BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for staff-assisted rate case in Lake County by Raintree Utilities, Inc.	DOCKET NO. 070627-WU ORDER NO. PSC-08-0483-PAA-WU ISSUED: July 25, 2008

The following Commissioners participated in the disposition of this matter:

MATTHEW M. CARTER II, Chairman
LISA POLAK EDGAR
KATRINA J. McMURRIAN
NANCY ARGENZIANO
NATHAN A. SKOP

NOTICE OF PROPOSED AGENCY ACTION
ORDER APPROVING INCREASE IN RATES AND CHARGES
AND
FINAL ORDER GRANTING TEMPORARY RATES IN THE EVENT OF PROTEST

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein is preliminary in nature, except for the four year rate reduction and approval of temporary rates in the event of protest, 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 (F.A.C.).

I. Background

Raintree Utilities, Inc. (Raintree or Utility) is a Class C water Utility providing service to approximately 124 customers in Lake County. The Utility has two distinct service areas which include the Raintree Harbor and Bentwood subdivisions. At this time, Raintree does not have any customers connected to its Bentwood water system. Wastewater service is provided through septic tanks. According to Raintree's 2006 Annual Report, the Utility reported operating revenues of $45,950 and a net operating income (loss) of $600.

On September 8, 1987, we issued Order No. 18131 granting Raintree an exemption from Commission jurisdiction pursuant to Section 367.022(6), Florida Statutes (F.S.).[1] Section 367.022(6), F.S., exempts those systems with the capacity or proposed capacity to serve 100 or fewer persons. We found the Utility exempt based upon the initial 29 lot subdivision and associated capacity of the water plant. Raintree began operation in January 1988.

[1] Docket No. 870796-WU, In re: Petition of Raintree Harbor Phase I for Determination of Exempt Status of a Water Facility in Lake County.

On July 18, 1991, Raintree advised us that it was in the process of expanding the distribution system to serve 119 lots and had received Lake County's approval for the second phase of the development. The Utility further advised that it was preparing to file an application with us for an original certificate.

On October 10, 1991, Raintree filed its application for a water certificate. We granted Water Certificate 539-W to the Utility in Order No. PSC-92-0019-FOF-WU, issued March 10, 1992.[2] The Utility has never had rate base established and currently operates under the same rates that were established in Order No. PSC-92-0019-FOF-WU.

On April 28, 2000, we issued Order No. PSC-00-0843-FOF-WU, approving the transfer of majority organizational control from Mr. Donn Monn to Mr. Keith J. Shamrock. Rate base was not established because the sale was accomplished by the transfer of stock.

On June 29, 2005, we issued Order No. PSC-05-0706-PAA-WU, which amended the Utility's certificate to include the additional territory of Bentwood. In addition, we also approved an $800 plant capacity charge and a meter installation charge of $125.

On September 27, 2007, Raintree filed an application for a staff-assisted rate case. The official filing date was established as November 23, 2007. This is the Utility's first staff-assisted rate case. In its application, Raintree requested authority to increase its plant capacity charge from $800 to $2,900. By Order No. PSC-07-0981-PCO-WU, issued December 10, 2007, in this docket, we approved a temporary plant capacity charge of $2,900 subject to refund with interest pending the determination of final rates and charges in this proceeding. As Raintree Harbor is built out, the proposed plant charges shall only apply to Bentwood. Raintree Harbor's rates shall be set using the traditional rate setting method. Because the Bentwood water system is newly installed and no customers have connected to date, Bentwood rates shall be established using the same method applied in original certificate cases, which is 80 percent of design capacity.

We have audited the Utility's records for compliance with our rules and orders and determined the components necessary for rate setting. Our staff engineer also conducted a field investigation of the Utility's plant and service area. A review of the Utility's operating expenses, maps, files, and rate application was also performed to obtain information about the physical plant operating cost. With regard to the Utility's Raintree Harbor water system, we have selected a historical test year ending September 30, 2007, for this rate case.

This Order addresses Raintree's request for authority to collect revised plant capacity charges and to establish rates for both Raintree Harbor and Bentwood. We have jurisdiction pursuant to Sections 367.011, 367.0814, 367.101, and 367.121, F.S.

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[2] See Order No. PSC-92-0019-FOF-WU, issued March 10, 1992, in Docket No. 911039-WU, In re: Application for Raintree Utilities, Inc. for a water certificate in Lake County, Florida.

II. Quality of Service

Rule 25-30.433(1), F.A.C., states that:

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

Our analysis below addresses each of these three components.

A. Quality of Utility's Product

The water treatment plants (WTPs) of Raintree are regulated by the Department of Environmental Protection (DEP). The DEP inspected the Raintree Harbor WTPs on August 30, 2007. Raintree has conformed to all testing and chemical analyses required by this agency and the test results have been satisfactory.

B. Operational Conditions at the Plant

Raintree Harbor WTP

The product provided by the Utility is reflective of the operating condition of the water plant. According to the DEP's Sanitary Survey Report dated August 30, 2007, the DEP's inspector observed the following deficiencies during her site inspection:

1. There is a gap in the sanitary seal plate on Well No.1.
2. The above ground check valve for Well No. 3 is not functioning as intended.
3. The 8" Fire Well No. 2 is not designed to supplement the existing wells for the normal domestic demands due to the required minimum five-minute contact time in the filters.

According to the DEP's Compliance Inspection Report dated May 15, 2008, all of the above deficiencies have been corrected.

Maintenance at the plant site appeared to have been given adequate attention. The plant grounds within the fenced-in area were organized.

All things considered, the operational conditions at the wastewater plant shall be considered satisfactory.

C. Utility's Attempt to Address Customer Satisfaction

An informal customer meeting was held on April 14, 2008, at the City of Tavares Civic Center in Tavares, Florida. The evening meeting was open to all customers at 6:00 p.m. There were seven customers that attended the meeting, including one Utility representative. Three customers went on record with comments and concerns about Raintree. The customers were concerned about the rate increase and the rate structure.

We believe that the owner of the Raintree is putting forth a good faith effort to respond to customer complaints. The Utility's attempts to resolve customer complaints shall be considered satisfactory.

Based on all of the above, we find that the overall quality of service provided by the Utility shall be considered satisfactory.

III. Used and Useful

The Raintree system consists of two service areas (Raintree Harbor and Bentwood) which are not interconnected. Because rates for the Bentwood system are being set using the original certificate methodology (based on the project cost of the system serving 80 percent of the design capacity), a used and useful analysis was not performed for that system. The following is our used and useful analysis and finding for the Raintree Harbor system.

Raintree Harbour Water Treatment Plant

The existing Raintree Harbor water system consists of three active wells, rated at 600 gallons per minute (gpm), 90 gpm, and 90 gpm. The raw water is filtered with a liquid sodium hypochlorite solution and pumped into a 5,000 gallon hydropneumatic tank and then into the distribution system. The single maximum day in the test year (167,000 gallons per day (gpd)) occurred on February 23, 2007; however, it appears that an anomaly, such as a line break, occurred on that day because the flows for that day are more than twice as great as any other day during the entire month of February. No information was available to ascertain why the flows were so great on that day. Therefore, staff recommended using the second single maximum day in the test year of 136,000 gpd which occurred on May 12, 2007, which we find is appropriate. The Utility's records indicate that there was no excessive unaccounted for water. The Raintree Harbor service area is built out; therefore, no growth allowance shall be included in the used and useful calculation. The Utility has 9 working fire hydrants in its service area and is required by Lake County to have fire flow capacity of 500 gpm for 2 hours. The firm reliable capacity of the water system is 180 gpm. Therefore, we find that the water treatment plant is 100 percent used and useful, as shown on Attachment A. In addition, because the Raintree Harbor service area is built out, it shall be considered 100 percent used and useful, pursuant to Rule 25-30.4325, F.A.C.

Raintree Harbour Water Distribution System

The Utility's Raintree Harbor water transmission and distribution lines were constructed to serve the 119 residential lots in that development, which is now built out. Therefore, we find

that the water transmission and distribution lines for Raintree Harbor are 100 percent used and useful.

IV. Rate Base

We selected a test year ending September 30, 2007, for this rate case. As discussed in the case background, Raintree Harbor's rates shall be set using the traditional rate setting method, and Bentwood's rates shall be established using the same method used in original certificate cases, which is 80 percent of design capacity. A summary of each component and the adjustments for Raintree Harbor and Bentwood are as follows:

Utility Plant in Service (UPIS): The Utility recorded UPIS for Raintree Harbor of $68,550 and $655,411 for Bentwood for the test year ending September 30, 2007.

