1,324 to water rent expense and \$1,324 to wastewater rent expense.

Transportation Expenses

The utility recorded no transportation expense during the test year. The only way for the employees to get to Useppa Island is by boat and the cost of this service is paid for by Useppa Island and Dock Company. We estimated the annual cost of transportation for the Useppa Inn and Dock Company and determined the amount to allocate to the utility based on the total payroll to utility payroll. We made an adjustment of \$5,238 to water transportation expense and \$2,534 to wastewater transportation expense to include employee transportation to and from the island. The utility also purchased a golf cart for transportation on the island which we included in rate base. The annual maintenance cost for this golf cart is estimated to be \$400. We made an adjustment of \$160 to water transportation expense and \$240 to wastewater transportation expense to include the golf cart maintenance. Accordingly, the total amount of transportation expense is \$5,398 for water \$2,774 for wastewater.

Insurance Expense

The utility recorded \$266 of water insurance expense and \$266 of wastewater insurance expense. We have determined that the total cost of the policy is \$250 and covers the water system. We made adjustments of negative \$16 to water insurance expense and negative \$266 to wastewater insurance expense to include the actual cost of the policy.

Regulatory Commission Expense

The utility recorded no regulatory commission expense for the test year. The filing fee for this staff assisted rate case amounted to \$500 for water and \$500 for wastewater. We made an adjustment of \$125 to water regulatory commission expense and \$125 to wastewater regulatory commission expense to amortize the filing fee over four years from the effective date of Useppa's increased rates approved in this Order.

O & M Summary

We have made O&M adjustments of \$22,746 for water and \$15,000 for wastewater. Based on these adjustments, we find that the test year O&M expenses are \$109,982 for water and \$60,288 for wastewater.

Depreciation Expense

The utility recorded \$7,620 of water depreciation expense and \$7,620 of wastewater depreciation expense on their books for the test year. We calculated test year depreciation expense using the rates described in Rule 25-30.140, Florida Administrative Code.

We made water depreciation adjustments as follow: \$9,988 to bring the utility balance to our approved amount; \$3,504 to include depreciation expense on the new RO plant; \$2,460 to include depreciation expense on the new RO membranes; negative \$1,373 to adjust for non-used and useful test year depreciation; negative \$2,477 to remove depreciation on retired RO plant; negative \$4,611 to remove depreciation on retired RO membranes; negative \$9,091 to include our approved CIAC amortization expense; and \$337 to adjust for non-used and useful test year CIAC amortization.

We made wastewater depreciation adjustments as follow: \$2,588 to bring the utility balance to our approved amount; \$422 to include depreciation expense on the pro forma DEP required fencing; negative \$600 to adjust for non-used and useful test year depreciation; negative \$9,986 to include our approved CIAC amortization expense; and \$298 to adjust for non-used and useful test year CIAC amortization.

Applying the prescribed depreciation rates to the appropriate used and useful plant in service account balances, and then offsetting that by applying the composite depreciation rates to the appropriate CIAC account balances yields the appropriate depreciation expenses net of \$6,357 for water and \$342 for wastewater during the test year.

Taxes Other Than Income

The utility recorded taxes other than income of \$5,759 for water and \$4,147 for wastewater. We made adjustments to water taxes other than income as follow: we increase regulatory assessment fees by \$5 to reflect regulatory assessment fees for the appropriate test year revenue; and we adjusted payroll tax by \$2,972 to reflect payroll taxes for our approved salaries and wages.

We made adjustments to wastewater taxes other than income as follow: we increased regulatory assessment fees by \$6 to reflect regulatory assessment fees for the appropriate test year revenue;

and we adjusted payroll tax by \$998 to reflect payroll taxes for our approved salaries and wages. Accordingly, total taxes other than income is \$8,736 for water and \$5,151 for wastewater.

Operating Revenues

Revenues have been adjusted by \$66,536 for water and \$35,170 for wastewater to reflect the increase in revenue required to cover expenses and allow the approved return on investment.

Taxes Other Than Income Taxes

This expense has been increased by \$2,994 for water and \$1,583 for wastewater to reflect the regulatory assessment fee of 4.5% on the increase in revenue.

Operating Expenses Summary

The application of our adjustments to the utility's test year operating expenses results in operating expenses of \$128,069 for water and \$67,364 for wastewater.

REVENUE REQUIREMENT

Based upon our review of the utility's books and records and based upon the adjustments discussed above, we find that the appropriate annual revenue requirement for this utility is \$137,989 for water and \$69,760 for wastewater. This revenue requirement represents an annual increase in revenue of \$66,536 (93.12%) for water and \$35,170 (101.68%) for wastewater. This revenue requirement will allow the utility to recover its operating expenses and will allow it the opportunity to earn a 9.75% return on its investment.

