

FLORIDA PUBLIC SERVICE COMMISSION
Capital Circle Office Center • 2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

M E M O R A N D U M

September 4, 1996

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

FROM: DIVISION OF WATER & WASTEWATER (KEMP, EDWARDS) *Hyp*
DIVISION OF LEGAL SERVICES (AGARWAL) *CA* *mod* *WCA*

RE: DOCKET NO. 960145-WU - HOLMES CREEK UTILITIES, INC. -
PROPOSED AGENCY ACTION EXCEPT ISSUE NUMBER 13 -
INTERESTED PERSONS MAY PARTICIPATE
COUNTY: WASHINGTON

AGENDA: 09/16/96 -REGULAR AGENDA - PROPOSED AGENCY ACTION -
INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: 15-MONTH EFFECTIVE DATE: JULY 5, 1997
(SARC)

SPECIAL INSTRUCTIONS: S:\PSC\WAW\WP\960145WU.RCM

DOCUMENT NUMBER-DATE
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FPSC-RECORDS/REPORTING

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CASE BACKGROUND

Holmes Creek Water Utilities, (HCWU or utility) is a class "C" water utility located in Washington County. The utility began operation in 1969. In 1971, the utility came under the ownership of Ms. Inez Hombroek. In March of 1991, due to poor health and her inability to sell the utility, she turned the utility over to Ronald and Florence Strickland, her daughter and son-in-law. The Stricklands began operating the utility under the name of Well Water Works and in May of 1991, advised its customers of a rate increase. Staff learned of the utility through a customer inquiry concerning the proposed rate increase. The Commission staff contacted the Stricklands regarding the rate increase and advised them to file for an original certificate. Prior to this time, the Stricklands were unaware of the Commission's jurisdiction over the utility. The Stricklands agreed not to implement the rate increase and filed an application for an original certificate. While the original certificate application was pending, the utility was sold to Mr. Richard Peterson on August 1, 1991. Mr. Peterson changed the name of the utility to Holmes Creek Water Utilities and filed his application for a certificate on September 23, 1991. The Commission granted the original certificate on February 24, 1992, by Order No. 25786, in Docket No. 910979-WU.

On April 7, 1996, Holmes Creek applied for a staff assisted rate case (SARC). The utility provides water service to approximately 82 connections. However, during the test year, the utility service area endured a severe storm and flood; as a result, 2 of the lots currently served by the utility have been condemned and will be purchased by the Federal Emergency Management Authority (FEMA), consequently, reducing Holmes Creek's customer base to 80 customers. The utility has taken advantage of the price index and pass through rate increase for the last four years.

On July 24, 1996, a customer meeting was held to determine the quality of service provided by HCWU. Although the customers voiced concerns about frequent line breaks, muddy water and high chemical content in the water, the majority of the discussion at the meeting focused on the proposed rate increase, metering and subsidization. Staff discusses these concerns in later issues of this recommendation.

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DISCUSSION OF ISSUES

QUALITY OF SERVICE

ISSUE 1: Is the quality of service provided by HCWU satisfactory?

RECOMMENDATION: Yes. The quality of service provided by Holmes Creek Water Utilities should be considered satisfactory. (EDWARDS)

STAFF ANALYSIS: A review of the Department of Environmental Protection's (DEP) records revealed that the water facilities are in compliance with the appropriate environmental regulations. The engineer also checked with the PSC's Division of Consumer Affairs for any registered complaints and found one complaint which has been resolved.

HCWU consists of two water treatment facilities and a water distribution system. Recently, a DEP service evaluation revealed that the volume of iron in the utility's finished product exceeded the action level. Although iron is not a primary contaminant, DEP required the utility to take corrective action to resolve the situation. DEP did not initiate any enforcement action against the utility. HCWU has implemented a corrosion control program that should correct the situation concerning excessive iron content.

On July 24, 1966, customers expressed several concerns at the customer meeting in Ebro, Florida. The residents' water connections are presently unmetered and are, therefore, billed a flat rate. Some customers alleged that there is excessive consumption by other customers and that there are frequent line breaks. Several customers desired the installation of meters so that they would pay only for what they consume. Customers were also concerned that some of the utility's water lines were exposed.

After investigating the customer concerns regarding metering, the staff engineer believes that the potential benefits of metering are not justified by the cost. The cost of metering all eighty connections would total approximately \$12,000. This amount would have a significant rate impact even if the Commission required installations over a four year period. Each customer would pay an additional three dollars and thirteen cents (\$3.13) per month for four years. However, this cost does not include additional expenses associated with meter installations. The total cost associated with metering are discussed in item number nine. In addition, the average customer water consumption is less than 1,000 gallons per month which indicates that there is no water conservation problem. Therefore, staff believes the benefits of metering do not justify its cost.

