

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Application for a Rate) DOCKET NO. 921261-WS
Increase in Lee County by HARBOR) ORDER NO. PSC-94-0075-FOF-WS
UTILITIES COMPANY, INC.) ISSUED: 01-21-94
_____)

The following Commissioners participated in the disposition of this matter:

J. TERRY DEASON, Chairman
SUSAN F. CLARK
JULIA L. JOHNSON
DIANE K. KIESLING
LUIS J. LAUREDO

NOTICE OF PROPOSED AGENCY ACTION
ORDER DENYING RATE INCREASE

NOTICE IS HEREBY GIVEN by the Florida Public Service Commission that the action discussed herein 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.

CASE BACKGROUND

Harbor Utilities Company, Inc. (Harbor or utility) is a Class C water and wastewater utility in Lee County which provides service to 644 water and 439 wastewater customers. It is a wholly-owned subsidiary of Imperial Harbor Association.

The Commission last established rates for this utility in a staff-assisted rate case in Order No. 10704, issued on April 7, 1982. The utility received a price index adjustment in 1986. Harbor is in an area which has been designated by the South Florida Water Management District as a critical water supply area.

On June 14, 1993, Harbor filed an application for approval of interim and permanent rate increases pursuant to Sections 367.082 and 367.081, Florida Statutes, respectively. However, the information submitted did not satisfy the minimum filing requirements (MFRs) for a general rate increase and the utility was advised of the deficiencies. Subsequently, on July 26, 1993, the utility satisfied the MFRs for a rate increase, and this date was designated the official filing date.

DOCUMENT NUMBER-DATE

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FPSC-RECORDS/REPORTING

The utility has asked the Commission to process this case under the Proposed Agency Action (PAA) procedure. The test year for interim was the twelve-month period ended December 31, 1992. Harbor has requested a two phase implementation of its permanent rate increase. The test years for final rate determination are the projected twelve-month periods ending December 31, 1993, and December 31, 1994. The projected test years are based on the historical period ending December 31, 1992. The first phase is based on the December 31, 1993, test year and the second phase is based on the December 31, 1994, test year.

The MFRs indicate that Harbor had adjusted test year revenues in 1992 of \$108,309 and \$50,430, recorded for the respective water and wastewater systems. The corresponding net operating income amounts were (\$16,251) and (\$35,375). By Order No. PSC-93-1450-FOF-WS, issued on October 5, 1993, we granted Harbor interim water and wastewater rates designed to generate annual revenues of \$135,235 and \$98,826, respectively. These revenues exceed test year revenues by \$27,072 (25.03%) for water and \$48,361 (95.83%) for wastewater.

The final rates requested for phase one are designed to generate annual revenues of \$166,499 and \$127,291, for water and wastewater, respectively. These 1993 revenues exceed the 1992 test year revenues by \$58,190 (53.73%) for water and \$76,862 (152.41%) for wastewater. The final rates requested for phase two are designed to generate annual revenues of \$199,610 and \$185,508 for water and wastewater, respectively. These revenues exceed the 1992 test year revenues by \$91,300 (84.30%) for water and \$135,079 (267.85%) for wastewater.

The utility states that its existing rates are insufficient to provide a fair rate of return on its current and future investment. In addition, the utility states that it was motivated to file the current rate case by the capital improvements required by Departmental of Environmental Protection (DEP) consent orders. The utility states that it will spend \$333,125 and \$358,125 in 1993, to upgrade the utility's water and wastewater systems, respectively. In 1994, the utility states that it will spend \$358,125 to upgrade its wastewater system.

In a letter dated August 11, 1993, Lee County Commissioner Ray Judah informed this Commission of the possible sale of the utility to Bonita Springs Utilities. In preparation for the sale, Lee County Board of County Commissioners adopted Resolutions Nos. 91-08-12 and 91-08-13. Resolution No. 91-08-12, creates the Imperial Harbor, Units 1-7, Municipal Services Benefit Unit (MSBU) for the purpose of reconstruction of the wastewater collection system and

the potable water distribution system within the boundaries of the MSBU. The MSBU gives the authority to Lee County to tax and sell bonds for the financing of construction projects. Resolution No. 91-08-13, was adopted for the purpose of ordering the acquisition of Harbor and construction of the project.

Previously, on June 10, 1992, Lee County approved a first-phase contract to evaluate the existing system and make a recommendation for the scope of the design and construction of the project. According to information we received, the engineering study was only partially completed and only the wastewater collection system was evaluated. We have been informed that the study will be shared with this Commission as soon as it is completed and given to the County. In addition, the Fort Myers DEP office confirmed the plan and the time schedule for the Imperial Harbor Subdivision to connect to the Bonita Springs Utilities central wastewater system.

QUALITY OF SERVICE

In our analysis of the overall quality of service provided by the utility, we considered the utility's compliance with the rules of DEP and other agencies and evaluated three components of water and wastewater utility operations: (1) quality of utility's product (water and wastewater treatment), (2) operational conditions of utility's plant or facilities, and (3) customer satisfaction.

Quality of Utility's Product

In order to assess the overall quality of service provided by this utility, the quality of the treatment facility and effluent discharged by the utility was evaluated by a Commission engineer on September 20, 1993. The evaluation consisted of a field investigation and a review of the utility's current compliance with DEP standards and other rules. The ultimate concern of a wastewater utility is the final quality of the treated wastewater (effluent) being discharged. The degree to which a utility is able to maintain a satisfactory degree of effluent quality is reflected by its ability to meet DEP standards.

Harbor's wastewater treatment plant is currently operating under DEP Consent Order No. 92-1381, issued December 21, 1992. According to the consent order, the utility was in violation of several DEP rules concerning the operation of the wastewater treatment plant and wastewater sanitation requirements. An effluent sample taken by a DEP representative accompanying the Commission engineer during the plant inspection on September 20, 1993, registered 0.2 mg/l (milligrams per liter) residual chlorine,

a violation of DEP Rule 17-600.440(4) b, Florida Administrative Code, (F.A.C.) which requires a minimum of 0.5 mg/l residual chlorine.

The water currently meets DEP rule requirements for health and sanitation. However, at the customer meeting held on September 21, 1993, attended by approximately 200 persons, sixteen customers testified to the poor quality of the water produced by Harbor. In addition, the customers unanimously responded, by a show of hands, demonstrating their need to purchase bottled water for household use.

Operational Conditions of Utility's Plant and Facilities

The operational conditions of the utility's water treatment plant, wastewater treatment plant and water distribution and wastewater collection systems were evaluated in order to determine the overall quality of service provided by the utility. Evaluation of those systems includes a review of the utility's compliance with DEP standards of operation.