Pursuant to Audit Finding No. 1, the Utility was unable to provide any original cost records to substantiate its 2007 plant balances. As stated in the case background, the Utility has never filed a rate case with us since becoming jurisdictional in 1991. An original cost study was completed by our staff engineer due to the lack of records for the time period prior to Raintree purchasing the plant. Our cost estimate was determined by using available maps, invoice records, and information obtained during an inspection of the visible facilities during the engineering field investigation. Based on the original cost study, we have made an adjustment to increase plant in service by $141,213 for Raintree Harbor. The following table illustrates the plant adjustments by primary account.

Account # 304	Increase	$5,700	Structure and improvements
Account # 309	Increase	$991	Master meter
Account # 311	Increase	$23,168	Pumping equipment
Account # 320	Increase	$46,622	Water treatment
Account # 330	Increase	$11,448	Reservoirs - Hydro Tank
Account # 331	Increase	$49,878	Distribution mains
Account # 333	Increase	$6,290	Lateral services
Account # 335	Increase	$8,344	Fire Hydrants
Account # 340	Increase	$2,920	Office equipment and furniture
Account # 303	Decrease	($5,740)	Reclassify land recorded in plant
Account # 305	Decrease	($2,520)	Reclassified to Acct. # 304
Account # 307	Decrease	($3,063)	Well purchased in 2002
Account # 334	Decrease	($2,825)	Reclassified to Acct. # 309

We decreased Bentwood's UPIS (Account No. 334) by $12,309 to reflect the appropriate plant-in-service at 80 percent build-out and decreased land by $927 for a calculation error. The appropriate average amount of test year plant-in-service is $209,763 for Raintree Harbor and $643,102 for Bentwood.

Non-used and Useful Plant: As discussed previously in this Order, the Utility's water systems shall be considered 100 percent used and useful. Therefore, no adjustments are necessary.

Contribution in Aid of Construction (CIAC): The Utility recorded CIAC of $0 for Raintree Harbor and $200,386 for Bentwood for the test year ending September 30, 2007. Rule 25-30.570, F.A.C., addresses the imputation of CIAC when a company has not recorded any amount on its books and the company does not submit competent substantial evidence as to the amount of CIAC. We have determined that CIAC should be imputed in the amount of $29,750 for Raintree Harbor. In addition, we have increased CIAC by $155,320 for Bentwood.

Accumulated Depreciation: The Utility recorded a balance for accumulated depreciation of $17,919 for Raintree Harbor and $0 for Bentwood for the test year. We have calculated accumulated depreciation using the prescribed rates set forth in Rule 25-30.140, F.A.C. As a result, we have increased this account by $120,135 for Raintree Harbor and $141,566 for Bentwood to reflect depreciation. These adjustments result in average accumulated depreciation of $138,054 for Raintree Harbor and $141,566 for Bentwood.

Accumulated Amortization of CIAC: The Utility did not record accumulated amortization of CIAC balances for Raintree Harbor, but it did record accumulated amortization of CIAC for Bentwood of $51,339. We calculated the amortization of CIAC using composite rates prescribed in Rule 25-30.140, F.A.C. Based on this calculation, we increased accumulated amortization of CIAC by $5,207 for Raintree Harbor to reflect an averaging adjustment. Based on this recalculation, we increased Bentwood by $7,177 to reflect the appropriate CIAC at 80 percent build-out. These adjustments result in an average accumulated amortization of CIAC of $5,207 for Raintree Harbor and $58,516 for Bentwood.

Working Capital Allowance: Working capital is defined as the investor-supplied funds that are necessary to meet operating expenses or ongoing-concern requirements of the Utility. Consistent with Rule 25-30.433(2), F.A.C., we used the one-eighth of operation and maintenance (O&M) expense formula approach for calculating the working capital allowance. Applying this formula, we calculated a working capital allowance of $4,946 for Raintree Harbor and $3,943 for Bentwood to reflect one-eighth O&M expenses.

Rate Base Summary: Based on the forgoing, we find the appropriate test year average rate base is $57,852 for Raintree Harbor and $213,163 for Bentwood. Raintree Harbor and Bentwood rate bases are shown on Schedule No. 1-A and 1-B, respectively. Our adjustments for Raintree Harbor and Bentwood are shown on Schedule 1-C and 1-D.

V. Rate of Return

According to our audit, the Utility recorded common stock of $100 and negative retained earnings of $8,195. This results in a negative common equity balance of $8,095. Because including a negative common equity balance in the capital structure would penalize the Utility by understating the overall rate of return, we have adjusted the negative common equity balance to zero. Based on our practice,[3] Raintree's negative common equity balance shall be set to zero.

[3] See Order No. PSC-06-1027-PAA-WU, issued December 11, 2006, in Docket No.050563-WU, In re: Application for increase in water rates in Polk County by Park Water Company. and Order No. PSC-01-1488-PAA-WS, issued

In addition, with regard to Raintree Harbor, the Utility's long-term debt as of September 30, 2007, was $490,000. With regard to Bentwood, the Utility's pro forma long-term debt amount is $450,000. The Utility reflected a long-term debt cost rate of 8.25 percent, which was supported through documentation provided to the staff auditors.

The appropriate rate of return on equity is 12.01 percent based on our most recently approved leverage formula.[4] The Utility's capital structure has been reconciled with our finding as to rate base. We establish a return on equity of 12.01 percent with a range of 11.01 percent - 13.01 percent, and an overall rate of return of 8.25 percent. The return on equity and overall rate of return are shown on Schedule No. 2-A and 2-B for Raintree Harbor and Bentwood, respectively.

VI. Test Year Revenues

Pursuant to Audit Finding No. 5, the Utility reported test year revenues of $47,425 for the Raintree Harbor system and $1,147 for the Bentwood system. Bentwood expects to have only one customer taking service in 2007, four customers in 2008, and then add thirteen customers per year until the Utility has reached 80 percent of design capacity. Based on the foregoing, we find that the appropriate amount of test year revenues in this case are $47,425 for Raintree Harbor system and $21,991 for the Bentwood system. Test year revenues are shown on Schedule No. 3-A and 3-B and adjustments are shown on Schedule 3-C.

VII. Operating Expenses

The Utility recorded operating expenses of $44,759 for Raintree Harbor and $31,519 for Bentwood during the test year ending September 30, 2007. Adjustments have been made to reflect unrecorded test year expenses and to adjust annual operating costs. The test year operating and maintenance expense (O&M) have been reviewed and invoices, canceled checks, and other supporting documentation have been examined. We have made several adjustments to the Utility's operating expenses, as summarized below:

Purchased Power – (615) – For the test year, the Utility recorded purchased power expense of $5,277 for Raintree Harbor and $5,300 for Bentwood. Based on Audit Finding No. 6, Raintree Harbor's purchased power expense shall be reduced by $735 to remove a Utility deposit that was paid outside of the test period.

Regulatory Commission Expense– (665) – During the test year, the Utility recorded $125 in regulatory Commission expense for Raintree Harbor as well as $125 for Bentwood. This is based on a four-year amortization of the total filing fee of $1,000 and allocated equally between Raintree Harbor and Bentwood. ($1,000/4 = $250; $250/2 = $125) We have increased regulatory expense for each system by $27 to account for the cost of preparing and mailing customer notices related to this rate case.

July 18, 2001, in Docket No. 981147-WS, In re: Investigation into potential overearnings in Highlands County by Highlands Ridge Associates Inc.

[4] See Order No. PSC-07-0472-PAA-WS, issued June 1, 2007, in Docket No. 070006-WS, In Re: Water and Wastewater Industry Annual Reestablishment of Authorized Range of Return on Common Equity for Water and Wastewater Utilities Pursuant to Section 367.081(4)(f), Florida Statutes.

Depreciation Expense (Net of Amortization of CIAC) – The Utility recorded $0 for both Raintree Harbor and Bentwood for depreciation expense. We calculated test year depreciation expense using the rates prescribed in Rule 25-30.140, F.A.C. We have increased depreciation expense by $8,414 for Raintree Harbor and by $24,443 for Bentwood. The Utility did not record any amortization of CIAC. We have calculated the amortization of CIAC based on composite rates. We have decreased Raintree Harbor by $1,193 and Bentwood by $13,520 to reflect our calculated amortization of CIAC. Therefore, we find test year net depreciation expense is $7,220 for Raintree Harbor and $10,923 for Bentwood.