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The staff engineer was not able to find evidence to support allegations concerning broken water lines. The DEP has stated that its field inspections uncovered no evidence of broken lines. The utility has two areas where the topographies are inclined and the structural make up is clay. During periods of excessive rainfall the pipes that are located at the base of the incline become exposed. To resolve this situation, the utility has covered the pipes with clay and on one occasion lowered the lines. However, because of erosion, Washington County's road construction crew uses a grader to level the roads causing the lines to be uncovered (Heavy rains will also expose pipes).

Although DEP is concerned about the exposed pipes, it has not filed any enforcement action against the utility. Staff is also concerned about the exposed pipes, however, the only solution appears to be relocation of the pipes which would be cost prohibitive. The utility has dealt with the problem in the past by covering the pipes when they become exposed. Given that there appears to be no significant problem with line breakage, staff is satisfied that appropriate action is being taken. Therefore, staff recommends that the quality of service provided by Holmes Creek Water Utilities be considered satisfactory.

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RATE BASE

ISSUE 2: What portion of water plant-in-service is used and useful?

RECOMMENDATION: The water treatment plant should be considered 24% used and useful and the water distribution system should be considered 31% used and useful. (EDWARDS)

STAFF ANALYSIS: Holmes Creek Water Utilities is a water treatment facility located in Washington County.

Water Treatment Plant - The water treatment plant is operating well below capacity. Based upon the used and useful formula set forth in Attachment "A", the water treatment plant should be considered 24% used and useful.

Water Distribution System - The water distribution system is operating well below capacity. Based upon the used and useful formula set forth in Attachment "A", the water treatment plant should be considered 31% used and useful.

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ISSUE 3: What is the appropriate average amount of test year rate base for this system?

RECOMMENDATION: The appropriate average amount of test year rate base for Holmes Creek should be \$5,216. (KEMP, EDWARDS)

STAFF ANALYSIS: Because this is the utility's first SARC, and rate base has never been established for HCWU Utilities, an original cost study (OCS) was performed by the staff engineer. The appropriate components of rate base consist of plant, land, accumulated depreciation, and working capital allowance. Staff has used the amounts set forth in the OCS as a base for the rate base components. Further adjustments are necessary to reflect test year changes. A discussion of each adjusted component follows.

Plant In Service: The utility recorded a plant in service balance of \$6,132. Utility plant in service has been increased by \$17,545 to reflect the correct balance as established by the staff engineer in the OCS. Total recommended utility plant in service is \$23,677.

Non-Used and Useful Plant: Non-used and useful plant reduces rate base. In Issue No. 2, the staff engineer recommended used and useful water treatment plant of 24.3% and used and useful water distribution system of 31%. Staff applied the non-used and useful percentages to calculate non-used and useful plant of \$16,421. Non-used and useful accumulated depreciation is \$11,332. Staff recommends a net average non-used and useful plant of \$5,089.

Accumulated Depreciation: The utility recorded \$4,320 in accumulated depreciation on its books. Accumulated depreciation was calculated using the prescribed rates described in Rule 25-30.140, Florida Administrative Code. Staff made an adjustment to increase the utility's recorded balance by \$12,210 to reflect accumulated depreciation from 1969 through 1995. Also, a decreasing adjustment of \$375 was made to reflect average accumulated depreciation. Staff recommends an accumulated depreciation balance of \$16,155.

Working Capital Allowance: Consistent with Rule 25-30.443, Florida Administrative Code staff recommends that the one-eighth of operation and maintenance expense formula approach be used for calculating working capital allowance. Applying that formula, staff recommends a working capital allowance of \$1,783 (based on Operation and Maintenance of \$14,265).

Rate Base Summary: Based on the aforementioned adjustments, the appropriate balance of HCWU test year rate base is \$5,216. Rate

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base is shown on Schedule No. 1 and adjustments are shown on
Schedule No. 1A.

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COST OF CAPITAL

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

RECOMMENDATION: The appropriate rate of return on equity is 10.43% with a range of 9.43% - 11.43% and the appropriate overall rate of return is 9.27% with a range of 8.45% - 10.10%. (KEMP)

STAFF ANALYSIS: The utility's debt consists of only a small business loan for \$936 with an interest rate of 4.00%. Staff adjusted common equity by \$4,280 to reconcile the capital structure to rate base as established by the Original Cost Study. Using the leverage formula approved in Order No. PSC-95-0982-FOF-WS, effective on September 1, 1995, the rate of return on common equity is 10.43% with a range of 9.43% - 11.43%. In instances when the rate base is greater than the balance in the utility's capital structure, as in Docket No. 941107-WU Order, No. PSC-95-0474-FOF-WU, issued on April 12, 1995, the Commission has increased the utility's equity to reflect its investment.