As previously mentioned, Harbor's wastewater treatment plant is currently operating under a DEP consent order. According to the consent order, the utility was in violation of several DEP rules concerning the operation of the wastewater treatment plant and wastewater sanitation requirements. Harbor's reclaimed water or effluent grab sample exceeded the 60 mg/l for Total Suspended Solids (TSS) concentration pursuant to Rule 17-600.740(1) (b)1.d, F.A.C. The utility's chlorine residuals sampled on September 20, 1993, registered 0.2 mg/l, which is below the required minimum total of 0.5 mg/l chlorine residual, to be maintained after a minimum of 15 minutes contact time at the peak hourly flow, pursuant to Rule 17-600.440(4) b, F.A.C. Harbor's sample results from DEP inspections on July 2, 1991, and April 13, 1992, indicated Fecal Coliform results of 306,000 and 6,800 Fecal Coliforms per 100 milliliters (ml) of sample, respectively. These levels exceed the 800 Fecal Coliforms per 100 ml of sample required, pursuant to Rule 17-600.400(2) (b) 4, F.A.C.

The utility's disposal of wastewater without providing proper treatment is in contravention of Rule 17-600.740(2) (a), F.A.C. DEP has indicated that wastewater was discharging from a wastewater collection system of the facility and spilling out of the manhole and on another occasion, wastewater was leaking from one of the chamber walls at the facility and running onto the adjacent ground surfaces. When the average monthly flows approach the wastewater treatment plant's design capacity flow and the facility violates treatment standards, an application to modify the facility's

treatment process and/or capacity should be submitted to the DEP pursuant to Specific Condition No. 11 of the operating permit No. D036-163980. Harbor has not submitted an application to modify the facility's treatment process or capacity, and it has not recorded the influent loading on monthly operating reports, as required by the operating permit.

Aside from the violations, the wastewater treatment system has no surge tank to guard against sudden large increases in flows during peak periods or when there is an extended rainy period. A tank would otherwise allow the plant to receive more even flows for effective treatment. A recently recorded period of inflow to the plant reached 149% of capacity. Excessive influent causes the plant to overflow and discharge partially treated or, in extreme cases, virtually untreated sewage into the percolation ponds. Not only is this a violation of DEP Rule 17-600.440(4) b, F.A.C. The former operator has informed this Commission that this condition is not uncommon for this plant.

Also, according to the former operator, the collection system has a serious infiltration problem of approximately 40%. This was confirmed by our staff's discussions with an engineer with Hole, Montez and Associates, Inc., hired by Lee County to evaluate the system lines. Infiltration causes the plant to treat groundwater in addition to sewage, which increases treatment expenses and reduces the efficiency of the plant, which further exacerbates the flow problems discussed above.

The utility's reverse osmosis (RO) water treatment plant is permitted for 80,000 GPD. The facility is operating under constraints from DEP Consent Order No. 92-1382, one of which is Specific Condition No. 1, of its operating permit, requiring the submission of monthly reports to the DEP. The consent order states that fourteen consecutive reports were not submitted, and that the utility failed to install an aeration unit for treatment of concentrate prior to discharge as required by its permit. This Commission is now aware that the aerator is installed. This concentrate is regarded as "industrial waste" by DEP and requires a permit for disposal.

According to the Monthly Operating Reports (MOR) submitted to DEP, Harbor's water plant generates from 66% to 75% reject water on some days, which is an unusually high amount. Average plant efficiency ranges in the 40% to 50% range. The plant was originally designed for 20% reject water as indicated by the permits. Manufacturer warranties on membranes generally range from 3 to 5 years depending on several factors including the conductivity of the water, which is the total dissolved solids

(TDS) in the water, the type of membranes used and other design factors of the facility. We have determined that a possible cause of the high percentage of reject water is due to the membranes used for filtering the water. The condition of excessive reject water also requires additional electricity to be used to pump more water to achieve the required amount for customer use.

The former plant operator informed this Commission that the plant was installed in 1981 and that the membranes had not been changed during his employ from 1986 through October, 1993. Subsequently, in November, 1993, the utility contracted with a new water and wastewater plant operator. According to the owner, the membranes were changed six or seven years ago. However, no documentation was produced to prove the claim even after repeated requests by this Commission. The original operator of the RO plant, informed this Commission that the membranes were not changed from 1981 through 1986.

This Commission is aware of further unsatisfactory conditions as a result of the September 20, 1993, engineering inspection. The inspection revealed that the 150,000 gallon concrete water storage tank has numerous leaks both at the base and in the walls. There have been several unsuccessful attempts to patch the leaks. At this time, we have no way of knowing how much water is being lost due to these leaks. However, the consulting engineering firm hired by the utility has estimated the repair cost to be \$7,000. In addition, the scales for the chlorine tanks are not functioning. Subsequent to a November, 1991, explosion in the 15,000 gallon hydropneumatic tank, a large patch has been welded in place and 3 inch wide steel bands have been placed at 4 foot intervals to help prevent a similar explosion. Furthermore, flow meters on the equipment panel are not legible and hose bibs throughout the plant are not equipped with backflow prevention devices as required by DEP.

Based on the information received, there is no preventive maintenance being done. For instance, an electric pump motor was recently repaired at a cost of several thousand dollars because the bearings had not been regularly lubricated as required. The only maintenance performed is the required daily activities and repairs necessary to keep the plant in operation.

Customer Satisfaction

As previously stated, sixteen customers testified to the poor quality of water, service and maintenance. In addition to the 200 customers in attendance who unanimously raised their hands to show that they felt the need to purchase bottled water for household

use, this Commission has received 36 concurring letters from customers unable to attend the meeting. All were opposed to the rate increase, citing various problems with the utility as a result of poor management.

Upon consideration of the evidence, we find that the quality of service provided by Harbor in treating and distributing water and the quality of service provided in operating and maintaining the wastewater collection system is unsatisfactory.

RATE BASE

Our calculation of the appropriate water and wastewater rate bases are attached to this Order as Schedules Nos. 1-A for water and 1-B for wastewater, with our adjustments attached as Schedule No. 1-C. Those adjustments that are self-explanatory or essentially mechanical in nature are set forth on those schedules without any further discussion in the body of this Order. The major adjustments are set forth below.

Pro Forma Adjustments

The utility requested pro forma adjustments for plant improvements in 1993 and 1994. These requested amounts were \$333,125 for the water system and \$358,125 for the wastewater system in 1993, and \$358,125 for the wastewater system in 1994.

Harbor is currently operating under DEP Consent Orders Nos. 92-1381 and 92-1382. Order No. 92-1382, issued December 21, 1992, requires the utility to install an aeration unit at the water facility to lower the hydrogen sulfide concentration of the reject water to acceptable levels within 90 days of the issue date. The utility has complied by installing the aerator. The utility's original estimate in the MFRs for the aerator was \$15,000. After reviewing the invoices for the aerator submitted by the utility, we find it appropriate to allow \$12,742 for this plant item, with corresponding adjustments made to depreciation expense and accumulated depreciation of \$177.

Consent Order No. 92-1381, issued December 21, 1992, requires the utility to retain the services of a Florida professional engineer by July 1, 1993, to evaluate the system and design modifications of the facility and make extensive repairs and improvements to the wastewater treatment plant to be completed no later than October 1, 1994. In addition, paragraph 34 states in part: "In the event that the Municipal Service Benefit Units (MSBU) is approved on or before October 1, 1994, Respondent shall 1) notify the Department in writing of such finding; and 2) be

relieved of compliance with the provisions of paragraphs 13, 14, 15, and 16 of this Consent Order within 30 days of the date of such written notification to the extent not already performed."