Taxes Other Than Income (TOTI) – The Utility's records reflect a TOTI balance for Raintree Harbor of $4,482 for the test year. Based on Audit Finding No. 7, regulatory assessment fees (RAFs) for Raintree Harbor were increased by $66 to reflect the appropriate test year amount. In addition, we decreased property taxes by $440 to reflect the appropriate test year amount. Moreover, we have reduced Raintree Harbor's TOTI by $1,400 to remove the cost of documentary stamps associated with long-term debt that is included in the capital structure. No TOTI was incurred during the test year for Bentwood. We have included $3,247 in Bentwood's TOTI for projected property taxes at 80 percent build out. TOTI for Raintree and Bentwood are $3,031 and $3,316, which includes the effect of our finding with regard to revenue increase.

Operating Expenses Summary – Based on the above, we find operating expenses to be $49,498 for Raintree Harbor and $43,924 for Bentwood. Operating expenses are shown on Schedule No. 3-A and 3-B. The related adjustments are shown on Schedule No. 3-C and 3-D.

VIII. Revenue Requirement

The Utility shall be allowed an annual increase of $7,169 (15.12 percent) for Raintree Harbor and $41,380 (188.16 percent) for Bentwood. This will allow the Utility the opportunity to recover its expenses and earn a 12.01 percent return on its investment. The calculations are as follows:

	Raintree Harbor	Bentwood
Adjusted Rate Base	$57,852	$213,163
Rate of Return	x .1201	x .1201
Return on Rate Base	$ 4,773	$ 17,586
Adjusted O & M expense	39,569	31,546
Depreciation expense (Net)	7,220	10,923
Amortization	$0	$0
Taxes Other Than Income	3,031	3,316
Income Taxes	$0	$0
Revenue Requirement	$54,594	$63,372
Less Test Year Revenues	47,425	$21,991
Annual Increase	$7,169	$41,380
Percent Increase/(Decrease)	15.12%	188.16%

Revenue requirement is shown on Schedule No. 3-A and 3-B.

IX. Rate Structure

The current rate structure for the utility's Raintree Harbor system is the base facility charge (BFC)/uniform gallonage charge rate structure, with a quarterly BFC of $39.00. Customers are also charged $1.40 for each kgal used. This rate structure is considered usage-sensitive, because customers are charged for all gallons consumed. However, the current rate structure is also considered nonconserving, because customers receive only four price signals (bills) per year, rather than twelve. The current BFC cost recovery allocation is 42 percent. The Bentwood system is currently under construction, and its initial rates shall be set in this Order.

We take several things into consideration when designing rates, including, but not limited to: 1) the current rate structure; 2) characteristics of the Utility's customer base; 3) setting the BFC between 25 percent and 40 percent whenever possible; 4) various conditions of the Utility's Consumptive Use Permit; and 5) current and anticipated climatic conditions in the Utility's

service area. A detailed discussion of our rate structure methodology is contained in Attachment B.

As discussed above, the revenue requirement increase for the Raintree Harbor system is 15.12 percent. As discussed in Attachment B, the average monthly consumption for the residential customers of Raintree Harbor is 14.5 kgal. Based on the magnitude of the approved increase, coupled with the relatively high average monthly consumption, we find it is appropriate to place all of the increase in the gallonage charge, resulting in no increase to the current BFC. This results in lesser percentage increases to low-volume users, while sending progressively stronger price signals to higher-volume users.

As also discussed in Attachment B, the anticipated average monthly consumption for Bentwood's residential customers is 13.5 kgal. In order to design rates that send lesser price signals to low-volume users while sending more aggressive price signals to high-volume users, we find it is appropriate to set the BFC at 25 percent, thereby placing the maximum percentage of revenues in the gallonage charge.

Based on the foregoing and the discussion contained in Attachment B, we find that the appropriate rate structure for both the Raintree Harbor and Bentwood water systems is a two-tier inclining-block rate structure. The appropriate usage blocks are for monthly consumption of: 1) 0-8 kgal; and 2) usage in excess of 8 kgal. The usage block rate factors shall be 1.0 and 1.25, respectively. The BFC cost recovery allocation for the Raintree Harbor system shall be set at 36.82 percent, while the corresponding BFC cost recovery percentage for the Bentwood system shall be set at 25 percent. The billing cycle for both systems shall be on a monthly basis. The tables set out below illustrate the approved rate structure of the two systems.

TABLE 8-1
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RAINTREE UTILITIES, INC.
APPROVED RATE STRUCTURE
RAINTREE HARBOR SYSTEM

Current Rate Structure and Rates	
BFC/uniform kgal, billed quarterly BFC = 65.25%	
BFC (monthly) (1)	$13.00
All kgals	$1.40

(1) Quarterly BFC of $39 has been restated to a monthly basis.

Typical Monthly Bills	
Cons (kgal)	
0	$13.00
3	$17.20
5	$20.00
10	$27.00
20	$41.00
30	$55.00

Approved Rate Structure and Rates	
2-tier inclining-block rate structure BFC = 36.82%	
BFC	$13.00
0 – 8 kgal per month	$1.50
8+ kgal per month	$1.88

Typical Monthly Bills	
Cons (kgal)	
0	$13.00
3	$17.50
5	$20.50
10	$28.76
20	$47.56
30	$66.36

TABLE 8-1 (cont.)
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RAINTREE UTILITIES, INC.
APPROVED RATE STRUCTURE

BENTWOOD SYSTEM

Current Rate Structure and Rates	Approved Rate Structure and Rates	
N/A – initial rates are being set in this proceeding	2-tier inclining-block rate structure BFC = 25%	
	BFC	$22.97
	0 – 8 kgal per month	$4.56
	8+ kgal per month	$5.70
	Typical Monthly Bills	
	Cons (kgal)	
	0	$22.97
	3	$36.65
	5	$45.77
	10	$70.85
	20	$127.85
	30	$184.85

X. Repression

The price elasticity of demand is defined as the anticipated change in quantity demanded resulting from a change in price. All other things equal, as price increases, demand decreases.

As discussed by several Water Management Districts (WMDs) participating in the Commission's rate design workshop in February 2006, the WMDs advocate and utilize inclining-block rates because they are effective in reducing demand. This is true especially if the inclining-block rate increase (or any other price increase) is targeted toward reducing demand at the more elastic end uses. This reduction in demand is often referred to as "demand repression," and is an example the effects of the price elasticity of demand. If the anticipated consumption reductions (loss of demand) are not considered in the rate setting process, price increases will, all other things equal, result in under-earning for the utility, jeopardizing the Utility's financial health.

As discussed above, we find that a two-tier inclining-block rate structure for both the Raintree Harbor and Bentwood systems is appropriate. We choose this rate structure specifically to reduce consumption. Therefore, to recognize the anticipated reduction in water demanded, we find a repression adjustment is appropriate.

Using our database of utilities that have previously had repression adjustments made, we calculated repression adjustments for this Utility based upon the approved increases in revenue requirements for the test year, and the historically-observed response rates of consumption to

changes in price. This is the same methodology for calculating repression adjustments that we have approved in prior cases.[5]

The Bentwood system is a new system with customers just beginning to come on-line. As discussed above, in order to calculate demand repression (the anticipated change in quantity demanded) a necessary component is the current price customers are paying. However, we do not know the current rate(s) each future customer of Bentwood is paying. Also, as discussed previously, the rates for the Bentwood system were designed consistent with the methodology in original certificate cases. Based on the foregoing, we do not find that a repression adjustment is appropriate for the Bentwood system at this time.

Based on our analysis, repression adjustments to the Raintree Harbor system are appropriate. For the Raintree Harbor system, residential water consumption shall be reduced by 2.8 percent, resulting in a consumption reduction of approximately 573 kgal. Total water consumption for rate setting for is 20,039 kgals, which represents a 2.8 percent reduction in overall consumption. The resulting water system reductions to revenue requirements are $126 in purchased power expense, $18 in chemicals and $7 in RAFs. The post-repression revenue requirement for the Raintree Harbor water system is $54,443. We find no repression adjustment to the Bentwood system is necessary; therefore, the appropriate revenue requirement shall be $63,372.

In order to monitor the effects of both the changes in revenues and rate structure for the Raintree Harbor system, and to monitor the consumption patterns of the Bentwood system customers resulting from setting initial rates, the utility shall file monthly reports detailing the number of bills rendered, the consumption billed by usage block, and the revenues billed by usage block for each system. In addition, the reports shall be prepared, by customer class and meter size. The reports shall be filed with Commission staff, on a quarterly basis, for a period of two years beginning the first billing period after the approved rates go into effect. To the extent the Utility makes adjustments to consumption in any month during the reporting period, the Utility shall file a revised monthly report for that month within 30 days of any revision.

[5] Order No. PSC-01-2385-PAA-WU, issued December 10, 2001, in Docket No. 010403-WU, In re: Application for staff-assisted rate case in Highlands County by Holmes Utilities, Inc.; Order No. PSC-02-1168-PAA-WS, issued August 26, 2002, in Docket No. 010869-WS, In re: Application for staff-assisted rate case in Marion County by East Marion Sanitary Systems, Inc.