RATES AND CHARGES

Base Facility Charge - Undeveloped Lots

A customer at the March 19, 1997 customer meeting questioned why the utility is collecting a base facility charge on undeveloped lots. We investigated and discovered that the utility, on advice from its utility consultant, has been billing owners of 16 undeveloped lots a base facility charge for water and wastewater since the utility came under our jurisdiction in 1982.

The utility was properly sized at inception to handle a fixed number of lots on the island, due to deed restrictions which required dwellings on all lots by December 15, 1982. Meters were installed at the lots and the utility started charging the base facility rates approved by this Commission. Because the utility serves an isolated island community and the customer base was fixed, the utility's consultant advised the utility to charge a base facility charge to each lot in order to recover the cost of the plant, which was designed to service the fixed amount of lots. We note that The utility never tried to hide the base facility charges received from the undeveloped lots, always including them in their annual report under general revenue, and paying regulatory assessment fees on them. The utility never overearned during the years of these charges. Although we were unaware that these lots were undeveloped, we would have included them in the original revenue requirement distribution, because of the unique circumstances and location of this utility. Accordingly, we find it appropriate to include the 16 undeveloped lots, whether held for speculative purposes or other reason, in the revenue requirement distribution.

Rates and Rate Structure

During the test year, Useppa provided water service to approximately 139 residential and five general service customers. The utility provided wastewater service to approximately 134 residential customers and three general service customers.

The utility's tariff provides for a base facility and gallonage charge rate structure for all customers. This Commission has a memorandum of understanding with the Florida Water Management Districts. This memorandum recognizes that a joint cooperative effort is necessary to implement an effective, state wide water conservation policy. Water use in the utility's service area is under the jurisdiction of SWFWMD. SWFWMD does not have a consumptive use permit on file for the utility and is contacting the utility to investigate this matter. The utility is located within a critical water use caution area. The 5/8-inch x 3/4-inch meter residential customers' average consumption is approximately 3,873 gallons per month, which is not considered excessive. Therefore, we do not find that a change in rate structure is necessary.

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

Approximately 60% (or \$82,124) of the water revenue requirement and 61% (or \$42,508) of the wastewater revenue requirement are associated with the fixed costs of providing service. Fixed costs are recovered through the base facility charge based on annualized number of factored ERCs. The remaining 40% (or \$55,865) of the water revenue requirement and 39% (or \$27,253) of the wastewater revenue requirement represent the consumption charge based on the estimated number of gallons consumed during the test period. Schedules of the utility's existing rates and the new rates and rate structures are as follow:

RESIDENTIAL AND GENERAL SERVICE WATER RATES

Base Facility Charge		Approved Monthly Rate
<u>Meter Size</u>	<u>Existing Rate</u>	<u>Rate</u>
5/8" x 3/4"	\$ 14.18	\$ 36.41
3/4"	21.27	54.62
1"	35.45	91.03
1-1/2"	70.90	182.05
2"	113.44	291.28
3"	226.88	582.57
4"	354.50	910.26
6"	709.00	1,820.52
Gallonage Charge Per 1,000 Gallons	\$ 4.64	\$ 6.54

RESIDENTIAL WASTEWATER RATES

Base Facility Charge		Approved Monthly Rate
<u>Meter Size</u>	<u>Existing Rate</u>	<u>Rate</u>
All meter sizes	\$ 11.12	\$ 23.29
Gallonage Charge Per 1,000 Gallons (6,000 gallons maximum per month)	\$ 3.25	\$ 6.42

GENERAL SERVICE WASTEWATER RATES

Base Facility Charge		Approved Monthly Rate
<u>Meter Size</u>	<u>Existing Rate</u>	<u>Rate</u>
5/8" x 3/4"	\$ 11.12	\$ 23.29
3/4"	16.68	34.94
1"	27.80	58.23
1-1/2"	55.60	116.46
2"	88.96	186.34
3"	177.92	372.67
4"	278.00	582.30
6"	556.00	1,164.61
Gallonage Charge Per 1,000 Gallons (No maximum)	\$ 3.90	\$ 7.70

Using the test year 5/8-inch x 3/4-inch residential water customers, who have an average use of 3,873 gallons per month per customer, an average residential monthly water bill comparison would be as follows:

	Average Monthly Bill Using Existing Rates	Average Monthly Bill Using Approved Rates	Percent Increase
Base Facility Charge	\$14.18	\$36.41	
Gallorage Charge	<u>17.97</u>	<u>25.33</u>	
Total	\$32.15	\$61.74	92.04%

Using the test year residential wastewater customers, who have an average use of 2,282 gallons per month per customer, an average residential monthly wastewater bill comparison would be as follows:

	Average Monthly Bill Using Existing Rates	Average Monthly Bill Using Approved Rates	Percent Increase
Base Facility Charge	\$11.12	\$23.29	
Gallorage Charge	<u>7.43</u>	<u>14.65</u>	
Total	\$18.55	\$37.94	104.53%

The new rates shall be effective for service rendered on or after the stamped approval date on the tariff sheets provided the customers have received notice, pursuant to Rule 25-30.475(1), Florida Administrative Code. The rates shall not be implemented until the proper notice has been received by the customers. The tariff sheets shall be approved upon staff's verification that the tariffs are consistent with our decision, that the customer notice is adequate, and that any required security has been provided. The utility shall provide proof of the date notice was given within 10 days after the date of the notice.