Applying the weighted average method to the total capital structure yields an overall rate of return of 9.27% with a range of 8.45% to 10.10%. The HCWU return on equity and overall rate of return are shown on Schedule No. 2.

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NET OPERATING INCOME

ISSUE 5: What is the appropriate test year operating revenue for this system?

RECOMMENDATION: The appropriate test year operating revenue should be \$7,650. (KEMP)

STAFF ANALYSIS: The utility recorded revenues of \$6,528 during the test period. Staff performed a billing analysis and revenue check using the utility's most recent rates in effect. An adjustment of \$1,122 was made to reflect the utility's annualized revenues. Operating revenues are shown on Schedules Nos. 3 and 3A.

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ISSUE 6: What is the appropriate test year loss for this system?

RECOMMENDATION: The appropriate test year loss is \$7,335. (KEMP)

STAFF ANALYSIS: The test year revenue is \$7,650; corresponding test year operating expenses are \$14,985. This results in an operating loss of \$7,335. The test year operating loss is shown on Schedule No. 3

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ISSUE 7: What is the appropriate amount for operating expenses for this system?

RECOMMENDATION: The appropriate amount for operating expenses should be \$15,353. (KEMP, EDWARDS)

STAFF ANALYSIS: The utility recorded operating expenses of \$7,347. The components of these expenses include operation and maintenance 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 recommended allowances for plant operations.

Operation and Maintenance Expenses (O & M): The utility charged \$7,347 in O & M during the test year. A summary of adjustments that were made to the utility's recorded expenses follows:

1) **Salaries & Wages** - The utility recorded test year salaries and wages of \$1,800. Staff made an adjustment to reduce that amount by \$900. Staff recommends an annual salaries and wages expense of \$900.

2) **Chemicals** - The utility recorded \$292 for chemicals expense. DEP is requiring the utility to add polyphosphate to its water because of the high iron content in the ground water. This requirement amounts to an increase of \$2,000 in chemicals expense. Staff also made an adjustment of \$25 per the engineer to reflect annualized chemicals expense. Staff recommends a chemicals expense of \$2,317.

3) **Contractual Services** - The utility recorded test year contractual services expense of \$1,257. DEP requires the utility to have an operator five days a week to obtain samples and perform tests; consequently, staff made an adjustment of \$4,800 to reflect an operator expense of \$400 per month. Staff recommends a contractual service expense of \$6,057.

3) **Rent Expense** - The utility did not record anything for test year rent expense, however, the utility owner uses part of his home as office space for the utility. Staff recommends an allowance of \$25 dollars a month rent expense for an annual rent expense of \$300.

4) **Regulatory Commission Expense** - The utility did not record anything for regulatory commission expense. Staff made an adjustment of \$250 to reflect rate case expense of \$1,000,

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amortized over four years. Staff recommends \$250 for regulatory commission expense.

5) Miscellaneous Expenses - The utility recorded a miscellaneous expenses balance of \$445. Staff made two adjustments to: a) remove double booking of property taxes of \$57 and b) reflect an allowance for miscellaneous repairs for an adjustment of \$500. Staff recommends \$888 for miscellaneous expenses.

O & M Summary: Total O & M adjustments are \$6,918. Staff recommends O & M expenses of \$14,265. O & M expenses are shown in Schedule No. 3B.

Depreciation Expense: The utility recorded \$296 for depreciation expense during the test year. Consistent with Commission practice, staff calculated test year depreciation expense using the prescribed rates described in Rule 25-30.140, Florida Administrative Code. Staff made a \$57 adjustment to reduce the utility's balance to reflect depreciation expense net of non-used and useful depreciation expense. Staff recommends test year depreciation expense of \$239.

Taxes Other Than Income Taxes (TOTI): The utility recorded test year TOTI of \$389. Staff made an adjustment of \$92 to reflect annual payroll taxes. Staff recommends test year TOTI of \$481.

Increase in Operating Revenues and Expenses Summary:

Operating Revenues - Revenue has been increased by \$8,187 to reflect the increase in revenue required to allow the utility to recover its expenses and earn the authorized return on its investment.

TOTI - This expense has been increased by \$368 to reflect regulatory assessment fees at 4.5% on the required revenue increase.

The application of staff's recommended adjustments to the utility's recorded operating expenses results in staff recommended operating expenses of \$15,353. Operating expenses are shown on Schedule No. 3. Adjustments are shown on Schedule No. 3A.

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REVENUE REQUIREMENT

ISSUE 8: What is the appropriate revenue requirement for this system?

