PSC-06-BEFORE THE PUBLIC SERVICE COMMISSION

In re: Application for increase in water and wastewater rates in Volusia County by Plantation Bay Utility Company.	DOCKET NO. 050281-WS ORDER NO. PSC-06-0170A-PAA-WS ISSUED: March 9, 2006

The following Commissioners participated in the disposition of this matter:

LISA POLAK EDGAR, Chairman
J. TERRY DEASON
ISILIO ARRIAGA
MATTHEW M. CARTER II
KATRINA J. TEW

AMENDED ORDER GRANTING TEMPORARY SYSTEM CAPACITY CHARGES, TEMPORARILY MODIFYING SERVICE AVAILABILITY POLICY IN THE EVENT OF A PROTEST, AND DECLINING TO INITIATE SHOW CAUSE PROCEEDINGS

AND

NOTICE OF AMENDED PROPOSED AGENCY ACTION
ORDER REDUCING WATER RATES AND CHARGES, INCREASING WASTEWATER RATES AND CHARGES, ESTABLISHING REUSE RATE, MODIFYING SERVICE AVAILABILITY POLICY AND DISCONTINUING SYSTEM CAPACITY CHARGES

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein, except for the requirement that in the event of a protest, the utility begin collecting donated water transmission and distribution and wastewater collection system expansions on a temporary basis, subject to reimbursement, and continue collecting its existing water and wastewater system capacity charges, subject to refund, the statutory four-year rate reduction, and our decision not to initiate show cause proceedings, is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code.

On March 1, 2006, Order No. PSC-06-0170-PAA-WS was issued in this docket In re: Plantation Bay Utility Company's application for increase in water and wastewater rates. An error was identified in the formula which calculated the non-used and useful plant adjustment to primary account 371, pumping equipment. This error affects the wastewater rate base, overall cost of capital, water and wastewater revenue requirements, and rates. To correct the errors, Order No. PSC-06-0170-PAA-WS is hereby amended and reissued as set forth herein and the protest period is extended to 21 days from the date of issuance of this Order.

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BACKGROUND

Plantation Bay Utility Company (Plantation or utility) is a Class B utility providing water and wastewater service to approximately 1,251 water and 1,210 wastewater customers in Volusia County. Water and wastewater rates were last established for this utility by Order No. PSC-02-1449-PAA-WS, issued October 21, 2002, in Docket No. 011451-WS, In re: Investigation of water and wastewater rates for possible overearnings by Plantation Bay Utility Co. in Volusia County. Consummating Order No. PSC-02-1565-CO-WS, issued November 14, 2002, made Order No. PSC-02-1449-PAA-WS effective and final.

On August 8, 2005, Plantation filed the Application for Rate Increase at issue in the instant docket. The utility had a few deficiencies in the Minimum Filing Requirements (MFRs). However, Plantation corrected those deficiencies, and the official filing date was established as September 1, 2005. The utility requested that the application be processed using the Proposed Agency Action (PAA) procedure and requested interim rates. The test year established for interim rates is the historical twelve-month period ended December 31, 2004. The test year proposed for final rates is the projected twelve-month period ended December 31, 2006.

By Order No. PSC-05-1039-PCO-WS, issued October 24, 2005, in this docket, we denied an interim revenue increase for water and approved an interim revenue increase of $214,097 (95.19%) for wastewater.

The utility requested final rates designed to generate annual water revenues of $453,391 and wastewater revenues of $628,669. This represents a revenue increase of $107,153 (30.95%) for water and $403,749 (179.51%) for wastewater.

By letter dated November 11, 2005, Plantation extended the five-month statutory deadline for the consideration of its requested final rates to February 18, 2005, because the agenda conference for January 31, 2005 was canceled.

We have jurisdiction pursuant to Section 367.081, Florida Statutes.

TEST YEAR

By letter dated April 20, 2005, the utility requested approval of the test year ending December 31, 2004, for this rate proceeding. Plantation stated that there were no pro forma adjustments to plant known at that time which would be requested in this proceeding. The utility asserted that there were no major pro forma adjustments to expenses that had been identified at that time, but that upon a detailed review, some expenses could require adjustments for annualization of current cost increases. Accordingly, Plantation stated that its requested test year was representative of current operations and was a representative period to measure the cost of service and to establish new rates. Based on the utility's representations and a review of Plantation's last three annual reports, by letter dated May 3, 2005, the Chairman approved a historical test year ending December 31, 2004.

Subsequent to the test year approval, we performed additional reviews of the utility's most recent annual reports. On Schedules W-14 (entitled "Other Water System Information") and S-13 (entitled "Other Wastewater System Information") in Plantation's 2004 Annual Report, we discovered that the utility intended to complete several expansions of its water transmission and distribution system and its wastewater collection system in 2005 and 2006. By Order No. PSC-02-1449-PAA-WS at 19, we discontinued Plantation's collection of donated property. As such, the utility's planned water and wastewater line expansions represent known plant expansions which are potentially significant utility investments, given the amount of property that has been donated to the utility in the past. In addition, the utility had an approximate customer growth of 50% from 2001 to 2004. Because of the historical and potential growth related to the water and wastewater line expansions, we find that the test year ending December 31, 2006, is a more representative test period than the 2004 test year to measure the cost of service and to establish prospective rates.

Further, Plantation's water and wastewater revenue requirements were calculated using the utility's requested 2004 test year. In doing so, the following was utilized: 1) all rate base and net operating income adjustments in our staff audit which were agreed to by Plantation; 2) a used and useful (U&U) percentage of 60.02% for the water treatment plant; a U&U percentage of 100% for the water distribution system; a U&U percentage of 29.48% for the wastewater treatment plant; and a U&U percentage of 87.14% for the wastewater collection system; 3) the removal of net operating losses (NOLs) as an offset to credit accumulated deferred income taxes; 4) the removal of an income tax provision in the net operating income calculation; 5) the use of land ratios of the water and wastewater systems to allocate real estate taxes; and 6) the use of net plant ratios of the water and wastewater systems to allocate tangible personal property taxes. Based on these adjustments, the 2004 calculated revenue requirements resulted in a water revenue decrease of ($70,079) or (20.41%), and a wastewater revenue increase of $142,036 or 62.33%. When offsetting the revenue decrease for water, the net wastewater revenue increase would be $71,957 or 24.15%. As discussed in the body of this Order, we hereby approve a revenue decrease of ($79,865), or (16.41%), for water and a revenue increase of $179,832, or 57.93%, for wastewater. The 2006 revenue requirements represent a $28,010 total utility revenue increase above the calculated 2004 revenue requirements.

The use of the 2006 projected test year is consistent with Order No. 15725, issued February 21, 1986, in Docket No. 840315-WS, in which this Commission found that:

> [t]he test year or period is an analytical device used in ratemaking proceedings in order to compute current levels of investment and income in order to determine the amount of revenue that will be required to assure the utility a fair rate of return on its investment. Test year data may be adjusted to properly reflect conditions in the future period for which rates are being fixed.[1]

[1] In re: Application of Martin Downs Utilities, Inc. for an increase in water and wastewater rates to its customers in Martin County, Florida. See also Gulf Power Company v. Bevis, 289 So.2d 401, 404 (Fla.1974) (finding that the fixing of utility rates must be related to matters which are reasonably predictable, for the process is one of making a rule for the future).

We note that this Commission has previously approved the use of projected test years.[2] Further, we note that in Southern Bell Telephone and Telegraph Co. v. FPSC, the Florida Supreme Court found that:

> [n]othing in the decisions of this Court or any legislative act prohibits the use of a projected test year by the Commission in setting a utility's rates. . . . The projected test period established by the Commission is a ratemaking tool which allows the Commission to determine, as accurately as possible, rates which would be just and reasonable to the customer and properly compensatory to the utility.[3]

Based on the foregoing, we find that the simple average test year ending December 31, 2006, is a representative test period to measure the cost of service and to establish prospective rates for Plantation.

QUALITY OF SERVICE

Pursuant to Rule 25-30.433(1), Florida Administrative Code, in every water and wastewater rate case, this Commission shall determine the overall quality of service provided by the utility by evaluating (1) the quality of the product, (2) the operating conditions of the plant and facilities, and (3) the utility's attempt to address customer satisfaction.

Our analysis addresses each of these three components based on the information available.

Quality of the Water Product

The water treatment plant (WTP) at Plantation Bay is regulated by the Department of Environmental Protection (DEP) Northeast District Office. We have reviewed the utility and the DEP's records and have communicated with DEP staff. According to a DEP warning letter dated May 18, 2005, the utility's laboratory test results indicated that its annual average level of disinfection byproducts have exceeded the maximum contaminant level (MCL) for Total Trihalomethanes (TTHMs) and Haloacetic Acids (five) (HAA5). Regarding this issue, the utility first installed and used six automatic flush valves throughout the community in an effort to reduce the amount of chlorine at the ends of the water system. Although installing these flush valves helped reduce the chorine level to a degree, the TTHM and HAA5 levels were still exceeding the MCL. To reduce these levels, on October 26, 2005, the utility started a pilot study of using chloramines (chlorine and ammonia) instead of using free chlorine for disinfection. This pilot study will be performed for up to 3 months. Following the completion of the pilot study, the

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[2] See, e.g., Order No. PSC-02-1168-PAA-WS, issued August 26, 2002, in Docket No. 010869-WS, In re: Application for staff-assisted rate in Marion County by East Marion Sanitary Systems, Inc.; and Order No. PSC-01-1246-PAA-WS, issued June 4, 2001, in Docket No. 001382-WS, In re: Application for staff-assisted rate case in Lake County by Pennbrooke Utilities, Inc.

[3] 443 So. 2d 92, 97 (Fla. 1983).

DEP will review the laboratory test results and will discuss the best course of action with the utility. The utility believes that the change in the disinfection method will reduce its TTHM and HAA5 level to meet DEP's regulatory standards.

Although the quality of the finished product for water exceeds the MCL for disinfection byproducts, it appears that the utility has begun to take the necessary steps toward resolving this issue. The utility shall submit quarterly progress reports to this Commission's Division of Economic Regulation on this disinfection byproducts noncompliance issue and shall provide the Office of Public Counsel with copies of these reports. These reports shall be submitted outside of this docket. A separate docket will be opened, if necessary, to further address the matter.

Operating Condition of the Water Facilities

The quality of the utility's plant-in-service is generally reflective of the quality of the utility's product. According to a DEP letter dated January 4, 2005, the DEP inspected the utility's WTP on November 19, 2004. The DEP's inspector observed a few deficiencies during his site inspection. According to the utility's letter to DEP dated March 8, 2005, the utility completed the project. Currently, there are no outstanding violations, citations, or corrective orders.

In general, during our engineering field inspection, maintenance at the water plant site appeared to have been given adequate attention. Water plant equipment appeared to have been receiving periodic maintenance and it was noted that many improvements have been made. The plant grounds within the fenced-in area was organized.

Quality of the Wastewater Product

The utility's wastewater treatment plant (WWTP) is also regulated by the DEP Northeast District Office. According to a DEP letter dated January 3, 2006, the DEP inspected Plantation's WWTP on December 15, 2005. DEP advised that the utility maintains a good quality of effluent, is currently up-to-date with all chemical analysis, and all test results are satisfactory.

Operating Condition of the Wastewater Facilities

The wastewater plant-in-service is also reflective of the product provided by the utility. According to the DEP's Compliance Evaluation Inspection letter dated May 4, 2005, the DEP inspected the utility's WWTP on April 13, 2005. In his letter, the DEP inspector stated that the utility was found to be out of compliance due to operational and record keeping deficiencies. However, according to the utility's letter dated June 10, 2005 to DEP, the utility took steps to correct the deficiencies and submitted the requested information related to the record keeping deficiencies.

The DEP inspector inspected the utility again on December 15, 2005, to see if any of the deficiencies or problems had been improved. The inspector found that some, but not all, of the previous deficiencies were improved. According to the DEP's January 3, 2006 letter, the DEP's inspector observed the following deficiencies during his most recent site inspection:

- The weir of the clarifier was excessively overgrown with algae, the skimmer was totally non-operational due to the fact it was below the surface of the clarifier contents, and there were large amounts of solids flowing over the weir of the clarifier. All of these deficiencies were causing the clarifier to not perform properly, leading to a serious operational deficiency.

- The sand filters were not working at the time of inspection. When power was manually switched on, the sand filters did not operate or turn on. Also, there were solids and algae built up in the sand filter.

- The effluent in the chlorine contact chamber was slightly turbid but otherwise was clean. It was noted that there were bubbles rising to the surface of the chlorine contact chamber. Bubbles rising on the chlorine contact chamber surface may indicate that a sludge bed is forming.

- The utility also had records and reports deficiencies.

The DEP inspector also stated that the inspection of the reuse facilities at the Plantation Bay Golf Course revealed some deficiencies. He claimed that the required reuse advisory signs were not posted on the golf courses as required by Part IV.10-11 of the facility's operating permit. In his letter dated January 3, 2006, the DEP inspector advised the utility to place the reuse advisory signs at the beginning tees of each of the nine holes and also around any pond structures that hold reclaimed water.

The DEP inspector stated that during his site inspections, the WWTP was secured within a fence with locked gate, the grounds were clean and well maintained, and the banks and areas around the pond were clean and clear of excessive vegetation.

Overall, the DEP inspector found the WWTP to be significantly out of compliance due to operational and record keeping deficiencies.

The utility shall complete any and all improvements to the system that are necessary to satisfy the standards set by the DEP. The reuse advisory signs shall be placed at the beginning tees of each nine-holes and also around any pond structures that hold the reclaimed water, as required by the DEP. The reuse advisory signs shall be posted at all locations no later than 90 days from the effective date of this Order. The utility shall submit quarterly progress reports to this Commission's Division of Economic Regulation concerning the deficiencies outlined in DEP's letter dated January 3, 2006, and shall provide copies of the progress reports to the Office of Public Counsel. These reports shall be submitted outside of this docket. A separate docket will be opened, if necessary, to further address the matter.

Utility's Attempt to Address Customer Satisfaction

Our staff has reviewed the customer complaint logs of the utility, the DEP, and this Commission. In its MFRs, the utility listed ten customer complaints that were received by the utility during the 2004 historical year. Those complaints were related to sediment and dirt in the water, cloudy water, smell of water, red stain in toilet bowl, low water pressure, and having grease on top of bath water. Based on a review of the utility's records, it appears that all of the customer complaints were handled properly. Our staff also reviewed DEP records and found one customer complaint on file. The customer was concerned about the black flakes in the drinking water. The DEP inspector stated that the utility handled this complaint properly.

An informal customer meeting was held on November 2, 2005, in the Club de Bonmont in Ormond Beach, Florida. There were approximately 120 persons in attendance and 11 customers gave comments and concerns about the utility. The customers' primary concerns were increased rates for water and wastewater and the quality of water. Several customers complained that their water is not drinkable because it is cloudy and contains black flakes and white particles. One of the customers provided a water sample that contained black flakes. Another customer complained regarding the accuracy of his water meter. After the customer meeting, our staff talked to the utility's operator, Mr. Glenn Wetherell, regarding the black flakes in some of the customers' water and asked him to investigate this issue. Our staff also requested him to perform a meter test on the complaining customer's meter. Mr. Wetherell has since notified our staff that the utility installed a new meter for this customer. Moreover, our staff reported to DEP regarding the water quality complaints and black flakes. The DEP inspector stated that since he has received a similar complaint from another customer, he inspected the utility's water and did not observe any black flakes or any extra deposits in the water. The DEP inspector stated that he will investigate the recent complaints again. Based on the foregoing, it appears that the utility promptly handles its customer complaints.

RATE BASE

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

Rate Base Audit Adjustments

In order to reflect the 2004 year-end plant audit adjustments that are uncontested by the utility, the utility's simple plant balances were converted to the 2004 year-end balances. The following rate base adjustments represent audit adjustments with which the utility is in agreement:

Audit Adjustments	Water	Wastewater
1. Remove Double Booked – Initial Audit Exception No. 1		
Decrease Plant (Accounts Nos. 304 and 354)	$4,645	$2,989
2. Reclassifications – Initial Audit Exception No. 1		
Increase Plant – Account No. 311	$2,509	
Decrease Plant – Account No. 320	$4,214	
Decrease Plant – Account No. 333	$128	
Increase Plant – Account No. 334	$128	
Increase Plant – Account No. 339	$1,381	
Decrease Plant – Account No. 347	$1,381	
Decrease Plant – Account No. 371		$295
3. Reclassify Well No. 4 – Initial Audit Exception No. 2		
Increase Plant- Account No. 309	$30,270	
Decrease Plant – Account No. 331	$30,270	
4. Reclassify Phase 1 Pumping Station – Initial Audit Exception No. 2		
Decrease Plant – Account No. 307	$41,360	
Decrease Plant – Account No. 360		$2,450
Decrease Plant – Account No. 361		$5,300
Increase Plant – Account No. 371		$49,110
5. Reclassify Phase 1EV, Unit 2 – Initial Audit Exception No. 2		
Decrease Plant – Account No. 331	$894	
Increase Plant – Account No. 333	$329	
Increase Plant – Account No. 335	$313	
Increase Plant – Account No. 361		$4,766
Increase Plant – Account No. 363		$404
6. Reclassify Phase 1DV, Unit 3B – Initial Audit Exception No. 3		
Increase Plant – Account No. 331	$2,885	
Decrease Plant – Account No. 333	$933	
Decrease Plant – Account No. 335	$1,125	
Decrease Plant – Account No. 347	$1,674	
Decrease Plant – Account No. 361		$4,222
Increase Plant – Account No. 363		$5,069
7. Reclassify Phase 1EV, Unit 3 – Initial Audit Exception No. 3		
Increase Plant – Account No. 331	$972	
Decrease Plant – Account No. 333	$580	
Increase Plant – Account No. 335	$338	
Decrease Plant – Account No. 347	$3,368	
Decrease Plant – Account No. 361		$10,360
Increase Plant – Account No. 363		$12,998
8. Reclassify Phase 2AF, Unit 2 – Initial Audit Exception No. 3		
Decrease Plant – Account No. 331	$23,146	
Increase Plant – Account No. 333	$8,038	
Increase Plant – Account No. 335	$15,369	
Decrease Plant – Account No. 347	$4,034	
Increase Plant – Account No. 361		$3,347
Increase Plant – Account No. 363		$426
9. Reclassify Phase 2AF, Unit 3 – Initial Audit Exception No. 4		
Increase Plant – Account No. 331	$64,757	
Decrease Plant – Account No. 333	$60,671	
Increase Plant – Account No. 335	$6,013	
Decrease Plant – Account No. 360		$8,127
Decrease Plant – Account No. 361		$78,633

Audit Adjustments	Water	Wastewater
Increase Plant – Account No. 363		$7,716
Increase Plant – Account No. 371		$70,038
Decrease Plant – Account No. 381		$1,093
10. Reclassify Phase 2EV, Unit 1 – Initial Audit Exception No. 4		
Increase Plant – Account No. 331	$41,508	
Increase Plant – Account No. 333	$5,235	
Increase Plant – Account No. 335	$10,885	
Decrease Plant – Account No. 360		$2,829
Decrease Plant – Account No. 361		$72,086
Increase Plant – Account No. 363		$17,715
Increase Plant – Account No. 371		$20,285
Decrease Plant – Account No. 382		$32,470
11. Reclassify Phase 2AF, Unit 4 as CWIP – Initial Audit Exc. No. 4		
Decrease Plant – Account No. 331	$101,466	
Decrease Plant – Account No. 335	$14,140	
Decrease Plant – Account No. 347	$11,670	
Decrease Plant – Account No. 360		$29,084
Decrease Plant – Account No. 361		$213,502
Decrease Plant – Account No. 381		$9,279
12. Reclassify Expense as Plant Item – Initial Audit Exception No. 10		
Increase Plant – Account No. 304	$1,800	
13. Reclassify Phase 1DV, Unit 3C – Supplemental Audit Exc. No. 1		
Decrease Plant – Account No. 331	$13,276	
Increase Plant – Account No. 333	$6,977	
Increase Plant – Account No. 335	$3,368	
Increase Plant – Account No. 361		$4,902
Increase Plant – Account No. 363		$3,981
Decrease Plant – Account No. 380		$5,952
14. Reclassify Phase 2EV, Unit 2 – Supplemental Audit Exc. No. 1		
Decrease Plant – Account No. 331	$3,782	
Increase Plant – Account No. 333	$583	
Increase Plant – Account No. 335	$860	
Increase Plant – Account No. 361		$1,573
Increase Plant – Account No. 363		$767
15. Recorded Plant/Reclassification/Retirement – Sup. Aud. Exc. No. 1		
Increase Plant – Account No. 310	$1,700	
Decrease Plant – Account No. 311	$270	
Increase Plant – Account No. 320	$2,189	
Increase Plant – Account No. 334	$245	
Decrease Plant – Account No. 371		$14,995

To account for these audit adjustments, plant shall be decreased by $114,376 for water and by $290,569 for wastewater.