If the effective date of the new rates falls within a regular billing cycle, the initial bills at the new rate may be prorated. The old charge shall be prorated based on the number of days in the billing cycle before the effective date of the new rates. The new charge shall be prorated based on the number of days in the billing cycle on or after the effective date of the new rates. In no event shall the rates be effective for service rendered prior to the stamped approval date.

STATUTORY RATE REDUCTION AND RECOVERY PERIOD

Section 367.0816, Florida Statutes, requires that the rates be reduced immediately following the expiration of the four-year period by the amount of the rate case expense previously included in the rates. The reduction will reflect the removal of revenues associated with the amortization of rate case expense and the gross-up for regulatory assessment fees which is \$131 annually for each water and wastewater system. The reduction in revenues will result in the rate decreases shown Schedules Nos. 4 and 4A.

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

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

SHOW CAUSE

As discussed earlier in this Order, the utility started charging 1 1/2% interest on all unpaid balances as of January 1, 1996 without Commission approval. This decision was part of an overall corporate management decision by Useppa Inn and Dock Company, the utility's parent company, to have all related companies start charging interest on unpaid balances. The utility itself was not having a problem with collections. Sections 367.081(1) and 367.091(3), Florida Statutes, provide that a utility may only collect rates and charges approved by this Commission.

Section 367.161, Florida Statutes, authorizes us to assess a penalty of not more than \$5,000 for each offense, if a utility is found to have knowingly refused to comply with, or to have willfully violated any provision of Chapter 367, Florida Statutes, or any lawful rule or order of the Commission. The utility's action is "willful" in the sense intended by Section 367.161, Florida Statutes. In Order No. 24306, issued April 1, 1991, in Docket No. 890216-TL, titled In Re: Investigation Into the Proper Application of Rule 25-14.003, Florida Administrative Code, Relating to Tax Savings Refund for 1988 and 1989 For GTE Florida, Inc., this Commission, having found that the company had not

intended to violate the rule, nevertheless found it appropriate to order it to show cause why it should not be fined, stating that "[i]n our view, 'willful' implies an intent to do an act, and this is distinct from an intent to violate a statute or rule." Id. at 6.

Although the utility collected unauthorized finance charges, we do not believe that the utility's violation rises to the level of warranting a show cause proceeding. The application of the finance charge to utility operations was merely a minor part of a much larger plan. The actual amount collected was relatively small. We believe that a refund with interest is the most appropriate remedy, since it sends the appropriate signal to the utility, and it will ensure the return of the ratepayers' money while at the same time penalizing the utility by way of the refund.

Based on the foregoing reasons, Useppa shall not be required to show cause for violation of Sections 367.081(1) and 367.091(3), Florida Statutes. However, the utility shall refund \$1,185 collected during the test year along with any additional finance charges collected since the end of the test year. These refunds shall be made within 30 days of the issuance of this Order and include interest as required by Rule 25-30.360 (4), Florida Administrative Code. The utility shall treat any unclaimed refunds as CIAC pursuant to Rule 25-30.360(8), Florida Administrative Code. The utility shall also provide us with proof of the customer refunds within 10 days of the refund. In addition, the utility is hereby admonished that, pursuant to Sections 367.081(1) and 367.091(3), Florida Statutes, it may in the future only charge rates and charges approved by this Commission.

SERVICE AVAILABILITY CHARGES

By Order No. PSC-93-0930-FOF-WS, we approved Useppa's existing service availability policy during the utility's last staff assisted rate case. The utility's current tariff contains provisions for a \$115 water meter installation charge and a \$105 customer tap-in charge for a 5/8-inch x 3/4-inch meter.

By Order No. 16104, we discontinued a system capacity charge for water and a system capacity charge for wastewater, because the utility was over contributed. The existing contribution levels are 58.08% for water and 82.20% for wastewater. We find it appropriate for the utility to maintain the existing water meter installation charge of \$115 and customer tap-in charge of \$105 for a 5/8-inch x 3/4-inch meter.

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TEMPORARY RATES IN THE EVENT OF A PROTEST

This Order 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 protest filed by a party other than the utility, we hereby authorize the utility to collect the rates approved herein as temporary rates. The rates approved herein shall be collected by the utility subject to the refund provisions discussed below.

The utility shall be authorized to collect the temporary rates upon Commission staff's approval of the security for the potential refund and a copy of the proposed customer notice. The security shall be in the form of a bond or letter of credit in the amount of \$70,340. Alternatively, the utility may establish an escrow agreement with an independent financial institution.