This Commission has received written confirmation from Lee County Commission Vice-Chairman Ray Judah that on August 7, 1993, the Lee County Board of County Commissioners adopted Resolutions Nos. 91-08-12 and 91-08-13 creating the MSBU for the purpose of reconstruction of the wastewater collection system and the potable water distribution system within the boundaries of the MSBU. Though the utility owner is aware of the County's action, he has not taken advantage of paragraph 34 in the consent order.

Since the County has made provisions to acquire the water distribution and wastewater collection systems by the creation of the MSBU, paragraph 34 of Consent Order No. 92-1381 is in effect. Because no construction or improvements are required by DEP for the treatment facilities, the utility has been relieved of the requirement to make the improvements and, as of this point, none of the pro forma water or wastewater plant improvements for 1993 and 1994, other than the aerator discussed above, has been initiated. Therefore, we find it appropriate to deny the pro forma adjustments requested by the utility.

Land

In its application, the utility requested inclusion of \$2,500 and \$625, respectively, for the water and wastewater land accounts. The utility's general ledger in December 31, 1992, had a water land balance of \$15,625 and a wastewater land balance of \$625. Though the utility claims to own the land, through an audit of the utility, we became aware that the utility does not own the water or wastewater land it is presently using. Pursuant to Rule 25-30.433 (10), Florida Administrative Code, a utility is required to own the land upon which its treatment facilities are located, or possess the right to the continued use of the land, such as a 99-year lease.

Based on the information we have, the parent company, Imperial Harbor Associates, owns all the land currently used by the utility. The utility claims that this was an oversight and that it is working to correct it. According to the utility, the land MFR balances are derived from Order No. 10704, issued on April 7, 1982, in Docket No. 780814-WS, which was the utility's last rate case before this Commission.

Our review of Order No. 10704 indicates the existence of land with an adjustment of \$13,125, to the water plant account. Based on the plant inspection, we find that this land is currently used for utility services. Therefore, the utility shall provide documentary support of ownership of all land where the utility treatment facilities are located within 30 days of the effective date of this Order.

Used and Useful Percentage of Water Treatment Plant

The utility's water treatment plant, installed in 1981, is a Reverse Osmosis (RO) type with capacity permitted for 80,000 gpd. The required fire flow is 60,000 gallons (500 GPM for 2 hours). The five day average maximum flow from the maximum month was 64,440 gallons. Since the utility did not request a margin reserve, we are not considering one. Our calculation of used and useful is as follows: $64,440 + 60,000 / 80,000 = 155\%$, with no margin reserve added. Therefore, according to our standard calculations using plant capacity, five day maximum flows, and fire flow, we have determined that the water treatment plant is 100% used and useful.

Used and Useful Percentage of Wastewater Treatment Plant

The utility's wastewater treatment plant is permitted at 54,000 gpd in the contact stabilization treatment mode. Average daily flow during the maximum month was 51,000 gpd. Since the utility did not request a margin reserve, we are not considering one. Our calculation of used and useful is as follows: $51,000 / 54,000 = 94.4\%$, with no margin reserve added. By the time the wastewater percentage reaches 90%, utilities are required to submit expansion applications and plans to DEP by the provisions of Rule 17-600.405, F.A.C. Therefore, according to our standard calculations using plant capacity and maximum flows experienced, the wastewater treatment plant is 100% used and useful.

Used and Useful Percentage of Water Distribution and Wastewater Collection Systems

Base on the MFRs, we find that both the water distribution and wastewater systems are built out and no future expansion is being considered. We, therefore, determine that the water distribution and wastewater collection systems are 100% used and useful.

Working Capital

The utility has used the formula approach, which is based on one-eighth of operation and maintenance expenses, to calculate the working capital allowance.

We have made adjustments for changes in operation and maintenance expenses, as discussed below. Based on those adjustments, working capital shall be reduced by \$5,552 and \$3,614, for water and wastewater, respectively. Accordingly, we find it appropriate to approve working capital provisions of \$8,455 and \$6,022, for the respective water and wastewater divisions.

Test Year Rate Base

Based upon the average test year balances and our proposed adjustments herein, we find appropriate an average rate base for the water system of \$110,425 and for the wastewater system of \$109,075.

APPROPRIATE TEST YEAR

Harbor filed a petition for a two phase rate increase using the projected test years ending December 31, 1993, and December 31, 1994. The utility stated that DEP required it to file this petition to recover the costs of plant improvements necessary to bring the plant into compliance with statutes and rules pertaining to domestic wastewater facilities and a DEP consent order. However, the same consent order states that if the MSBU is in effect by October 1, 1994, the utility will be relieved of the responsibility to upgrade the plants. Since the MSBU and the sale to Bonita Springs are forthcoming, we have ascertained that no construction or improvements will be required by DEP.

Further, the Commission audit shows that there has been no ongoing construction in 1993 through September. Consequently, we have determined that the utility's proposed construction and improvements have not taken place. Based on this information, the utility's requested test years, based on projected plant additions, are not found to be reasonable for the purpose of setting rates.

We note that, in addition to the projected plant additions, the utility requested a 4% inflation increase in working capital, operation and maintenance expenses and payroll taxes for each of the projected test years. We have concluded that an 8% inflation increase over a two year period is excessive. Up to March 31, 1994, the utility can apply for a 1993 price index adjustment to recover increased expenses due to inflation, if the rate case is concluded. Therefore, we have allowed no adjustments for inflation to the 1992 test year amounts.

Further, since we have determined that the use of the projected test years ending December 31, 1993, and December 31, 1994, are not reasonable, we find appropriate the test year for

determining rates in this proceeding shall be the historical test year ending December 31, 1992.

COST OF CAPITAL

Appropriate Capital Structure

In determining the appropriate capital structure for rate making purposes, we have considered three options. First, Harbor is a wholly-owned subsidiary of Imperial Harbor and because all sources of funds flow from Imperial Harbor, the utility has requested to use its parent company's capital structure for ratemaking purposes. This is the capital structure that we approved in the utility's last rate case. (See Docket No. 780814-WS, Order No. 10704, issued April 7, 1982). The utility, in response to interrogatories, stated that Imperial Harbor is a land holding company and that the utility constitutes a very small percentage of the assets of Imperial Harbor. According to Schedule D-1 of the MFR filing, Imperial Harbor is financed with 99.9% equity and .1% debt.

The second option we have considered is the utility's actual capital structure, which is 100% debt. Although Imperial Harbor is financed with nearly 100% equity, it has elected to finance the utility with 100% debt. While there is a small equity investment in Harbor, due to an accumulation of net operating losses, the resulting negative retained earnings balance more than offsets the equity investment in the utility. The utility, in response to requests for production of documents, has shown that loan amounts from Imperial Harbor are recorded on the utility's books and that interest is accrued at a rate of prime plus 2%.