Used and Useful - Water Treatment Plant

The utility hired Mr. Seidman, a utility consultant, to compile its used and useful calculations, sponsor its MFRs, and respond to data requests. In its filing, the utility stated that its source of supply, water treatment, and pumping plant are 100% used and useful, the ground storage tank is 84.30% used and useful and the distribution system is 100% used and useful. Based on the utility's WTP flow diagram, the WTP consists of four wells at 175 gallon per

minute (gpm) each, an aerator, a lime softening, gravity sand filters, a chlorinator, a 400,000 gallon ground storage tank, a 15,000 gallon hydropneumatic tank and 27,000 gallon backwash recovery, three transfer pumps, three high service pumps and an auxiliary power. The storage tank is designed and constructed with a bottom drain for both water service and backwash recovery.

The raw water from wells is pumped into a softening unit. All softened water is disinfected by using chloramines and then is transferred to the 400,000 gallon ground storage tank from which a portion is returned to the WTP for backwashing the filters. The remaining water is pumped by high service pumps through the hydropneumatic tank for distribution.

Source of Supply

In its MFRs (Schedule, F5, p. 1 of 2), the utility evaluated the source of supply, water treatment, and pumping plant together and evaluated the ground water storage separately. The utility stated that it did not include storage as capacity in evaluating supply and treatment as was done in Docket No. 011451-WS (overearnings docket). The utility believes that such an approach overstates capacity. According to the utility, when storage is drawn down to meet demands, the supply and treatment facilities must be pumping to replenish the draw down. Storage replacement is a demand, not a source.

We disagree with the utility that the source of supply, water treatment and pumping plant and the ground water storage should be evaluated separately. We find it appropriate to evaluate all of the utility's water system components on a total system basis. By Order No. PSC-03-1440-FOF-WS, issued December 22, 2003, in Docket No. 020071-WS,[4] at page 65, we determined that if a utility's wells, treatment, pumping, or storage facilities appear to be oversized, then each component could be evaluated separately. However, even if the components were separately evaluated, this Commission found that the efficiency, economics and sufficiency of the system would also need to be considered. We further determined that the DEP sizing rule would be more appropriately used to determine if the company has met the standards necessary for DEP permitting, not to determine used and useful evaluations.

Mr. Seidman has previously testified before this Commission in water and wastewater rate cases concerning used and useful. Specifically, in Docket No. 020071-WS, Mr. Seidman was a witness for Utilities, Inc. of Florida. Order No. PSC-03-1440-FOF-WS at page 57 states that "Witnesses Seidman and Redemann testified that all components of the utility's water facilities should be included in a single evaluation." Mr. Seidman testified that systems with storage and high service pumping should be evaluated as integrated systems, in order to recognize the interrelationship of those components. Id. at 62. In the instant proceeding, none of Plantation's wells, treatment, pumping, or storage facilities appear to be oversized. Therefore, in this case, there is no reason to evaluate wells, treatment, pumping, and storage separately. Consistent with this Commission's findings in Order No. PSC-03-1440-FOF-WS, we find it appropriate to base the used and useful evaluations in this case on the total system.

[4] In re: Application for rate increase in Marion, Orange, Pasco, Pinellas, and Seminole Counties by Utilities, Inc. of Florida.

Capacity of Wells

The water treatment plant consists of four active wells designated as Well Nos. 1, 2, 3 and 4. Each well is equipped with a pump with a permitted maximum capacity of 175 gpm. Well No. 4 was placed in service in 2002. In its MFRs (Schedule, F5, p. 2 of 2), the utility stated that:

> The four wells are operated on a staggered basis at a limited pumping rate and for a limited number of hours per day to provide reliability and to limit the potential for salt water intrusion, a major concern in this area. The safe operating pumping rates utilized by Plantation are 150 gpm for wells 1 and 2 and 175 gpm for wells 3 and 4. The pumping rates are also limited by water level monitors required by the Consumptive Use Permit (CUP), which automatically shut down the well pumps when the draw down of the aquifer reaches limits prescribed in the CUP.

Furthermore, the utility has explained that in 1984, prior to the issuance of the permit to construct the initial three wells, a hydrological survey was performed. As a result of the survey, it was recommended that all three wells be pumped at 150 gpm each. During the construction of well No. 4 in 2002, the utility also refurbished the other three wells. Meanwhile, the contractor reset the pumps for wells Nos. 3 and 4 at 175 gpm, and left the pumps for Well Nos. 1 and 2 at 150 gpm. The utility also stated that the utility is located in an area that tends to have a high concentration of chlorides. The monitoring of the wells at current safe operating yields over the years indicated that good chloride levels have been maintained at Plantation for over 20 years.

Upon review of the utility's information and considering the high concentration of chlorides in Plantation's area, we agree with the utility regarding its current safe well capacities which are 150 gpm for wells 1 and 2 and 175 gpm for wells 3 and 4. Also, we agree with the utility that the firm reliable capacity of wells should be calculated by using the capacity of the wells with the largest well (175 gpm) removed. This is consistent with the American Waterworks Association Manual of Water Supply Practices, which states that that the highest capacity well should be removed from the calculation to determine the plant's reliability. Considering the other three lower volume capacity wells, we find that the firm reliable capacity of wells is 475 gpm, which is 342,000 gpd on a 12 hour basis.

Total Available Storage Capacity

In its MFRs (Schedule, F5, p. 2 of 2), the utility stated that "[f]or safe and reliable operating purposes, the utility seeks to maintain a minimum level in the tank of three feet above the intake pipe while pumping. That leaves an available capacity of 328,000 gallons." Furthermore, the utility has explained that "[i]f this level is not maintained, too much air is sucked into the pipe to maintain prime, and causes the pump to cavitate. It is, therefore, the Utility's judgment that for safe and reliable operating purposes, a minimum level of three feet should be maintained while pumping."

This Commission generally allows no dead storage for those storage tanks that are constructed with a bottom drain because these tanks leave no retention or dead storage. We also generally allow 10% retention for dead storage for those tanks that have a centerline of the pumping unit above the bottom of the tank. After reviewing the utility's information and considering the engineering design of the storage tank, we agree with the utility regarding maintaining a minimum level in the tank of three feet above the intake pipe while pumping for safe and reliable operating purposes. Therefore, we find that the available storage capacity is 328,000 gallons (400,000 gallons – 72,000 gallons).

Demand

In its MFRs (Schedule, F5, p. 1 of 2), the utility also has considered an additional 25,000 gallons for the minimum backwash requirement as a demand.

We disagree with the utility that backwashing the filters is a demand. The 25,000 gallons for backwashing is appropriately considered under the available storage tank capacity. Although we agree that this amount is necessary for backwashing, we believe that the 72,000 gallon allowance to maintain a minimum level of three feet above the intake pipe, while pumping for safe and reliable operating purposes, will compensate for this 25,000 gallons portion for the backwashing. Therefore, we decline to add 25,000 gallons to the demand for the backwash.

In its MFRs (Schedule, F5, p. 1 of 2), the utility stated that the maximum-day water demand (MDD) was 263,000 gallons. The utility added an additional 65,750 gallons (25% of MDD) of the storage tank as demand to meet the requirement of the Rule 62-555.320(19), Florida Administrative Code.

We disagree with the utility's use of the 25% of MDD in its used and useful calculation. Rule 62-555.320, Florida Administrative Code, entitled "Design and Construction of Public Water Systems," specifically is for the regulation of the design and construction of public water systems and is not for reserve storage for emergency purposes. Moreover, Rule 62-555.320(19), Florida Administrative Code, addresses finished-water storage capacity necessary for operational equalization to meet peak water demand. This rule states that "[t]he total useful finished-water storage capacity (excluding any storage capacity for fire protection) connected to a water system shall at least equal 25 percent of the system's maximum-day water demand, excluding any design fire-flow demand."

As indicated in Rule 62-555.320, the required finished-water storage capacity is for operational equalization to meet peak water demand and it is not for reserve storage for emergencies. This is directly related to the sizing of the storage tank. Also, this rule requires a useful finished-water storage capacity at least equal to 25% of a water system's MDD. Based on this rule, if the total amount of 217,000 (120,000 gallons for fire flow + 25,000 gallons for back washing + 72,000 gallons for maintaining the minimum level in the tank of three feet above the intake pipe) is subtracted from the storage tank capacity of 400,000 gallons, the result would be 183,000 gallons of water left in the storage tank. This amount is much greater than 65,550

gallons (25% of a water system's MDD). Therefore, we find that the utility water system's total useful finished-water storage capacity is sufficient for operational equalization.

We have previously noted that Mr. Seidman was hired by Plantation to compile its used and useful calculations, sponsor its MFRs, and respond to data requests. Mr. Seidman has testified previously before this Commission concerning used and useful calculations for water and wastewater utilities. By Order No. PSC-03-1440-FOF-WS, at 61, this Commission noted that:

> Witness Seidman testified that a particular DEP rule, or any DEP rule, should not become the basis for this Commission's evaluation of used and useful. This Commission can and does consider DEP design and operation requirements as a factor in a rate case. It does, in fact, review whether a utility is in compliance with DEP requirements. When asked about using sizing criteria in making used and useful calculations, witness Seidman stated that they are to be considered only to the extent that the company has to meet those standards to be issued a permit and continued to meet the standards.

Further, as we observed in Order No. PSC-03-1440-FOF-WS, at 65, "[t]he DEP sizing rule would be more appropriately used to determine if the company has met the standards necessary for DEP permitting, not used and useful evaluations." Therefore, we do not agree that the amount of 65,550 gallons should be added to the actual demand for water.

In its MFRs (Schedule, F5, p. 2 of 2), the utility stated that the single maximum day occurred on March 31, 2004, which was 372,000 gallons. The utility claimed that on that day the utility lost 250,000 gallons of water because of a fire hydrant being knocked over during construction. In its MFRs, the utility also stated that May had the five highest days with no mitigating incidents. The utility then stated that the MDD without unusual occurrences was 263,000 gallons and took place on August 11, 2004. Therefore, the utility used 263,000 gallons in its used and useful calculations.

We disagree with the utility's choice of this month for MDD. Since the average daily flow for August 2004 was 142,800 gallons per day, the 263,000 gallons usage of water in the month of August 2004 also is an anomaly. Consistent with our findings in Order No. PSC-03-1440-FOF-WS, for systems with storage, the single maximum day flow during the test year, as reflected in the utility's DEP monthly operating reports (MORs), should be used to quantify demand unless it appears that some extraordinary event, such as a main break or a fire, occurred during the period. If such an anomaly is believed to have occurred during the single maximum day in the test period, the average of the five highest days within a 30 day period during the test year should be used. Therefore, we find it appropriate to use the average of the five highest days in the month of May 2004 to calculate used and useful for the water treatment plant.

Calculation of the Water Treatment Plant Used and Useful Percentage

We calculate the used and useful percentage for Plantation's WTP by adding the average five highest day flow, plus a growth allowance and fire flow, subtracting excessive unaccounted for water, and dividing this sum by the capacity of the system.

The firm reliable capacity is calculated by using the capacity of the wells with removing the largest well (175 gpm). Considering the other three lower volume capacity wells with 175 gpm, 150 gpm and 150 gpm times a normal 12 hour day (342,000 gpd), plus the ground storage capacity (400,000 gallons), minus maintaining a minimum level in the tank of three feet above the intake pipe while pumping for safe and reliable operating purposes (72,000 gallons per utility's request in its MFRs), the firm reliable capacity of the plant was determined to be 670,000 gpd, as shown in Attachment A, Page 1 of 4, attached to this Order.

As previously noted, for systems with adequate storage, the single maximum day shall be used if it is clear that no anomaly occurred on that day. If an anomaly occurred that day, the average of the five highest days within a 30 day period in the test year shall be used. We determined that the maximum day without unusual occurrences was in the month of May 2004. Therefore, the average of the five highest days within a 30 day period that occurred in the month of May is 221,000 gpd. The average daily flow for year 2004 is 158,296 gpd.

The following steps are taken to calculate the average of the five highest days flow, average daily flow, and growth for projected test year 2006:

Projected Average Five Highest Day Flow

First, the maximum amount of water used per equivalent residential connection (ERC) in May 2004 is calculated by using the average five maximum day flow in May 2004 (221,000 gallons per day) divided by total ERCs (1,058 ERCs residential plus 33 ERCs general services = 1,091 ERCs) in May 2004. The average five maximum day flow per ERC for 2004 is 202.566 gpd per ERC.

Then, to determine the projected average of the five highest days flow for 2006, the average five maximum day flow per ERC in May 2004 (202.566 gpd per ERCs) is multiplied by total ERCs (1,556 ERCs residential plus 33 ERCs general services = 1,589 ERCs) in May 2006. The projected average five highest day flow for 2006 is 321,877 gpd, as shown in Attachment A, Page 1 of 4.

Projected Average Daily Flow

According to the utility's MORs, the average daily flow was 158,296 gpd. The average daily flow per ERC in year 2004 was calculated by average daily flow in year 2004 (158,296 gpd) divided by the average ERCs from January 2004 through December 2004 (1,133 ERCs). The average daily flow per ERC in year 2004 is 139.71 gpd per ERC.

To determine the projected average daily flow for 2006, the average daily flow per ERC in year 2004 (139.71 gpd per ERC) is multiplied by the average ERCs from January 2006 through December 2006 (1,629 ERCs). The projected average daily flow for 2006 is 227,168 gpd, as shown in Attachment A, Page 1 of 4.

Fire Flow Capacity

The utility provides fire protection via fire hydrants throughout the distribution system. The Volusia County fire code requires a minimum of 500 gpm, sustainable for a period of 4 hours (120,000 gpd) which we consider in the calculations.

Projected Growth

The projected average connections for 2006 is 1,629 ERCs. The anticipated growth for the following year is calculated by regression analysis to be 167 ERCs. Since this growth rate exceeds the 5% per year limit provided by Section 367.081(2)(a)2.b., Florida Statutes, the customer growth in ERCs is calculated by using the statuary 5% per year cap of the projected average connections in 2006 (1,629 ERCS) for the five year period. The projected customer growth for the five year period is 450 ERCs and 88,917 gpd, as shown in Attachment A, Page 1 of 4.

Projected Excessive Unaccounted for Water

Based on the information provided by Plantation and from the flow analysis, there does not appear to be excessive unaccounted for water in year 2004. Because we assume that the pipes are maintained properly, we find that the amount for excessive unaccounted water is zero in year 2006.

Projected Used and Useful Percentage for Water Treatment Plant

For the foregoing reasons, the projected used and useful percentage for the water treatment plant is 79.22%, as shown in Attachment A, Page 1 of 4.

Used and Useful - Water Distribution System

In its MFRs (Schedule, F7, p. 1 of 1), the utility stated that the water distribution system has the potential of serving 1,448 customers or lots (residential plus general service) in 2004. Based on the utility's service area map, we find that 11 lots of the 1,448 lots are occupied by general service customers. Therefore, 1,437 lots (1,448 - 11) would be occupied by residential customers, which is estimated to be 1,437 ERCs. Based on the projected ERCs for 2006, the general service customers are found to have 33 ERCs. Therefore, we find that the water distribution system has the potential of serving 1,470 ERCs (1,437 + 33) in 2004.

Based on the utility's response to a staff data request dated October 12, 2005, 216 lots were added in 2005 and 544 lots are estimated to be added in year 2006. Therefore, the total capacity of the lines in ERCs is 2,230 ERCs (1,470 + 216 + 544).

The projected average number of connections in 2006 is 1,629 ERCs. The projected customer growth for the five year period is 450 ERCs. By the formula approach, we find that the distribution system is 93.23% used and useful (See Attachment A, Page 2 of 4).

Used and Useful - Wastewater Treatment Plant

In its MFRs, the utility did not provide a calculation to determine its used and useful percentage for the wastewater treatment plant. Instead, it stated that its plant is permitted as a slow rate public spray irrigation system. As such, Plantation considers the entire plant to be a reuse project as defined in Section 403.064, Florida Statutes. In addition, its permitted reuse capacity matches the total permitted capacity of the treatment portion of the facility. Therefore, under the provisions of Section 367.0817(3), Florida Statutes, the utility states that the treatment plant is 100% used and useful and that its cost is fully recoverable.

The WWTP has been permitted to operate at a capacity of 475,000 gpd annual average daily flow (AADF), utilizing the extended aeration activated sludge process. The treatment takes place in a series of modular concrete tanks. The plant consists of flow equalization, influent bar screen, three aeration tanks with a total capacity of 453,900 gallons, one 122,500 gallon clarifier, one 56,100 gallon aerobic digester, one 240 square foot gravity sand filter consisting of three cells and a 16,100 gallon mud well and one 52,600 gallon chlorine contact chamber. Residuals are transported to a residuals management facility for land application.

Reuse

The utility's reuse facility has been permitted to operate at a capacity of 475,000 gpd AADF and is a slow-rate Part III public access spray irrigation system (R-001). This reuse system consists of a 1,700,000 gallon holding pond and provides irrigation to the 75 acre Plantation Bay Golf Course.

We disagree that simply because the utility provides reuse that its existing WWTP is 100% used and useful. In a rate case filed by a utility, the burden is on the utility to prove that the requested rate increase is warranted.[5] Pursuant to Rule 25-30.115, Florida Administrative Code, water and wastewater utilities are required to maintain their accounts and records in conformance with the National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts (USOA). One of the primary reasons for the 1996 revision to the USOA was to provide accounts for reuse plant and regulatory assets and liabilities. Therefore, since 1996, the USOA has specifically delineated plant accounts for reuse water treatment,

[5] Florida Power Corp. v. Cresse, 413 So. 2d 1187, 1191 (Fla. 1982) (finding that the burden of proof in a Commission proceeding is always on a utility seeking a rate change, and upon other parties seeking to change established rates).

disposal and distribution functions. The majority of the accounting requirements or accounts did not change from the 1984 version.

Our staff requested that the utility provide information separating the reuse plant by primary account. In response to staff's data request, the utility indicated that the construction was completed in 1986, which was ten years before NARUC recognized and required separate accounting treatment for reuse infrastructure. The utility indicated that there was no requirement to reclassify its reuse plant items into the new accounts provided for in the USOA's 1996 revision. However, the utility did provide the information necessary to separate the reuse components by primary account. We agree that the utility was not required to adjust its books to reflect the reuse facilities when the USOA was revised. However, the utility was able to provide the information.

Pursuant to Section 367.0817, Florida Statutes, this Commission allows recovery of the prudent costs of a reuse project through rates. It has been our practice to consider the wastewater treatment plant and collection lines separate and apart from the reuse portion of these facilities in determining used and useful.[6] Therefore, consistent with our prior decisions, we find that the specific reuse components identified by the utility are 100% used and useful.

Further, we note that in the last two proceedings involving Plantation, a used and useful percentage was applied to the entire wastewater treatment and collection systems. The utility did not indicate in either of its last proceedings that there were reuse components.[7]

For the foregoing reasons and consistent with past Commission practice, we find that the portions of the wastewater systems that are only reuse components are 100% used and useful. We note that pursuant to Section 367.0817(3), Florida Statutes, this Commission allows recovery of reuse costs from the utility's water, wastewater, or reuse customers or any combination thereof. Although we are not considering an allocation in this proceeding, that possibility exists in future proceedings. If an allocation is warranted in a future proceeding, such as if there should be a need for more conservation-oriented water rates, this plant will need to be reflected in the appropriate reuse plant accounts. Therefore, Plantation shall make the appropriate adjustments to reflect this reuse plant in the appropriate reuse plant accounts.

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[6] See Orders Nos. PSC-04-0363-PAA-SU, issued April 5, 2004 in Docket No. 020408-SU, In Re: Application for rate increase in Seminole County by Alafaya Utilities, Inc.; and PSC-03-0602-PAA-SU, issued May 13, 2003 in Docket No. 020409-SU, In Re: Application for rate increase in Charlotte County by Utilities, Inc. of Sandalhaven. We note that Mr. Seidman participated in both of these dockets.

[7] See Orders Nos. PSC-02-1449-PAA-WS, issued October 21, 2002 in Docket No. 011451-WS, In Re: Investigation of water and wastewater rates for possible overearnings by Plantation Bay Utility Co. in Volusia County, and PSC-96-0934-FOF-WS, issued July 18, 1996, in Docket No. 951296-WS, In Re: Application for a staff-assisted rate case in Volusia County by Plantation Bay Utility Co.

Calculation of the Wastewater Treatment Plant Used and Useful Percentage

The used and useful percentage for wastewater is calculated by adding the average daily flow, plus a growth allowance, subtracting excessive infiltration or inflow, and dividing that sum by the permitted capacity of plant.

The WWTP has been permitted to operate at a capacity of 475,000 gpd AADF, utilizing the extended aeration activated sludge process. Due to the high growth in the service area, we also have projected the test year to be 2006 for the WWTP. The following steps are taken to calculate the average daily flow and growth for the projected test year 2006.

Projected Average Daily Flow

According to the utility's MORs, the AADF is 109,709.59 gpd. The AADF per ERC in year 2004 is calculated by taking the AADF in year 2004 (109,709.59 gpd) and dividing it by the average ERCs from January 2004 through December 2004 (1,013 ERCs). The average daily flow per ERC in year 2004 is 108.30 gpd per ERC.