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

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

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

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

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

- 1) no refunds in the escrow account may be withdrawn by the utility without the express approval of the Commission;

- 2) the escrow account shall be an interest bearing account;
- 3) if a refund to the customers is required, all interest earned by the escrow account shall be distributed to the customers;
- 4) if a refund to the customers is not required, the interest earned by the escrow account shall revert to the utility;
- 5) all information on the escrow account shall be available from the holder of the escrow account to a Commission representative at all times;
- 6) the amount of revenue subject to refund shall be deposited in the escrow account within seven days of receipt;
- 7) this escrow account is established by the direction of the Florida Public Service Commission for the purpose(s) set forth in its order requiring such account. Pursuant to Cosentino v. Elson, 263 So.2d 253 (Fla. 3d DCA 1972), escrow accounts are not subject to garnishments; and
- 8) the Director of Records and Reporting must be a signatory to the escrow agreement.

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

The utility shall maintain a record of the amount of the bond, and the amount of revenues that are subject to refund. In addition, after the increased rates are in effect, the utility shall file reports with the Division of Water and Wastewater no later than 20 days after each monthly billing. These reports shall indicate the amount of revenue collected under the increased rates.

- 2) the escrow account shall be an interest bearing account;
- 3) if a refund to the customers is required, all interest earned by the escrow account shall be distributed to the customers;
- 4) if a refund to the customers is not required, the interest earned by the escrow account shall revert to the utility;
- 5) all information on the escrow account shall be available from the holder of the escrow account to a Commission representative at all times;
- 6) the amount of revenue subject to refund shall be deposited in the escrow account within seven days of receipt;
- 7) this escrow account is established by the direction of the Florida Public Service Commission for the purpose(s) set forth in its order requiring such account. Pursuant to Cosentino v. Elson, 263 So.2d 253 (Fla. 3d DCA 1972), escrow accounts are not subject to garnishments; and
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The utility shall maintain a record of the amount of the bond, and the amount of revenues that are subject to refund. In addition, after the increased rates are in effect, the utility shall file reports with the Division of Water and Wastewater no later than 20 days after each monthly billing. These reports shall indicate the amount of revenue collected under the increased rates.

BOOKS AND RECORDS

During the test year, the utility's books were not maintained in conformity with the NARUC Uniform System of Accounts (USOA).

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

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

This is the first time the utility's books were not found to be in conformity with the NARUC system of accounts. We believe that the utility has the expertise necessary to convert and maintain the utility's records in conformity with Rule 25-30.115, Florida Administrative Code. Therefore, the utility shall in the future maintain its books and records in conformity with the 1984 NARUC USOA.

CLOSING OF DOCKET

Upon expiration of the protest period, if a timely protest is not received, this docket shall remain open for an additional ninety days from the effective date of the Order to allow the utility sufficient time to complete refunds and pro forma plant additions and so that staff may verify that the refunds have taken place, and pro forma plant additions have been completed. Once staff has verified pro forma plant is complete and refunds have been made, the docket shall be closed administratively.

Based on the foregoing, it is

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

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

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

ORDERED that Useppa Island Utility, Inc. is hereby authorized to charge the new rates as set forth in the body of this Order. It is further

ORDERED that Useppa Island Utility, Inc.'s rates shall be effective for service rendered on or after the stamped approval date on the tariff sheet pursuant to Rule 25-30.475(1), Florida Administrative Code, provided that the customers have received notice. It is further

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

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

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

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

ORDERED that Useppa Island Utility, Inc. shall not be ordered to show cause in writing for violation of Sections 367.081(1) and 367.091(3), Florida Statutes. It is further

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ORDERED that Useppa Island Utility, Inc. shall refund, with interest calculated pursuant to Rule 25-30.360, Florida Administrative Code, the unauthorized service charges as set forth herein, within 30 days of the issuance of this Order. It is further

ORDERED that Useppa Island Utility, Inc. shall treat any unclaimed refunds as contributions in aid of construction, pursuant to Rule 25-30.360(8), Florida Administrative Code. It is further

ORDERED that Useppa Island Utility, Inc. shall continue to charge its existing service availability charges. It is further

ORDERED that prior to its implementation of the temporary rates approved herein in the event of a protest, Useppa Island Utility, Inc. shall submit and have approved a bond or letter of credit in the amount of \$70,340 or an escrow agreement as a guarantee of any potential refund of revenues collected on a temporary basis. It is further

ORDERED that if the temporary rates approved herein in the event of a protest are implemented, Useppa Island Utility, Inc. shall submit monthly reports no later than 20 days after each monthly billing which shall indicate the amount of revenue collected on a temporary basis subject to refund. It is further

ORDERED that Useppa Island Utility, Inc. shall maintain its books and records in conformity with the 1984 NARUC Uniform System of Accounts. It is further

ORDERED that the provision of this Order regarding our granting increased rates is issued as proposed agency action and shall become final and effective unless an appropriate petition, in the form provided by Rule 25-22.036, Florida Administrative Code, is received by the Director, Division of Records and Reporting, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings or Judicial Review" attached hereto. It is further

ORDERED that upon our staff's verification that the pro forma plant has been completed, and Useppa Island Utility, Inc. has made the refunds required herein, this Docket shall be closed administratively.