RECOMMENDATION: The appropriate revenue requirement is \$15,837.
(KEMP)

STAFF ANALYSIS: The utility should be allowed an annual increase in revenue of \$8,187 (107.02%). This would allow the utility the opportunity to recover its expenses and earn a 9.27% return on its investment. The calculations are as follows:

	<u>AMOUNT</u>
Adjusted Rate Base	\$ 5,216
Rate of Return	X .0927
Return on Investment	\$ 484
Adjusted Operation Expenses	14,265
Depreciation Expense (Net)	239
Taxes Other Than Income Taxes	<u>349</u>
Revenue Requirement	<u>\$ 15,837</u>
Annual Revenue Increase	\$ 8,187
Percentage Increase/(Decrease)	<u>107.02%</u>

The revenue requirement and resulting annual increase are shown on Schedule No. 3.

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RATES AND CHARGES

ISSUE 9: What are the appropriate monthly flat rates for this utility?

RECOMMENDATION: The recommended rates should be designed to produce revenues of \$15,837. The approved rates would be effective for service rendered on or after the stamped approval date on the tariff sheet pursuant to Rule 25-30.475(1), Florida Administrative Code. The rates may not be implemented until proper notice has been received by the customers. The utility should provide proof of the date notice was given within 10 days after the date of the notice. (KEMP)

STAFF ANALYSIS: During the test year, HCWU provided water service to approximately 26 residential and 56 camper customers. In addition, the utility billed 25 vacant lot customers. As stated in the case background, the utility will lose approximately 2 customers; thus reducing the utility's customer base.

In the past the utility has charged three different flat rates for residential, camp and vacant lot customers. Staff analysis determined that the utility was billing on a per lot basis as well as charging customers who owned multiple lots a flat rate for each lot. The utility has been advised that a customer should not be billed unless he/she has an active connection to the utility. Staff is recommending that the utility's rate structure be changed to eliminate vacant lot billings and to charge a residential and a camper flat rate. The camper flat rate allows the utility to recover the fixed costs associated with operating the system, as well as take into account that there is some level of consumption by the campers. Also, during the July 24, 1996, customer meeting, one of the customers stated that the utility bills quarterly in advance. Staff has since informed the utility that it can not bill customers for service not yet rendered and suggested that the utility bill on a monthly basis.

Another major issue discussed at the customer meeting was the high rate increase, subsidization and metering. Due to the significant rate increase, customers were concerned that a part of the increase provided for subsidization of excessive consumption by some customers, and as a result, requested that meters be installed. Staff's analysis included bid requests from the utility for installing and repairing meters by different vendors. Staff evaluated the costs to not only install the meters, but also, costs associated with reading and maintaining the meters once installed. Staff performed a complete analysis of what the utility's rate base, cost of capital, revenue requirement, total operating

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expenses and rates would be if meters were installed over a four year period and compared it to the rate base, cost of capital, revenue requirement, total operating expenses and rates for the utility without meters. Installing meters would increase rates an additional \$5.70 for residential and \$3.58 for camper customers over staff's recommended rates. Staff struggled with the decision of whether or not the utility should install meters. In determining the feasibility of installing meters, staff took into account not only the severe financial burden customers would incur, but also, that the average consumption per connection was less than 1,000 gallons per month. Staff therefore concluded that the costs to install and the expenses related to reading and maintaining meters would exceed any anticipated savings.

Staff has calculated rates based on the percent increase in revenues. Staff applied the percent increase, 107.02%, to the utility's current residential and camper rates to calculate staff's recommended rates. The recommended flat rates have been calculated to generate staff's recommended revenue requirement. The utility's current rates and staff's preliminary rates are as follows.

RESIDENTIAL MONTHLY RATES

<u>Flat Rate</u>	<u>EXISTING RATES</u>
Residential	\$ 10.79
Camper	\$ 6.76
Vacant lot	\$ 2.69

RESIDENTIAL MONTHLY RATES

<u>Flat Rate</u>	<u>Staff's Recommended Rates</u>
Residential	\$ 22.34
Vacation	\$ 13.99

In accordance with Rule 25-30.475, Florida Administrative Code, the rates shall be effective for service rendered as of the stamped approval date on the tariff sheets provided the customers have received notice. The tariff sheets will be approved upon staff's verification that the tariffs are consistent with the Commission's decision, that the customer notice is adequate, and that any required security has been provided. The utility should 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 occurs within a regular billing cycle, the initial bills at the new rate may be prorated.

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The old charge should all be prorated based on the number of days in the billing cycle before the effective date of the new rates. The new charge may 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 should the rates be effective for service rendered prior to the stamped approval date.

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ISSUE 10: What is the appropriate amount by which rates should be reduced four years after the established effective date to reflect the removal of the amortized rate case expense as required by Section 367.0816, Florida Statutes?