To determine the projected AADF for 2006, the AADF per ERC in year 2004 (108.30 gpd per ERC) is multiplied by the average ERCs from January 2006 through December 2006 (1,274.3 ERCs). The projected average daily flow for 2006 is 138,009 gpd, as shown in Attachment A, Page 3 of 4.

Projected Growth

The projected average connections for 2006 is 1,276 ERCs for the WWTP. The anticipated growth for the following year is calculated by regression analysis to be 167 ERCs. Because this growth rate exceeds the 5% per year limitation contained in Section 367.081(2)(a)2.b., Florida Statutes, the customer growth in ERCs is calculated by using the statutory 5% per year cap of the projected average connections in 2006 (1,276 ERCS) for the five year period. The projected customer growth for the five year period is 353 ERCs and 38,180 gpd, as shown in Attachment A, Page 3 of 4.

Projected Excessive Infiltration or Inflow

Based on information provided by the utility, there does not appear to be excessive infiltration or inflow in year 2004. Because we assume that the pipes are maintained properly, we find that excessive infiltration or inflow is zero in year 2006.

Projected Used and Useful Percentage for Wastewater Treatment Plant

As shown on Attachment A, Page 3 of 4, the projected used and useful percentage for the wastewater treatment plant is 37.1%. We note that this Commission previously determined the utility's WWTP to be 16% used and useful in Docket No. 951296-WS, by Order No. PSC-96-0934-FOF-WS, and 29.4% used and useful in Docket No. 011451-WS, by Order No. PSC-02-1449-PAA-WS.

Used and Useful - Wastewater Collection System

As previously noted, the total available lots are 2,230 lots or 2,230 ERCs. The projected average number of connections in 2006 is 1,276 ERCs for the WWTP. The projected customer growth for the five year period is 353 ERCs. We find that the collection system is 73.05% used and useful (See Attachment A, Page 4 of 4).

Used and Useful Summary

Based on the foregoing, we find that Plantation's used and useful percentages are as follow:

Water Treatment Plant	79.22%
Water Distribution System	93.23%
Wastewater Treatment Plant	37.1%
Wastewater Collection Systems	73.05%
Reuse System	100%

As a result of these used and useful percentages, water rate base shall be reduced by $134,230 to reflect that 20.78% of treatment plant and 6.77% of distribution system is non-used and useful. Further, wastewater rate base shall be reduced by $697,619 to reflect that 62.9% of treatment plant and 26.95% of collection system is non-used and useful. Accordingly, corresponding adjustments shall be made to reduce depreciation expense by $13,640 and $44,999 for water and wastewater, respectively, and to reduce property tax expense by $3,025 and $4,358, for water and wastewater, respectively.

Related Party Land Transaction

In its filing, Plantation reflected a water land balance of $58,949. According to Disclosure No. 1 of the initial audit, our staff auditors stated that the utility purchased an easement from Intervest at Plantation Bay Partnership, a Florida General Partnership, for $25,000 on March 15, 2002. Our auditors also stated that the above-mentioned document was executed by the president of PlanMor, Inc., the partnership's Managing General Partner, who also serves as the president of Plantation Bay Utility Company. The auditors did not opine as to whether the purchase price for the easement represents an actual market-based cost.

On November 8, 2005, our staff requested that Plantation provide the purchase price of the specific acreage contained in the above easement deed when it was acquired by PlanMor, Inc. or any other related entity. The utility responded that the property was part of a larger transaction in 2001 for 725 acres, which transaction included a number of agreements between the parties and that this parcel was not independently negotiated. The 725 acres had no associated value because of the way the transaction was structured. In addition, the utility stated that it is not aware of any sales of easements within its service territory to a third party.

According to the easement, the total value of the easement was $25,175, including document stamps. However, we note that the utility recorded a $25,195 amount for the value of this land easement. Further, the total acreage is 0.15 acre (Well No. 1 - 0.03 acre; Well No. 2 - 0.03 acre; Well No.3 - 0.03 acre; and Well No. 4 - 0.06 acre). When dividing the $25,175 amount by 0.15 acre, the effective per acre value is $167,833. We find that this effective value per acre is excessive, especially given the fact that the need for water and wastewater service is due to the related party's development.

Wells Nos. 1 through 3 were placed into service in 1985, and Well No. 4 was placed into service in 2002. As such, the related party allowed the utility to extract water without any easement from the 1985 in-service year for Wells Nos. 1 through 3. The original cost of the specific acreage for Wells Nos. 1 through 3 would be based on land values in 1985 and the original cost of the specific acreage for Well No. 4 would be based on land values in 2002.

By their very nature, related-party transactions require closer scrutiny. Although a transaction between related parties is not per se unreasonable, it is the utility's burden to prove that its costs are reasonable.[8] This burden is even greater when the transaction is between related parties. In GTE Florida, Inc. v. Deason,[9] the Florida Supreme Court established that the standard to use in evaluating affiliate transactions is whether those transactions exceed the going market rate or are otherwise inherently unfair. In its audit response, the utility failed to provide support that the $25,195 recorded amount is a reasonable or actual market-based amount. As such, we find that the value for the land acquired in 2002 is $0, and the $25,195 amount shall be removed from the land for the water system.

Accumulated Deprecation

In its MFRs, the utility reflected December 31, 2004 year-end accumulated depreciation balances of $1,576,306 for water and $1,457,019 for wastewater. Rule 25-30.140, Florida Administrative Code, requires the use of prescribed service lives to depreciate water and wastewater plant accounts. In Audit Exception No. 5 of the initial audit, our auditors state that Plantation used the incorrect service lives for Accounts Nos. 363 and 381 and failed to record any depreciation for Account No. 364. In addition, the auditors recalculated the utility's

[8] Florida Power Corp. v. Cresse, 413 So. 2d 1187, 1191 (Fla. 1982).

[9] 642 So. 2d 545, 548 (Fla. 1994).

depreciation expense and accumulated depreciation based on the simple average balance of plant, instead of the year-end balance which the utility used in its MFRs.

In its audit response, Plantation stated that it disagrees with the auditors' methodology and that it appears that in some cases, the guideline lives were not used in the auditors' recalculation. The utility asserted that the depreciation rule states that a specific convention be used when depreciating additions and that it is the utility's policy to take full year depreciation on assets placed in service. Further, Plantation stated that there is no rule specifying that depreciation expense is calculated on an average basis for ratemaking purposes. We agree that the depreciation rule does not prohibit the use of a full year's depreciation on asset additions and that the utility's depreciation expense does not have to be calculated on average plant balances.

Further, the utility stated that its MFRs and annual reports reflect a $17,224 misclassification of wastewater software which is recorded in Account No. 381, Plant Sewers. Plantation asserted that its depreciation schedules clearly state that this amount is for software. The utility noted that page 42 of "Public Utility Depreciation Practices," published by NARUC in August 1996, specifies that software costs may be capitalized as miscellaneous intangible plant. Plantation stated that its 2005 annual report will correctly classify this plant to Account No. 397, Miscellaneous Equipment.

We note that the utility reflected a $17,224 year-end balance for Account No. 381, Plant Sewers. However, the utility also agreed with Exception No. 4 of the initial audit, which reduced the plant sewers' balance from $17,224 to $6,853. Specifically, in Exception No. 4, our auditors stated that the utility recorded $1,092.50 in Account No. 381 for Phase 2AF, Unit 3 and $9,278.90 for 2AF, Unit 4. Our auditors recommended reclassifying the $1,092.50 into another account, but not Account No. 397. Our auditors also recommended that the $9,278.90 be removed and recorded as construction work in progress. Further, upon review of the executed contractor's application for payments for Phase 2AF Unit 3 (Audit WP 16-5/2-2p1-4) and Phase 2AF, Unit 4 (Audit WP 16-5/4-1p1-4), we note that there is no item referring to computer software. Thus, the entire $17,224 amount cannot be for computer software, and the utility has failed to provide any invoices to verify what the actual amount for computer software is. As a result, we agree with our auditor's recommendation to use a 35 year service life for Account No. 381.

In order to reflect the 2004 year-end accumulated depreciation adjustments, the utility's simple average accumulated depreciation balances were converted to the 2004 year-end balances. Based on the plant adjustments previously identified, the utility's full year's depreciation policy, the use of year-end plant balances, and the depreciation rates prescribed by rule, we have recalculated depreciation expense. We find that that the appropriate 2004 year-end balance for accumulated depreciation is $1,566,352 for water and $1,429,690 for wastewater, in order to project out to 2006. Accordingly, the utility's 2004 year-end accumulated depreciation balances shall be reduced by $9,572 for water and by $20,163 for wastewater.

Further, the corresponding adjustments to depreciation expense are a decrease of $4,569 for water and $17,756 for wastewater. Contributions-in-Aid-of-Construction (CIAC) amortization expense is netted with depreciation expense. As will be discussed later in the body

of this Order, the corresponding adjustments to amortization expense are a decrease of $13,626 for water and an increase of $5,867 for wastewater. Thus, the resulting corresponding adjustments to net depreciation expense are an increase of $9,056 for water and a decrease of $23,624 for wastewater.

CIAC and Accumulated Amortization of CIAC

By Order No. PSC-02-1449-PAA-WS, at 11, we established water and wastewater CIAC balances of $1,487,264 and $2,146,102, respectively, as of December 31, 2001. In its MFRs, Plantation reflected simple average CIAC balances ending December 31, 2004 of $1,778,771 for water and $2,274,871 for wastewater. In Audit Exception No. 6 of the initial audit, our auditors state that the utility's water and wastewater CIAC balances are overstated by $87,991 and understated by $89,259, respectively, as of December 31, 2004.

Specifically, our auditors stated that the utility's general ledger does not match the CIAC balances in the above order, wherein the water CIAC balance was understated by $1,166 and the wastewater CIAC balance was understated by $100. For the 2002 calendar year, our auditors indicate that Plantation improperly recorded $6,899 of wastewater capacity charges as water meter installation fees and that the utility misclassified $1,300 of water meter installation fees as wastewater capacity charges. Further, the auditors state that in 2004, Plantation improperly recorded $102,960 of wastewater capacity charges as water meter installation fees and misclassified $19,400 of water meter installation fees as wastewater capacity charges. In its audit response, Plantation stated that it agrees that adjustments to its general ledger may be necessary to be in strict compliance with the rules, but it believes that the auditors are unclear in how these adjustments impact the MFRs. The utility asserted that it is unable to form a response to this exception without knowing what, if any, impact these adjustments have to its filing.

In order to reflect the 2004 year-end CIAC and accumulated amortization of CIAC adjustments, the utility's simple average balances were converted to the 2004 year-end balances. Using the above audit adjustments, the audited 2004 year-end balances are $1,800,812 for water and $2,371,658 for wastewater. In its filing, Plantation reflected December 31, 2004 year-end CIAC balances of $1,888,804 for water and $2,282,398 for wastewater. Based on our review, the auditors' adjustments simply represent the difference between the auditors' and the utility's 2004 year-end balances. Therefore, we find it appropriate to decrease CIAC by $87,991 for water and to increase CIAC by $89,259 for wastewater.

In its filing, Plantation also reflected simple average accumulated amortization of CIAC balances ending December 31, 2004 of $535,587 for water and $970,376 for wastewater. In Audit Exception No. 7 of the initial audit, our auditors state that the utility's water and wastewater CIAC balances are overstated by $48,870 and understated by $260,174, respectively, as of December 31, 2004. According to its audit response, Plantation agrees that an adjustment to CIAC amortization is necessary, but it believes that the auditors misapplied Rule 25-30.140(9)(b)&(c), Florida Administrative Code. According to the utility, it appears that the auditors amortized water and wastewater system capacity charges using the rate for Account 331, Transmission and Distribution Mains, and Account 371, Pumping Equipment, respectively.

Plantation asserts that the rule requires that any composite rate used shall be recalculated each year based on the applicable plant balances and depreciation rates. The utility provided its calculated composite rates from 2002 to 2004, which excluded land, intangible, general and contributed property, as these items either are not associated with the capacity charges or are amortized separately.

We agree that a composite rate should be recalculated each year based on the applicable plant balances and depreciation rates in order to amortize the water and wastewater system capacity charges. We recalculated the composite rates for 2002 to 2004 because the utility failed to adjust its plant balances for the plant adjustments that Plantation had agreed to when it calculated its composite rates. In order to reflect the 2004 year-end accumulated amortization of CIAC adjustments, the utility's simple average balances were converted to the 2004 year-end balances. Based on the above, the 2004 year-end accumulated amortization of CIAC balances shall be decreased by $30,082 for water and shall be increased by $216,435 for wastewater. Further, corresponding adjustments to amortization expense include a reduction of $13,626 for water and an increase of $5,867 for wastewater.

Debit Deferred Taxes

The utility requests that a net deferred tax debit be added to its rate base calculation. This net deferred tax debit arises from combining the deferred tax debits and credits. In the utility's calculation, the debits are greater than the credits, which results in a net deferred tax debit. Net deferred tax credits are normally included in the capital structure at a zero cost rate. Net deferred tax debits are sometimes included in the rate base and a return is allowed thereon.

Deferred income taxes, either debits or credits, arise from timing differences. The timing difference is a transaction that this Commission recognizes one way for book purposes and the Internal Revenue Service (IRS) recognizes another way for tax purposes. For example, we recognize meter installation fees as CIAC, while the IRS recognizes these fees as revenue in the year received. For tax purposes, this results in the utility paying the tax on the CIAC in the year received and recovering it over the life of the asset through depreciation expense. For book purposes, there is a reduced rate base and no depreciation expense. Therefore, the utility has an investment in a deferred tax debit or asset. This deferred tax debit is caused by the Commission's treatment of CIAC and, if greater than the deferred tax credits, the net debit balance is properly included in the rate base of the utility.

The utility's adjustment in this case arises from deferred taxes calculated on net operating loss carry-forwards. This balance exists because the utility had operating losses for tax purposes and will use those losses to offset future income. The utility has never paid any federal or state income taxes. They have either had operating losses for tax purposes or have used operating loss carry-forwards in all tax years since the inception of the company. This deferred tax debit was not caused by any action of this Commission, but by the utility's initial start-up losses. Also, the utility elected not to file for rate relief when these losses started to occur.

The recording of the deferred tax debit calculation is allowable under Rule 25-14.013, Florida Administrative Code. This rule is entitled "Accounting for Deferred Income Taxes

Under SFAS 109." The rule requires that SFAS 109 be implemented by each utility. Subsection (7) of the rule states:

> Deferred income tax assets shall be recorded by each utility for all tax credit carry-forwards including, but not limited to, net operating loss carry-forwards, investment tax credit carry-forwards and alternative minimum tax credit carry-forwards.

We find that there is a problem with the utility's proposal. It is not revenue neutral in the ratemaking process. Subsection (1) of the rule requires, among other things, that "the application of SFAS 109 is revenue neutral in the ratemaking process." The utility's proposal to include this deferred tax debit in rate base would allow additional revenues calculated on the return allowed on the net deferred tax debit. Therefore, the utility's proposal does not accord with Rule 25-14.013(1), Florida Administrative Code.

The utility disagrees with our interpretation of the rule. The utility reasons that there is a conflict with Rule 25-30.433(3). This is a portion of the rule entitled "Rate Case Proceeding" and states that "[a]ny resulting net debit deferred taxes shall be included as a separate line item in the rate base." The utility reasons that the implementation of SFAS 109 should be revenue neutral as a one-time charge. We find that the utility's interpretation is flawed because this rate case is the first time that the rule has been implemented by the utility for the deferred tax debit related to net operating loss carry-forwards. This deferred tax debit for Plantation has not been included in any previous proceeding before this Commission, nor has it been included in any annual report prior to 2005.

In addition, we find that the utility's proposal constitutes a request for retroactive ratemaking, which is prohibited by law.[10] We have consistently recognized that ratemaking is prospective and that retroactive ratemaking is prohibited. By Order No. PSC-98-1243-FOF-WS at page 13,[11] this Commission found that:

> [t]he general principle of retroactive ratemaking is that new rates are not to be applied to past consumption. The Courts have interpreted retroactive ratemaking to occur when an attempt is made to recover either past losses (underearnings) or overearnings in prospective rates. Past losses are interpreted to be prior period costs that a utility did not recover through its rates, causing the utility to earn less

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[10] City of Miami v. FPSC, 208 So. 2d 249, 259-60 (Fla. 1968) (finding that Sections 364.14 and 366.06(2), Florida Statutes, precluded the Commission from making rate reductions effective before the date of the Commission order, and concluding that the Commission has no statutory authority to make retroactive ratemaking orders). See also Order No. PSC-98-1583-FOF-WS, issued November 25, 1998, in Docket No. 971663-WS at 17, In Re: Petition of Florida Cities Water Company for limited proceeding to recover environmental litigation costs for North and South Ft. Myers Divisions in Lee County and Barefoot Bay Division in Brevard County (finding that the same prospective requirement for ratemaking applies to water and wastewater ratemaking under Section 367.081, Florida Statutes).

[11] Issued September 21, 1998, in Docket No. 971596-WS, In Re: Petition for limited proceeding regarding other postretirement employee benefits and petition for variance from or waiver of Rule 25-14.012, F.A.C., by United Water Florida Inc.

> than a fair rate of return. An example of this was addressed in the Ortega case, [Order No. PSC-95-1376-FOF-WS, issued November 6, 1995, in Docket No. 940847-WS,] when the utility requested to reduce accumulated depreciation in a rate case for prior losses where the utility argued that it had not earned a fair rate of return. In City of Miami, [208 So. 2d 249 (Fla. 1968)
>] the petitioner argued that rates should have been reduced for prior period overearnings and that the excess earnings should be refunded. Both of these attempts were deemed to be retroactive ratemaking and thus were prohibited.

By Order No. PSC-98-1583-FOF-WS (in the Florida Cities case), at 19-20, we also found that:

> . . . the prohibition against retroactive ratemaking protects the public by ensuring that present consumers will not be required to pay for past deficits of the company in their future payments. This practice is fair to the public utility, for it can act as speedily as it sees fit to move for a modification of inadequate rates. It is also fair to the consumers, as they are safeguarded from surprise surcharges related to past accounting periods.

Plantation's proposal is an attempt to use prior losses to increase rate base by the amount of deferred taxes calculated on operating loss carry-forwards. Because it does not accord with Rule 25-14.013, Florida Administrative Code, and because it constitutes a request for retroactive ratemaking, the utility's proposal for including a net deferred tax debit in the rate base calculation is disallowed. The result of this disallowance creates a deferred tax credit of $233,737. This amount is properly included in the utility's capital structure.

Working Capital

Rule 25-30.433(2), Florida Administrative Code, requires that Class B utilities use the formula method, or one-eighth of operation and maintenance (O&M) expenses, to calculate the working capital allowance. The utility has properly filed its allowance for working capital using the formula method. As discussed later in the body of this Order, we have made several adjustments to the utility's O&M expenses. Due to those adjustments, we approve a working capital of $29,139 and $32,303 for water and wastewater, respectively. This reflects an increase of $3,761 to the utility's requested working capital allowance of $25,378 for water and an increase of $5,934 from the utility's requested allowance of $26,369 for wastewater.

Projected Rate Base

In its MFRs, the utility reflected simple average test year ending December 31, 2004 rate bases of $1,075,534 for water and $2,020,176 for wastewater. As previously discussed, the test year upon which to set prospective rates for Plantation is the simple average year ending December 31, 2006. We have addressed the appropriate amount of projected land, non-used and useful, and working capital components. Further, we have converted Plantation's simple average balances of plant, accumulated depreciation, CIAC, and accumulated amortization of CIAC to the utility's 2004 year-end balances in order to reflect our 2004 year-end adjustments.

We have addressed the appropriate projections for plant, accumulated depreciation, CIAC, and accumulated amortization of CIAC. The following analysis breaks down our 2006 projected balances for plant, accumulated depreciation, CIAC, and accumulated amortization of CIAC.

Plant in Service

In its filing, the utility reflected simple average year ending December 31, 2004 plant balances of $3,530,574 for water and $4,163,818 for wastewater. In response to staff data requests, Plantation provided invoices, executed contracts, the contractor's application and certification for payments, and detailed cost proposals for its 2005 and 2006 plant additions. There are only two projects related to water treatment plant, specifically its new chloramine treatment system to comply with DEP's rules on levels of TTHM and HAA5, and its RTU system which will improve operational control and data communication between the raw water field and pumps. The remaining plant additions relate to water transmission and distribution systems and wastewater collection systems for new developments.

A breakdown of the 2005 and 2006 plant additions are illustrated in the following tables.