As the third option, we have considered the use of a hypothetical capital structure. The average equity ratio for the water and wastewater utilities that comprise the index of companies used in the determination of the Commission's leverage formula was 42.8% in 1992. Therefore, an adopted hypothetical capital structure for Harbor would be 42% equity and 58% debt.

After considering the options, we find it appropriate to use the utility's actual capital structure for ratemaking purposes. We do not find it prudent to allow the utility to use its parent company's capital structure for ratemaking purposes because the level of equity capital maintained by Imperial Harbor is well above a reasonable level for the provision of regulated utility service. Similarly, we disapprove the use of a hypothetical capital structure in this instance because it would allow Harbor to earn a return on an amount of equity capital that does not exist.

The overall cost of capital based on the utility's actual capital structure is 9.43%. The overall cost of capital based on the capital structure requested by Harbor is 9.30%. The overall cost of capital based on the actual capital structure is slightly higher than the cost of capital that results from the utility's request because of the use of a historic test year. This result is due to having the embedded cost of debt in the historic test year heavily weighted by debt that was issued in 1976, 1980, and 1986, while the cost of equity is determined by current market conditions.

Common Equity Capital

Due to an accumulation of net operating losses, the utility's resulting negative retained earnings balance more than offsets the equity investment in Harbor. However, even though the utility does not have a positive equity balance, we believe a cost of common equity capital should be established. Based upon the minimum equity ratio recognized in the leverage formula approved in Order No. PSC-93-1107-FOF-WS, we find appropriate the resulting cost of common equity capital of 10.97%.

Weighted Average Cost of Capital

The balance of the MFR amounts represent the beginning and ending average balances taken from Schedule A-16 of the MFR filing. We have made a pro rata adjustment to reconcile the capital structure with the used and useful rate base amounts we previously determined to be appropriate.

In our determination of the weighted average cost of capital, we have used the respective cost rates provided by the utility with two exceptions. As discussed above, the utility has a negative equity capital balance. Based on the utility's actual capital structure, and the leverage formula, the cost of common equity capital is 10.97%.

The second exception is the cost of debt. In its filing, the utility requested a projected test year ending December 31, 1994. During this period, the utility has projected significant issuances of debt that would reduce its embedded cost of debt to 8.50%. However, we have determined that a December 31, 1992, test year is appropriate for ratemaking purposes. The embedded cost of debt as of December 31, 1992, was 9.43%.

Based on the information received by this Commission, we have determined that the utility will not make the substantial capital improvements it has proposed in its projected test year. Without

making these capital improvements, the utility will not have cause to issue the debt and its embedded cost of debt will remain at 9.43%.

Based on the above, we find a weighted average cost of capital of 9.43% based on the utility's actual capital structure to be appropriate. Schedule No. 2 attached, reflects the components, amounts, cost rates, and weighted average cost of capital of 9.43%, resulting from applying the utility's actual capital structure.

NET OPERATING INCOME (NOI)

Our calculations of the appropriate levels of NOI for this proceeding are attached as Schedules Nos. 3-A for water and 3-B for wastewater, with our adjustments on Schedule No. 3-C. Those adjustments which are self-explanatory, or which are essentially mechanical in nature, are depicted on those schedules without any further discussion in the body of this Order. The remaining adjustments are discussed below.

Employee Salaries

Harbor has requested \$18,267 and \$12,181 in water and wastewater salaries, respectively, for five office employees. An audit of the utility disclosed that only one employee from 1992 was still employed with the utility. The audit report also stated that two employees had retired and two employees are no longer employed by the utility. Based on our review of Audit Disclosure No. 3, we find it appropriate to remove the salaries and related payroll taxes for these four employees as non-recurring. Therefore, we have removed \$12,003 and \$8,005 for water and wastewater employee salaries, respectively. Also, corresponding adjustments are necessary to remove related payroll taxes of \$1,040 for water and \$694 for wastewater.

Harbor explained that at the time of the MFR preparation, none of the employees had ended their employment. It stated that two new employees would be substituted for two of the former employees. One of the new employees will be a full-time employee with a salary of \$10,000 and the other will be part-time at a \$5,000 salary. In addition, Harbor stated that it would be hiring an additional part-time employee on January 1, 1994, whose annual salary will be \$5,000.

We are not convinced that the utility is currently employing a full-time and a part-time employee in its office. One reason is that of the two new employees that the utility named as substitutes for previously employed personnel, one is the employee that

currently remains employed by the utility. The other named person was not observed by the Commission auditor, engineer or rate analyst during their field investigations. Therefore, we find that the utility has justified the inclusion of only one full-time employee at a salary expense of \$10,000.

In addition, Harbor stated that it paid \$7,143 in employee health insurance for 1992. In order to determine the corresponding adjustments for test year health insurance expense for one employee, we find it appropriate to divide the total health insurance expense by five. This results in a test year allowance of \$1,429, or \$857 for water and \$572 for wastewater. This does not include the health insurance for the president.

Based on the above, we find that employee salaries should be reduced by \$12,267 for water and \$8,181 for wastewater. Payroll taxes should be reduced by \$1,084 and \$724, and health insurance reduced by \$3,429 and \$2,285, for water and wastewater, respectively.

President's Salary and Health Insurance

The president's annual salary as general manager is \$20,000 and his annual health insurance is \$1,416. As the only officer of the utility, the president is solely responsible for the utility's operation. We note that 200 customers attended the customer meeting and 36 customers have written to this Commission, all expressing their dissatisfaction with the quality of service and the operating conditions of the plants and the facilities. In the past, this Commission has penalized utilities for poor quality of service by reducing the return on equity by 100 basis points, or by reducing the president's salary where a utility has little or no equity, like Harbor.

The president of the utility is also the president of the parent company. The utility has paid the president's total health insurance premium with no allocation of the president's salary or of his health insurance expense having been made to the parent company.

In this case, the quality of service is so poor that we find it appropriate to completely remove the president's salary. We also find the removal of the president's health insurance expense of \$1,416 to be appropriate. The resulting allocated decreases to operation and maintenance expenses are \$12,850 for water and \$8,566, for wastewater.

President's Travel Expenses

Harbor recorded travel expenses of \$9,074 for water and \$5,985 for wastewater. In the 1992 year-end adjustments, the utility's accountant removed travel expenses of \$5,001 for water and \$3,302 for wastewater, which reduced the recorded travel expenses by 55%. The net result in the MFRs reflects travel expenses of \$4,073 for water and \$2,683 for wastewater.

As part of our review, we requested copies of the invoices supporting the travel expenses requested by the utility. On the invoices provided, charges were shown for hotel expenses in areas such as Beckley, West Virginia; Richmond Hill, Georgia; Cornelius, North Carolina; and Ocala, Florida. There were also many flights during the year to and from Pittsburgh, Pennsylvania, some months having two flights. In addition, the 1992 statements included charges for life insurance and monthly car rentals in the Ft. Myers area. For a utility of this size, the extent and frequency of the president's travel expenses between his residence in Pennsylvania and the utility and for any other non-utility business travel, even as adjusted, appears excessive. The utility should be allowed some amount for travel expenses and we find that \$2,000 is reasonable. It is not appropriate for the ratepayers to bear personal or non-utility travel expenses of its president. Therefore, we find a further reduction in travel expenses of \$2,873 for water and \$1,883 for wastewater to be appropriate.