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By ORDER of the Florida Public Service Commission, this 5th
day of August, 1997.

BLANCA S. BAYÓ, Director
Division of Records and Reporting

By:

Kay Flynn
Kay Flynn, Chief
Bureau of Records

(S E A L)

TV

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

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

As identified in the body of this order, our action granting increased rates is preliminary in nature and will not become effective or final, except as provided by Rule 25-22.029, Florida Administrative Code. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, as provided by Rule 25-22.029(4), Florida Administrative Code, in the form provided by Rule 25-22.036(7)(a) and (f), Florida Administrative Code. This petition must be received by the Director, Division of Records and Reporting, at 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on August 26, 1997. If such a petition is filed, mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing. In the absence of such a petition, this order shall become effective on the date subsequent to the above date as provided by Rule 25-22.029(6), Florida Administrative Code.

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

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

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

SCHEDULE NO. 1
 DOCKET NO. 960975-WS

USEPPA ISLAND UTILITY, INC.
 TEST YEAR ENDING JULY 31, 1996
 SCHEDULE OF WATER RATE BASE

	<u>BALANCE PER UTILITY</u>	<u>COMM. ADJUST. TO UTIL. BAL.</u>	<u>BALANCE PER COMM.</u>
UTILITY PLANT IN SERVICE	\$ 200,251	\$ 130,199 A	\$ 330,450
LAND/NON-DEPRECIABLE ASSETS	0	10,463 B	10,463
NON-USED AND USEFUL PLANT	0	(12,577) C	(12,577)
CIAC	(58,326)	(165,804) D	(224,130)
ACCUMULATED DEPRECIATION	(178,191)	77,270 E	(100,921)
AMORTIZATION OF CIAC	0	84,719 F	84,719
WORKING CAPITAL ALLOWANCE	<u>0</u>	<u>13,748 G</u>	<u>13,748</u>
WATER RATE BASE	\$ (36,266)	\$ 138,018	\$ 101,752

USEPPA ISLAND UTILITY, INC.
 TEST YEAR ENDING JULY 31, 1996
 SCHEDULE OF WASTEWATER RATE BASE

SCHEDULE NO. 1A
 DOCKET NO. 960975-WS

	BALANCE PER UTILITY	COMM. ADJUST. TO UTIL. BAL.	BALANCE PER COMM.
UTILITY PLANT IN SERVICE	\$ 228,091	\$ 19,018 A	\$ 247,109
LAND/NON-DEPRECIABLE ASSETS	0	3,487 B	3,487
NON-USED AND USEFUL PLANT	0	(4,601) C	(4,601)
CIAC	(60,713)	(169,474) D	(230,187)
ACCUMULATED DEPRECIATION	(60,034)	(68,973) E	(129,007)
AMORTIZATION OF CIAC	0	130,246 F	130,246
WORKING CAPITAL ALLOWANCE	0	7,536 G	7,536
WASTEWATER RATE BASE	\$ 107,344	\$ (82,761)	\$ 24,583

USEPPA ISLAND UTILITY, INC.
TEST YEAR ENDING JULY 31, 1996
ADJUSTMENTS TO RATE BASE

SCHEDULE NO. 1B
DOCKET NO. 960975-WS

A. UTILITY PLANT IN SERVICE	WATER	WASTEWATER
1. To bring utility balance to commission approved amount.	\$ 132,310	\$ 9,050
2. To include new R/O pro forma average plant.	71,900	11,400
3. To retire old R/O plant.	(42,133)	0
4. To retire old R/O membranes.	(23,054)	0
5. To reflect averaging adjustment.	(8,824)	(1,432)
	\$ 130,199	\$ 19,018
B. LAND		
1. To include land cost allowed in Order No. PSC-93-0930-FOF-WS.	\$ 10,463	\$ 3,487
C. NON-USED AND USEFUL PLANT		
1. To reflect non-used and useful plant.	\$ (27,830)	\$ (15,800)
2. To reflect average non-used and useful accumulated depreciation.	7,932	7,649
3. To reflect average non-used and useful CIAC.	10,078	7,767
4. To reflect average non-used and useful accumulated amortization.	(2,757)	(4,217)
	\$ (12,577)	\$ (4,601)
D. CIAC		
1. To bring utility balance to commission approved amount.	(207,937)	(169,474)
2. To retire old R/O plant.	42,133	0
	\$ (165,804)	\$ (169,474)
E. ACCUMULATED DEPRECIATION		
1. To bring utility balance to commission approved amount.	\$ 9,243	\$ (74,077)
2. To reflect retirement of R/O plant.	42,133	0
3. To reflect retirement of old R/O membranes.	23,054	0
4. To include 1 year depreciation on pro forma plant.	(5,964)	0
5. To reflect averaging adjustment.	8,804	5,104
	\$ 77,270	\$ (68,973)
F. AMORTIZATION OF CIAC		
1. To bring utility balance to commission approved amount.	\$ 132,636	\$ 135,239
2. To reflect retirement of R/O plant.	(42,133)	0
3. To reflect averaging adjustment.	(5,784)	(4,903)
	\$ 84,719	\$ 130,246
G. WORKING CAPITAL ALLOWANCE		
1. To reflect 1/8 of test year O & M expenses.	\$ 13,748	\$ 7,536