2005 Plant Additions

Project	Water	Wastewater	Total
New Chloramine System	$6,736	$0	$6,736
Phase 2 EV, Unit 2	102,182	194,418	296,600
Phase 2 AF, Unit 4	201,451	422,676	624,127
Phase 1 DV, Unit 3C	32,734	49,176	81,910
Total 2005 Additions	$343,103	$666,270	$1,009,373

2006 Plant Additions

Project	Water	Wastewater	Total
RTU System	$80,956	$0	$80,596
Koronia Park	18,664	22,864	41,528
Phase 2 AF, Unit 5	345,340	749,972	1,095,312
Phase 2 AF, Unit 6	305,409	512,509	817,918
Phase 2 AF, Unit 7	285,609	422,068	707,677
Total 2006 Additions	$1,035,978	$1,707,413	$2,743,391

Further, certain expenses which the utility recorded as contractual services – engineering shall be capitalized to Phase 2AF, Units 5, 6, and 7. Based on our plant adjustments and the above plant additions, the appropriate simple average year ending December 31, 2006 plant balances are $4,465,738 for water and $5,829,219 for wastewater. Accordingly, plant shall be increased by $899,136 for water and by $1,520,443 for wastewater.

Accumulated Depreciation

Based on the plant balances identified above, the utility's full year's depreciation policy, the use of year-end plant balances, and the depreciation rates prescribed by rule, we find that the appropriate simple average year ending December 31, 2006 accumulated depreciation balances are $1,763,997 for water and $1,683,701 for wastewater. A corresponding adjustment shall be made to increase accumulated depreciation by $197,645 for water and by $254,011 for wastewater.

CIAC

Based on our adjustments, projected customer growth, and the service availability charges and policy discussed later, the appropriate simple average year ending December 31, 2006 CIAC balances are $2,488,044 for water and $3,368,844 for wastewater. A corresponding adjustment shall be made to increase CIAC by $687,231 for water and by $997,187 for wastewater.

Accumulated Amortization of CIAC

Based on the CIAC balances identified above, the utility's full year's amortization policy, the use of year-end plant balances, and composite amortization rates for amortizing capacity charges, the appropriate simple average year ending December 31, 2006 accumulated amortization of CIAC balances are $647,737 for water and $1,167,876 for wastewater. A corresponding adjustment shall be made to increase accumulated amortization of CIAC by $102,310 for water and by $135,624 for wastewater.

Projected Rate Base

Consistent with the projected land, non-used and useful, and working capital components and the above adjustments, we find that the appropriate rate base for the December 31, 2006 projected test year is $768,238 for water and $1,329,865 for wastewater.

COST OF CAPITAL

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

Affiliated Long-Term Debt

Plantation has a promissory note for $3,571,367, including $1,040,367 in accrued interest, with Ecocen Corp., the original owners of the development. The utility has never made a payment on this related party debt and stopped accruing interest in 1992. We treated this long-

term debt as common equity in Order No. PSC-02-1449-PAA-WS, at 8. We find it appropriate to continue treating this long-term debt as common equity for regulatory purposes.

Plantation has two related party promissory notes on which it is making interest payments at a rate of 10.00% per annum. The notes are with Prestwick at Plantation Bay and Intervest at Plantation Bay, which are both Florida general partnerships. We believe that these notes are with related parties because Plantation's president serves as an officer of MHK Volusia County, Inc. and PlanMore, Inc., which are the managing partners of the two general partnerships. As of December 31, 2004, the total amount for these notes was $762,721. Based on its projections, the utility will increase the balance of these notes to pay for plant additions in 2005 and 2006. Based on the actual and planned plant additions, we have increased the amount for these notes to $2,354,614 for the 2006 simple average test year, which represents an increase of $1,591,893.

Regarding the 10.00% interest rate on the related party debt, the utility provided a letter from an investment banking firm, Prager, Sealy, & Co., LLC. The opinion of this investment banker is that the utility is too small to issue a significant amount of debt without direct support of its related development company. Also, the investment banker states that comparable debt notes to larger water and wastewater utilities yield 11.00%.

We note that banks lend to their most creditworthy customers at the prime rate on a short-term basis. A typical rate for a riskier loan is prime plus 2.00%. The current prime rate is 7.25% as of January 26, 2006 and, based on the expected actions of the Federal Reserve, is expected to increase to 7.50% on January 31, 2006. Further, we note that the utility's financial condition on a stand-alone basis is somewhat weak. The utility has relatively low levels of common equity and liquidity. Finally, the two notes have four year terms, which is much longer than typical short-term loans with rates tied to the prime rate. For these reasons, we find that the 10.00% interest rate for these related party notes is reasonable.

Return on Common Equity

With the reconciled capital structure, Plantation Bay has a 39.52% equity ratio as a percentage of investor sources of capital. Using this equity ratio and the leverage formula approved in Order No. PSC-05-0680-PAA-WS, issued on June 20, 2005 in Docket No. 050006-WS, we find that 11.78% is the appropriate cost of equity for Plantation Bay. We also find that the appropriate range for this authorized return on equity is plus or minus 100 basis points, or 10.78% to 12.78%.

We note that the current leverage formula order caps the cost of equity at 11.78% for all water and wastewater utilities with equity ratios of less than 40 percent in order to discourage imprudent financial risk.

Weighted Cost of Capital

In its response to data requests, the utility provided its capital structure based on a projected 2006 test year. Based on its original MFRs, the utility's capital structure consisted of simple average balances for common equity, long-term debt, and customer deposits. The utility adjusted its long-term debt and common equity balances to reflect the regulatory treatment of the $3,571,367 related party debt.

The 2006 simple average long-term debt balance is $2,354,614, which represents an increase of $1,591,893. Starting with the utility's simple average common equity balance, we decreased common equity to reflect the effect that the $484,421 loss in 2005 has on debit retained earnings balance in 2006. We also increased common equity in 2006 by $88,338 to reflect the increase in test year net income based on the approved revenue increase. The net effect of these adjustments results in a common equity balance of $1,536,452, which represents an increase of $572,910. We used the utility's simple average 2006 balance for customer deposits, $47,945, which is an increase of $19,485 over the 2004 amount. The appropriate balance for deferred tax credits is $233,737 before reconciling capital structure and rate base.

After making these specific adjustments, we reconciled capital structure and rate base on a pro rata basis over investor sources of capital and deferred tax credits. This Commission's normal procedure is to specifically identify the deferred taxes and not to reconcile the capital structure to rate base using the deferred taxes. In this case, a used and useful calculation was made to plant in service. The information is not available to determine how the used and useful percentages would apply to the deferred taxes. Since the used and useful adjustments reduce rate base, they should also reduce the deferred taxes. As the information is not available, we find it appropriate in this case to reconcile the capital structure, including deferred taxes, to the rate base on pro rata basis. With these adjustments, the appropriate weighted average cost of capital is 10.00%.

NET OPERATING INCOME

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

Methodologies for Projecting Billing Determinants

In Class A or B water and wastewater cases using a projected test year, this Commission's preferred methodology for projecting customer growth has been simple linear regression, while multiple linear regression has been the preferred methodology to project consumption.

However, the use of linear regression implies that the relationships are linear; that is, the number of new customers added each year is approximately the same. In order to determine whether we should apply linear regression versus some other form of regression to project residential ERCs, we plotted the change per period in the historical data (consisting of the number of ERCs, by month, for both the water and wastewater systems, for the period January 2001 to September 2005). The data plots did not resemble linear relationships. Instead, curved linear relationships were evident, caused by an increase in the rate of new customers added each year. In these cases, rather than apply linear regression to project ERCs, we have selected alternative regression methodologies which better fit the historical data. We have selected a semi-log regression and a quadratic regression as alternatives to plot the historical data.

The coefficient of determination, or r^2, is a reasonable measure of the closeness of fit of the regression line to the data points. It equals the proportion of the total variation in the dependent variable (in this case, the number of ERCs) that is explained by the regression line. As the r^2 approaches 100%, so does the closeness of fit of the regression line to the data points. The quadratic regression produced an r^2 score greater than the other two regression methodologies tried for both the residential water and wastewater systems. Therefore, the quadratic regression methodology shall be used to project residential customer growth. Since no general service growth in ERCs has occurred during the past two years, no growth in this class is projected in 2006.

As discussed above, multiple regression has been this Commission's preferred methodology for projecting consumption. In this case, we performed analyses based on numerous variable combinations to project residential and general service consumption. We have selected a multiple regression methodology that captures the long-term trends in water and wastewater consumption, the cyclical variations in consumption observed each year, as well as variations in consumption attributable to variations in rainfall. Residential wastewater consumption is projected by trending it against residential water consumption.

Based on the foregoing, the appropriate methodologies for projecting residential customer growth and consumption are quadratic regression for customer growth, multiple linear regression for residential water consumption, and simple linear regression for residential wastewater consumption. No customer growth is assumed for the general service class, but the appropriate methodology to project general service consumption is multiple linear regression.

The appropriate bills, ERCs and consumption for the water and wastewater systems are shown in the table below:

PROJECTIONS
FOR THE 2006 TEST YEAR

	Bills	ERCs	Consumption (kgals)
Water	19,147	19,512	67,189.6
Wastewater	14,931	15,195	62,310.3

Projected Revenue

In its filing, Plantation recorded operating revenues of $346,238 for water and $224,920 for wastewater. The utility stated that, pursuant to Rule 25-30.335(3), Florida Administrative Code, it prorates customer billing where service is rendered for less than 50% of the billing cycle. In 2004, these partial billings represented 1.97% of the total water residential bills and 1.05% of the total wastewater residential bills. Using these historical partial billing percentages and our 2006 billing determinants, we find it appropriate to increase the utility's operating revenues by $140,461 for water and by $81,517 for wastewater, which includes the projection of miscellaneous service revenues.

Related Party Developer Revenues

On MFR Schedule F-1, the utility reflected 4,382,000 gallons for other uses, which equated to a monthly average of 365,167 gallons. In a staff data request, the utility was asked to explain why the 25,000 gallons in January and February were so much less than the monthly average and why the 959,000 gallons for the month of May was so much greater than the monthly average. In its response, Plantation explained that the other water use on MFR Schedule F-1 was determined from analysis of auto-flushing, hydrant maintenance activity, construction schedules, usage associated with construction, emergencies, and hydrant accidents. The utility stated that beginning with the end of April, it began using hydrant auto-flushers. Based on the number in use and the rate and length of the flush, Plantation estimated that the monthly gallons were 330,000 for auto flushing. The utility also estimated 24,500 gallons for rotating hydrant and post hydrant maintenance. Plantation explained that the additional 600,000 gallons in May was for a water main installation and sod watering associated with construction activities. Further, the utility stated that it does not maintain a log for other uses; however, Plantation asserted that it will attempt to keep track of and record construction related consumption.

On November 28, 2005, our staff held a teleconference meeting with the utility and the Office of Public Counsel. At that meeting, the utility reiterated that it does not monitor or record the gallons drawn from hydrants for sod watering associated with construction activities. Staff requested the name of the construction phase or phases for the sod watering in the month of May. In its response filed on December 2, 2005, the utility estimated that approximately 250,000 gallons of water were used to water new lake bank sod in Phase 2AF3 in May, 2004 because of dry conditions. According to Exhibit L of the utility's response, Phase 2AF3 consists of 62 lots.

We note that the sod watering associated with construction activities is for the utility's related party's developments. The utility should charge its related party developer for such water usage. Because the utility stated on two earlier occasions that it did not monitor or record the gallons drawn from hydrants for sod watering and because it did not provide any support for its estimated 250,000 gallons, we find it reasonable to allot 300,000 gallons each for the water main installation and sod watering associated with construction activities.

When dividing the 300,000 gallons by 62 lots, the average gallons per lot is approximately 4,839 gallons. When multiplying the average gallons per lot by the 2006 ERC

growth, we calculate a total of 1,364,516 gallons associated with sod watering and construction activities for the projected 2006 test year. When applying the gallonage rate of $2.06 per 1,000 gallons that was effective prior to the utility's filing, the result in revenues is $2,811. Based on the foregoing, we find it appropriate to impute $2,811 associated with the related party developer's water usage.

Reuse Revenue

According to the utility's response to a staff data request, Plantation's reuse system, entitled "slow rate Part III public access spray irrigation system," was placed into service in 1986. Pursuant to the utility's DEP reuse reports, the golf course in Plantation's service territory received approximately 22,154,600 gallons of reuse water in 2004. According to the utility's reuse reports to the St. John Water Management District, the golf course received approximately 7,389,000 gallons of reuse water from January, 2005 to June, 2005. The 2005 annualized reuse gallons are 14,778,000 gallons (7,389,000 multiplied by 2). By this Order, we approve a reuse rate of $0.07 per 1,000 gallons. Based on the 2005 annualized reuse gallons and the approved reuse rate, the appropriate reuse revenue for inclusion in the projected test year is $1,034.

Net Operating Income (NOI) Audit Adjustments

The following NOI adjustments represent audit adjustments and adjustments contained in the utility's responses to data requests. The utility agreed to these adjustments.

Audit Adjustments	Water	Wastewater
1. Reallocation – Response to First Data Request		
Decrease water miscellaneous service revenues.	($2,957)	
Increase wastewater miscellaneous service revenues.		$2,957
2. Reclassifications – Initial Audit Exception No. 1		
Increase O&M Expense – Account 736		$2,000
3. Reclassifications, Under and Over-statements – Initial Audit Exc. 10		
Increase O&M Expense – Account 711		$1,878
Increase O&M Expense – Accounts 616 and 716	$239	$239
Decrease O&M Expense – Account 620	($7,046)	
Decrease O&M Expense – Accounts 636 and 736	($1,151)	($7,348)
Decrease O&M Expense – Accounts 675 and 775	($6,556)	($3,170)
4. Reallocation – Initial Audit Disclosure No. 7		
O&M Expense – Decrease Account 620 and Increase Account 720	($158)	$158
O&M Expense – Decrease Account 632 and Increase Account 732	($191)	$191
O&M Expense – Decrease Account 633 and Increase Account 733	($33)	$33
O&M Expense – Decrease Account 634 and Increase Account 734	($3,543)	$3,543
O&M Expense – Decrease Account 636 and Increase Account 736	(1,361)	$1,361
O&M Expense – Decrease Account 657 and Increase Account 757	($751)	$751
O&M Expense – Decrease Account 675 and Increase Account 775	($400)	$400

Based on these adjustments, revenues shall be decreased by $2,957 for water and shall be increased by $2,957 for wastewater. Further, O&M expenses shall be decreased by $20,951 for water and increased by $36 for wastewater.

Other Historical O&M Expense Adjustments

In its MFRs, the utility recorded purchased power of $23,691 for water and $21,209 for wastewater. Plantation also reflected chemicals of $19,305 for water and $3,312 for wastewater. The following analysis addresses our adjustments to purchased power expense, chemicals, and hurricane related costs.

Purchased Power

In Audit Disclosure No. 4 of the initial audit, our auditors state that the utility's total purchased power amount includes $35,957 for FPL Meter Account No. 1410-06974 that is allocated 60 percent for water and 40 percent for wastewater. The auditors state that this meter is located at the combined water and wastewater plant facilities site. We note that the utility's allocation is based on revenues. We find that the use of ERCs is a more reasonable allocation method than the use of revenues. Using the 2004 ERCs for allocation purposes, purchased power expense is $19,661 for water and $24,295 for wastewater. Accordingly, purchased power shall be decreased by $4,030 for water and shall be increased by $3,086 for wastewater.

Chemicals

In the additional engineering information contained in its MFRs, Plantation reflected purchases of four chemicals: Aqua Mag, SM Hical Pebble QL, Chlorine Gas, and HTM Shock Treatment. The Aqua Mag and SM Hical Pebble QL is used only for the water treatment plant, and the HTM Shock Treatment is used only for the wastewater treatment plant. The following table illustrates the quantities and total dollar amounts that the utility acquired, as well as the specific dosage rates used at the treatment plants during the 2004 test period.

Type of Chemical	Quantity	Total Amount	Specific Dosage Rates
Aqua Mag	6 – 55 Gallon Drums	$4,801	2.67 gallons per 1 million gallons
SM Hical Pebble QL	77.76 Tons	9,830	1,780 lbs per 1 million gallons
Chlorine Gas	106 – 150 lb Cylinders	7,790	25 lbs per day for water and 18 lbs for wastewater
HTM Shock Treatment	2 – 100 lb units	196	As needed to clean weirs

Given the specific dosage rates used at the treatment plants during the 2004 test period, the utility needed 154.27 gallons of Aqua Mag, 51.42 tons of SM Hical Pebble QL, and 15,695 pounds of Chlorine Gas. Plantation acquired 330 gallons of Aqua Mag, which represents 175.73 gallons in excess of the gallons required. The 77.76 tons of SM Hical Pebble QL purchased results in 26.34 tons in excess of the 51.42 tons required. In addition, the 15,900 pounds of Chlorine Gas acquired represents 205 pounds in excess of the total pounds required.

Our staff had discussions with the utility's water and wastewater operator and engineering consultant for plant improvements regarding the specified dosage rates. They both commented that more Aqua Mag is being used to comply with the DEP lead and copper rule, but neither of them provided any support documentation regarding the incremental quantities

involved. The operator also stated that in mid-December, orders are usually placed because of the response time on filling the order during this time. However, neither the operator nor the engineering consultant could explain the significant excess for the Aqua Mag and SM Hical Pebble QL above the stated dosage rates. Therefore, we find it appropriate to decrease chemical expense by $5,944 for water and by $42 for wastewater.

Hurricane Related Costs

The utility agreed to remove $8,855 of hurricane damage expenses related to Exception 10 of the initial audit. In Audit Exception No. 11 of the initial audit, our auditors stated that the hurricane related costs are non-recurring expenses and should be amortized over five years, pursuant to Rule 25-30.433(8), Florida Administrative Code. This rule requires non-recurring expenses to be amortized over a five year period unless a shorter or longer period can be justified.

In its response to the audit, Plantation disagrees that the $8,855 of expenses for hurricane repairs are unlikely to occur again in the near future because of the increase in hurricane activity. The utility believes that these costs should be treated as effects from natural disasters and amortized over a much shorter time period than five years. Plantation proposes an amortization period of two years. The utility asserts that it is generally recognized in the scientific community that since 1995, the Atlantic Ocean has been in a multi-decadal cycle of increased hurricane activity, with the last cycle of increased activity lasting from the late 1920s to 1970. Plantation states that the current cycle started in 1995 and is expected to last for the next 10 to 20 years. In support of the utility's assertions, Plantation provided a printout of three articles from three different websites.

We agree that hurricane activity has increased. However, we believe that the utility's location is an important factor which will affect the risk of future hurricane damage, as indicated in one of the articles that Plantation provided in support of its position. Specifically, in the on-line article entitled Many More Hurricanes to Come, posted August 31, 2005, on the LiveScience website, a meteorologist at the Atlantic Oceanographic and Meteorological Laboratory stated that "[s]ome models suggest there will be more hurricanes, some less, and other suggest that it will depend on the area." Without having expert empirical evidence that the utility's location will be impacted every two years at the 2004 damage level or greater, we have reservations about approving the utility's proposed two-year amortization period.

This Commission has approved recovery periods of two to three years in some of the recent storm damage cases for the electric and gas utilities. However, the appropriate amortization period for hurricane damage costs in this proceeding is distinguishable from the approved recovery periods for those storm damage recovery proceedings. In the electric storm damage proceedings, we approved a surcharge to be collected over a two or three year period. In this proceeding, the hurricane costs will be included in rates until the next rate case.

According to the utility's water and wastewater capacity analysis report dated July 2004, Plantation intends to complete substantial wastewater plant improvements in 2010 in order to

meet capacity demands. Since water demand is projected to increase significantly, the utility stated that it will be considering additional water treatment, including a membrane plant in 2010. Given the growth of this utility and the above-mentioned water and wastewater plant improvements, we believe that the utility will file another rate case in approximately 2010, which is four years from our approved 2006 projected test year. Therefore, we find it appropriate to amortize the 2004 hurricane costs over four years. Accordingly, wastewater O&M expenses shall be increased by $2,213.[12]

In summary, to reflect the appropriate 2004 historical purchased power and chemicals and the appropriate amortization of hurricane related costs, we hereby decrease O&M expenses by $9,975 for water and increase O&M expenses by $5,257 for wastewater.

Non-Growth O&M Expense Adjustments

The following is our analysis of non-growth related adjustments to sludge removal expense, fuel for power production, contractual services - management fees, contractual services – other, and general liability insurance.

Sludge Removal Expense

In its filing, Plantation reflected a sludge removal expense of $54,154. Since our staff's supplemental audit covered the period January 1, 2005 through July 13, 2005, we used the following to project the 2005 sludge removal expense: (1) the quantities purchased from July 14, 2004 through December 31, 2004; (2) the $0.095 rate from August 1, 2005 to October 31, 2005; (3) the new contract rate of $0.12 rate from November 1, 2005 to December 31, 2005; (4) the $28.89 current fuel surcharge per load; and (5) the $250 current rate to clean lift stations. As a result, we find that the 2005 sludge removal expense is $52,767, which represents a $3,264 reduction from the 2004 amount recorded. Further, according to our review of the invoices, we note that the gallons from January 1, 2005 to July 13, 2005, were 83,504 less than the amount of gallons for the same period in 2004.