Office Rent

Harbor pays monthly rental expense to Imperial Harbor Associates (IHA) of \$550 per month. IHA owns 100% of the outstanding stock of Harbor. Since this is a related party transaction between parent and subsidiary, more scrutiny is required to determine the reasonableness of the rental agreement. This rent expense is for a double-wide mobile home that has approximately 1,450 square feet. On a field inspection, our staff engineer concluded that the utility needs only 750 to 900 square feet to conduct the utility's business operations. Based on this information, we believe smaller office accommodations of 900 square feet are appropriate.

To determine the appropriate adjustment to rent expense, we calculated that the ratio of 900 to 1,450 square feet is 62%. Applying the 62% ratio to the \$550 requested rental expense, results in a \$350 rental rate per month. Therefore, we find that a \$200 monthly reduction, or a yearly reduction of \$2,400, in rent expense is reasonable. Based on the above, we have determined that

a reduction in rent expense of \$1,440 for water and \$960 for wastewater is prudent and reasonable.

Accounting Contractual Services

In its MFRs, Harbor reflected \$8,085 in accounting contractual services for 1992. Upon request, the utility submitted an invoice for annual accounting fees of \$6,450 for 1992. The annual fees are for posting the general ledger, for preparing the payroll and income tax returns, and preparing the PSC annual report. The additional amount recorded in 1992 related to unpaid prior period amounts and rate case expense.

After reviewing the 1991 through 1993 invoices of annual expense for accounting services, we find the annual accounting costs, as stated by the 1993 invoice for \$6,950 to be reasonable for ratemaking purposes. Therefore, we find it appropriate to reduce the requested accounting contractual services by \$681 for water and by \$454 for wastewater.

Legal Contractual Services

In its MFRs, Harbor reflected \$23,513 in legal contractual services for 1992. The test year legal fees requested by Harbor are related to consent orders from DEP in December 1992, and a failed certificate transfer in Docket No. 910901-WS.

The legal fees incurred from the DEP consent orders totaled \$13,020. Had the utility maintained its systems in a satisfactory manner, it would have avoided these legal disputes with DEP. We find that it is imprudent and unreasonable to have the customers of Harbor incur the expense of representation and defense of management's actions resulting in poor quality of service. Therefore, we find the legal fees related to the DEP consent orders are non-recurring, imprudent and shall not be allowed in the test year or amortized over future periods.

The Commission audit also discovered that \$7,993 in legal fees for Docket No. 910901-WS were included in contractual services. That docket was opened to obtain a certificate transfer which did not take place. The audit report stated that these legal fees are non-recurring. In the utility's response to the audit report, the utility agrees that these legal fees are non-recurring and should be removed from contractual services.

However, recovery of prudent legal fees for recurring legal issues is appropriate. We believe that \$2,500 is a reasonable amount for a Class C utility. Therefore, we find a reduction to

legal contractual services of \$12,608 for water and \$8,405 for wastewater is appropriate.

Operator Contractual Services

The utility furnished copies of a contract with a water and wastewater operator that it hired as a replacement in November 1993. The contract terms are \$735 per month for the water plant and \$465 per month for the wastewater plant, resulting in an annual total of \$14,400, which reflects an increase of \$6,845, over the test year expense. Based on a rate comparison with a different local operator, we find that the rate is reasonable. Therefore, test year expenses shall be increased by \$6,845, or \$3,532 and \$3,313 for water and wastewater, respectively.

Excessive Infiltration

As previously discussed, the plant has a serious infiltration problem of approximately 40%. This Commission has historically accepted 10% infiltration as an acceptable level. Infiltration, which is ground water leaking into the collection system, is caused by broken or cracked mains and leaking joints. This condition causes additional expense due to added power and chemicals required to treat the ground water.

Infiltration also places an added burden on the percolation ponds and spray fields used to disperse the effluent. For instance, the utility's monthly operating report for the water and wastewater plants noted that in July 1992 it produced 32,300 gallons of water and it treated 31,000 gallons of wastewater. This calculates to 96% of the water produced being returned to and treated by the wastewater plant. Wastewater standards generally allow for 80% of the water sold being returned to the wastewater plant.

We have determined that 20% reductions to accounts 715 for power and 718 for chemicals would result in expenses of \$4,082 and \$1,897 respectively. Based on the above analysis, we find these adjustments reasonable.

Purchased Power Expense

According to the monthly operating reports submitted to the DEP, on some days, Harbor's water plant generates from 66% to 75% reject water, which is an unusually high amount. Average plant efficiency ranges in the 40% to 50% range. The plant was designed for 20% reject water as indicated by DEP permits. The water treatment plant is permitted by DEP for 80,000 GPD and the water

recovery plant, which processes reject water, is permitted for 16,000 GPD ($16,000/80,000 = 20\%$). Excessive reject water causes additional electricity to be used to pump more water to achieve the required amount for customer use. We have concluded that poor maintenance and/or the extended use of the membranes have caused the excess reject water produced by the RO plant.

As discussed in this Order, two operators whose service dates to the initial start up of the plant, have stated that the membranes were not changed and the owner has not produced documentation to the contrary when requested by this Commission. Additionally, we have no way of knowing, at this time, how much water is being lost through leakage in the ground storage tank. Therefore, this leakage cannot be quantified as a separate item. We find that the loss is also contributing to the purchased power expense and, therefore, find that a reduction to that account is appropriate.

Because of the treatment plant's designed capability and its percentage of reject water and the leaking condition of the ground storage tank, we have concluded that this plant is operating beyond acceptable limits for reject water. Accordingly, we find that a reduction of 30%, amounting to \$1,797, to purchased power for the water plant is appropriate.

Rate Case Expense

The utility requested \$54,000 for rate case expense. This sum is amortized over four years and is equally divided between the water and wastewater divisions. The utility asked for recovery of rate case expense to begin when its Phase 2 rate increase goes into effect in December 1994. The components of the requested rate case expense are as listed below:

Regulatory Accounting	\$ 25,000
Legal Services	25,000
Accounting-Records Prep.	1,500
Harbor Utilities	<u>2,500</u>
Total Estimate	<u>\$ 54,000</u>

As part of our review, we requested an update of the actual rate case expense incurred, with supporting documentation, as well as the estimated amount to complete the case. The utility's revised estimate of rate case expense through completion of the Proposed Agency Action (PAA) process remained the same as the requested amount. The rate case expense amount did not change because each of the utility's regulatory accounting and legal consultants charged a flat fee of \$25,000 for their services. The

utility considered the invoices for the flat fees to be sufficient documentation because the price will not change regardless of the future events or the number of hours of work performed by the consultants. However, there was no detailed documentation prepared of the work actually performed, nor was any support provided to justify its requested legal and accounting rate case expense.