USEPPA ISLAND UTILITY, INC.
 TEST YEAR ENDING JULY 31, 1996
 SCHEDULE OF CAPITAL STRUCTURE

SCHEDULE NO. 2
 DOCKET NO 960975-WS

	<u>PER UTILITY</u>	<u>COMM. ADJUST. TO UTIL. BAL.</u>	<u>BALANCE PER COMM.</u>	<u>PERCENT OF TOTAL</u>	<u>COST</u>	<u>WEIGHTED COST</u>
COMMON EQUITY	\$ (114,970)	\$ 114,970	\$ 0	0.00%	10.46%	0.00%
NOTES PAYABLE	0	258,306	100,935	79.90%	10.00%	7.99%
NOTES PAYABLE	0	65,000	25,399	20.10%	8.75%	1.76%
CUSTOMER DEPOSITS	0	0	0	0.00%	6.00%	0.00%
TOTAL	\$ 0	\$ 438,276	\$ 126,335	100.00%		9.75%

<u>RANGE OF REASONABLENESS</u>	<u>LOW</u>	<u>HIGH</u>
RETURN ON EQUITY	9.46%	11.46%
OVERALL RATE OF RETURN	9.75%	9.75%

USEPPA ISLAND UTILITY, INC.
 TEST YEAR ENDING JULY 31, 1996
 SCHEDULE OF WATER OPERATING INCOME

SCHEDULE NO. 3
 DOCKET NO. 960975-WS

	<u>TEST YEAR PER UTILITY</u>	<u>COMM. ADJ. TO UTILITY</u>	<u>COMM. ADJUSTED TEST YEAR</u>	<u>ADJUST FOR INCREASE</u>	<u>TOTAL PER COMM.</u>
OPERATING REVENUES	\$ 72,638	\$ (1,185) A	\$ 71,453	\$ 66,536 F	\$ 137,989
OPERATING EXPENSES:					
OPERATION AND MAINTENANCE	87,236	22,746 B	109,982	0	109,982
DEPRECIATION (NET)	7,620	(1,263) C	6,357	0	6,357
AMORTIZATION	0	0 D	0	0	0
TAXES OTHER THAN INCOME	5,759	2,977 E	8,736	2,994 G	11,730
INCOME TAXES	0	0	0	0	0
TOTAL OPERATING EXPENSES	\$ 100,615	\$ 24,460	\$ 125,075	\$ 2,994	\$ 128,069
OPERATING INCOME/(LOSS)	\$ (27,977)		\$ (53,622)		\$ 9,919
WATER RATE BASE	\$ (36,266)		\$ 101,752		\$ 101,752
RATE OF RETURN	<u>77.14%</u>		<u>-52.70%</u>		<u>9.75%</u>

USEPPA ISLAND UTILITY, INC.
 TEST YEAR ENDING JULY 31, 1996
 SCHEDULE OF WASTEWATER OPERATING INCOME

SCHEDULE NO. 3A
 DOCKET NO. 960975-WS

	TEST YEAR PER UTILITY	COMM. ADJ. TO UTILITY	COMM. ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	TOTAL PER COMM.
OPERATING REVENUES	\$ 33,525	\$ 1,065 A	\$ 34,590	\$ 35,170 E	\$ 69,760
OPERATING EXPENSES:					
OPERATION AND MAINTENANCE	45,288	15,000 B	60,288	0	60,288
DEPRECIATION (NET)	7,620	(7,278) C	342	0	342
AMORTIZATION	0	0	0	0	0
TAXES OTHER THAN INCOME	4,147	1,004 D	5,151	1,583 F	6,734
INCOME TAXES	0	0	0	0	0
TOTAL OPERATING EXPENSES	\$ 57,055	\$ 8,726	\$ 65,781	\$ 1,583	\$ 67,364
OPERATING INCOME/(LOSS)	\$ (23,530)		\$ (31,191)		\$ 2,397
WASTEWATER RATE BASE	\$ 107,344		\$ 24,583		\$ 24,583
RATE OF RETURN	<u>-21.92%</u>		<u>-126.88%</u>		<u>9.75%</u>