RECOMMENDATION: Revenues should be reduced by a total of \$261.78 annually to reflect the removal of rate case expense grossed-up for regulatory assessment fees which is being amortized over a four-year period. The effect of the revenue reduction results in rate decreases as shown on Schedule No. 4. The decrease in rates should become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, Florida Statutes. The utility should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. (KEMP)

STAFF ANALYSIS: Section 367.0816, Florida Statutes requires that the rates be reduced immediately following the expiration of the four year period by the amount of the rate case expense previously included in the rates. The reduction would reflect the removal of revenues associated with the amortization of rate case expense and the gross-up for regulatory assessment fees which is \$261.78 annually (a reduction of \$.37 for residential and \$.23 for Camper service). The reduction in revenues would result in the rates recommended by staff on Schedules No. 4.

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

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

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ISSUE 11: Should the utility be authorized to collect miscellaneous service charges, and if so, what should the charges be?

RECOMMENDATION: Yes, the utility should be authorized to collect miscellaneous service charges and the charges should be the recommended charges as specified in the staff's analysis. The approved charges should be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), Florida Administrative Code. The charges should not be implemented until proper notice has been received by the customers. The utility should provide proof of the date notice was given no less than 10 days after the date of the notice. (KEMP)

STAFF ANALYSIS: Currently, the utility's tariff has no provision for miscellaneous service charges. Staff recommends that the utility be authorized to collect charges that are consistent with Staff Advisory Bulletin No. 13. The recommended miscellaneous service charges are designed to defray the costs associated with each service and place the responsibility of the cost on the person creating it rather than on the rate paying body as a whole. A schedule of staff's recommended charges follows:

Recommended Charges

Initial Connection	\$15.00
Normal Reconnection	\$15.00
Violation Reconnection	\$15.00
Premises Visit	\$10.00
(in lieu of disconnection)	

Definition of each charge is provided for clarification:

Initial Connection - This charge would be levied for service initiation at a location where service did not exist previously.

Normal Reconnection - This charge would be levied for transfer of service to a new customer account, a previously served location or reconnection of service subsequent to a customer requested disconnection.

Violation Reconnection - This charge would be levied prior to reconnection of an existing customer after disconnection of service for cause according to Rule 25-30.320(2), Florida Administrative Code, including a delinquency in bill payment.

Premises Visit Charge (in lieu of disconnection) - This charge would be levied when a service representative visits a premises for

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the purpose of discontinuing service for non-payment of a due and collectible bill, and does not discontinue service because the customer pays the service representative or otherwise makes satisfactory arrangements to pay the bill.

If staff's recommended miscellaneous service charges are approved by the Commission, they should be effective for service rendered on or after the stamped approval date on the revised tariff sheets pursuant to Rule 25-30.475(1), Florida Administrative Code. The rates should not be implemented until proper notice has been received by the customers. The utility should provide proof of the date notice was given no less than 10 days after the date of the notice.

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ISSUE 12: What are the appropriate service availability charges for this utility?

RECOMMENDATION: Staff is not recommending service availability charges for HCWU. (KEMP)

STAFF ANALYSIS: When the utility applied for this SARC, the owner requested service availability charges. However, the utility was built in 1969 and is almost fully depreciated. In addition, each year the utility loses some of its certificated service area due to severe flooding. For the last five years, the utility has not experienced any growth. Therefore, staff is not recommending a service availability charge at this time.

OTHER ISSUES

ISSUE 13: Should the recommended rates be approved for the utility on a temporary basis in the event of a timely protest filed by a substantially affected party other than the utility?

RECOMMENDATION: Yes, the recommended rates should be approved for the utility on a temporary basis in the event of a timely protest filed by a substantially affected party other than the utility. The utility should be authorized to collect the temporary rates after staff's approval of the security for potential refund, the proposed customer notice, and the revised tariff sheets. (KEMP)

STAFF ANALYSIS: This recommendation proposes an increase in water rates. A timely protest might delay what may be a justified rate increase resulting in an unrecoverable loss of revenue to the utility. Therefore, in the event of a timely protest filed by a substantially affected party other than the utility, staff recommends that the recommended rates be approved as temporary rates. The recommended rates collected by the utility should be subject to the refund provisions discussed below.

The utility should be authorized to collect the temporary rates upon the staff's approval of the security for potential refund and the proposed customer notice. The security should be in the form of a bond or letter of credit in the amount of \$5,656. Alternatively, the utility could establish an escrow agreement with an independent financial institution.

If the utility chooses a bond as security, the bond should contain wording to the effect that it would 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 security, it shall contain the following conditions:

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

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

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

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

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

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should indicate the amount of revenue collected under the increased rates.

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ISSUE 14: Should this docket be closed?