XI. Rates

Excluding miscellaneous service revenues, the increased water rates are designed to produce revenues of $54,443 for the Raintree Harbor system and $63,372 for the Bentwood system. The increased rates are shown on Schedule No. 4. For the Raintree Harbor system, approximately 36.82 percent (or $20,046) of the water monthly service revenues is recovered through the base facility charges, while approximately 63.18 percent (or $34,397) represents revenue recovery through the consumption charges. For the Bentwood system, approximately 25 percent (or $15,843) of the water monthly service revenues is recovered through the BFCs, while approximately 75 percent (or $47,529) represents revenue recovery through the consumption charges.

The Utility shall file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. 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), F.A.C. The rates shall not be implemented until commission 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.

XII. Statutory Four-Year Rate Reduction

Section 367.0816, F.S., requires that the rates be reduced immediately following the expiration of the four-year period by the amount of the rate case expense previously included in the rates. The reduction will reflect the removal of revenues associated with the amortization of rate case expense and the gross-up for RAFs, which is $159 each, annually, for the Raintree Harbor and Bentwood water systems. Using the Utility's current revenues, expenses, capital structure, and customer base, the reduction in revenues will result in the rate decreases as shown on Schedule No. 4-A and 4-B.

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

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

XIII. Service Availability Charges

As stated in the case background, the Utility requested a plant capacity charge of $2,900. By Order PSC-07-0981-PCO-WU, issued December 10, 2007, we approved a temporary plant capacity charge of $2,900 which was subject to refund and secured through an escrow agreement.

According to Rule 25-30.580, F.A.C., the guidelines for designing a utility's service availability policy are as follows:

> (1) The maximum amount of contributions-in-aid-of-construction, 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 contributions-in-aid-of-construction 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.

As reflected on Schedule No. 5 and in accordance with Rule 25-30.580, F.A.C., we find that the appropriate plant capacity charge for the Utility's Bentwood water system is $2,600. This charge will allow the Utility to collect the maximum contribution level of 75 percent at the expected build out date of 2014. Accordingly, we find that the Utility refund the $300 difference for each temporary approved charge of $2,900 collected.

In its application, the Utility did not request a change to its currently authorized meter installation fee of $125. However, the Utility provided a cost estimate by Utility Technicians, Inc., which reflected a cost of $197 per meter installation. This estimate includes the cost of the meter, meter box, couplings, check valves, labor, and supervision. The supervision relates to engineering services to make sure the meters are properly installed. Due to lack of support documentation for all of the engineering services to be performed by Utility Technicians, Inc., we find that the total cost to install a meter is $193. We approved a meter installation fee of $250 by Order No. PSC-03-0740-PAA-WS, issued June 23, 2003,[6] and a $200 meter installation fee by Order No. PSC-04-1256-PAA-WU, issued December 20, 2004.[7] In addition, a $190 meter installation fee was approved by Order No. PSC-02-1831-TRF-WS, issued December 20, 2002.[8] Based on the above, we find that the Utility shall be authorized to collect meter installation fees of $193 for 5/8" x 3/4" meters and actual cost for all others.

If there is no timely protest by a substantially affected person, the Utility shall file the appropriate tariff sheets within ten days of the issuance of the Consummating Order for the Commission-approved tariff changes. Our staff shall have administrative authority to approve the tariff sheets upon staff's verification that the tariff is consistent with our decision. If the tariff sheets are filed and approved, the tariff sheets shall become effective on or after the stamped approval date. Within ten days of the issuance of the Consummating Order for the Commission-approved tariff charges, the Utility shall also provide notice of our decision to all persons in the service area who are affected by the recommended plant capacity charges and meter installation fee and the authorization to collect donated property. The notice shall be approved by Commission staff prior to distribution. The Utility shall provide proof that the appropriate

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[6] Docket No. 021067-WS, In re: Application for staff assisted rate case in Polk County by River Ranch Water Management, L.L.C.

[7] Docket No. 041040-WU, In re: Application for certificate to operate water utility in Baker and Union Counties by B & C Water Resources, L.L.C.

[8] Docket No. 020388-WS, In re: Request for approval to increase meter installation fees to conform to current cost in Lake County by Sun Communities Finance, LLC d/b/a/ Water Oak Utility.

customers or developers have received notice within ten days of the date of the notice. In the event of a protest, the Utility shall be allowed to collect our approved charges, subject to refund. The Utility shall file revised tariff sheets and a proposed customer notice prior to implementation. These charges shall be implemented on a temporary basis pending resolution of the protest.

XIV. Temporary Rates

This Order establishes an increase in water rates. A timely protest might delay what may be a justified rate increase resulting in an unrecoverable loss of revenue to the Utility. Therefore, pursuant to Section 367.0814(7), F.S., in the event of a protest filed by a party other than the Utility, the approved rates shall be approved as temporary rates. The approved rates collected by the Utility shall be subject to the refund provisions discussed below.

The Utility shall be authorized to collect the temporary rates upon our staff's approval of appropriate security for the potential refund and the proposed customer notice. Security shall be in the form of a bond or letter of credit in the amount $4,866 for Raintree Harbor and $1,044 for Bentwood. Alternatively, the Utility could establish an escrow agreement with an independent financial institution.

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

1) The Commission approves the rate increase; or

2) If the Commission denies the increase, the Utility shall refund the amount collected that is attributable to the increase.

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

1) The letter of credit is irrevocable for the period it is in effect, and.

2) The letter of credit will be in effect until a final Commission order is rendered, either approving or denying the rate increase.

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

1) No refunds in the escrow account may be withdrawn by the Utility without the express approval of the Commission;

2) The escrow account shall be an interest bearing account;

3) If a refund to the customers is required, all interest earned by the escrow account shall be distributed to the customers;

4) If a refund to the customers is not required, the interest earned by the escrow account shall revert to the Utility;

5) All information on the escrow account shall be available from the holder of the escrow account to a Commission representative at all times;

6) The amount of revenue subject to refund shall be deposited in the escrow account within seven days of receipt;

7) This escrow account is established by the direction of the Florida Public Service Commission for the purpose(s) set forth in its order requiring such account. Pursuant to Cosentino v. Elson, 263 So. 2d 253 (Fla. 3d DCA 1972), escrow accounts are not subject to garnishments; and

8) The Commission Clerk must be a signatory to the escrow agreement.

9) The account must specify by whom and on whose behalf such monies were paid.

In no instance shall the maintenance and administrative costs associated with the refund be borne by the customers. These costs are the responsibility of, and shall be borne by, the Utility. Irrespective of the form of security chosen by the Utility, an account of all monies received as a result of the rate increase shall be maintained by the Utility. If a refund is ultimately required, it shall be paid with interest calculated pursuant to Rule 25-30.360(4), F.A.C.

The Utility shall maintain a record of the amount of the bond, and the amount of revenues that are subject to refund. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), F.A.C., the Utility shall file reports with the Commission's Division of Economic Regulation no later than the 20th of each month indicating the monthly and total amount of money subject to refund at the end of the preceding month. The report filed shall also indicate the status of the security being used to guarantee repayment of any potential refund.

Based on the foregoing, it is

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

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

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

ORDERED that Raintree Utility, Inc. is hereby authorized to charge the new rates and charges as set forth herein and as approved in the body of this Order. It is further

ORDERED that Raintree Utility, Inc. shall file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. It is further

ORDERED that the approved rates shall not be implemented until our staff has approved the proposed customer notice and the notice has been received by the customers. The Utility shall provide our staff with proof of the date notice was given within 10 days after the date of the notice. It is further

ORDERED that 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. The tariff sheets shall be approved upon our staff's verification that the tariffs are consistent with this Order and that the customer notice is adequate. It is further

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

ORDERED that the Utility shall file monthly reports detailing the number of bills rendered, the consumption billed by usage block, and the revenues billed by usage block for each system. In addition, the reports shall be prepared by customer class and meter size. The reports shall be filed with Commission staff, on a quarterly basis, for a period of two years beginning the first billing period after the approved rates go into effect. To the extent the utility makes adjustments to consumption in any month during the reporting period, the utility shall file a revised monthly report for that month within 30 days of any revision. It is further

ORDERED that the Utility shall file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. 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), F.A.C. In addition, the rates shall not be implemented until staff has approved the