USEPPA ISLAND UTILITY, INC.
TEST YEAR ENDING JULY 31, 1996
ADJUSTMENTS TO OPERATING INCOME

SCHEDULE NO. 3B (Page 1 of 2)
DOCKET NO. 960975-WS

A. OPERATING REVENUES	WATER	WASTEWATER
1. To adjust test year revenue to reflect tarified rates.	\$ <u>(1,185)</u>	\$ <u>1,065</u>
B. OPERATION AND MAINTENANCE EXPENSES		
1. Salaries and Wages - Employees		
a. To bring employee salaries to commission approved amount.	\$ <u>24,955</u>	\$ <u>3,013</u>
2. Salaries and Wages - Officers		
a. To bring officers salary to commission approved amount.	\$ <u>3,700</u>	\$ <u>3,559</u>
3. Sludge Removal Expense		
a. To reflect commission approved test year sludge expense.	\$ <u>0</u>	\$ <u>3,463</u>
4. Purchased Power		
a. To adjust to audited purchased power expense.	\$ <u>2,263</u>	\$ <u>(506)</u>
5. Chemicals		
a. To allow commission approved chemical expense.	\$ <u>1,722</u>	\$ <u>(174)</u>
6. Materials and Supplies		
a. To include commission approved materials and supplies exp.	\$ <u>275</u>	\$ <u>275</u>
7. Contractual Services		
a. To amortize engineering study for permit over 5 years.	\$ (7,307)	\$ (2,139)
b. To amortize legal cost for permit over 5 years.	(2,341)	(831)
c. To amortize reverse discharge study over 5 years.	(3,840)	0
d. To include commission approved lift pump replacement program.	0	5,360
e. To adjust repairs and maintenance to engineer recommended amt.	(8,532)	(1,362)
f. To include commission approved testing amount.	6,168	902
g. To reclassify new blower to wastewater plant in service.	(1,148)	0
h. To reclassify aluminum fence to wastewater plant in service.	0	(517)
	\$ <u>(17,000)</u>	\$ <u>1,413</u>
8. Rent		
a. To include rent expense indexed up since last SARC.	\$ <u>1,324</u>	\$ <u>1,324</u>
9. Transportation Expenses		
a. To reflect transportation of employees to island.	\$ <u>5,238</u>	\$ <u>2,534</u>
b. To include golf cart maintenance expense.	160	240
	\$ <u>5,398</u>	\$ <u>2,774</u>
10. Insurance Expense		
a. To adjust insurance expense to audited amount.	\$ <u>(16)</u>	\$ <u>(266)</u>
11. Regulatory Commission Expense		
a. To include \$1,000 SARC filing fee amortized over 4 years.	\$ <u>125</u>	\$ <u>125</u>
TOTAL O & M ADJUSTMENTS	\$ <u>22,746</u>	\$ <u>15,000</u>

USEPPA ISLAND UTILITY, INC.
 TEST YEAR ENDING JULY 31, 1996
 ADJUSTMENTS TO OPERATING INCOME

SCHEDULE NO. 3B (Page 2 of 2)
 DOCKET NO. 960975-WS

<u>C. DEPRECIATION EXPENSE</u>	<u>WATER</u>	<u>WASTEWATER</u>
1. To adjust utility balance to match depreciation rates set forth in Rule 25-30.140.	\$ 9,988	\$ 2,588
2. To include depreciation expense on pro forma R/O plant & fence.	3,504	422
3. To include depreciation expense on pro forma membranes.	2,460	0
4. To adjust for non-used & useful test year depreciation.	(1,373)	(600)
5. To remove depreciation on retired R/O/ plant.	(2,477)	0
6. To remove depreciation on retired R/O membranes.	(4,611)	0
7. To include commission approved amortization expense.	(9,091)	(9,986)
8. To adjust for non-used & useful test year amortization.	337	298
	<u>\$ (1,263)</u>	<u>\$ (7,278)</u>
<u>D. TAXES OTHER THAN INCOME</u>		
1. To reflect regulatory assessment fees on test year revenue.	5	6
2. To include payroll tax on commission approved salaries.	2,972	998
	<u>\$ 2,977</u>	<u>\$ 1,004</u>
<u>E. OPERATING REVENUES</u>		
1. To reflect commission approved increase in revenue.	<u>\$ 66,536</u>	<u>\$ 35,170</u>
<u>F. TAXES OTHER THAN INCOME</u>		
1. To reflect additional regulatory assessment fee associated with commission approved revenue requirement.	<u>\$ 2,994</u>	<u>\$ 1,583</u>