Fuel for Power Production

As discussed earlier, the utility purchased fuel for power production in 2004 of $239 each for water and wastewater. Based on the utility's response to a staff data request, the fuel oil per gallon increased from $1.63 to $2.94. Based on our review of the 2004 expenses, the utility only purchases the fuel oil once per year. As such, in order to project the 2005 expense, we remove the September 2004 amount from consideration in the 2005 O&M expenses and we include only the October 2005 amount of $295 each for water and wastewater. This represents an increase of $56 ($295 less $239) each for water and wastewater.

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[12] This adjustment is consistent with our recent decision in another rate case. See Order No. PSC-05-0621-PAA-WU, issued June 6, 2005, in Docket No. 041145-WU, In re: Application for staff-assisted rate case in Pasco County by Holiday Utility Company, Inc.

Contractual Services – Management Fees

In 2004, Plantation's contractual services - management fees allocation was $38,880 for water and $25,920 for wastewater, which was based on revenues for each system. In 2003 and 2004, Plantation recorded total contractual services – management fees of $64,800. According to the utility's response to a staff data request, the utility stated that Intervest Construction, Inc.'s (ICI) annual management fee was increasing from $64,800 to $90,000 in 2005. When applying our 2005 benchmark factor, the projected 2005 annual management fee is $78,876, which is $11,124 less than the utility's requested increase. However, when applying our 2005 and 2006 benchmark factors, the projected 2006 annual management fee is $92,114, which is $2,114 greater than the utility's requested $90,000 management fee. Thus, we find that the utility's requested $90,000 is a reasonable amount for the projected 2006 test year. Using the 2006 ERCs for allocation purposes, contractual services – management fees shall be increased by $15,549 for water and by $9,651 for wastewater.

Contractual Services – Other

In 2004, the utility recorded contractual services – other of $57,308 for water and $64,655 for wastewater. According to an invoice totaling $1,424 from Volusia Construction Company, Inc., the local cable company cut a main. Rule 25-30.433(8), Florida Administrative Code, states that non-recurring expenses shall be amortized over a five year period unless a shorter or longer period of time can be justified. We find that this event is non-recurring in nature and it shall be amortized over a five year period pursuant to Rule 25-30.433(8), Florida Administrative Code. Further, in Audit Exception No. 5 of the supplemental audit, our auditors recommended the appropriate amortization of deferred rate expense associated with this Commission's 2001 earnings investigation of Plantation and several other deferred expenses which the utility agreed to in its response to the audit. In its response to a staff data request, the utility provided support documentation that the monthly meter reading fee by Sky's The Limit Handyman Service, Inc. had increased from $540 to $600 and that the monthly plant supervision fee charged by Wetherell Treatment Systems, Inc. had increased from $2,232.50 to $2,382.50 for water and from $1,435 to $1,585 for wastewater. Based on the above, we find that the appropriate 2005 contractual services – other expenses is $67,900 for water and $75,104 for wastewater. This represents an increase of $13,104 for water and $12,223 for wastewater.

General Liability Insurance

In 2004, the utility recorded general liability insurance of $7,853 for water and $5,236 for wastewater. According to the utility's response to a staff data request, the utility provided support documentation that its general liability insurance had increased by $1,271 when the policy was renewed in September 2005. Therefore, the 2006 projected general liability insurance is $7,738 for water and $6,622 for wastewater. This represents an increase of $636 each for water and wastewater.

Summary of Non-Growth O&M Expense Adjustments

The 2005 sludge removal expense is $52,767, which represents a $3,264 reduction from the 2004 amount recorded, and the 2005 fuel for power production is $295, which represents an increase of $56 each for water and wastewater. In addition, contractual services – management fees are increased by $15,549 for water and $9,651 for wastewater. Further, contractual services – other expenses are increased by $13,104 for water and by $12,223 for wastewater and general liability insurance is increased by $636 each for water and wastewater. Based on these non-growth related adjustments, O&M expenses are increased by $29,344 for water and by $19,302 for wastewater.

2006 Projected Purchased Power Expense

In its MFRs, the utility recorded purchased power of $23,691 for water and $21,209 for wastewater. Using the ERCs for allocation purposes, purchased power is $19,661 for water and $24,295 for wastewater for the 2004 historical test year. Based on the utility's response to a staff data request, Plantation provided a few invoices supporting that its purchased power general service non-demand charges were increasing from $0.083790 to $0.088560 per kilowatt hour (KWh) and its purchased power general demand charges were increasing from 0.052610 to 0.056910 per KWh. Plantation did not provide all of the 2004 and 2005 invoices which reflect the KWhs. Moreover, although a 100% audit of these expenses was performed in the initial or supplemental audits, a copy of these invoices were not included in the workpapers.

In order to project the 2005 purchased power expenses, we used the actual audited expenses from January to July. We projected the 2005 KWhs using the incremental gallons sold increased from the 2005 projected gallons sold. We also allocated the difference between the projected 2005 purchased power cost and the actual purchased power cost from January to July, based on the 2004 monthly ratios of the total cost from August to December of 2004. In order to project the 2006 purchased power expenses, we used the incremental gallons sold increase from the 2006 projected gallons sold and allocated the expenses based on the 2005 monthly ratios. Based on the foregoing, we find that the appropriate amount of purchased power expense for the December 31, 2006, projected test year is $27,835 for water and $33,425 for wastewater. Accordingly, purchased power expense is increased by $8,174 for water and by $9,130 for wastewater.

2006 Projected Chemical Expense

In its MFRs, the utility recorded chemical expense of $19,305 for water and $3,312 for wastewater. As previously noted, given the specific dosage rates used at the treatment plants during the 2004 test period, the utility needed 154.27 gallons of Aqua Mag, 51.42 tons of SM Hical Pebble QL, and 15,695 pounds of Chlorine Gas. Based on the utility's response to a staff data request, the utility provided a few invoices supporting an increase in the unit costs for SM Hical Pebble QL from $118.50 to $127.52 per ton. Plantation also provided support that Chlorine Gas was increasing from $70 to $90 per cylinder during May through August of 2005 and increasing from $90 to $100 per cylinder during September through December of 2005.

In order to project the 2005 chemical expenses, we used the actual audited expenses from January to July. Based on our approved 2004 amounts, we calculated the annual dosage amount for the 2004 gallons sold. We applied the 2005 growth of gallons sold to the 2004 dosage amount, in order to project the 2005 chemical expense. Using the monthly ratios from August to December of 2004, we allocated the difference between the projected 2005 chemical cost and the actual chemical cost from January to July. In order to project the 2006 chemical expense, we applied the incremental gallons sold increase from the 2006 projected gallons sold to the projected 2005 dosage amounts and allocated the expenses based on the 2005 monthly ratios.

Further, we discovered an invoice in the supplemental audit workpapers that related to Plantation's purchases of ammonia and sulfuric acid for its new chloramine treatment system. Specifically, Invoice No. 116363 from The Dumont Company, Inc. dated September 15, 2005 reflected the purchase of two 55 gallon drums of ammonia and one 55 gallon drum of sulfuric acid for $407.31, including $33 for a fuel surcharge and sales tax. On two separate occasions, our staff asked the utility whether the annual chemical purchases would be for the new chloramine system. By e-mail dated December 8, 2005, Plantation's attorney stated that the utility's engineering consultant asserted that the chloramine system uses about 10-12 drums of chemicals annually, and that the utility has been billed $4,500 to date for them. However, Plantation has not provided any support documentation for the $4,500 amount. Based on 12 drums of chemicals a year and using the same ratio of ammonia and sulfuric acid that was in the above-mentioned invoice, the total annual chemical expense for the new chloramine treatment system is $1,605 ($407.31 X 4). For the 2005 projected chemical expense, we find that two $407.31 purchases in September and December are appropriate. For the 2006 projected chemical expense, we find that four purchases at $407.31 each for the months of March, June, September, and December are appropriate.

Based on the above, the appropriate amount of chemical expense for the December 31, 2006, projected test year is $21,072 for water and $5,670 for wastewater. Accordingly, chemical expense is increased by $7,711 for water and by $2,400 for wastewater.

Other Growth O&M Expense Adjustments

In its filing, Plantation recorded 2004 O&M expenses of $203,025 for water and $210,952 for wastewater. We have determined the appropriate 2006 expense amounts for contractual services – management fees, general liability insurance, purchased power expense, and chemicals. We have also determined the appropriate number of projected customers, bills and consumption. The following analysis discusses what additional expense adjustments are necessary to reflect the appropriate number of projected customers, bills and consumption.

Our staff conducted a supplemental audit of the utility's books and records which covered the period from January 1, 2005 to July 31, 2005. In Audit Exception No. 8 of the supplemental audit, our auditors recommended several changes to the utility's O&M expenses that were recorded in its general ledger. In its response, Plantation agreed with the auditors' recommended O&M expense adjustments. With the exception of a few additional adjustments to materials & supplies, contractual services – engineering, contractual services – legal, and

contractual services - other, we have utilized the actual audited totals for the first seven months in 2005, in order to project the 2005 and 2006 O&M expenses.

In the supplemental audit, two materials & supplies invoices totaling $668 were not allocated between water and wastewater. Based on the 2005 ERCs, we allocated these two invoices and the other invoices associated with water and wastewater. Moreover, the utility recorded $219 in contractual services - engineering to prepare maps associated with its recent amendment case and recorded $5,692 in contractual services - legal for filing the amendment application and responding to our staff's inquiries during the processing of the amendment case. By Order No. PSC-05-0491-FOF-WS, issued May 5, 2005, in Docket No. 050123-WS,[13] we approved the utility's application to service the community park that encompasses a recreation park with tennis and basketball courts, baseball fields, walking trails, and a community center. Rule 25-30.433(8), Florida Administrative Code, states that non-recurring expenses shall be amortized over a five year period unless a shorter or longer period of time can be justified. We find that these costs represent regulatory commission expense associated with Docket No. 050123-WS and should be amortized over five years, pursuant to Rule 25-30.433(8), Florida Administrative Code.[14]

Plantation recorded $731 in contractual services - engineering for water and sewer designs associated with the construction phase 2AF, Units 5, 6, and 7. Because these expenditures related to the 2005 and 2006 water and wastewater line expansions, we find that these costs should be capitalized. Moreover, the utility recorded $103 and $1,649 in contractual services - legal and other, respectively, for a main cut by a cable company. Plantation also recorded $4,270 in contractual services – other for the repair of a water line at the Plantation Bay Golf Course. We find that both of these line repairs are non-recurring in nature and they shall be amortized over a five year period. Finally, there were amortization adjustments that the utility agreed to for deferred rate expense associated with this Commission's 2001 earnings investigation of Plantation and several other deferred expenses. Because these deferred debits were fully amortized in 2005, we have removed them for purposes of projecting the 2006 O&M expenses.

Consistent with our ERC growth for 2005 and 2006, we calculated benchmark indices to project the remaining O&M expenses. Using our 2005 ERC growth and the Commission approved 2005 price index, we calculated 2005 benchmark index factors of 1.2172 for water and 1.1596 for wastewater. Using our 2006 ERC growth and the Commission approved 2005 price index, we calculated 2006 benchmark index factors of 1.2165 for water and 1.1647 for wastewater.

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[13] In re: Application for "quick take" amendment of Certificate Nos. 455-W and 389-S in Flagler County by Plantation Bay Utility Company.

[14] This treatment is consistent with our decision in a recent rate case for Alafaya Utilities, Inc. See Order No. PSC-04-0363-PAA-SU, issued April 5, 2004, in Docket No. 020408-SU, In re: Application for rate increase in Seminole County by Alafaya Utilities, Inc.

Based on our approved adjustments and the benchmark indices mentioned above, O&M expenses shall be increased by $33,460 for water and by $18,755 for wastewater, in order to reflect the appropriate number of projected customers, bills and consumption.

Rate Case Expense

The utility included a $139,000 estimate in the MFRs for current rate case expense. Our staff requested an update of the actual rate case expense incurred, with supporting documentation, as well as the estimated amount to complete the case. On December 14, 2005, the utility submitted a revised estimated rate case expense through completion of the PAA process of $215,894. The components of the estimated rate case expense are as follow:

	MFR Estimated	Actual	Additional Estimated	Total
Filing Fee	$4,000	$5,500	$0	$5,500
Legal Fees	45,000	35,899	14,000	49,899
Accounting Fees	75,000	97,630	12,067	109.697
Consultant Fees	11,000	8,115	3,594	11,709
ICI In-house Fees	0	25,873	9,216	35,089
Notices	4,000	0	4,000	4,000
Total Rate Case Expense	$139,000	$173,017	$42,877	$215,894

Pursuant to Section 367.081(7), Florida Statutes, this Commission determines the reasonableness of rate case expenses and disallows all rate case expenses determined to be unreasonable. We have examined the requested actual expenses, supporting documentation, and estimated expenses as listed above for the current rate case. Based on our review, we find that several adjustments are necessary to the revised rate case expense estimate.

Our first adjustment relates to costs incurred to correct deficiencies in the MFR filing. Based on our review of invoices, the utility's consultant and attorney billed a combined amount of $650 for correcting the MFR deficiencies. We have previously disallowed rate case expense associated with correcting MFR deficiencies because of duplicate filing costs.[15] Accordingly, we find it appropriate to remove $650 as duplicative and unreasonable rate case expense.

Our second adjustment relates to accounting fees totaling $925 for used and useful calculations, which represents five hours of work done by Mr. Nixon, the utility's rate case accountant, at $185 per hour. As indicated on MFR Schedule B-10, Plantation stated that Mr.

[15] See Order No. PSC-05-0624-PAA-WS, issued Jun 7, 2005, in Docket No. 040450-WS, In re: Application for rate increase in Martin County by Indiantown Company, Inc.; and Order No. PSC-01-0326-FOF-SU, issued February 6, 2001, in Docket No. 991643-SU, In Re: Application for increase in wastewater rates in Seven Springs System in Pasco County by Aloha Utilities, Inc.

Seidman, the utility's consultant, is responsible for used and useful and the "F" section in the MFRs. Given the MFR template excel files, we find that there should be minimal time involved to reflect non-used and useful amounts in Sections "A" and "B" of the MFRs. We further find that the five hours spent by Mr. Nixon are excessive and that 1.50 hours by Mr. DeChario at $115 per hour and 0.50 hours for Mr. Nixon's review are more reasonable. Thus, we find it appropriate to reduce rate case expense by $660 ($925 less $265).

Our third adjustment relates to the 26.75 hours estimated by Mr. Seidman to complete the rate case. Specifically, Mr. Seidman estimated 22.75 hours to assist with and respond to data requests and four hours to prepare for and attend the agenda. After Mr. Seidman's stated actual hours spent on data requests, we are only aware of one subsequent e-mail data request, regarding well capacities for the water treatment plant used and useful issue. Based on the information requested, we find that no more than two hours at $125 per hour is reasonable for this data request. Further, given the number of issues in this case and the great disparity between our approved wastewater used & useful percentage and the utility's proposed 100% wastewater used and useful percentage, we find that approximately seven hours to prepare and attend the agenda conference is more reasonable. Accordingly, rate case expense shall be reduced by $2,190.

Our fourth adjustment relates to responses to data requests regarding accumulated deferred income taxes and income taxes. We have previously cited to several cases in which utilities have unsuccessfully attempted to increase rate base by past operating losses. We do not see a difference between what Plantation proposes and those prior cases. We find that the utility is attempting to use prior operating losses to increase rate base by the amount of deferred taxes calculated on operating loss carry-forwards. Further, the utility has never paid income taxes and has substantial net operating loss carry-forwards. Although some of these loss carry-forwards will expire before being used, we believe that for the next five to six years, the utility will incur no income tax liability. However, Plantation proposed an income tax provision of $37,375 for water and $70,201 for wastewater. We find that these proposals were inappropriately included in the rate case and that rate case expense associated with them should be disallowed. Thus, a rate case expense reduction shall be made for the numerous data requests sent to the utility in order to ascertain why it included a net debit accumulated deferred income tax balance in rate base and an income tax provision in its proposed revenue requirements for water and wastewater.

However, the utility's rate case support documentation does not contain the necessary detail to determine the exact hours spent by the utility, its accounting consultants, and its attorneys to respond to our staff's accumulated deferred income taxes and income taxes data requests. As such, we find that a reasonable estimator of the hours spent is a ratio of the questions related to these items to the total questions asked in staff's four data requests and the follow-up questions contained in the utility's letter dated December 12, 2005. Excluding non-responsive questions and questions sent again due to no initial response by the utility, we calculate a ratio of 15.92%. The utility support for actual expense by ICI employees is not sufficient to determine how many total hours were spent on responding to data requests by our staff. Thus, we find it appropriate to reduce the actual expense by ICI employees by the 15.92% ratio, which represents a decrease of $3,895. Although the support provided for its accounting consultants and attorneys reflected the amounts related to the staff data requests, the information

was not sufficient to determine the exact hours spent to respond to the accumulated deferred income taxes and income taxes data requests. When applying the 15.92% ratio, the accounting and legal fees are reduced by $7,324 and $4,532, respectively.

Our fifth adjustment relates to the $7,824 of estimated costs to complete this case by ICI employees. The utility simply stated that the $7,824 was the estimate to complete the case, but it failed to provide any detailed documentation for what was involved. In those cases where rate case expense has not been supported by detailed documentation, our practice has been to disallow some portion or remove all unsupported amounts.[16] Based on the foregoing, the $7,824 of unsupported rate case expense shall be removed.

It is the utility's burden to justify its requested costs. Further, this Commission has broad discretion with respect to allowance of rate case expense. Nevertheless, it would constitute an abuse of discretion to automatically award rate case expense without reference to the prudence of the costs incurred in the rate case proceedings.[17]

With the five adjustments noted above, the resulting rate case expense total is $188,869, which represents a reduction of $27,025. Based on a review of approved rate case expense for several recent file and suspend rate cases, we find that the $188,869 amount is excessive. Attachment B, attached to this Order, contains an analysis of the average rate case expense cost approved by this Commission in recent years for water and wastewater file and suspend cases. Attachment B also includes the approved rate case expense of two recent file and suspend cases that went directly to hearing. For both of those cases, the cost per ERC was significantly less than Plantation's cost per ERC using the $188,869 adjusted amount discussed above. As illustrated in Attachment B, the total average cost per ERC for seven recent file and suspend PAA rate cases is $25.30 per ERC. Using the average cost of $25.30 per ERC, we find it appropriate to further reduce rate case expense by $110,156, which results in total rate case expense of $78,713. A breakdown of the $78,713 amount is illustrated in the following table:

[16] See Order No. PSC-94-0075-FOF-WS, issued January 21, 1994, in Docket No. 921261-WS, In re: Application for a Rate Increase in Lee County by Harbor Utilities Company, Inc.; Order No. PSC-96-0629-FOF-WS, issued May 10, 1996, in Docket No. 950515-WS, In re: Application for staff-assisted rate case in Martin County by Laniger Enterprises of America, Inc.; and Order No. PSC-96-0860-FOF-SU, issued July 2, 1996, in Docket No. 950967-SU, In re: Application for staff-assisted rate case in Highlands County by Fairmount Utilities, the 2nd, Inc. We note that, in all of these cases, this Commission removed the entire unsupported amounts.

[17] Meadowbrook Util. Sys., Inc. v. FPSC, 518 So. 2d 326, 327 (Fla. 1st DCA 1987), review denied by 529 So. 2d 694 (Fla. 1988).

	MFR Estimated	Utility Revised Actual &Estimated	Commission Adjustments	Total
Filing Fee	$4,000	$5,500	$0	$5,500
Legal Fees	45,000	49,899	(32,586)	17,313
Accounting Fees	75,000	109,697	(70,552)	39,146
Consultant Fees	11,000	11,709	(7,972)	3,737
ICI In-house Fees	0	35,089	(26,071)	9,018
Notices	4,000	4,000	0	4,000
Total Rate Case Expense	$139,000	$215,894	($137,181)	$78,713
Annual Amortization	$34,750		($15,072)	$19,678

We have previously adjusted rate case expense by showing a strong correlation between the number of ERCs and rate case expense. See Order No. 10465, issued December 21, 1981, in Docket No. 800641-W,[18] in which this Commission used the average cost per ERC of prior approved rate case expense amounts to determine an allowable amount for a utility. The First District Court of Appeal per curium affirmed the Commission's Order.[19] Further, we have previously disallowed rate expense in a limited proceeding where the rate increase was denied.[20] Although we enjoy broad discretion with respect to the allowance of rate case expense, whether a rate increase is granted is not the sole criteria on which that discretion rests.[21]

Using the projected 2006 ERCs, the rate case expense associated with water is $40,033 and the amount associated with wastewater is $38,680. We have reservations about allowing any rate case expense for water for the following reasons. First, as stated earlier, we calculated the water and wastewater revenue requirements using the utility's requested 2004 test year, which resulted in a water revenue decrease of ($70,079) or (20.41%). Second, by this Order, we approve a revenue decrease of ($79,865), or (16.41%), for water. If the rate case expense of $40,003 for water were allowed, the annual rate case amortization expense would be $10,008, which would result in a revenue decrease of $69,253.