RECOMMENDATION: Yes, upon expiration of the 21 day protest period, if no timely protest by a substantially affected party is received, this docket should be closed. (AGARWAL, EDWARDS, KEMP)

STAFF ANALYSIS: If no timely protest by a substantially affected party is received, no further action will be required. Therefore, this docket should be closed.

HOLMES CREEK UTILITIES
TEST YEAR ENDING DECEMBER 31, 1995

SCHEDULE NO. - 1
DOCKET NO. 960145-WU

SCHEDULE OF WATER RATE BASE

COMPONENT	BALANCE PER UTILITY	STAFF ADJUSTMENTS	BALANCE PER STAFF
1. UTILITY PLANT IN SERVICE	\$ 6,132	\$ 17,545	\$ 23,677
2. LAND / NON-DEPRECIABLE ASSETS	1,000	0	1,000
3. NON-USED AND USEFUL PLANT	0	(5,089)	(5,089)
4. ACCUMULATE!) DEPRECIATION	(4,320)	(11,835)	(16,155)
5. WORKING CAPITAL ALLOWANCE		1,783	1,783
WATER RATE BASE	\$ 2,812	\$ 2,404	\$ 5,216

HOLMES CREEK UTILITIES
TEST YEAR ENDING DECEMBER 31, 1995

SCHEDULE NO. - 1A
DOCKET NO. 960145-WU

ADJUSTMENTS TO RATE BASE

EXPLANATION	WATER
A. UTILITY PLANT IN SERVICE	
1. To reflect the appropriate plant balance per the original cost study	\$ <u>17,545</u>
B. NON-USED & USEFUL PLANT	
1. To reflect non-used & useful plant net of non-used & useful accum. depreciation	\$ <u>(5,089)</u>
C. ACCUMULATED DEPRECIATION	
1. To reflect accumulated depreciation since 1969	(12,210)
2. To reflect averaging adjustment on Accum. Dep.	<u>375</u>
	\$ <u>(11,835)</u>
D. WORKING CAPITAL ALLOWANCE	
1. To reflect 1/8 of test year O & M expenses	\$ <u>1,783</u>

HOLMES CREEK UTILITIES
 TEST YEAR ENDING DECEMBER 31, 1995

SCHEDULE NO. - 2
 DOCKET NO. 960145-WU

SCHEDULE OF CAPITAL STRUCTURE

DESCRIPTION	PER UTILITY	STAFF ADJUSTMENTS	BALANCE PER STAFF	% OF TOTAL	COST	WEIGHTED COST
Small Business Administration Loan	\$ 936	\$ 0	\$ 936	17.94%	4.00%	0.72%
Long Term Debt		0	0	0.00%		0.00%
EQUITY	0	4,280	4,280	82.06%	10.43%	8.56%
Short Term Debt		0	0	0.00%		0.00%
Short Term Debt		0	0	0.00%		0.00%
TOTAL	\$ 936	\$ 4,280	\$ 5,216	100.00%		9.27%

RANGE OF REASONABLENESS

	LOW	HIGH
RETURN ON EQUITY	9.43%	11.43%
OVERALL RATE OF RETURN	8.45%	10.10%

HOLMES CREEK UTILITIES
 TEST YEAR ENDING DECEMBER 31, 1995

SCHEDULE NO. - 3
 DOCKET NO. 960145-WU

SCHEDULE OF WATER OPERATING INCOME

DESCRIPTIONS	TEST YEAR PER UTILITY	STAFF ADJUSTMENTS	STAFF ADJUSTED TEST YEAR	REVENUE INCREASE	REVENUE REQUIRED
OPERATING REVENUES	\$ <u>6,528</u>	\$ <u>1,122</u>	<u>7,650</u>	\$ <u>8,187</u>	\$ <u>15,837</u>
OPERATING EXPENSES:					
OPERATION AND MAINTENANCE	\$ 7,347	6,918	14,265		14,265
DEPRECIATION (NET)	296	(57)	239		239
AMORTIZATION	0	0	0		0
TAXES OTHER THAN INCOME	389	92	481	368	849
INCOME TAXES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL OPERATING EXPENSES	\$ <u>8,032</u>	\$ <u>6,953</u>	\$ <u>14,985</u>	\$ <u>368</u>	\$ <u>15,353</u>
OPERATING INCOME / (LOSS)	\$ <u>(1,504)</u>		\$ <u>(7,335)</u>		\$ <u>484</u>
WATER RATE BASE	\$ <u>2,812</u>		\$ <u>5,216</u>		\$ <u>5,216</u>
RATE OF RETURN	<u>-53.49%</u>		<u>-140.62%</u>		<u>9.27%</u>