USEPPA ISLAND UTILITY, INC.
TEST YEAR ENDING JULY 31, 1996
ANALYSIS OF WATER OPERATION AND
MAINTENANCE EXPENSE

SCHEDULE NO. 3C
DOCKET NO. 960975-WS

	TOTAL PER UTIL.	COMM. ADJUST.	TOTAL PER COMM.
(601) SALARIES AND WAGES - EMPLOYEES	\$ 17,373	\$ 24,955	\$ 42,328
(603) SALARIES AND WAGES - OFFICERS	2,800	3,700	6,500
(604) EMPLOYEE PENSIONS AND BENEFITS	0	0	0
(610) PURCHASED WATER	0	0	0
(615) PURCHASED POWER	15,536	2,263	17,799
(616) FUEL FOR POWER PRODUCTION	0	0	0
(618) CHEMICALS	7,762	1,722	9,484
(620) MATERIALS AND SUPPLIES	0	275	275
(630) CONTRACTUAL SERVICES	43,338	(17,000)	26,338
(640) RENTS	0	1,324	1,324
(650) TRANSPORTATION EXPENSE	0	5,398	5,398
(655) INSURANCE EXPENSE	266	(16)	250
(655) REGULATORY COMMISSION EXPENSE	0	125	125
(670) BAD DEBT EXPENSE	0	0	0
(675) MISCELLANEOUS EXPENSES	161	0	161
	<u>\$ 87,236</u>	<u>\$ 22,746</u>	<u>\$ 109,982</u>

USEPPA ISLAND UTILITY, INC.
 TEST YEAR ENDING JULY 31, 1996
 ANALYSIS OF WASTEWATER OPERATION AND
 MAINTENANCE EXPENSE

SCHEDULE NO. 3D
 DOCKET NO. 960975-WS

	<u>TOTAL</u> <u>PER UTIL.</u>	<u>COMM.</u> <u>ADJUST.</u>	<u>TOTAL</u> <u>PER COMM.</u>
(701) SALARIES AND WAGES - EMPLOYEES	\$ 18,010	\$ 3,013	\$ 21,023
(703) SALARIES AND WAGES - OFFICERS	2,941	3,559	6,500
(704) EMPLOYEE PENSIONS AND BENEFITS	0	0	0
(710) PURCHASED SEWAGE TREATMENT	0	0	0
(711) SLUDGE REMOVAL EXPENSE	866	3,463	4,329
(715) PURCHASED POWER	10,477	(506)	9,971
(716) FUEL FOR POWER PRODUCTION	0	0	0
(718) CHEMICALS	1,692	(174)	1,518
(720) MATERIALS AND SUPPLIES	0	275	275
(730) CONTRACTUAL SERVICES	10,965	1,413	12,378
(740) RENTS	0	1,324	1,324
(750) TRANSPORTATION EXPENSE	0	2,774	2,774
(755) INSURANCE EXPENSE	266	(266)	0
(765) REGULATORY COMMISSION EXPENSES	0	125	125
(770) BAD DEBT EXPENSE	0	0	0
(775) MISCELLANEOUS EXPENSES	71	0	71
	<u>\$ 45,288</u>	<u>\$ 15,000</u>	<u>\$ 60,288</u>

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COMMISSION APPROVED RATE REDUCTION SCHEDULE

USEPPA ISLAND UTILITY, INC.
TEST YEAR ENDING JULY 31, 1996

SCHEDULE NO. 4
DOCKET NO. 960975-WS

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

MONTHLY WATER RATES

<u>RESIDENTIAL AND GENERAL SERVICE</u>	<u>MONTHLY COMM. APPROVED RATES</u>	<u>MONTHLY RATE REDUCTION</u>
BASE FACILITY CHARGE:		
Meter Size:		
5/8"X3/4"	\$ 36.41	0.04
3/4"	54.62	0.06
1"	91.03	0.09
1-1/2"	182.05	0.19
2"	291.28	0.30
3"	582.57	0.60
4"	910.26	0.93
6"	1,820.52	1.87
 RESIDENTIAL GALLONAGE CHARGE PER 1,000 GALLONS	 \$ 6.54	 0.01

COMMISSION APPROVED RATE REDUCTION SCHEDULE

USEPPA ISLAND UTILITY, INC.
 TEST YEAR ENDING JULY 31, 1996

SCHEDULE NO. 4A
 DOCKET NO. 960975-WS

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

MONTHLY WASTEWATER RATES

<u>RESIDENTIAL AND GENERAL SERVICE</u>	<u>MONTHLY COMM. APPROVED RATES</u>	<u>MONTHLY RATE REDUCTION</u>
BASE FACILITY CHARGE:		
Meter Size:		
5/8"X3/4"	\$ 23.29	0.05
3/4"	34.94	0.07
1"	58.23	0.12
1-1/2"	116.46	0.24
2"	186.34	0.38
3"	372.67	0.76
4"	582.30	1.18
6"	1,164.61	2.36
RESIDENTIAL GALLONAGE CHARGE PER 1,000 GALLONS (10,000 GALLON MAX. PER MONTH)	\$ 6.42	0.01
GENERAL SERVICE GALLONAGE CHARGE PER 1,000 GALLONS	\$ 7.70	0.02