Under this Commission's rate setting authority, a utility seeking a change in rates must demonstrate that its present rates are unreasonable.[22] We find it inappropriate to approve rate case expense for water because of the utility's overearnings posture in 2004 and the 2006

[18] In re: Application of Keystone Water Company, Inc. for an increase in water rates to its customers in Clay County, Florida.

[19] Keystone Water Co., Inc. v. Florida Public Service Commission, 417 So. 2d 335 (Fla. 1st DCA 1982), petition for review dismissed by 419 So. 2d 1198 (Fla. 1982).

[20] See Order No. PSC-98-1583-FOF-WS, issued November 25, 1998, in Docket No. 971663-WS, In re: Application for Florida Cities Water Company for Recovery of Environmental Litigation Costs.; and Order No. PSC-99-1917-PAA-WS, issued September 28, 1999, in Dockets Nos. 970536-WS and 980245-WS, In re: Application for limited proceeding increase in water and wastewater rates in Pasco County by Aloha Utilities, Inc.

[21] See Florida Crown Utility Services., Inc. v. Utility Regulatory Board of Jacksonville, 274 So. 2d 597, 598 (Fla. 1st DCA 1973).

[22] South Fla. Natural Gas v. Florida Public Service Commission, 534 So. 2d 695, 697 (Fla. 1988).

revenue decrease approved herein. We further find that the utility's decision to file for water rate relief was imprudent and that the customers should therefore not have to bear this cost.

For the foregoing reasons, no rate case expense shall be allowed for water and the utility's wastewater system shall be allowed $38,680 in rate case expense. The allowable rate case expense shall be amortized over four years, pursuant to Section 367.0816, Florida Statutes, at $9,670 per year. Based on the data provided by the utility and the above adjustments, rate case expense shall be reduced by $17,674 for water and by $7,406 for wastewater. This represents the difference between the approved $9,670 amount and the $34,750 included as expenses on MFR Schedule B-10.

2006 Projected Property Taxes

In its filing, Plantation reflected real estate and property taxes of $34,414 for water and $23,213 for wastewater. By letter dated December 12, 2005, the utility projected total 2006 property taxes to be $101,299, which represented $57,905 for water and $43,394 for wastewater. We find that the utility's projection is in error for several reasons. First, Plantation stated that it used the 2004 tax rate to project its property taxes. Specifically, the utility used a rate of .016803324 for water and .008185497 for wastewater. Plantation calculated these rates by dividing the 2004 net plant for water and wastewater by the 2004 property taxes the utility recorded for water and wastewater, respectively. According to the Flagler County Tax Collector's website, the 2005 millage rate decreased from 14.5063 in 2004 to 13.8203, which represents a reduction of 0.6860.

Second, the utility used its 2004 land balances of $58,949 for water and $50,631 for wastewater to project its real estate taxes. However, according to the utility's tax bills, the total real estate tax assessed value for this utility was $74,070, which is $35,510 lower than the total amount recorded on the utility's books for land. Further, based on a discussion with the utility, Plantation does not pay the real estate tax on the land associated with the $25,195 easement previously discussed. Finally, according to its 2004 tax bill, the utility's total tax assessed value for tangible personal property is $4,093,706. The utility's 2004 net plant, excluding intangibles, land, the utility's reuse holding pond, and general plant, is $4,630,068, which is $536,362 greater than the total tax assessed value.

Plantation recorded real estate and tangible personal property taxes of $34,414 for water and $23,213 for wastewater. Based on operating revenues, the utility allocated 60 percent of its 2004 property taxes to water and 40 percent to wastewater. We find that it would be more reasonable to allocate real estate taxes based on the land ratios of Plantation's water and wastewater systems. The fall-out ratios for 2006 are 40 percent for water and 60 percent for wastewater. We also find that it would be more reasonable to allocate tangible personal property taxes based net plant ratios of the utility's water and wastewater systems. The fall-out net plant ratios for 2006 are 39.46% for water and 60.54% for wastewater.

Based on the foregoing, the real estate taxes shall be projected using the 2004 tax assessed value for land owned by the utility, the 2005 millage rate, and the 4.00% discount for

payment in November. The resulting calculation is $983 for 2006 real estate taxes. In order to project tangible personal property, we calculate a ratio of the 2004 tax assessed value to the 2004 net plant, excluding intangibles, land, the utility's reuse holding pond, and general plant. Applying this ratio to the projected net plant additions, we estimate the 2006 tangible property taxable value to be $5,895,776. Using the projected 2006 taxable value, the 2005 millage rate, and the 4.00% discount for payment in November, we calculate the projected 2006 tangible personal property taxes to be $79,204. Therefore, the appropriate real estate and tangible property is $31,257 for water and $47,947 for wastewater. Accordingly, property taxes shall be decreased by $3,157 for water and increased by $24,734 for wastewater.

Income Tax Provision

The utility has proposed that an income tax provision be calculated. We disagree with this proposal. The utility has never paid income taxes. The utility has substantial net operating loss carry-forwards. Although some of these loss carry-forwards will expire before being used, we believe that for the next five to six years, the utility will incur no income tax liability.

This Commission has addressed this issue in the past. The most recent case is that of Sebring Gas System, Inc., in which we found that:

> [a] corporation may carryforward a NOL [net operating loss] up to 20 years. Although the Company may reflect positive net income in 2005 and the years to follow due to this rate increase, we find that it will take several years before the Company will be able to fully utilize the NOL carryforwards. Further, the customers have not benefited from the tax losses the Company has accumulated over the years, as evidenced by zero income tax expense reflected in prior years' Annual Reports and Earnings Surveillance Reports. Therefore, we find that the amount of income tax expense reflected in the MFRs shall be zero and the federal and state income tax factors in the revenue expansion factor shall be omitted.[23]

The instant case has exactly the same facts. Therefore, we decline to include a provision for income taxes in this case.

Operating Income or Loss Before Any Revenue Increase

As shown on attached Schedules No. 3-A and 3-B, after applying our adjustments, the test year net operating income before any revenue increase is $153,123 for water. Also, the test year wastewater operating loss before any provision for increased revenues is ($38,704). Our adjustments to operating income are listed on Schedule 3-C.

[23] Order No. PSC-04-1260-PAA-GU, issued December 20, 2004 Docket No. 040270-GU, In re: Application for rate increase by Sebring Gas System, Inc.

2006 Projected Revenue Requirements

Plantation's requested final rates are designed to generate annual revenues of $453,391 and $628,669, for water and wastewater, respectively. These revenues exceed historical test year revenues by $107,153 (or 30.95%) for water and $403,749 (or 179.51%) for wastewater.

Based upon our findings concerning the underlying rate base, cost of capital, and operating income, we approve rates that are designed to generate a water revenue requirement of $406,689, and a wastewater revenue requirement of $490,260. The water revenue requirement is less than our adjusted projected test year revenues by ($79,865) or (16.41%). The wastewater revenue requirement exceeds our adjusted projected test year revenues by $179,832 or 57.93%. These revenue requirements will allow the utility the opportunity to recover its expenses and earn a 10.00% return on its investment in water and wastewater rate base.

RATES AND RATE STRUCTURE

Water and Wastewater Rate Structures

The current base facility charge (BFC)/gallonage charge water and wastewater rate structures for the utility are consistent with Commission practice and Rule 25-30.255, Florida Administrative Code, which requires that utilities shall measure water sold upon the basis of metered sales. Specifically, the BFC/uniform gallonage charge rate structure currently applies to the utility's water system. The current rate structure for the utility's wastewater system is also a BFC/gallonage charge rate structure, in which the general service gallonage charge is 20% greater than the corresponding residential gallonage charge. Billed residential monthly wastewater consumption is capped at 10 kgals.

Based on the foregoing, we find that the appropriate rate structure for the water system is a continuation of the base facility charge (BFC)/uniform gallonage charge rate structure. The appropriate rate structure for the wastewater system is a continuation of the BFC/gallonage charge rate structure. Billed residential monthly wastewater consumption shall remain capped at 10,000 gallons (10 kgals), and the general service gallonage charge rate differential shall remain 20% greater than the corresponding residential gallonage charge.

Repression

By this Order, we are approving a decrease to water system revenues. Therefore, no repression adjustment is appropriate for the water system. Wastewater repression adjustments are predicated on repression adjustments to the water system. Therefore, we find that no repression adjustment is appropriate for the wastewater system.

In order to monitor the effects of the changes in revenues, the utility shall prepare monthly reports for both the water and wastewater systems, detailing the number of bills rendered, the consumption billed, and the revenues billed. These reports shall be provided to our staff. In addition, the reports shall be prepared by customer class and meter size on a quarterly basis for a period of two years, beginning the first billing period after the approved rates go into effect.

Water and Wastewater Rates

The utility's current water rates consist of a BFC of $17.79 for a 5/8-inch meter, plus a uniform gallonage charge of $2.06 for each thousand gallons (kgal) sold. The corresponding wastewater BFC for a 5/8-inch meter is $12.70. Residential service wastewater customers are charged $1.79 for each kgal used, with a cap on monthly billed usage of 10 kgal. General service wastewater customers are charged $2.14 for all kgals used.

Our approved adjusted test year revenues are $486,554, which represents an achieved rate of return of 19.93%. Further, the revenue requirement for the water system is $406,689. The upper limit on the utility's achieved return is 10.37%. According to its filing, the utility recovers approximately 71% of its water revenues from the BFC. For conservation purposes, the water rates are designed to recover 50% from BFC and 50% from the gallonage charge.

The revenue requirement for the wastewater system is $490,260. The calculation of our increase to monthly service rates for the wastewater system is shown below:

Approved Projected Test Year Wastewater System Revenue Requirement	$	490,260	
Less Projected Miscellaneous Service Revenues	$	5,812	
Equals Approved Monthly Service Revenues	$	484,448	
Less Revenues Generated by Applying Current Rates to Projected Bills and Gallons	$	304,594	
Equals Approved Increase in Monthly Service Revenues	$	179,854	
Equals Approved Percentage Increase in Monthly Service Revenues		59.05	%

Approximately 56% of revenues will be recovered through the BFC, while the remaining 44% of revenues will be recovered through the gallonage charges.

The utility shall file revised tariff sheets and a proposed customer notice to reflect the rates approved herein. The approved rates shall be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(1), Florida Administrative Code. The approved rates shall not be implemented until our staff has approved

the proposed customer notice. The utility shall provide proof of the date notice was given no less than 10 days after the date of the notice.

Reuse Rate

Plantation provides reuse to a golf course in its service territory, Club du Bon at Plantation Bay (golf course), at no cost to the golf course. The golf course is a related party to the utility, as the majority shareholder of the utility has a minority interest in the golf course. The reuse provided to the golf course is metered.

Currently, the utility has no tariff for reuse rates nor did it request a tariffed reuse rate in its filing. The utility believes that it is a fair trade off to provide reuse without charge, as the alternative would require significant capital investment in land for a sprayfield. There are no current or previous contracts for golf course irrigation. However, according to Plantation's response to a staff data request, the original application for development approval, which was the basis for the approval of the Plantation Bay Development of Regional Impact (DRI), requires that the wastewater effluent be sprayed on the golf course. According to the utility's response, a condition of the St. Johns River Water Management District Consumptive Use Permit (CUP) requires the utility to furnish all of the daily flow of reclaimed water to the golf course for irrigation. In addition, the utility stated that it was implicit in the DRI and CUP that the utility provide and the golf course accept the utility's reuse water.

Generally, reuse rates cannot be determined in the same fashion as other water and wastewater rates set by this Commission. Reuse rates based on rate base and revenue requirement would typically be so high that it would be impractical to use reuse at all based on the revenue needed to supply the service. We recognize the need to promote reuse and that reuse is a valuable water source which should not be wasted. When considering reuse rates, we must consider factors such as whether or not the utility and the reuse customer have a contract including a negotiated rate, the reuse rates that are charged by other utilities in the region, and cost avoidance. We must also consider the type of customer being served and balance the disposal needs of the utility with the consumption needs of the customer. In this case, the only reuse customer is the golf course and the utility does not plan to expand its reuse service in the near future.

Next, we looked at the disposal needs of the utility and the customer. In cases where a utility has excess reuse capacity, rates are typically set lower to promote reuse at a level sufficient to meet the utility's disposal needs. In cases where a utility's reuse capacity is unable to meet demand, rates are typically set higher or rate structure is changed in order to promote conservation. We note that the golf course is more than adequate to meet the utility's current effluent disposal needs. In fact, the utility cannot meet all of the irrigation needs of the golf course and the golf course has its own CUP for irrigation purposes. Further, the utility would have to construct a sprayfield for effluent disposal if the golf course did not take reuse. Therefore, we find that a high rate to encourage conservation is not appropriate for this utility.

The rationale behind setting reuse rates is rapidly changing. Initially, reuse rates were set very low or at a rate of $0 to encourage acceptance and use. As reuse becomes more widely accepted and demand rises, utilities are considering charging or increasing existing rates to balance demand. In Order No. PSC-99-0513-FOF-WS, issued March 12, 1999, in Docket No. 980214-WS, In re: Application for rate increase in Duval, St. Johns and Nassau Counties by United Water Florida Inc., at 68, this Commission stated, "We believe from a policy standpoint that reclaimed water should be regarded as a valuable resource for which a charge should apply when possible." In this case, it is clear that the utility views the golf course as a disposal site rather than a reuse customer. Having a reliable disposal site is obviously a benefit to the utility; however, the current rate of zero implies that there is no benefit to the golf course. We find that there are some benefits to the golf course such as those associated with obtaining future consumptive use permits and a reduction in pumping costs to the golf course.

Although the golf course's CUP specifically cites Plantation as a source for 15 million gallons of reclaimed water, it appears that the golf course may also use 113 million gallons of surface water from its lakes. The CUP also provides that ground water (from wells) may be used as an emergency backup source for golf course irrigation only when the golf course can document that surface water and reclaimed water are not available; that is, all available reclaimed water must be used prior to the use of ground water. However, nowhere in its CUP does it state that reclaimed water must be used prior to using surface water. It appears that the golf course may be able to use its surface water before using the reclaimed water. Therefore, instead of setting higher rates to promote conservation, we find it appropriate to consider a nominal amount for the reuse rate because this golf course has other options for irrigation. A reuse rate of $0.07 per 1,000 will produce an annual charge of $1,034 to the golf course.

In determining the rate for this utility, we compared the non-residential rates of a number of utilities that provide reuse for customers. Specifically, we compared reuse rates from the four county area which include Seminole, Volusia, Flagler, and Lake Counties, as they are listed in the 2004 Reuse Inventory Directory issued by the Florida Department of Environmental Protection which was issued in June 2005. In those counties, approximately 19 utilities provide non-residential reuse for customers. Our investigation revealed that of those 19 utilities, two of them instituted a flat rate and the other 17 used a BFC/gallonage format for billing purposes. The average gallonage charge per 1,000 gallons was $0.27.

The golf course is located in Flagler County. The following table contains rates from other non-residential reuse providers in Flagler County:

Reuse System Name	Charge/Month	Charge/1000 gal
Grand Haven CDD WWTP	$0.00	$0.11
Hammock dunes		0.60
Palm Coast	0.00	0.07

Based on the foregoing, the utility shall charge a reuse rate of $0.07 per 1,000 gallons of usage. The utility shall file tariff sheets which are consistent with our decision within 30 days from the effective date of this Order. The tariff sheets shall be approved upon our staff's

verification that the tariffs are consistent with our decision. The approved rates shall 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.

Late Payment Charge

The purpose of a late payment charge is not only to provide an incentive for customers to make timely payments, thereby reducing the number of delinquent accounts, but also to place the cost burden of processing such delinquencies solely upon those who are the cost causers.

In the past, late payment fee requests have been handled on a case-by-case basis. We have approved late fees in the amount of $5.00 in several instances.[24] Our rules provide that late payers may be required by the utility to provide an additional deposit. However, we have found that there is no further incentive for either delinquent or late paying customers to pay their bills on time after the additional deposit.[25] We have also found that the cost causer should pay the additional cost incurred to the utility by late payments, rather than the general body of the utility's rate payers.[26] We find that the goal of allowing late fees to be charged by a utility is two-fold: first, to encourage current and future customers to pay their bills on time; and second, if payment is not made on time, to insure that the cost associated with the late payments is not passed on to the customers who do pay on time.

It appears that the majority of utilities that have Commission-approved late fees have those late fees set at $5.00. The utilities that have higher charges have provided adequate documentation in support of those higher fees. Based on the foregoing, we find that $5.00 is a reasonable late payment charge for Plantation Bay and it is approved. The utility shall file revised tariff sheets which are consistent with our decision within 30 days from the effective date of this Order. The revised tariff sheets shall be approved upon our staff's verification that the tariffs are consistent with our decision. If revised tariff sheets are filed and approved, the late payment charge shall become effective on the stamped approval date of the tariff sheets, provided that customers have been noticed.

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[24] See Order No. PSC-01-2093-TRF-WS, issued October 22, 2001, in Docket No. 011034-WS, In re: Request for Approval of a Late Payment Charge by WP Utilities, Inc. in Palm Beach County; Order No. PSC-01-2468-TRF-WU, issued December 18, 2001, in Docket No. 011482-WU, In re: Request to Establish Late Fee in Columbia County by Consolidated Water Works, Inc.; and Order No. PSC-05-1218-PAA-WS, issued December 15, 2005, in Docket No. 050274-WS, Application for a staff-assisted rate case in Pasco County by Silver Fox Utility Company LLC d/b/a Timberwood Utilities.

[25] Order No. PSC-96-1409-FOF-WU, issued November 20, 1996, in Docket No. 960716-WU, In re: Application for transfer of Certificate No. 123-W in Lake County from Theodore S. Jansen d/b/a Ravenswood Water System to Crystal River Utilities, Inc.

[26] Id.

Wastewater Interim Refund Not Required

By Order No. PSC-05-1039-PCO-WS, issued October 24, 2005, we authorized Plantation to collect interim wastewater rates, subject to refund, pursuant to Section 367.082, Florida Statutes. The approved interim revenue requirement is $439,017, which represents an increase of $214,097 or 95.19%.

Pursuant 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 interim rates are in effect shall be removed. Rate case expense is an example of an adjustment which is recovered only after final rates are established.

In this proceeding, the test period for the establishment of interim rates is the simple average period ending December 31, 2004. The appropriate test period to establish prospective rates is the simple average period ending December 31, 2006. Plantation's approved interim rates did not include any provisions for pro forma or projected operating expenses or plant. The interim increase was designed to allow recovery of actual interest costs, and the floor of the last authorized range for equity earnings. To establish the proper refund amount, we have calculated a revised interim revenue requirement utilizing the same data used to establish final rates. We have excluded rate case expense, the 2006 projected plant projects not scheduled to be placed in service when the final rates become effective, and the unrealized projected revenue and expense effects when the rates become effective because those items are prospective in nature and did not occur during the interim collection period.

Using the principles discussed above, we have calculated the interim revenue requirement for the interim collection period to be $446,725 for wastewater. Because the wastewater revenues are greater than the interim revenues which were approved by Order No. PSC-05-1039-PCO-WS, no wastewater interim refund is required. Therefore, upon the issuance of a final order in this docket, the escrow account shall be released to the utility.

Statutory Four Year Rate Reduction

Section 367.0816, Florida Statutes, requires rates to be reduced immediately following the expiration of the four-year amortization period by the amount of the rate case expense previously included in the rates. The reduction will reflect the removal of revenues associated with the amortization of rate case expense and the gross-up for regulatory assessment fees, which is $10,125 for wastewater. The decreased revenue will result in the rate reduction reflected on Schedule No. 4-B. Because we do not approve rate case expense for water, there is no rate reduction for water rate case expense.

The utility shall file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates no later than one month prior to the actual date of the rate reduction. The approved rates shall be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-40.475(1), Florida Administrative Code. The rates

shall not be implemented until our staff has approved the proposed customer notice. The utility shall provide proof of the date notice was given no less than 10 days after the date of the notice.

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

SERVICE AVAILABILITY CHARGES AND POLICY

By Order No. PSC-02-1449-PAA-WS, at 19, we ordered the utility to cease the collection of donated property based on the unique circumstances surrounding the utility at that time. Normally, we would not allow a utility to revise its service availability policy to cease collection of contributed property. Most utilities benefit from contributed property, which reduces the amount of the utility's investment that is necessary for plant expansion. The customers also benefit from the lower rates generated by the reduced rate base. However, Plantation Bay's situation is atypical in that the utility had reached a point where it was no longer feasible for it to accept contributed property. We found that, if this utility continued to collect CIAC at the rate Plantation was collecting it, in a matter of just a few years, the utility's rate base would have been negative.

The utility has since completed approximately $2.5 million in water transmission and distribution system and wastewater collection system expansions from 2001 to 2004. Further, as discussed earlier, the 2005 and 2006 water transmission and distribution system and wastewater collection system expansions were approximately $3.6 million. Given this significant amount of water and wastewater line expansion and the expected customer growth in the future, we find it appropriate to reevaluate the utility's existing service availability charges and/or policy.