ADJUSTMENTS TO OPERATING INCOME

EXPLANATION	WATER
A. OPERATING REVENUES	
1. To reflect annualized revenues	\$ <u>1,122</u>
B. OPERATION AND MAINTENANCE EXPENSES	
1. Salaries & Wages	
a. To reflect annualized salary	\$ <u>(900)</u>
1. Chemicals	
a. Adjustment per engineer to reflect annual Chemical expense	25
b. To reflect DEP requirement for added chemicals	<u>2,000</u>
	\$ <u>2,025</u>
2. Contractual Services	
a. To reflect operator salary	\$ <u>4,800</u>
3. Rents	
a. To reflect annualized rent expense	\$ <u>300</u>
4. Regulatory Commission Expense	
a. To reflect rate case expense amortized over 4 years	\$ <u>250</u>
5. Miscellaneous Expense	
a. To remove double booking of property taxes	(57)
b. To reflect annual allowance for miscellaneous repairs and expenses	<u>500</u>
	\$ <u>443</u>
TOTAL O & M EXPENSE ADJUSTMENTS	\$ <u>6,918</u>
C. DEPRECIATION EXPENSE (NET)	
1. To properly reflect test year depreciation expense net of used & useful	\$ <u>(57)</u>
D. TAXES OTHER THAN INCOME	
1. To reflect annual payroll taxes	\$ <u>92</u>
E. OPERATING REVENUES	
1. To reflect increase in revenues per revenue requirement	\$ <u>8,187</u>
F. TAXES OTHER THAN INCOME	
1. To reflect RAF on increased revenues	\$ <u>368</u>

ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE

DESCRIPTION	TOTAL PER UTIL.	STAFF ADJUST.	TOTAL PER STAFF
(601) SALARIES AND WAGES - EMPLOYEES	\$ 1,800	\$ (900)	\$ 900
(603) SALARIES AND WAGES - OFFICERS		0	
(604) EMPLOYEE PENSIONS AND BENEFITS			
(610) PURCHASED WATER			
(615) PURCHASED POWER	1,141	0	1,141
(616) FUEL FOR POWER PRODUCTION		0	
(618) CHEMICALS	292	2,025	2,317
(620) MATERIALS AND SUPPLIES	220	0	220
(630) CONTRACTUAL SERVICES	1,257	4,800	6,057
(640) RENTS	0	300	300
(650) TRANSPORTATION EXPENSE	2,192	0	2,192
(655) INSURANCE EXPENSE		0	
(665) REGULATORY COMMISSION EXPENSES	0	250	250
(670) BAD DEBT EXPENSE		0	
(675) MISCELLANEOUS EXPENSES	445	443	888
UNCLASSIFIED DISBURSEMENTS			
	\$ 7,347	\$ 6,918	\$ 14,265

RECOMMENDED RATE REDUCTION SCHEDULE

HOLMES CREEK UTILITIES
TEST YEAR ENDING DECEMBER 31, 1995

SCHEDULE NO. - 4
DOCKET NO. 960145-WU

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

RESIDENTIAL SERVICE	MONTHLY RECOMMENDED RATES	MONTHLY RATE REDUCTION
Residential	\$ 22.34	0.37
Camper	13.99	0.23

DOCKET NO. 960145-WU
DATE: September 4, 1996

ATTACHMENT A

WATER TREATMENT PLANT

USED AND USEFUL DATA

Docket No. 960145-WU Utility Holmes Creek Date April 96

- 1) Capacity of Plant 36,000 gallons per day
- 2) Maximum Daily Flow 8,760 gallons per day
- 3) Average Daily Flow 3,900 gallons per day
- 4) Fire Flow Capacity NOT APPLICABLE gallons per day
- 5) Margin Reserve NOT APPLICABLE gallons per day
*Not to exceed 20% of present customers

a) Test Year Customers - Begin 106 End 92 Av. 99

b) Customer Growth Using Regression Analysis in ERC's
for most recent 5 years including test year 0 ERC's

c) Construction Time for Additional Capacity 1.5 Years

(b) x (c) x $\left[\frac{2}{(a)} \right]$ = 0 gallons per day Margin Reserve

- 5) Excessive Unaccounted for Water N/A gallons per day
 - a) Total Amount _____ gallons per day _____% of Av. Daily Flow
 - b) Reasonable Amount _____ gallons per day _____% of Av. Daily Flow
 - c) Excessive Amount _____ gallons per day _____% of Av. Daily Flow

PERCENT USED AND USEFUL FORMULA

$$\left[\frac{(2 + 5) + 4a - 6}{1} \right] = \underline{24.3} \% \text{ Used and Useful}$$