In its MFRs, the utility reflected mandated improvements from the DEP consent order were to be implemented in two phases. The Phase 1 projected improvements will cost \$333,125 for water and \$358,125 for wastewater, and both were projected to be in service by December 31, 1993. The Phase 2 improvements in 1994 were estimated to cost \$358,125 for the wastewater plant. As of this date, the utility has incurred only \$12,742 in water plant additions for an aerator and nothing for wastewater additions. The plant additions will not be completed by the scheduled dates. Furthermore, as previously discussed, the improvements are no longer required since the MSBU has been adopted.

Although this Commission does not object to the flat fee arrangements per se, we do not find it appropriate to accept an expense and allow the customers to pay an amount which we cannot verify was prudently spent. In those cases where rate case expense has not been supported by detailed documentation, Commission practice has been to disallow some portion or remove all unsupported amounts

In our review, we also considered the several options available to a utility pursuing rate relief. The utility may file MFRs and request the PAA option, or it may file MFRs and request the case go directly to hearing, or if it qualifies, it may file an application for a staff-assisted rate case (SARC). A Class "C" utility, with revenues of \$150,000 or less for each system, qualifies for a staff-assisted rate case under Rule 25-30.455, F.A.C.

As of December 31, 1992, Harbor had water and wastewater annual test year revenues of \$108,309 and \$50,430, respectively, for total annual revenues of \$158,730. We considered its decision to file for a proposed agency action (PAA) file and suspend rate case, pursuant to Section 367.081(8), Florida Statutes, despite the fact that it qualifies for a staff-assisted rate case, pursuant to Section 367.0814, Florida Statutes.

Based on our review, without the projected plant improvements, we have found that no revenue increase is required. In addition, given the size of the utility, we find that the requested amount of rate case expense is excessive. We also find it troubling that the

utility did not exercise the option to file for a staff-assisted rate case. We, therefore, find it appropriate to disallow all of the utility's requested rate case expense.

Income Expense and Test Year Operating Income

In its filing, the utility did not request provisions for income tax expense.

Based on the adjustments discussed herein, we find the appropriate test year operating income before any provision for increased revenues to be \$29,068 and (\$5,741) for the water and wastewater systems, respectively.

REVENUE REQUIREMENT

Based on the utility's application and our adjustments discussed above, we find the appropriate annual revenue of \$50,430 for water and \$108,309 for wastewater for a total revenue requirement of \$158,739.

The calculated revenue requirements based on our adjustments herein are \$88,775 for the water system and \$67,212 for the wastewater system, for total revenues of \$155,987. We find that the test year revenues allow the utility the opportunity to recover its prudently incurred expenses and earn a 9.43% return on its investment for the year ended December 31, 1992.

Since the total revenue change for the combined systems is a de minimis negative amount, we have determined that no increase or refund to the existing revenue amounts is appropriate. A comparison of the test year revenues and the calculated revenue requirements are shown below.

	<u>Test Year Revenues</u>	<u>Calc. Rev. Requirement</u>	<u>Increase/ (Decrease)</u>	<u>%</u>
Water	\$108,309	\$ 88,775	(\$19,534)	(18.04%)
Wastewater	<u>50,430</u>	<u>67,212</u>	<u>16,782</u>	33.28%
Net Change	<u>\$158,739</u>	<u>\$155,987</u>	<u>(\$ 2,752)</u>	

RATES

The appropriate final rates approved for the utility are designed to produce annual operating revenues of \$108,309 for water and \$50,430 for wastewater. The approved rates will be effective

for meter readings on or after thirty days from the stamped approval date of the revised tariff sheets. The revised tariff sheets will be approved upon our verification that the tariffs are consistent with this Commission's decision, that the protest period has expired, and the customer notice is adequate.

The comparison of the utility's original rates, interim rates, requested rates, and the approved rates is shown on Schedules No. 4-A and 4-B.

Refund of Interim Increase Required

On October 5, 1993, we issued Order No. PSC-93-1450-FOF-WS, approving interim rate increases for the water and wastewater systems as shown below:

	<u>Revenues</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
Water	\$135,235	\$ 27,072	25.03%
Wastewater	\$ 98,826	\$ 48,361	95.83%

We approved these increases subject to refund pending the conclusion of the full case. According to Section 367.082, Florida Statutes, any refund shall be calculated to reduce the rate of return of the utility during the pendency of the proceeding to the same level within the range of the newly authorized rate of return. Adjustments made in the rate case test period that do not relate to the period the interim rates have been in effect have been removed.

As we have concluded that no increase in the utility's revenues is appropriate, that portion of the rates collected that is associated with the interim increase shall be refunded in total. The utility shall refund 25.20% and 97.86% of the respective water and wastewater service revenues collected under interim rates. The reason the interim rate refund is more than the interim revenue increase is because miscellaneous service charges are not increased for interim rate purposes. In addition, the refunds shall be made with interest as required by Rule 25-30.360(4), F.A.C.

Based on the foregoing, it is, therefore,

ORDERED by the Florida Public Service Commission that the application by Harbor Utilities, Inc. for a rate increase for water and wastewater service in Lee County is hereby denied as set forth in the body of this Order. It is further

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

ORDERED that all matters contained herein, whether in the discourse in the body of this Order or schedules attached hereto are, by reference, expressly incorporated herein. It is further

ORDERED that, prior to the implementation of the rates as set forth in this Order, Harbor Utilities, Inc., shall submit and have approved revised tariff pages. The revised tariff pages will be approved upon Staff's verification that the pages are consistent with our decision herein, that the protest period has expired, and that the proposed customer notice is adequate. It is further

ORDERED that prior to its implementation of the rates set forth in this Order, Harbor Utilities, Inc., shall submit and have approved a proposed customer notice of our decision herein. It is further

ORDERED that the rates herein shall be effective for service rendered on or after the stamped approval date on the revised tariff pages. It is further

ORDERED that Harbor Utilities, Inc. shall refund 25.20% and 97.86% of respective water and wastewater service revenues collected under interim rates with interest pursuant to the provisions of Rule 25-30.360 (4), F.A.C. It is further

ORDERED that upon Staff's verification of the completion of the interim rate refunds, the letter of credit filed by the utility may be released. It is further

ORDERED that the provisions of this Order are issued proposed agency action and shall become final, unless an appropriate petition in the form provided by Rule 25-22.029, Florida Administrative Code, is received by the Director of the Division of Records and Reporting at his office at 101 East Gaines Street, Tallahassee, Florida 32399-0870, by the date set forth in the Notice of Further Proceedings below. It is further

ORDERED that Harbor Utilities, Inc., shall provide documentary support of ownership of all land where the utility treatment facilities are located within 30 days of the date this Order is final. It is further

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ORDERED that this docket may be closed administratively upon no protest being timely filed, upon Staff's approval of the revised tariff sheets, and upon the completion of the required refund.

By ORDER of the Florida Public Service Commission, this 21st day of January, 1994.



STEVE TRIBBLE Director
Division of Records and Reporting

(S E A L)

JBL

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.59(4), 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.

The action proposed herein 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 his office at 101 East Gaines Street, Tallahassee, Florida 32399-0870, by the close of business on February 11, 1994.