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

ORDERED that the water rates shall be reduced for both Raintree Harbor and Bentwood as shown on Schedule No. 4-A and 4-B, to remove rate case expense grossed-up for RAFs and amortized over a four-year period. The decrease in rates shall become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. The Utility shall be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than one month prior to the actual date of the required rate reduction. If the Utility files this reduction in conjunction with a price index or pass-through rate adjustment, separate data shall be filed for the price index and/or pass-through increase or decrease and the reduction in the rates due to the amortized rate case expense. It is further

ORDERED that the Utility shall refund the $300 difference for each temporary approved $2,900 plant capacity charge for the Brentwood Water System collected by the Utility. It is further

ORDERED that if there is no timely protest by a substantially affected person, the Utility shall file the appropriate tariff sheets within ten days of the issuance of the Consummating Order for the Commission-approved tariff changes. Staff shall be given administrative authority to approve the tariff sheets upon staff's verification that the tariff is consistent with the Commission's decision. If the tariff sheets are filed and approved, the tariff sheets shall become effective on or after the stamped approval date. It is further

ORDERED that within ten days of the issuance of the Consummating Order for the Commission-approved tariff charges, the Utility shall also provide notice of the Commission's decision to all persons in the service area who are affected by the recommended plant capacity charges and meter installation fee and the authorization to collect donated property. The notice shall be approved by Commission 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 in the event of a protest, the Utility shall be allowed to collect the charges approved herein, subject to refund. The Utility shall file revised tariff sheets and a proposed customer notice prior to implementation. It is further

ORDERED that pursuant to Section 367.0814(7), F.S., the rates and charges approved herein shall be approved for the Utility on a temporary basis, subject to refund, in the event of a protest filed by a party other than the Utility. Prior to implementation of any temporary rates, the Utility shall provide appropriate security. If the rates are approved on a temporary basis, the rates collected by the Utility shall be subject to the refund provisions as set forth herein. It is further

ORDERED that in addition, in the event the rates are implemented on a temporary basis in the event of protest, pursuant to Rule 25-30.360(6), F.A.C., the Utility shall file reports with the Commission's Division of Economic Regulation no later than the 20th of each month

indicating the monthly and total amount of money subject to refund at the end of the preceding month. The report filed shall also indicate the status of the security being used to guarantee repayment of any potential refund. It is further

ORDERED that the provisions of this Order, issued as proposed agency action, except for the granting of temporary rates, subject to refund, in the event of a protest and the reduction of rates at the end of the four-year amortization period, 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, F.A.C., is received by the Commission Clerk, 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 open for our staff's verification that the revised tariff sheets and customer notice have been filed by the utility and approved by staff. It is further

ORDERED that when the proposed agency action portions of this Order are final and the tariff and notice actions are complete, this docket may be closed administratively.

By ORDER of the Florida Public Service Commission this 25th day of July, 2008.

ANN COLE
Commission Clerk

(SEAL)

JEH

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

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

As identified in the body of this order, our action herein, except for the four year rate reduction and approval of temporary rates in the event of protest, 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 Office of Commission Clerk, at 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on August 15, 2008. 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 final action in this matter may request: (1) reconsideration of the decision by filing a motion for reconsideration with the Office of Commission Clerk, 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 Office of Commission Clerk 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.

Attachment A

Raintree Utilities, Inc.
Test Year October 1, 2006 – September 30, 2007
Raintree Harbor Water Treatment Plant Used and Useful Analysis

			Gallons	Gallons Per Minute
1	Firm Reliable Capacity (600, 90, and 90 gpm)			180
2	Single Maximum Day		136,000	94
3a	Total Test Year Water Produced	100%	22,335,000	
3b	Total Test Year Accounted For Water	93%	20,174,000	
3c	Total Test Year Unaccounted for Water	7%	2,161,000	
3d	Excessive Unaccounted for Water (7%-10%)	0%	0	0
4a	Average Test Year Customers	125 ERCs		
4b	Growth Allowance (Built out)			0
5	Fire Flow Allowance			500
6	**Used and Useful Water Treatment Plant**[9]			**100%**

[9] [2 x (Max Day – EUW) + Growth + FF]/FRC = [2(94 – 0) +0 + 500]/180 = (188 + 5)/180 = >100%

RAINTREE UTILITIES, INC.
HISTORICAL TEST YEAR ENDED
SEPTEMBER 30, 2007

ATTACHMENT B
PAGE 1 OF 4

DETERMINATION OF APPROPRIATE RATE STRUCTURES

HISTORY OF CURRENT RATES

(1) The utility's current rates for its Raintree Harbor (Raintree Harbor) system were approved in the utility's request for a certificate to provide service.[10] The utility's current rate structure for Raintree Harbor is a BFC/uniform gallonage charge rate structure. Under this usage- sensitive rate structure, customers are charged a quarterly BFC of $39.00, plus $1.40 for each 1,000 gallons (kgal) used. The current BFC cost recovery percentage is 42.3%.

(2) Although usage sensitive, the utility's current rate structure is considered a non-conserving rate structure, because customers receive only four price signals (bills) regarding their water consumption each year, rather than twelve. The more often a customer receives a consumption-driven price signal, the more rapidly that customer is able to respond to the price signal by adjusting consumption habits, thereby reducing wasteful, uneconomical, impractical, or unreasonable use of water resources.

(3) The Bentwood system is under construction to serve the new Bentwood subdivision, which will be directly adjacent to the Raintree Harbor service area. The initial rates for the Bentwood system will be set in this proceeding.

PRACTICES WITH THE WATER MANAGEMENT DISTRICTS

(4) The Commission has a Memorandum of Understanding (MOU) with the five Water Management Districts (WMDs or Districts). A guideline of the five Districts is to set the base facility charges such that they recover no more than 40% of the revenues to be generated from monthly service.[11] The Commission follows the WMD guideline whenever possible.[12]

(5) The utility is located in the St. Johns River Water Management District in a Priority Water Resource Caution Area.[13]

(6) The utility is located very near a boundary of the Central Florida Coordination Area. The Southwest Florida, St. Johns River, and South Florida Water Management Districts, in general, have jointly concluded that the availability of sustainable quantities of groundwater in central Florida is insufficient on a regional basis to meet future demands. In addition, within the next 5 to 6 years public water supply utilities in central Florida must be prepared to move to alternative water supplies as a critical component of meeting future demand.[14]

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[10] Order No. PSC-92-0019-FOF-WU, issued March 10, 1992 in Docket No. 911039-WU, In re: Application of Raintree Utilities, Inc. for a water certificate in Lake County, Florida.

[11] Order No. PSC-02-0593-FOF-WS, issued April 30, 2002 in Docket No. 010503-WU, In re: Application for increase in water rates for Seven Springs system in Pasco County by Aloha Utilities, Inc.; Order No. PSC-03-1440-FOF-WS, issued December 22, 2003, in Docket No. 020071-WS, In Re: Application for rate increase in Marion, Orange, Pasco, Pinellas and Seminole Counties by Utilities, Inc. of Florida.)

[12] Order No. PSC-94-1452-FOF-WU, issued November 28, 1994, in Docket No. 940475-WU, In re: Application for rate increase in Martin County by Hobe Sound Water Company; Order No. PSC-01-0327-PAA-WU, issued January 6, 2001, in Docket No. 000295-WU, In re: Application for increase in water rates in Highlands County by Placid Lakes Utilities, Inc.; Order No. PSC-00-2500-PAA-WS, issued December 26, 2000, in Docket No. 000327-WS, In re: Application for staff-assisted rate case in Putnam County by Buffalo Bluff Utilities, Inc.; Order No. PSC-02-0593-FOF-WS, issued April 30, 2002, in Docket No. 010503-WU, In re: Application for increase in water rates for Seven Springs system in Pasco County by Aloha Utilities, Inc.

[13] St. Johns River Water Management District, Water Supply Assessment and Water Supply Plan, May 2006.

[14] St. Johns River Water Management District, Recommended Action Plan for the Central Florida Coordination Area, Effort of the South Florida, Southwest Florida and St. Johns River Water Management Districts, September 18, 2006.