Gerald Edwards - Engineer

DOCKET NO. 960145-WU
DATE: September 4, 1996

ATTACHMENT B

WATER DISTRIBUTION SYSTEM

USED AND USEFUL DATA

Docket No. 960145-WU Utility Holmes Creek, Inc. Date April 96

- 1) Capacity 257 ERC's (Number of potential customers without expansion)
- 2) Number of TEST YEAR Connections 107 ERC's per day
 - a) Begin Test Year 107
 - b) End Test Year 80
 - c) Average Test Year 93.5
- 3) Margin Reserve 0
*Not to exceed 20% of present customers
 - a) Customer Growth using regression analysis in ERC's for the most recent 5 years including the test year 0
 - c) Construction Time for Additional Capacity 1.5 Years(a) x (b) = 0 Margin Reserve

PERCENT USED AND USEFUL FORMULA

$$\frac{(2 + 3)}{1} = 31.0\% \text{ Used and Useful}$$

Gerald Edwards - Engineer

DISCUSSION OF ISSUES

ISSUE 1: Is the quality of service provided by HCWU satisfactory?

RECOMMENDATION: Yes. The quality of service provided by Holmes Creek Water Utilities should be considered satisfactory. (EDWARDS)

ISSUE 2: What portion of water plant-in-service is used and useful?

RECOMMENDATION: The water treatment plant should be considered 24% used and useful and the water distribution system should be considered 31% used and useful. (EDWARDS)

ISSUE 3: What is the appropriate average amount of test year rate base for this system?

RECOMMENDATION: The appropriate average amount of test year rate base for Holmes Creek should be \$5,216. (KEMP, EDWARDS)

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

RECOMMENDATION: The appropriate rate of return on equity is 10.43% with a range of 9.43% - 11.43% and the appropriate overall rate of return is 9.27% with a range of 8.45% - 10.10%. (KEMP)

ISSUE 5: What is the appropriate test year operating revenue for this system?

RECOMMENDATION: The appropriate test year operating revenue should be \$7,650. (KEMP)

ISSUE 6: What is the appropriate test year loss for this system?

RECOMMENDATION: The appropriate test year loss is \$7,335. (KEMP)

ISSUE 7: What is the appropriate amount for operating expenses for this system?

RECOMMENDATION: The appropriate amount for operating expenses should be \$15,353. (KEMP, EDWARDS)

ISSUE 8: What is the appropriate revenue requirement for this system?

RECOMMENDATION: The appropriate revenue requirement is \$15,837. (KEMP)

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ISSUE 9: What are the appropriate monthly flat rates for this utility?

RECOMMENDATION: The recommended rates should be designed to produce revenues of \$15,837. The approved rates would be effective for service rendered on or after the stamped approval date on the tariff sheet pursuant to Rule 25-30.475(1), Florida Administrative Code. The rates may not be implemented until proper notice has been received by the customers. The utility should provide proof of the date notice was given within 10 days after the date of the notice. (KEMP)

ISSUE 10: What is the appropriate amount by which rates should be reduced four years after the established effective date to reflect the removal of the amortized rate case expense as required by Section 367.0816, Florida Statutes?

RECOMMENDATION: Revenues should be reduced by a total of \$261.79 annually to reflect the removal of rate case expense grossed-up for regulatory assessment fees which is being amortized over a four year period. The effect of the revenue reduction results in rate decreases as shown on Schedule No. 4. The decrease in rates should become effective immediately following the expiration of the four year rate case expense recovery period, pursuant to Section 367.0816, Florida Statutes. The utility should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. (KEMP)

ISSUE 11: Should the utility be authorized to collect miscellaneous service charges, and if so, what should the charges be?

RECOMMENDATION: Yes, the utility should be authorized to collect miscellaneous service charges and the charges should be the recommended charges as specified in the staff's analysis. The approved charges should be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), Florida Administrative Code. The charges should not be implemented until proper notice has been received by the customers. The utility should provide proof of the date notice was given no less than 10 days after the date of the notice. (KEMP)

ISSUE 12: What are the appropriate service availability charges for this utility?

RECOMMENDATION: Staff is not recommending service availability charges for HCWU. (KEMP)

ISSUE 13: Should the recommended rates be approved for the utility on a temporary basis in the event of a timely protest filed by a substantially affected party other than the utility?

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DATE: September 4, 1996

RECOMMENDATION: Yes, the recommended rates should be approved for the utility on a temporary basis in the event of a timely protest filed by a substantially affected party other than the utility. The utility should be authorized to collect the temporary rates after staff's approval of the security for potential refund, the proposed customer notice, and the revised tariff sheets. (KEMP)

ISSUE 14: Should this docket be closed?

RECOMMENDATION: Yes, upon expiration of the protest period, if no timely protest by a substantially affected party is received, this docket should be closed. (AGARWAL, EDWARDS, KEMP)