The utility's existing system capacity charges are $635.88 for water and $530.72 for wastewater. In its MFRs, the utility proposed no change in these charges. A system capacity charge is designed to defray a portion of the cost of the plant, as well as a portion of the cost of lines. A plant capacity charge represents the reimbursement by a developer or a customer to offset the cost of the plant. A main installation charge represents the reimbursement by a developer or a customer to offset the cost of the lines.

When calculating service availability charges, it is more reasonable to have separate charges for the cost of plant and the cost of lines, instead of one system capacity charge. One reason for this delineation is to avoid a possible over contribution by a customer. For instance, when a utility accepts donated lines from a developer and only has an authorized system capacity charge, this could create a situation in which the utility would not only accept the donated lines but also collect system capacity charges from customers for those lines that were donated. As discussed below, by this Order, we are requiring the utility to begin collecting donated property in 2006. Thus, absent the discontinuance of the utility's existing system capacity charges, CIAC associated with the donated lines would essentially be accounted for twice, which would reduce the utility's rate base on an accelerated basis. To avoid this, we find it prudent to discontinue the utility's existing system capacity charges.

In accordance with Rule 25-30.580, Florida Administrative Code, the guidelines for designing a utility's service availability policy are as follow:

(1) The maximum amount of CIAC, net of amortization, should not exceed 75% of the total original cost, net of accumulated depreciation, of the utility's facilities and plant when the facilities and plant are at their designed capacity; and

(2) The minimum amount of CIAC should not be less than the percentage of such facilities and plant that is represented by the water transmission and distribution and sewage collection systems.

A utility's compliance with the above maximum guideline depends on the certain set of circumstances surrounding the utility. A utility's current contribution level is not the only factor to consider when determining whether its service availability charges should continue. Future growth and plant expansion should also be considered. A utility's contribution level at a given point in time could exceed 75% due to the timing of plant expansions and customer growth. As long as the contribution level is not projected to exceed 75% at a utility's designed capacity, the utility would be in compliance with Rule 25-30.580.

As of December 31, 2004, Plantation had contribution levels of 59.99% and 45.75% for water and wastewater, respectively. In response to a staff data request, the utility provided its water and wastewater capacity analysis report dated July 2004. According to the report, Plantation asserted that the estimated build out date will occur in the year 2021, with approximately 5,400 water and wastewater customers connected to the utility's water and wastewater systems by that time. Plantation also stated that the utility will reach its current design capacity of the water and wastewater treatment plants by approximately 2012. Given the level of uncertainty about what the appropriate growth rate and projected plant additions would be for total build out, we find it appropriate to analyze a shorter time period. As such, we have analyzed an eight year time period from 2004 to 2012 to determine what the appropriate charges are for Plantation's current water and wastewater treatment plant design capacities.

Given the utility's water and wastewater line expansions from 2001 to 2006, we find that Plantation will not be able to achieve the minimum guideline level outlined in Rule 25-30.580 for the current water and wastewater treatment plant design capacities. Using the information contained in the utility's water and wastewater capacity report and the information provided in response to data requests, we performed several analyses of service availability charges and policies. The possible service availability policies that we evaluated are as follow: (1) the implementation of plant capacity and main extension charges totaling approximately $4,900 for water and wastewater, and the continuation of the policy of no collection of donated property; (2) the collection of donated property beginning with the 2006 line expansion Phases 2AF, 6 and 7 and Koronia Park and, with the exception of meter installation fees, no other collection of impact fees; (3) the utility's proposed policy of continuing the existing system capacity charges, and the collection of donated water property in 2008 and donated wastewater property in 2007; and (4) the collection of donated property in 2007, and the collection of plant capacity charges of $400 for water and $358 for wastewater.

Due to the high growth rate that the service area is experiencing, we find it appropriate to require the utility to begin collecting donated water transmission and distribution and wastewater collection system expansions immediately. Therefore, starting from the effective date of the revised tariff sheets to be filed consistent with our decision herein, if no timely protest is filed by a substantially affected person, all water transmission and distribution and wastewater collection system expansions shall be treated as CIAC and the water and wastewater system capacity charges shall be discontinued, as shown on Schedules Nos. 5-A and 5-B, attached to this Order. In the event of a protest to the service availability portions of this Order, the utility shall begin collecting donated water transmission and distribution and wastewater collection system expansions on a temporary basis, subject to reimbursement, and shall continue collecting its existing water and wastewater system capacity charges, subject to refund, starting from the effective date of the revised temporary tariff sheets to be filed consistent with our decision herein, pending the resolution of the protest.

If no timely protest to this Order is filed by a substantially affected person, the utility shall file the appropriate revised tariff sheets within 10 days of the issuance date of the Consummating Order for the Commission-approved tariff changes. If a timely protest is filed by a substantially affected person to our action modifying the utility's service availability policy and discontinuing the system capacity charges, the utility shall file the appropriate revised temporary tariff sheets within 10 days of the date the protest is filed. Our staff is given the authority to administratively approve the revised tariff sheets upon staff's verification that the tariff is consistent with our decision herein. The tariff sheets shall become effective on or after the stamped approval date. Also within 10 days of the issuance of the Consummating Order, if no protest is filed, or within 10 days of the date a protest is filed, the utility shall provide notice to all persons in the service area who are affected by our decision on the plant capacity charges set forth herein and the utility's authorization to collect donated property. The notice shall be approved by our staff prior to distribution. The utility shall provide proof that the appropriate customers or developers have received notice within ten days of the date of the notice.

No Show Cause Proceeding Initiated

During the course of processing this rate case, our staff discovered that in 2004, a transfer of majority organizational control of the utility occurred without Commission approval and without being made contingent upon Commission approval. On or about April 9, 2004, Mr. Francois Lazare, a director of the utility and the holder of 775 shares of stock in the utility, transferred all 775 of his shares to Mr. Morteza Hosseini-Kargar, the utility President. These shares constitute 77.50% ownership of the utility. This transfer of majority organizational control is in apparent violation of Section 367.071(1), Florida Statutes, which states in relevant part:

> No utility shall sell, assign, or transfer its certificate of authorization, facilities or any portion thereof, or majority organizational control without determination and approval of the commission that the proposed sale, assignment, or transfer is in the public interest. . . . However, a sale, assignment, or transfer of its certificate of authorization, facilities or any portion thereof, or majority organizational control

may occur prior to commission approval if the contract for sale, assignment, or transfer is made contingent upon commission approval.

Section 367.161, Florida Statutes, authorizes this Commission to assess a penalty of not more than $5,000 per day for each offense, if a utility is found to have knowingly refused to comply with, or to have willfully violated any provision of Chapter 367, Florida Statutes. In Order No. 24306, issued April 1, 1991, in Docket No. 890216-TL, In Re: Investigation Into The Proper Application of Rule 25-14.003, F.A.C., Relating To Tax Savings Refund For 1988 and 1989 For GTE Florida, Inc., the Commission, having found that the company had not intended to violate the rule, nevertheless found it appropriate to order it to show cause why it should not be fined, stating that "in our view, 'willful' implies an intent to do an act, and this is distinct from an intent to violate a statute or rule." Id. at 6.

Although regulated utilities are charged with knowledge of Chapter 367, Florida Statutes, we do not believe that the apparent violation of Section 367.071, Florida Statutes, rises in these circumstances to the level of warranting the initiation of a show cause proceeding. The utility filed an application for approval of the transfer shortly after being advised of the requirement by our staff. The transfer application is pending in Docket No. 050912-WS. Therefore, we decline to initiate a show cause proceeding against Plantation Bay for failure to obtain approval prior to transferring majority organizational control of the utility.

Proof of Commission-Approved Adjustments

To ensure that the utility adjusts its books in accordance with our decision herein, Plantation Bay shall provide proof within 90 days of the final order issued in this docket that the adjustments for all the applicable NARUC USOA primary accounts have been made.

Based on the foregoing, it is

ORDERED that Order No. PSC-06-0170-PAA-WS is amended and reissued as set forth herein. It is further

ORDERED by the Florida Public Service Commission that Plantation Bay Utility Company's application for increased water rates and charges is denied. Plantation Bay Utility Company shall reduce its water rates and charges as set forth in the body of this Order. It is further

ORDERED that Plantation Bay Utility Company's application for increased wastewater rates and charges is approved to the extent set forth in the body of this Order. Plantation Bay Utility Company is hereby authorized to charge the new wastewater rates and charges as set forth in the body of this Order. It is further

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

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

ORDERED that Plantation Bay Utility Company shall file revised tariff sheets and a proposed customer notice to reflect the rates approved herein. The approved rates shall be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(1), Florida Administrative Code. The approved rates shall not be implemented until our staff has approved the proposed customer notice. The utility shall provide proof of the date notice was given no less than 10 days after the date of the notice. It is further

ORDERED that Plantation Bay Utility Company shall provide proof that the customers have received notice within ten days of the date of the notice. It is further

ORDERED that Plantation Bay Utility Company shall submit quarterly progress reports to this Commission's Division of Economic Regulation on the water system disinfection byproducts noncompliance issue and shall provide the Office of Public Counsel with copies of these reports. These reports shall be submitted outside of this docket. A separate docket will be opened, if necessary, to further address the matter. It is further

ORDERED that Plantation Bay Utility Company shall complete any and all improvements to the wastewater system that are necessary to satisfy the standards set by the Department of Environmental Protection. The reuse advisory signs shall be placed at the beginning tees of each nine-holes on the golf course and also around any pond structures that hold the reclaimed water, as required by the Department of Environmental Protection. The reuse advisory signs shall be posted at all locations no later than 90 days from the effective date of this Order. It is further

ORDERED that Plantation Bay Utility Company shall submit quarterly progress reports to this Commission's Division of Economic Regulation concerning the wastewater system deficiencies outlined in the Department of Environmental Protection's letter dated January 3, 2006, and shall provide copies of the progress reports to the Office of Public Counsel. These reports shall be submitted outside of this docket. A separate docket will be opened, if necessary, to further address the matter. It is further

ORDERED that Plantation Bay Utility Company shall make the appropriate adjustments to its books and records to reflect its reuse plant in the appropriate reuse plant accounts. It is further

ORDERED that Plantation Bay Utility Company shall prepare monthly reports for both the water and wastewater systems, detailing the number of bills rendered, the consumption billed, and the revenues billed. These reports shall be provided to our staff. In addition, the reports shall be prepared by customer class and meter size on a quarterly basis for a period of two years, beginning the first billing period after the approved rates go into effect. It is further

ORDERED that Plantation Bay Utility Company shall charge a reuse rate of $0.07 per 1,000 gallons of usage. The utility shall file tariff sheets which are consistent with our decision within 30 days from the effective date of this Order. The tariff sheets shall be approved upon our staff's verification that the tariffs are consistent with our decision herein. The approved rates shall 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. It is further

ORDERED that Plantation Bay Utility Company shall charge a $5.00 late payment charge. The utility shall file revised tariff sheets which are consistent with this decision within 30 days from the effective date of this Order. The revised tariff sheets shall be approved upon our staff's verification that the tariffs are consistent with our decision herein. If revised tariff sheets are filed and approved, the late payment charge shall become effective on the stamped approval date of the tariff sheets, provided that customers have been noticed. It is further

ORDERED that because wastewater revenues approved herein are greater than the interim revenues approved by Order No. PSC-05-1039-PCO-WS, no wastewater interim refund is required. Upon the issuance of a final order in this docket, the escrow account shall be released to the utility. It is further

ORDERED that the rates approved herein shall be reduced at the end of the four-year rate case expense amortization period, consistent with our decision. Plantation Bay Utility Company shall file revised tariff sheets and a proposed customer notice to reflect the reduced rates no later than one month prior to the actual date of the reduction. The rates shall be effective for service rendered on or after the stamped approval date of the revised tariff sheets. The rates shall not be implemented until our staff has approved the proposed customer notice. Plantation Bay Utility Company shall provide proof of the date notice was given no less than 10 days after the date of the notice. It is further

ORDERED that starting from the effective date of the revised tariff sheets to be filed consistent with our decision herein, if no timely protest is filed by a substantially affected person, all water transmission and distribution and wastewater collection system expansions shall be treated as CIAC and the water and wastewater system capacity charges shall be discontinued, as shown on Schedules Nos. 5-A and 5-B, attached to this Order. In the event of a protest to our action modifying the utility's service availability policy and discontinuing the system capacity charges, Plantation Bay Utility Company shall begin collecting donated water transmission and distribution and wastewater collection system expansions on a temporary basis, subject to reimbursement, and shall continue collecting its existing water and wastewater system capacity charges, subject to refund, starting from the effective date of the revised temporary tariff sheets to be filed consistent with our decision herein, pending the resolution of the protest. It is further

ORDERED that if no timely protest to this Order is filed by a substantially affected person, the utility shall file the appropriate revised service availability tariff sheets within 10 days of the issuance date of the Consummating Order. If a timely protest is filed by a substantially affected person, the utility shall file the appropriate revised temporary service availability tariff sheets within 10 days of the date the protest is filed. Our staff is given the

authority to administratively approve the revised tariff sheets upon staff's verification that the tariff is consistent with our decision herein. The tariff sheets shall become effective on or after the stamped approval date. It is further

ORDERED that within 10 days of the issuance of the Consummating Order, if no protest is filed to our action modifying the utility's service availability policy and discontinuing system capacity charges, or within 10 days of the date a protest is filed, the utility shall provide notice to all persons in the service area who are affected by our decision on plant capacity charges and the utility's authorization to collect donated property. The notice shall be approved by our staff prior to distribution. The utility shall provide proof that the appropriate customers or developers have received notice within ten days of the date of the notice. It is further

ORDERED that Plantation Bay Utility Company shall provide proof within 90 days of the final order issued in this docket that the adjustments for all the applicable NARUC USOA primary accounts have been made. It is further

ORDERED that the provisions of this Order, issued as proposed agency action, shall become final and effective upon the issuance of a Consummating Order unless an appropriate petition, in the form provided by Rule 28-106.201, Florida Administrative Code, is received by the Director, Division of the Commission Clerk and Administrative Services, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings" attached hereto. It is further

ORDERED that if no person whose substantial interests are affected by the proposed agency action files a protest within twenty-one days of the issuance of the order, a consummating order will be issued. The docket shall remain pending our staff's verification that the revised tariff sheets and customer notice have been filed and approved by our staff. Once these actions are complete, this docket shall be closed administratively. It is further

ORDERED that in the event this Order becomes final, this docket shall be closed.

By ORDER of the Florida Public Service Commission this 9th day of March, 2006.

BLANCA S. BAYÓ, Director
Division of the Commission Clerk
and Administrative Services

By: Kay Flynn
Kay Flynn, Chief
Bureau of Records

(SEAL)

RG

DISSENTS:

COMMISSIONER J. TERRY DEASON dissents from the majority's decision on the level of used and useful percentages authorized for Plantation Bay Utility Company's water and wastewater systems and on the amount of rate case expense authorized to be recovered through rates.

COMMISSIONER MATTHEW M. CARTER dissents from the majority's decision not to initiate show cause proceedings against Plantation Bay Utility Company for transferring majority organizational control prior to seeking Commission approval and on the amount of rate case expense authorized to be recovered through rates, with the following opinion:

I dissent from the majority opinion with respect to the issue of rate case expense. While I agree with the majority that the amount of expense requested by Plantation is unreasonable, and that a number of Plantation's expenses were not prudently incurred, I disagree with the methodology employed by staff to determine a reasonable expense.

In this case, staff recommended, and the majority followed, a method of rate case expense recalculation based upon cost per Equivalent Residential Connections (ERCs). Staff based this methodology upon a single prior instance of utilizing this method, which occurred in 1981. In that case, the staff accountant testified that he had examined all rate cases involving water and sewer utilities of a similar size to the case sub judice occurring within the preceding 18 months, and had found a strong correlation between the number of ERCs and rate case expense. According to that accountant, the more ERCs the higher the rate case expense. In addition, the accountant testified that the case sub judice had fewer accounting issues in contention than the typical rate case. With this information at hand, the accountant devised a method for recalculating rate case expense, whereby an average expense per ERC was calculated and applied to the number of ERCs present in the utility's territory. The result was a reduction in allowable rate case expense of approximately 50 percent, from $35,150 to $17,330.

In the present case, staff applied an average expense per ERC in cases ranging in date from 2000 to 2003. Unlike in the case upon which staff modeled its approach, none of the rate cases used in the average calculation occurred within 18 months of the case sub judice. Rather, in the present case, the rate cases used to calculate the average ranged from 3 to 6 years past. No evidence was presented to the Commission regarding the comparison of costs and the effect of inflation thereon over the six year period analyzed. Furthermore, the average calculated in the present case appears to be derived from cases involving utilities divergent in size, structure, and customer base. Additionally, unlike in the precedent case, in the present case there is no positive or negative correlation between the number of ERCs and actual rate case expense. For example, one utility with 947 ERCs had an expense greater than one with 3,697 ERCs, while another utility with 4,000 ERCs had a greater expense than the utility with 3,697 ERCs. For these reasons I believe the available sample was inadequate to justify taking the extraordinary step of utilizing an approach to recalculate rate case expense that has been used only once in the last 25

years, particularly since the present case appears to have contained more complex and contentious accounting issues than the case precedent.

Again, I must emphasize that I agree with the Commission's opinion that the rate case expense reported by Plantation was too high, and appeared to be unreasonable. However, given the clear distinctions between this case and the prior case utilizing staff's methodology, the use of average expense per ERC does not appear to provide a reasonable measure of costs relatable to the actual costs incurred, and a determination of whether those costs were prudently incurred.

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

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

As identified in the body of this order, the action discussed herein, except for the requirement that in the event of a protest, the utility begin collecting donated water transmission and distribution and wastewater collection system expansions on a temporary basis, subject to reimbursement, and continue collecting its existing water and wastewater system capacity charges, subject to refund, the statutory four-year rate reduction, and our decision not to initiate show cause proceedings, is preliminary in nature. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Director, Division of the Commission Clerk and Administrative Services, at 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on March 30, 2006. If such a petition is filed, mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing. In the absence of such a petition, this order shall become effective and final upon the issuance of a Consummating Order.

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.