RAINTREE UTILITIES, INC. HISTORICAL TEST YEAR ENDED SEPTEMBER 30, 2007		ATTACHMENT B PAGE 2 OF 4
DETERMINATION OF APPROPRIATE RATE STRUCTURES (cont.)		
WATER CONSERVATION INITIATIVE	**(7)**	In response to growing water demands and water supply problems, coupled with one of the worst droughts in Florida's history, the Florida Department of Environmental Protection (FDEP) led a statewide Water Conservation Initiative (WCI) to find ways to improve efficiency in all categories of water use. In the WCI's final report, issued in April 2002, a high-priority recommendation was that the BFC portion of the bill usually should not represent more than 40% of the utility's total revenues.[15]
	(8)	Many participants in the WCI, including the Florida Department of Environmental Protection, the Florida Public Service Commission, the five Florida Water Management Districts, the Florida Rural Water Association, the Florida Water Environment Association, and the Florida section of the American Water Works Association are signatories on the Joint Statement of Commitment for the Development and Implementation of a Statewide Comprehensive Water Conservation Program for Public Water Supply (JSOC) and its associated Work Plan.[16]
FLORIDA STATUES re: WATER CONSERVATION	**(9)**	Section 373.227(1), Florida Statutes, states in part: "The Legislature recognizes that the proper conservation of water is an important means of achieving the economical and efficient utilization of water necessary, in part, to constitute a reasonable-beneficial use. The overall water conservation goal of the state is to prevent and reduce wasteful, uneconomical, impractical, or unreasonable use of water resources."
CURRENT AND ANTIPATED CLIMATIC CONDITIONS	**(10)**	Staff evaluates available drought information to better design rates that achieve conservation. Based on information from the U.S. Drought Monitor, moderate drought conditions exist in the utility's service area.
	(11)	Based on information from the National Weather Service's Climate Prediction Center, for the period of June through August 2008, higher than average temperatures will be mitigated by greater than average rainfall, thereby improving the drought situation in the central portion and the southwestern portion of Florida.
RAINTREE HARBOR USAGE PATTERNS	**(12)**	The utility has a nonseasonal customer base consisting of both families and retirees. The average monthly consumption per residential customer is approximately 14.4 kgal. A review of the utility service area indicates that most of the customers' lawns are well kept. Many homes are well landscaped and well irrigated.
RAINTREE HARBOR BFC COST RECOVERY	**(13)**	Staff performed detailed analyses of Raintree Harbor's billing data in order to evaluate various BFC cost recovery percentages. The goals of the evaluation were to select the rate design parameters that: 1) allow the utility to recover its revenue requirements; 2) equitably distribute cost recovery among the utility's customers; and 3) remove nonconserving water rate structures.
	(14)	As discussed in Issue 7, staff's preliminary recommended revenue requirement increase is 15.12%. Based on the level of recommended revenue increase, staff believes it is appropriate, for conservation purposes, to place all of the increase in the gallonage charge for cost recovery. This results in a BFC cost recovery percentage of 36.82%.

[15] Florida Department of Environmental Protection, Florida Water Conservation Initiative, April 2002.

[16] Joint Statement of Commitment for the Development and Implementation of a Statewide Comprehensive Water Conservation Program for Public Water Supply, February 2004; Work Plan to Implement Section 373.227, F.S. and the Joint Statement of Commitment for the Development and Implementation of a Statewide Comprehensive Water Conservation Program for Public Water Supply, December 2004.

RAINTREE UTILITIES, INC.
HISTORICAL TEST YEAR ENDED SEPTEMBER 30, 2007

ATTACHMENT B
PAGE 3 OF 4

DETERMINATION OF APPROPRIATE RATE STRUCTURES (cont.)

RAINTREE HARBOR METHODOLOGY FOR DESIGNING RATE STRUCTURE	**(15)**	Using a BFC cost recovery percentage of 36.82% as discussed in (14) above; staff calculated various combinations of inclining-block rate structures. Staff's evaluation criteria excluded any rate structure that: 1) resulted in price decreases at any level of consumption; or 2) that resulted in revenue deficits during the year. Due to the modest level of recommended preliminary revenue requirement increase, these criteria eliminated the majority of rate structures from further consideration.
RAINTREE HARBOR SELECTION OF THE RECOMMENDED RATE STRUCTURE	**(16)**	Of the remaining rate structures, staff selected a two-tier inclining-block rate structure, with usage blocks for monthly consumption of: 1) 0-8 kgal; and 2) usage in excess of 8 kgal. Staff selected usage block rate factors of 1.0 and 1.25, respectively. Staff believes this rate structure best recognizes the differences in the customer base (families vs. retirees). In addition, this rate structure sends the best conservation price signals to the greatest number of kgals. Also, consistent with the discussion in (2) above, staff recommends that the quarterly billing cycle be changed to a more water-conserving monthly billing cycle.
RAINTREE HARBOR ALTERNATIVE RATE STRUCTURES	**(17)**	As shown on page 1 of Table 8-1, staff has also presented two alternative rate structures. Alternative 1 consists of a two-tier inclining-block rate structure, with usage blocks for monthly consumption of: 1) 0-10 kgal; and 2) usage in excess of 10 kgal. The usage block rate factors are 1.0 and 1.25, respectively. Alternative 2 consists of a three-tier inclining-block rate structure, with usage blocks for monthly consumption of: 1) 0-10 kgal; 2) 10-20 kgal; and 3) usage in excess of 20 kgal. The usage block rate factors are 1.0, 1.25 and 1.5, respectively.
BENTWOOD INITIAL PRELIMINARY RATES	**(18)**	Staff calculated the initial preliminary rates for the Bentwood system based on 80% of its design capacity. This is consistent with how initial rates for new utilities are established in certificate cases.
BENTWOOD BFC COST RECOVERY	**(19)**	At 80% of its designed capacity, the estimated consumption per month for Bentwood customers is 13.5 kgal. Given the water supply problems discussed in (5) and (6) above, staff believes an important goal is to reduce the average monthly consumption for customers of this utility. Therefore, staff recommends that as little cost recovery as possible be placed in the BFC, to allow for more cost recovery (and therefore greater rates) in the gallonage charge. The Commission typically sets the BFC cost recovery percentage between 25% and 40%. In this instance, staff recommends that the BFC be set at 25%.
BENTWOOD SELECTION OF THE RECOMMENDED RATE STRUCTURE	**(20)**	As mentioned previously, the utility's new Bentwood service area is directly adjacent to the utility's Raintree Harbor service area. Staff anticipates that many of the customers of the two service areas will become neighbors. Topics of shared conversation will undoubtedly be water scarcity and water rates.
	(21)	Historically, when a utility has had service areas in close proximity, but with different rates, there was often confusion and frustration among customers. This has been especially true of those customers who were either paying higher rates or whose rates are structured differently.

RAINTREE UTILITIES, INC. HISTORICAL TEST YEAR ENDED SEPTEMBER 30, 2007		ATTACHMENT B PAGE 4 OF 4
DETERMINATION OF APPROPRIATE RATE STRUCTURES (cont.)		
BENTWOOD SELECTION OF THE RECOMMENDED RATE STRUCTURE (cont.)	**(22)**	There are two particular rate design criteria that influence staff's recommendation for Bentwood's rate structure. First, rates should have the attributes of simplicity, understandability, and public acceptability. Second, the efficiency of the rate classes and rate blocks should discourage wasteful use of service.
	(23)	Although the Raintree Harbor and Bentwood systems will have separate revenue requirements, staff does not believe the rate structures for the two systems should be different. Keeping the systems' rate structures (usage blocks and usage block rate factors) the same not only improves understandability between customer groups, but applying an inclining-block rate structure to the Bentwood system should be effective in discouraging wasteful use at the more elastic end uses. Therefore, staff selected a two-tier inclining-block rate structure, with usage blocks for monthly consumption of: 1) 0-8 kgal; and 2) usage in excess of 8 kgal. Staff selected usage block rate factors of 1.0 and 1.25, respectively. The BFC cost recovery percentage should be set at 25%.
BENTWOOD ALTERNATIVE RATE STRUCTURES	**(24)**	As shown on page 2 of Table 8-1, staff has also presented two alternative rate structures. These two alternatives are the same alternatives presented for the Raintree Harbor system. Alternative 1 consists of a two-tier inclining-block rate structure, with usage blocks for monthly consumption of: 1) 0-10 kgal; and 2) usage in excess of 10 kgal. The usage block rate factors are 1.0 and 1.25, respectively. Alternative 2 consists of a three-tier inclining-block rate structure, with usage blocks for monthly consumption of: 1) 0-10 kgal; 2) 10-20 kgal; and 3) usage in excess of 20 kgal. The usage block rate factors are 1.0, 1.25 and 1.5, respectively.
COMMISSION DECISION		**The appropriate rate structure for both the Raintree Harbor and Bentwood water systems is a two-tier inclining-block rate structure. The appropriate usage blocks are for monthly consumption of: 1) 0-8,000 (8 kgal); and 2) usage in excess of 8 kgal. The usage block rate factors shall be 1.0 and 1.25, respectively. The base facility charge (BFC) cost recovery allocations shall be set at 36.82% for the Raintree Harbor system and 25% for the Bentwood system. The billing cycles for both systems shall be on a monthly basis.**