In the absence of such a petition, this order shall become effective on the day 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 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.

HARBOR UTILITIES, INC. SCHEDULE OF WATER RATE BASE TEST YEAR ENDED 12/31/92			SCHEDULE NO. 1-A DOCKET NO. 921261-WS			
COMPONENT	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	ADJUSTED TEST YEAR PER UTILITY	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR	
1 UTILITY PLANT IN SERVICE	\$ 397,393	\$ 0	\$ 397,393	\$ 12,742	\$ 410,135	
2 LAND	2,500	0	2,500	0	2,500	
3 NON-USED & USEFUL COMPONENTS	0	0	0	0	0	
4 ACCUMULATED DEPRECIATION	(186,089)	0	(186,089)	(177)	(186,266)	
5 CIAC	(177,428)	0	(177,428)	0	(177,428)	
6 AMORTIZATION OF CIAC	53,029	0	53,029	0	53,029	
7 ACQUISITION ADJUSTMENTS -NET	0	0	0	0	0	
8 ADVANCES FOR CONSTRUCTION	0	0	0	0	0	
9 DEFERRED TAXES	0	0	0	0	0	
10 WORKING CAPITAL ALLOWANCE	14,812	(805)	14,007	(5,552)	8,455	
RATE BASE	\$ 104,217	\$(805)	\$ 103,412	\$ 7,013	\$ 110,425	

HARBOR UTILITIES, INC. SCHEDULE OF WASTEWATER RATE BASE TEST YEAR ENDED 12/31/92			SCHEDULE NO. 1-B DOCKET NO. 921261-WS			
COMPONENT	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	ADJUSTED TEST YEAR PER UTILITY	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR	
1 UTILITY PLANT IN SERVICE	\$ 387,181	\$ 0	\$ 387,181	\$ 0	387,181	
2 LAND	625	0	625	0	625	
3 NON-USED & USEFUL COMPONENTS	0	0	0	0	0	
4 ACCUMULATED DEPRECIATION	(143,910)	0	(143,910)	0	(143,910)	
5 CIAC	(202,711)	0	(202,711)	0	(202,711)	
6 AMORTIZATION OF CIAC	61,868	0	61,868	0	61,868	
7 ACQUISITION ADJUSTMENTS -NET	0	0	0	0	0	
8 ADVANCES FOR CONSTRUCTION	0	0	0	0	0	
9 DEFERRED TAXES	0	0	0	0	0	
10 WORKING CAPITAL ALLOWANCE	10,169	(533)	9,636	(3,614)	6,022	
RATE BASE	\$ 113,222	\$(533)	\$ 112,689	\$(3,614)	109,075	

HARBOR UTILITIES, INC. ADJUSTMENTS TO RATE BASE TEST YEAR ENDED 12/31/92		SCHEDULE NO. 1-C DOCKET NO. 921261-WS PAGE 1 OF 1	
EXPLANATION	WATER	WASTEWATER	
(1) UTILITY PLANT IN SERVICE Aeration unit required by Consent Order No. 92-1382.	\$ <u>12,742</u>	\$ <u>0</u>	
(2) ACCUMULATED DEPRECIATION To depreciate aeration unit for the test year.	\$ <u>(177)</u>	\$ <u>0</u>	
(3) WORKING CAPITAL To adjust working capital to reflect changes in O&M expenses.	\$ <u>(5,552)</u>	\$ <u>(3,614)</u>	

HARBOR UTILITIES, INC.
 CAPITAL STRUCTURE
 TEST YEAR ENDED 12/31/92

SCHEDULE NO. 2-A
 DOCKET NO. 921261-WS

DESCRIPTION	ADJUSTED TEST YEAR PER UTILITY	WEIGHT	COST	UTILITY WEIGHTED COST	COMMISSION RECONC. ADJ. TO UTILITY EXHIBIT	BALANCE PER COMMISSION	WEIGHT	COST	WEIGHTED COST PER COMMISSION	
1 LONG TERM DEBT	\$ 4,696	0.19%	8.50%	0.02%	\$ 214,805	\$ 219,501	100.00%	9.43%	9.43%	
2 SHORT-TERM DEBT	0	0.00%	0.00%	0.00%	0	0	0.00%	0.00%	0.00%	
3 PREFERRED STOCK	0	0.00%	0.00%	0.00%	0	0	0.00%	0.00%	0.00%	
4 COMMON EQUITY	2,521,228	99.81%	10.44%	10.42%	(2,521,228)	0	0.00%	10.97%	0.00%	
5 CUSTOMER DEPOSITS	0	0.00%	0.00%	0.00%	0	0	0.00%	0.00%	0.00%	
7 DEFERRED ITC'S	0	0.00%	0.00%	0.00%	0	0	0.00%	0.00%	0.00%	
8 OTHER	0	0.00%	0.00%	0.00%	0	0	0.00%	0.00%	0.00%	
9 TOTAL CAPITAL	\$ 2,525,924	100.00%		10.44%	\$ (2,306,423)	\$ 219,501	100.00%		9.43%	
RANGE OF REASONABLENESS							LOW	HIGH		
RETURN ON EQUITY							9.97%	11.97%		
OVERALL RATE OF RETURN							9.43%	9.43%		

HARBOR UTILITIES, INC. ADJUSTMENTS TO CAPITAL STRUCTURE TEST YEAR ENDED 12/31/92		SCHEDULE NO. 2-B DOCKET NO. 921261-WS			
DESCRIPTION	SPECIFIC ADJUSTMENT (1)	SPECIFIC ADJUSTMENT (2)	PRO RATA RECONCILE	NET ADJUSTMENT	
1 LONG TERM DEBT	\$ (347,730)	\$ 0	\$ 562,535	\$ 214,805	
2 SHORT-TERM DEBT	0	0	0	0	
3 PREFERRED STOCK	0	0	0	0	
4 COMMON EQUITY	(2,521,228)	0	0	(2,521,228)	
5 CUSTOMER DEPOSITS	0	0	0	0	
6 ACCUM. DEFERRED INCOME TAX	0	0	0	0	
7 OTHER (Explain)	0	0	0	0	
8 TOTAL CAPITAL	<u>\$ (2,868,958)</u>	<u>\$ 0</u>	<u>\$ 562,535</u>	<u>\$ (2,306,423)</u>	