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

Plantation Bay Utility
Docket No: 050281-WS

Attachment A, Page 1 of 4
Projected Test Year Jan 06 - Dec 06

WATER TREATMENT PLANT - USED AND USEFUL DATA

1)		Capacity of Plant	670,000	gallons per day
2)		Average Five Maximum Days within a 30 Day period in Test Year (May 2006)	321,877	gallons per day
3)		Average Daily Flow	227,168	gallons per day
4)		Fire Flow Capacity (FF) Required fire flow: 1,000 gallons per minute for 2 hours	120,000	gallons per day
5)		Growth	88,917	gallons per day
	a)	Average Connection in ERCs: Projected Test Year: Jan 2006 - Dec 2006	1,629	ERCs
	b)	Customer Growth in ERCs using 5% per year Cap for 5 years period including Projected Test Year 2006	450	ERCs
	c)	Statutory Growth Period	5	Years
	d)	Growth = (5b)x [2\(5a)]	88,917	gallons per day
6)		Excessive Unaccounted for Water	0.00	gallons per day
	a)	Percentage of Excessive amount		gallons per day
	b)	Total Unaccounted for Water	6,972.6	gallons per day
	c)	Reasonable Amount (10% of average Daily Flow)	22,716.8	gallons per day
	d)	Excessive Amount	0.00	gallons per day

USED AND USEFUL FORMULA

(Max days - EUW + FF + Growth) / Capacity of Plant

(321,877- 0 + 120,000+ 88,917) / 670,000= 79.22% Used & Useful

Plantation Bay Utility
Docket No: 050281-WS

Projected Test Year Jan 06 - Dec 06

WATER DISTRIBUTION SYSTEM - USED AND USEFUL DATA

1)	Capacity of System (ERCs)	2,230	ERCs
2)	Average Connection in ERCs: Projected Test Year: Jan 2006 - Dec 2006	1,629	ERCs
3)	Growth	450	ERCs
	Customer Growth in ERCs for 5 Years Period Using 5% Cap Including Projected Test Year 2006	450	ERCs

USED AND USEFUL FORMULA

[2+3]/(1)

(1,629+ 450) / 2,230= 93.23% Used and Useful

Plantation Bay Utility Company
Docket #: 050281-WS

WASTEWATER TREATMENT PLANT - USED AND USEFUL DATA

1)		Permitted Capacity of Plant (AADF)	475,000	gallons per day
2)		Average Daily Flow (AADF)	138,009	gallons per day
3)		Growth	38,180	gallons per day
	a)	Average Connection in ERCs: Projected Test Year: Jan 2006 - Dec 2006	1,276	ERCs
	b)	Customer Growth in ERCs for 5 years period using 5% Cap including Projected Test Year 2006	353	ERCs
	c)	Statutory Growth Period	5	Years
	d)	Growth = (3b)x[2\(3a)]	38,180	gallons per day
4)		Excessive Infiltration or Inflow	0	gallons per day
	a)	Total I&I	(2,063)	gallons per day
	b)	Percent of Excessive		
	c)	Reasonable Amount (500 gpd per inch dia pipe per mile)	55,046	gallons per day
	d)	Excessive Amount	0	gallons per day

USED AND USEFUL FORMULA

$$[(2) + (3) - (4)] / (1)$$

$$[138,009 + 38,180 - 0] / 475,000 = 37.1\% \quad \text{Used \& Useful}$$

Plantation Bay Utility Company
Docket #: 050281-WS

Attachment A, Page 4 of 4
Projected Test Year Jan 06 - Dec 06

WASTEWATER COLLECTION SYSTEM - USED AND USEFUL DATA

1)	Capacity of System (Number of Potential in ERCs)	2,230	ERCs
2)	Average Connection in ERCs: Projected Test Year: Jan 2006 - Dec 2006	1,276	ERCs
3)	Growth	353	ERCs
	Customer Growth in ERCs for 5 Years Period Using 5% Cap Including Projected Test Year 2006	353	ERCs

USED AND USEFUL FORMULA

[(2)+(3)] / (1) =73.05% Used and Useful

Plantation Bay Utility Company
Rate Case Expense Analysis

Attachment B
Docket No. 050281-WS

	Water ERCs	Wastewater ERCs	Total Rate Case Expense	PAA or Hearing	Total RC Expense Per ERC Water	Annual RC Expense Per ERC Wastewater	Annual Rate Case Amort	Water Increase (1)	Wastewater Increase	Amort/Total Inc Granted
Plantation Bay (2006) Before Adjustments	1,759	1,352	$215,894	PAA	$69.40	$69.40	$53,974	($79,865)	$179,832	53.99%
Plantation Bay (2006) After Initial Adjs	1,759	1,352	188,869	PAA	60.71	60.71	47,217	($79,865)	$179,832	47.23%
Plantation Bay (2006) Adj to Average	1,759	1,352	78,713	PAA	25.30	25.30	19,678	($79,865)	$179,832	19.68%
Plantation Bay (2006) Adj to Indiantown	1,759	1,352	89,114	PAA	28.64	28.65	22,278	($79,865)	$179,832	22.29%
Plantation Bay (2006) Adj to Utilities, Inc.	1,759	1,352	121,063	PAA	38.91	38.92	30,266	($79,865)	$179,832	30.28%
Indiantown (2003)	2,047	1,953	115,442	PAA	29	29	28,861	78,334	165,384	11.84%
Eagle Ridge (2002)		3,697	62,646	PAA		17	15,661		98,955	15.83%
Labrador (2003)		947	68,988	PAA		73	17,247		194,905	8.85%
Mid-County (2002)		3,126	75,813	PAA		24	18,953		328,399	5.77%
Cypress Lakes (2001)	1,200	1,107	56,943	PAA	24	25	14,236	122,955	79,463	7.03%
Alafaya (2001)		6,006	93,360	PAA		16	23,340		200,879	11.62%
FPUC (2000)	6,537		45,988	PAA	7		11,497	380,652		3.02%
Aloha-Seven Springs (2001)	10,630		205,209	Hearing	19		51,302	0		N/A
Utilities Inc - 5 counties (2001)	7,592	2,691	397,597	Hearing	38	40	99,399	215,345	222,969	22.68%
Averages for the PAA rate cases	3,261	2,806	$74,169		$19.93	$30.67	$18,542			
						$25.30	Water and Wastewater Average Cost Per ERC			

Notes:
(1) The water increase shown here excludes rate case expense based on other reasons.

Plantation Bay Utility Company
Schedule of Water Rate Base
Test Year Ended 12/31/06

Schedule No. 1-A
Docket No. 050281-WS

	Description	Test Year Per Utility	Utility Adjust-ments	Adjusted Test Year Per Utility	Commission Adjust-ments	Commission Adjusted Test Year
1	Plant in Service	$3,530,574	$0	$3,530,574	$935,164	$4,465,738
2	Land and Land Rights	58,949	0	58,949	(25,195)	33,754
3	Non-used and Useful Components	(21,859)	0	(21,859)	(134,230)	(156,089)
4	Accumulated Depreciation	(1,517,433)	380	(1,517,053)	(246,944)	(1,763,997)
5	CIAC	(1,778,771)	0	(1,778,771)	(709,273)	(2,488,044)
6	Amortization of CIAC	541,501	(5,914)	535,587	112,150	647,737
7	Net Debit Deferred Income Taxes	0	242,729	242,729	(242,729)	0
8	Working Capital Allowance	23,821	1,557	25,378	3,761	29,139
9	**Rate Base**	$836,782	$238,752	$1,075,534	$307,296	$768,238

Plantation Bay Utility Company
Schedule of Wastewater Rate Base
Test Year Ended 12/31/06

Schedule No. 1-B
Docket No. 050281-WS

	Description	Test Year Per Per	Utility Adjust-ments	Adjusted Test Year Per Utility	Commission Adjust-ments	Commissi on Adjusted Test Year
1	Plant in Service	$4,163,818	$0	$4,163,818	$1,665,401	$5,829,219
2	Land and Land Rights	50,631	0	50,631	0	50,631
3	Non-used and Useful Components	0	0	0	(697,619)	(697,619)
4	Accumulated Depreciation	(1,378,580)	7,166	(1,371,414)	(312,287)	(1,683,701)
5	CIAC	(2,274,871)	0	(2,274,871)	(1,093,973)	(3,368,844)
6	Amortization of CIAC	782,352	188,024	970,376	197,500	1,167,876
7	Net Debit Deferred Income Taxes	0	455,267	455,267	(455,267)	0
8	Working Capital Allowance	24,059	2,310	26,369	5,934	32,303
9	**Rate Base**	$1,367,409	$652,767	$2,020,176	($690,311)	$1,329,865

	Plantation Bay Utility Company **Adjustments to Rate Base** **Test Year Ended 12/31/06**		**Schedule No. 1-C** **Docket No. 050281-WS**
	Explanation	**Water**	**Wastewater**
	Plant In Service		
1	To remove the utility's averaging adjustment and reflect 2004 year-end balance.	$150,403	$435,527
2	To reflect the stipulated rate base adjustments.	(114,376)	(290,569)
3	To reflect the appropriate projected plant.	899,136	1,520,443
	Total	$935,164	$1,665,401
	Land		
	To reflect to appropriate amount of land for water system.	($25,195)	$0
	Non-used and Useful		
	To reflect net non-used and useful adjustment	($134,230)	($697,619)
	Accumulated Depreciation		
1	To remove the utility's averaging adjustment and reflect 2004 year-end balance.	($58,871)	($78,439)
2	To reflect the appropriate year ending 12/31/04 balances.	9,572	20,163
3	To reflect the appropriate projected depreciation.	(197,645)	(254,011)
	Total	($246,944)	($312,287)
	CIAC		
1	To remove the utility's averaging adjustment and reflect 2004 year-end balance.	($110,033)	($7,527)
2	To reflect the appropriate year ending 12/31/04 balances.	87,991	($89,259)
3	To reflect the appropriate projected CIAC.	(687,231)	(997,187)
	Total	($709,273)	($1,093,973)
	Accumulated Amortization of CIAC		
1	To remove the utility's averaging adjustment and reflect 2004 year-end balance.	$39,921	($154,560)
2	To reflect the appropriate year ending 12/31/04 balances.	(30,082)	216,435
3	To reflect the appropriate projected amortization	102,310	135,624
	Total	$112,150	$197,500
	Accumulated Deferred Income Taxes		
	To reflect the appropriate credit accumulated deferred income tax balance.	($242,729)	($455,267)
	Working Capital		
	To reflect the appropriate working capital.	$3,761	$5,934

Plantation Bay Utility Company
Capital Structure-Simple Average
Test Year Ended 12/31/06

Schedule No. 2
Docket No. 050281-WS

	Description	2004 Total Capital	Specific Adjust-ments	2004 Adjusted Capital	Pro rata Adjust-ments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost
Per Utility									
1	Long-term Debt	$4,334,088	($3,571,367)	$762,721	$592,390	$1,355,111	43.77%	10.00%	4.38%
2	Short-term Debt	0	0	0	0	0	0.00%	0.00%	0.00%
3	Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
4	Common Equity	(2,607,825)	3,571,367	963,542	748,597	1,712,139	55.31%	10.41%	5.76%
5	Customer Deposits	28,460	0	28,460	0	28,460	0.92%	6.00%	0.06%
6	Deferred Income Taxes	0	0	0	0	0	0.00%	0.00%	0.00%
7	**Total Capital**	$1,754,723	$0	$1,754,723	$1,340,987	$3,095,710	100.00%		10.20%

	Description	2004 Total Capital	Specific Adjust-ments	2006 Adjusted Capital	Pro rata Adjust-ments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost
Per Commission									
8	Long-term Debt	$762,721	$1,591,893	$2,354,614	($1,184,296)	$1,170,318	55.78%	10.00%	5.58%
9	Short-term Debt	0	0	0	0	0	0.00%	0.00%	0.00%
10	Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
11	Common Equity	963,542	572,910	1,536,452	(772,787)	763,665	36.40%	11.78%	4.29%
12	Customer Deposits	28,460	19,485	47,945	0	47,945	2.29%	6.00%	0.14%
13	Deferred Income Taxes	0	233,737	233,737	(117,562)	116,175	5.54%	0.00%	0.00%
14	**Total Capital**	$1,754,723	$2,418,025	$4,172,748	($2,074,645)	$2,098,103	100.00%		10.00%

	LOW	HIGH
RETURN ON EQUITY	10.78%	12.78%
OVERALL RATE OF RETURN	9.64%	10.37%

Plantation Bay Utility Company
Statement of Water Operations
Test Year Ended 12/31/06

Schedule No. 3-A
Docket No. 050281-WS

	Description	Test Year Per Utility	Utility Adjust-ments	Adjusted Test Year Per Utility	Commission Adjust-ments	Commission Adjusted Test Year	Revenue Increase	Commission Revenue Requirement
1	Operating Revenues:	$346,238	$107,153	$453,391	$33,163	$486,554	($79,865) (16.41%)	$406,689
	Operating Expenses							
2	Operation & Maintenance	$190,567	$12,458	$203,025	$30,091	$233,116		$233,116
3	Depreciation	49,731	(1,261)	48,470	1,717	50,187		50,187
4	Amortization	0	0	0	0	0		0
5	Taxes Other Than Income	50,399	4,418	54,817	(4,689)	50,128	(3,594)	46,534
6	Income Taxes	0	37,375	37,375	(37,375)	0	0	0
7	Total Operating Expense	$290,697	$52,990	$343,687	($10,256)	$333,431	($3,594)	$329,837
8	Operating Income	$55,541	$54,163	$109,704	$43,419	$153,123	($76,271)	$76,852
9	Rate Base	$836,782		$1,075,534		$768,238		$768,238
10	Rate of Return	6.64%		10.20%		19.93%		10.00%

Plantation Bay Utility Company
Statement of Wastewater Operations
Test Year Ended 12/31/06

Schedule No. 3-B
Docket No. 050281-WS

	Description	Test Year Per Utility	Utility Adjust-ments	Adjusted Test Year Per Utility	Commission Adjust-ments	Commission Adjusted Test Year	Revenue Increase	Commission Revenue Requirement
1	Operating Revenues:	$224,920	$403,749	$628,669	($318,241)	$310,428	$179,832 57.93%	$490,260
	Operating Expenses							
2	Operation & Maintenance	$192,469	$18,483	$210,952	$47,473	$258,425		$258,425
3	Depreciation	89,955	0	89,955	(56,806)	33,149		33,149
4	Amortization	0	0	0	0	0		0
5	Taxes Other Than Income	33,334	18,169	51,503	6,056	57,559	8,092	65,651
6	Income Taxes	0	70,201	70,201	(70,201)	0	0	0
7	Total Operating Expense	$315,758	$106,853	$422,611	($73,478)	$349,133	$8,092	$357,225
8	Operating Income	($90,838)	$296,896	$206,058	($244,762)	($38,704)	$171,740	$133,035
9	Rate Base	$1,367,409		$2,020,176		$1,329,865		$1,329,865
10	Rate of Return	-6.64%		10.20%		(2.91%)		10.00%

Plantation Bay Utility Company Adjustment to Operating Income Test Year Ended 12/31/06		Schedule 3-C Docket No. 050281-WS	
	Explanation	**Water**	**Wastewater**
	Operating Revenues		
1	Remove requested final revenue increase	($107,153)	($403,749)
2	To reflect the appropriate projected revenues.	140,461	81,517
3	To impute related party developer revenues.	2,811	0
4	To impute reuse revenues.	0	1,034
5	To reflect the stipulated miscellaneous revenue adjustments.	(2,957)	2,957
	Total	$33,163	($318,241)
	Operation and Maintenance Expense		
1	To reflect the stipulated O&M expense adjustments.	($20,951)	$36
2	To reflect the additional 2004 historical O&M expenses.	(9,975)	$5,257
3	Non-growth adjustments to certain O&M expenses.	29,344	19,302
4	To reflect the appropriate projected purchased power expense.	8,174	9,130
5	To reflect the appropriate projected chemicals expense.	7,711	2,400
6	To reflect the appropriate ERC growth O&M expense adjustments.	33,460	18,755
7	To reflect the appropriate rate case expense.	(17,674)	(7,406)
	Total	$30,091	$47,473
	Depreciation Expense - Net		
1	To reflect the appropriate historical net depreciation expense.	$9,056	($23,624)
2	To reflect the appropriate projected net depreciation expense.	6,301	11,817
3	To remove net depreciation on non-U&U adjustment above.	(13,640)	(44,999)
	Total	$1,717	($56,806)
	Taxes Other Than Income		
1	RAFs on revenue adjustments above	$1,492	($14,321)
2	Total reflect the appropriate projected property taxes.	(3,157)	24,734
3	To remove property on non-U&U adjustment above.	(3,025)	(4,358)
	Total	($4,689)	$6,056
	Income Taxes		
	To reflect no income tax provision due to NOL carryforward offsets.	($37,375)	($70,201)

Plantation Bay Utility Company
Water Monthly Service Rates
Test Year Ended 12/31/06

Schedule No. 4-A
Docket No. 050281-WS

	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Commission Approved Final	4-year Rate Reduction
Residential and General Service					
Base Facility Charge by Meter Size:					
5/8" x 3/4"	$17.79	N/A	$21.25	$10.41	N/A
3/4"	$26.68	N/A	$31.88	$15.62	N/A
1"	$44.49	N/A	$53.13	$26.04	N/A
1-1/2"	$88.96	N/A	$106.25	$52.07	N/A
2"	$142.34	N/A	$170.00	$83.32	N/A
3"	$284.69	N/A	$340.00	$166.64	N/A
4"	$444.83	N/A	$531.25	$260.37	N/A
6"	$889.66	N/A	$1,062.50	$520.75	N/A
Gallonage Charge, per 1,000 Gallons	$2.06	N/A	$3.31	$2.99	N/A
	Typical Residential Bills 5/8" x 3/4" Meter				
3,000 Gallons	$23.97	N/A	$31.18	$19.38	
5,000 Gallons	$28.09	N/A	$37.80	$25.36	
10,000 Gallons	$38.39	N/A	$54.35	$40.31	

Plantation Bay Utility Company
Wastewater Monthly Service Rates
Test Year Ended 12/31/06

SCHEDULE NO. 4-B
Docket No. 050281-WS

	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Commission Approved Final	Four-year Rate Reduction
Residential					
Base Facility Charge for all Meter Sizes:	$12.70	$24.79	$33.94	$17.78	$0.37
Gallonage Charge - Per 1,000 gallons (10,000 gallon cap)	$1.79	$3.49	$5.47	$3.43	$0.07
General Service					
Base Facility Charge by Meter Size:					
5/8" x 3/4"	$12.70	$24.79	$33.94	$17.78	$0.37
3/4"	$19.05	$37.18	$50.91	$26.67	$0.55
1"	$31.76	$61.99	$84.85	$44.45	$0.92
1-1/2"	$63.02	$123.01	$169.70	$88.89	$1.84
2"	$101.61	$198.33	$271.52	$142.23	$2.94
3"	$203.22	$396.66	$509.10	$284.45	$5.87
4"	$317.53	$619.78	$848.50	$444.46	$9.18
6"	$635.02	$1,239.48	$1,697.00	$888.92	$18.36
Gallonage Charge, per 1,000 Gallons	$2.14	$4.18	$6.43	$4.11	$0.08
	Typical Residential Bills 5/8" x 3/4" Meter				
3,000 Gallons	$18.07	$35.26	$50.35	$28.07	
5,000 Gallons	$21.65	$42.24	$61.29	$34.93	
10,000 Gallons	$30.60	$59.69	$88.64	$52.08	
(Wastewater Gallonage Cap - 10,000 Gallons)					

UTILTIY CO.: Plantation Bay Utility Company Docket No.: 050281-WS Water Operation								SCHEDULE NO. 5-A	
Commission Approved Plant Capacity Charge: Meter Installation Main Installation Charge:		$0 $100 $0							
	2004	2005	2006	2007	2008	2009	2010	2011	2012
Capacity	670,000	670,000	670,000	670,000	670,000	670,000	670,000	670,000	670,000
Demand	341,000	380,816	441,877	483,877	525,877	567,877	609,877	651,877	693,877
% Used	50.90%	56.84%	65.95%	72.22%	78.49%	84.76%	91.03%	97.30%	103.56%
Growth (in ERCs)	1,240	237	282	250	250	250	250	250	250
									3,259
Utility Plant		3,967,454	5,031,531	5,771,315	6,385,179	7,027,375	7,367,363	7,452,363	7,940,307
Accumulated Depreciation		-1,689,043	-1,839,294	-2,008,918	-2,194,921	-2,397,975	-2,610,893	-2,827,612	-3,057,714
Net Plant		2,278,411	3,192,237	3,762,397	4,190,258	4,629,400	4,756,470	4,624,751	4,882,593
CIAC		1,975,246	3,000,459	3,680,243	4,234,107	4,816,303	5,096,291	5,121,291	5,549,235
Accumulated Amortization		-605,602	-692,462	-796,366	-914,319	-1,046,995	-1,187,206	-1,328,888	-1,481,623
Net CIAC		1,369,644	2,307,996	2,883,876	3,319,787	3,769,307	3,909,085	3,792,403	4,067,611
Net Investment		908,767	884,240	878,520	870,471	860,093	847,385	832,348	814,982
CIAC Ratio:		60.11%	72.30%	76.65%	79.23%	81.42%	82.18%	82.00%	83.31%
Total T&D Mains		2,434,561	3,389,582	4,044,366	4,573,230	5,130,426	5,385,414	5,385,414	5,788,358
Percentage to CIAC		123.25%	112.97%	109.89%	108.01%	106.52%	105.67%	105.16%	104.31%
Amount Above CIAC		459,315	389,123	364,123	339,123	314,123	289,123	264,123	239,123

UTILTIY CO.: Plantation Bay Utility Company
Docket No.: 050281-WS **SCHEDULE NO. 5-B**
Wastewater Operation

Commission Approved:									
Plant Capacity Charge:		$0							
Main Installation Charge:		$0							
	2004	2005	2006	2007	2008	2009	2010	2011	2012
Capacity	475,000	475,000	475,000	475,000	475,000	475,000	475,000	475,000	475,000
Demand	109,410	148,278	194,526	235,526	276,526	317,526	358,526	399,526	440,526
% Used	23.03%	31.22%	40.95%	49.58%	58.22%	66.85%	75.48%	84.11%	92.74%
Growth (in ERCs)	1,210	237	282	250	250	250	250	250	250
									3,229
Utility Plant		5,026,142	6,733,556	8,081,028	9,175,140	10,326,258	10,869,312	10,899,312	11,740,064
Accumulated Depreciation		-1,587,023	-1,785,369	-2,016,914	-2,275,573	-2,562,714	-2,863,731	-3,166,299	-3,489,895
Net Plant		3,439,119	4,948,187	6,064,114	6,899,567	7,763,544	8,005,581	7,733,013	8,250,169
CIAC		2,497,598	4,240,093	5,557,565	6,621,677	7,742,795	8,255,849	8,255,849	9,066,601
Accumulated Amortization		-1,107,622	-1,226,799	-1,378,317	-1,555,693	-1,760,313	-1,977,399	-2,194,486	-2,431,274
Net CIAC		1,389,976	3,013,294	4,179,248	5,065,984	5,982,482	6,278,450	6,061,363	6,635,327
Net Investment		2,049,144	1,934,893	1,884,866	1,833,584	1,781,062	1,727,132	1,671,650	1,614,842
CIAC Ratio:		**40.42%**	**60.90%**	**68.92%**	**73.42%**	**77.06%**	**78.43%**	**78.38%**	**80.43%**
Total Collection Lines		3,610,318	5,317,732	6,635,204	7,699,316	8,820,434	9,333,488	9,333,488	10,144,240
Percentage to CIAC		144.55%	125.42%	119.39%	116.27%	113.92%	113.05%	113.05%	111.89%
Difference from CIAC		1,112,720	1,077,639	1,077,639	1,077,639	1,077,639	1,077,639	1,077,639	1,077,639