RAINTREE HARBOR
TEST YEAR ENDING 9/31/07
SCHEDULE OF WATER RATE BASE

SCHEDULE NO. 1-A
DOCKET NO. 070627-WU

	DESCRIPTION	BALANCE PER UTILITY	COMMISSION ADJUST. TO UTIL. BAL.	BALANCE PER COMMISSION
1.	UTILITY PLANT IN SERVICE	$68,550	$141,213	$209,763
2.	LAND & LAND RIGHTS	5,740	0	5,740
3.	NON-USED AND USEFUL COMPONENTS	0	0	0
4.	CIAC	0	(29,750)	(29,750)
5.	ACCUMULATED DEPRECIATION	(17,919)	(120,135)	(138,054)
6.	AMORTIZATION OF CIAC	0	5,207	5,207
7.	WORKING CAPITAL ALLOWANCE	0	4,946	4,946
8.	WATER RATE BASE	$56,371	$1,481	$57,852

BENTWOOD
80% DESIGNED CAPACITY YEAR ENDING 7/31/2013
SCHEDULE OF WATER RATE BASE

SCHEDULE NO. 1-B
DOCKET NO. 070627-WU

	DESCRIPTION	BALANCE PER UTILITY	COMMISSION ADJUST. TO UTIL. BAL.	BALANCE PER COMMISSION
1.	UTILITY PLANT IN SERVICE	$655,411	($12,309)	$643,102
2.	LAND & LAND RIGHTS	5,800	(927)	4,873
3.	NON-USED AND USEFUL COMPONENTS	0	0	0
4.	CIAC	(200,386)	(155,320)	(355,706)
5.	ACCUMULATED DEPRECIATION	0	(141,566)	(141,566)
6.	AMORTIZATION OF CIAC	51,339	7,177	58,516
7.	WORKING CAPITAL ALLOWANCE	0	3,943	3,943
8.	WATER RATE BASE	$512,164	($299,001)	$213,163

	RAINTREE HARBOR TEST YEAR ENDING 9/31/07 ADJUSTMENTS TO RATE BASE	SCHEDULE NO. 1-C DOCKET NO. 070627-WU
		WATER
	UTILITY PLANT IN SERVICE	
1.	To Increase Account 304 structure and improvements	$5,700
2.	To decrease Account 307 well purchased in 2002	(3,063)
3.	To Increase Account 309 Supply mains for master meter	991
4.	To Increase Account 311 for pumping equipment	23,168
5.	To Increase Account 320 for water treatment	46,622
6.	To Increase Account 330 for distribution reservoirs- Hydro Tank	11,448
7.	To Increase Account 331 for distribution mains	49,878
8.	To Increase Account 333 for Services- Lateral	6,290
9.	To Increase Account 335 for fire hydrants	8,344
10.	To reclassify land recorded in plant Account 303	(5,740)
11.	To reclassify Account 334 to Account 309	(2,825)
12.	To reclassify Account 305 to Account 304	(2,520)
13.	To increase Account 340 for office equipment and furniture	2,920
	To reflect Staff engineer Original Cost study Total	$141,213
	CIAC	
	To reflect the imputation of CIAC pursuant to Audit finding NO 4	($29,750)
	ACCUMULATED DEPRECIATION	
	To reflect accumulated depreciation per Rule 25-30.0140	($120,135))
	AMORTIZATION OF CIAC	
	To reflect the appropriate amort of CIAC	$5,207
	WORKING CAPITAL ALLOWANCE	
	To reflect 1/8 of test year O & M expenses.	$4,946

BENTWOOD
80% DESIGNED CAPACITY YEAR ENDING 7/31/2013
SCHEDULE OF WATER RATE BASE
ADJUSTMENTS TO RATE BASE

SCHEDULE NO. 1-D
DOCKET NO. 070627-WU

	WATER
UTILITY PLANT IN SERVICE	
To reflect the appropriate plant in service at 80% build-out.	($12,309)
LAND AND LAND RIGHTS	
To remove wrong allocation for land	($927)
CIAC	
To reflect the appropriate CIAC balance at 80% build-out.	($155,320)
ACCUMULATED DEPRECIATION	
To reflect test year depreciation calculated per 25-30.140 FAC.	($141,566)
AMORTIZATION OF CIAC	
To reflect the appropriate amort of CIAC	$7,177
WORKING CAPITAL ALLOWANCE	
To reflect 1/8 of test year O & M expenses.	$3,943

RAINTREE HARBOR
TEST YEAR ENDING 9/31/07
SCHEDULE OF CAPITAL STRUCTURE

SCHEDULE NO. 2-A
DOCKET NO. 070627-WU

	CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUST-MENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUST-MENTS	BALANCE PER COMMISSION	PERCENT OF TOTAL	COST	WEIGHTED COST
1.	COMMON STOCK	$100	($100)	$0					
2.	RETAINED EARNINGS	(8,195)	8,195	0					
3.	PAID IN CAPITAL	0	0	0					
4.	OTHER COMMON EQUITY	0	0	0					
5.	TOTAL COMMON EQUITY	($8,095)	$8,095	$0	$0	$0	0.00%	12.01%	0.00%
6.	LONG TERM DEBT	$490,000	$0	$490,000	($432,148)	$57,852	100.00%	8.25%	8.25%
7.	TOTAL	$481,905	$8,095	$490,000	($432,148)	$57,852	100.00%		8.25%

RANGE OF REASONABLENESS	LOW	HIGH
RETURN ON EQUITY	11.01%	13.01%
OVERALL RATE OF RETURN	8.25%	8.25%

BENTWOOD
80% DESIGNED CAPACITY YEAR ENDING 7/31/2013
SCHEDULE OF CAPITAL STRUCTURE

SCHEDULE NO. 2-B
DOCKET NO. 070627-WU

	CAPITAL COMPONENT	PER UTILITY	SPECIFIC ADJUST-MENTS	BALANCE BEFORE PRO RATA ADJUSTMENTS	PRO RATA ADJUST-MENTS	BALANCE PER COMMISSION	PERCENT OF TOTAL	COST	WEIGHTED COST
1.	COMMON STOCK	$100	($100)	0					
2.	RETAINED EARNINGS	(8,195)	8,195	0					
3.	PAID IN CAPITAL	0	0	0					
4.	OTHER COMMON EQUITY	0	0	0					
5.	TOTAL COMMON EQUITY	($8,095)	$8,095	$0	$0	$0	0.00%	12.01%	0.00%
6.	LONG TERM DEBT	$450,000	$0	$450,000	($236,837)	$213,163	100.00%	8.25%	8.25%
7.	TOTAL	$441,905	$8,095	$450,000	($236,837)	$213,163	100.00%		8.25%

RANGE OF REASONABLENESS	LOW	HIGH
RETURN ON EQUITY	11.01%	13.01%
OVERALL RATE OF RETURN	8.25%	8.25%

RAINTREE HARBOR **SCHEDULE NO. 3-A**
TEST YEAR ENDING 9/31/07 **DOCKET NO. 070627-WU**
SCHEDULE OF WATER OPERATING INCOME

		TEST YEAR PER UTILITY	COMMISSION ADJ. PER UTILITY	COMMISSION ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1.	**OPERATING REVENUES**	$47,425	$0	$47,425	$7,169 15.12%	$54,594
	OPERATING EXPENSES:					
2.	OPERATION & MAINTENANCE	40,277	(708)	39,569	0	39,569
3.	DEPRECIATION (NET)	0	7,220	7,220	0	7,220
4.	AMORTIZATION	0	0	0	0	0
5.	TAXES OTHER THAN INCOME	4,482	(1,774)	2,708	323	3,031
6.	INCOME TAXES	0	0	0	0	0
7.	**TOTAL OPERATING EXPENSES**	$44,759	$4,739	$49,498	$323	$49,821
8.	**OPERATING INCOME/(LOSS)**	$2,666		($2,073)		$4,773
9.	**WATER RATE BASE**	$56,371		$57,852		$57,852
10.	**RATE OF RETURN**	4.73%		-3.58%		8.25%

BENTWOOD **SCHEDULE NO. 3-B**
80% DESIGNED CAPACITY YEAR ENDING 7/31/2013 **DOCKET NO. 070627-WU**
SCHEDULE OF WATER OPERATING INCOME