HARBOR UTILITIES, INC.
 STATEMENT OF WATER OPERATIONS
 TEST YEAR ENDED 12/31/92

SCHEDULE NO. 3-A
 DOCKET NO. 921261-WS

DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	UTILITY ADJUSTED TEST YEAR	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR	REVENUE INCREASE	REVENUE REQUIREMENT
1 OPERATING REVENUES	\$ 108,309	\$ 28,321	\$ 136,630	\$(28,321)	\$ 108,309	\$(19,534)	88,775
OPERATING EXPENSES:		26.15%				-18.04%	
2 OPERATION AND MAINTENANCE	\$ 118,492	\$(6,439)	\$ 112,053	\$(44,412)	\$ 67,641	\$	67,641
3 DEPRECIATION	11,819	0	11,819	177	11,796		11,796
4 AMORTIZATION	(5,505)	0	(5,505)	0	(5,505)		(5,505)
5 TAXES OTHER THAN INCOME	6,393	1,274	7,667	(2,358)	5,309	(879)	4,430
6 INCOME TAXES	0	0	0	0	0	0	0
7 TOTAL OPERATING EXPENSES	\$ 130,999	\$(5,165)	\$ 125,834	\$ 205,075	\$ 79,241	\$(879)	78,362
8 OPERATING INCOME	\$ (22,690)	\$ 33,486	\$ 10,796	\$(233,396)	\$ 29,068	\$(18,655)	10,413
9 RATE BASE	\$ 104,217		\$ 103,412		\$ 110,425		\$ 110,425
RATE OF RETURN	-21.77%		10.44%		26.32%		9.43%

HARBOR UTILITIES, INC. STATEMENT OF WASTEWATER OPERATIONS TEST YEAR ENDED 12/31/92		SCHEDULE NO. 3-B DOCKET NO. 921261-WS					
DESCRIPTION	TEST YEAR PER UTILITY	UTILITY ADJUSTMENTS	UTILITY ADJUSTED TEST YEAR	COMMISSION ADJUSTMENTS	COMMISSION ADJUSTED TEST YEAR	REVENUE INCREASE	REVENUE REQUIREMENT
1 OPERATING REVENUES	\$ 50,430	\$ 49,361	\$ 99,791	\$(49,361)	\$ 50,430	\$ 16,782	\$ 67,212
OPERATING EXPENSES		97.88%				33.8%	
2 OPERATION AND MAINTENANCE	\$ 81,352	\$(4,261)	\$ 77,091	\$(28,912)	\$ 48,179	\$	\$ 48,179
3 DEPRECIATION	11,488	0	11,488	0	11,488		11,488
4 AMORTIZATION	(6,056)	0	(6,056)	0	(6,056)		(6,056)
5 TAXES OTHER THAN INCOME	3,282	2,221	5,503	(2,943)	2,560	755	3,315
6 INCOME TAXES	0	0	0	0	0	0	0
7 TOTAL OPERATING EXPENSES	\$ 90,066	\$(2,040)	\$ 88,026	\$(31,855)	\$ 56,171	\$ 755	\$ 56,926
8 OPERATING INCOME	\$ (39,636)	\$ 51,401	\$ 11,765	\$(17,506)	\$(5,741)	\$ 16,027	\$ 10,286
9 RATE BASE	\$ 113,222		\$ 112,689		\$ 109,075		\$ 109,075
RATE OF RETURN	-35.01%		10.44%		-5.26%		9.43%

HARBOR UTILITIES, INC.
 ADJUSTMENTS TO OPERATING STATEMENTS
 TEST YEAR ENDED 12/31/92

SCHEDULE NO. 3-C
 DOCKET NO. 921261-WS
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EXPLANATION	WATER	WASTEWATER
(1) OPERATING REVENUES		
a) Reverse utility's proposed rate increase	\$ (28,321)	\$ (49,361)
(2) OPERATION AND MAINTENANCE EXPENSES		
a) Remove salaries for employees no longer with company	\$ (12,267)	\$ (8,181)
b) To remove health insurance for employees	(3,429)	(2,285)
c) Remove president's salary	(12,000)	(8,000)
d) To remove president's health insurance	(850)	(566)
e) To reduce purchase power due to excessive reject water and infiltration	(1,797)	(1,021)
f) To reduce chemical expenses due to excess infiltration.	0	(470)
g) To increase engineering contractual services for new operation contracts.	3,532	3,313
h) To reflect actual accounting fees	(681)	(454)
i) Reduce legal contractual services	(12,607)	(8,405)
j) To reduce rent expense	(1,440)	(960)
k) To reduce travel expenses	(2,873)	(1,883)
	<u>\$ (44,412)</u>	<u>\$ (28,912)</u>
(3) DEPRECIATION EXPENSE		
a) To increase depreciation expense for the aeration unit.	\$ 177	\$ 0
(4) TAXES OTHER THAN INCOME		
a) Regulatory assessment fees related to revenue adjustment	\$ (1,274)	\$ (2,220)
b) Remove payroll taxes for employees no longer with company	(1,084)	(723)
	<u>\$ (2,358)</u>	<u>\$ (2,943)</u>
(5) OPERATING REVENUES		
a) Adjustment to reflect recommended revenue requirement	\$ (19,534)	\$ 16,782
(6) TAXES OTHER THAN INCOME TAXES		
a) Regulatory assessment taxes on additional revenues	\$ (679)	\$ 755

Water

Monthly

Residential and General Service

<u>Meter Size</u>	<u>Utility Rates Prior to Filing</u>	<u>Commission Approved Interim Rates</u>	<u>Utility Proposed Final Rates (1)</u>	<u>Utility Proposed Final Rates (2)</u>	<u>Commission Approved Final Rates</u>
5/8" x 3/4"	\$ 6.21	\$ 7.77	\$ 10.82	\$ 12.71	\$ 6.21
1"	15.56	19.48	27.05	31.78	15.56
1-1/2"	31.09	38.92	54.10	63.55	31.09
Gallonge Charge (Per 1,000 gallons)	\$ 3.91	\$ 4.90	\$ 5.35	\$ 6.57	\$ 3.91

Residential Bills

5/8" x 3/4"

3M	\$ 17.94	\$ 22.47	\$ 26.87	\$ 32.42	\$ 17.94
5M	25.76	32.27	37.57	45.56	25.76
10M	45.31	56.77	64.32	78.41	45.31

- (1) Phase I
 (2) Phase II

Wastewater

Monthly

Residential

<u>Meter Size</u>	<u>Utility Rates Prior to Filing</u>	<u>Commission Approved Interim Rates</u>	<u>Utility Proposed Final Rates (1)</u>	<u>Utility Proposed Final Rates (2)</u>	<u>Commission Approved Final Rates</u>
All Sizes	\$ 5.56	\$ 11.00	\$ 11.35	\$ 15.06	\$ 5.56
Gallonge Charge (per 1,000 gallons) (Maximum 10M gallons)	1.95	3.86	6.30	9.95	1.95
Maximum Bill	\$ 25.06	\$ 49.60	\$ 74.35	\$ 114.56	\$ 25.06

General Service

<u>Meter Size</u>	<u>Utility Rates Prior to Filing</u>	<u>Commission Approved Interim Rates</u>	<u>Utility Proposed Final Rates</u>	<u>Commission Approved Final Rates</u>	<u>Commission Approved Final Rates</u>
5/8" x 3/4"	\$ 5.56	\$ 11.00	\$ 11.35	\$ 15.06	\$ 5.56
1"	13.90	27.50	28.38	37.65	13.90
1-1/2"	27.79	54.99	56.75	75.30	27.79
Gallonge Charge (per 1,000 gallons)	\$ 1.95	\$ 3.86	\$ 6.30	\$ 9.95	\$ 1.95

- (1) Phase I
- (2) Phase II