		TEST YEAR PER UTILITY	COMMISSION ADJ. PER UTILITY	COMMISSION ADJUSTED TEST YEAR	ADJUST. FOR INCREASE	REVENUE REQUIREMENT
1.	**OPERATING REVENUES**	$1,147	$20,844	$21,991	$41,380 188.16%	$63,372
	OPERATING EXPENSES:					
2.	OPERATION & MAINTENANCE	31,519	27	31,546	0	31,546
3.	DEPRECIATION (NET)	0	10,923	10,923	0	10,923
4.	AMORTIZATION	0	0	0	0	0
5.	TAXES OTHER THAN INCOME	0	1,454	1,454	1,862	3,316
6.	INCOME TAXES	0	0	0	0	0
7.	**TOTAL OPERATING EXPENSES**	$31,519	$12,405	$43,924	$1,862	$45,786
8.	**OPERATING INCOME/(LOSS)**	-$30,372		-$21,932		$17,586
9.	**WATER RATE BASE**	$512,164		$213,163		$213,163
10.	**RATE OF RETURN**	-5.93%		-10.29%		8.25%

RAINTREE HARBOR	SCHEDULE NO. 3-C
TEST YEAR ENDING 9/31/07	DOCKET NO. 070627-WU
ADJUSTMENTS TO OPERATING INCOME	
	WATER
OPERATION AND MAINTENANCE EXPENSES	
Purchased Power – (615)	
To reflect a deposit made in March 2007, the deposit was not in the test year	($735)
Regulatory Commission Expense	$27
TOTAL OPERATION & MAINTENANCE ADJUSTMENTS	($708)
DEPRECIATION EXPENSE	
To reflect test year depreciation calculated per 25-30.140, F.A.C.	$8,414
Test year amortization of CIAC.	(1,193)
	$7,220
TAXES OTHER THAN INCOME	
To include regulatory assessment fees for test year revenue.	$66
To reflect the appropriate property taxes	(440)
Remove Doc. Stamp associated w/ L -T debt in the Capital structure	(1,400)
Total Adjustment	($1,774)

BENTWOOD 80% DESIGNED CAPACITY YEAR ENDING 7/31/2013 ADJUSTMENTS TO OPERATING INCOME	SCHEDULE NO. 3-D DOCKET NO. 070627-WU
	WATER
REVENUES	
Reflect 80% build-out revenues.	$20,844
OPERATION AND MAINTENANCE EXPENSES	
Regulatory Commission Expense	$27
DEPRECIATION EXPENSE	
To reflect test year depreciation calculated per 25-30.140, F.A.C.	$24,443
Test year amortization of CIAC.	(13,520)
Total	$10,923
TAXES OTHER THAN INCOME	
To reflect the projected property taxes at 80% build-out.	$3,247

RAINTREE HARBOR **SCHEDULE NO. 3-E**
TEST YEAR ENDING 9/31/07 **DOCKET NO. 070627-WU**
ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE

	TOTAL PER UTILITY	COMMISSION PER ADJUST.		TOTAL PER COMMISSION
(601) SALARIES AND WAGES - EMPLOYEES	$0	$0	[1]	$0
(603) SALARIES AND WAGES - OFFICERS	0	0	[2]	0
(604) EMPLOYEE PENSION & BENEFITS	0	0		0
(610) PURCHASED WATER	0	0		0
(615) PURCHASED POWER	5,277	(735)	[3]	4,542
(616) FUEL FOR POWER PRODUCTION	0	0		0
(618) CHEMICALS	654	0	[4]	654
(620) MATERIALS AND SUPPLIES	0	0	[5]	0
(630) CONTRACTUAL SERVICES - BILLING	2,204	0	[6]	2,204
(631) CONTRACTUAL SERVICES - PROFESSIONAL	2,650	0	[7]	2,650
(635) CONTRACTUAL SERVICES - TESTING	2,315	0	[8]	2,315
(636) CONTRACTUAL SERVICES - OTHER	13,381	0	[9]	13,381
(640) RENTS	5,617	0		5,617
(650) TRANSPORTATION EXPENSE	816	0	[10]	816
(655) INSURANCE EXPENSE	1,500	0	[11]	1,500
(665) REGULATORY COMMISSION EXPENSE	125	27	[12]	125
(670) BAD DEBT EXPENSE	0	0		0
(675) MISCELLANEOUS EXPENSES	5,738	0	[13]	5,738
	$40,277	($708)		$39,569

BENTWOOD **SCHEDULE NO. 3-F**
80% DESIGNED CAPACITY YEAR ENDING 7/31/2013 **DOCKET NO. 070627-WU**
ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE

	TOTAL PER UTILITY	COMMISSION PER ADJUST.		TOTAL PER COMMISSION
(601) SALARIES AND WAGES - EMPLOYEES	$0	$0	[1]	$0
(603) SALARIES AND WAGES - OFFICERS	0	0	[2]	0
(604) EMPLOYEE PENSION & BENEFITS	0	0		0
(610) PURCHASED WATER	0	0		0
(615) PURCHASED POWER	5,300	0	[3]	5,300
(616) FUEL FOR POWER PRODUCTION	0	0		0
(618) CHEMICALS	655	0	[4]	655
(620) MATERIALS AND SUPPLIES	0	0	[5]	0
(630) CONTRACTUAL SERVICES - BILLING	155	0	[6]	155
(631) CONTRACTUAL SERVICES - PROFESSIONAL	2,392	0	[7]	2,392
(635) CONTRACTUAL SERVICES - TESTING	995	0	[8]	995
(636) CONTRACTUAL SERVICES - OTHER	10,875	0	[9]	10,875
(640) RENTS	4,717	0		4,717
(650) TRANSPORTATION EXPENSE	500	0	[10]	500
(655) INSURANCE EXPENSE	2,500	0	[11]	2,500
(665) REGULATORY COMMISSION EXPENSE	125	27	[12]	152
(670) BAD DEBT EXPENSE	0	0		0
(675) MISCELLANEOUS EXPENSES	3,305	0	[13]	3,305
	$31,519	$27		$31,546

RAINTREE HARBOR **TEST YEAR ENDING 9/31/07** **MONTHLY WATER RATES**			**SCHEDULE NO. 4-A** **DOCKET NO. 070627-WU**
	UTILITY'S EXISTING RATES	**COMMISSION APPROVED RATES**	**MONTHLY RATE REDUCTION**
Residential and General Service			
Base Facility Charge by Meter Size:			
5/8"X3/4"	$39.00	$13.00	$0.04
3/4"	$58.50	$19.50	$0.06
1"	$97.50	$32.50	$0.09
1-1/2"	$195.00	$65.00	$0.19
2"	$312.00	$104.00	$0.30
3"	$585.00	$208.00	$0.61
4"	$975.00	$325.00	$0.95
6"	$1,950.00	$650.00	$1.89
Residential Service Gallonage Charge			
Per 1,000 Gallons			
Gallonage charge, 0 - 8 kgal	$1.40	$1.50	$0.00
Usage in excess of 8 kgal		$1.88	$0.01
General Service Gallonage Charge			
Per 1,000 Gallons	$1.40	$1.72	$0.01

BENTWOOD
80% DESIGNED CAPACITY YEAR ENDING 4/30/2014
MONTHLY WATER RATES

SCHEDULE NO. 4-B
DOCKET NO. 070627-WU

	UTILITY'S EXISTING RATES	COMMISSION APPROVED RATES	MONTHLY RATE REDUCTION
Residential, General Service and Multi-Residential			
Base Facility Charge by Meter Size:			
5/8"X3/4"	$0.00	$22.97	$0.06
3/4"	$0.00	$34.46	$0.09
1"	$0.00	$57.43	$0.14
1-1/2"	$0.00	$114.85	$0.29
2"	$0.00	$183.76	$0.46
3"	$0.00	$367.52	$0.92
4"	$0.00	$574.25	$1.44
6"	$0.00	$1,148.50	$2.88
Residential Service Gallonage Charge			
Per 1,000 Gallons			
Gallonage charge, 0 - 8 kgal	$0.00	$4.56	$0.01
Usage in excess of 8 kgal	$0.00	$5.70	$0.01
Multi-Residential and General Service Gallonage Charge			
Per 1,000 Gallons	$0.00	$5.10	$0.01

UTILITY CO.:	**Raintree Utilities, Inc.**							**SCHEDULE NO. 5**
DOCKET NO.:	**070627-WU**							
Bentwood Water System								
Commission Approved:								
Plant Capacity Charge:	**$2,600**							
Meter Installation	**$193**							
	2007	2008	2009	2010	2011	2012	2013	2014
Capacity	31,850	31,850	31,850	31,850	31,850	31,850	31,850	31,850
Demand	0	1,620	6,885	12,150	17,415	22,680	27,945	31,995
% Used	0.00%	5.09%	21.62%	38.15%	54.68%	71.21%	87.74%	100.46%
Growth (in ERCs)		4	13	13	13	13	13	10
Utility Plant		$636,584	$639,097	$641,611	$644,125	$646,638	$649,152	$651,086
Accumulated Depreciation		(36,159)	(60,369)	(84,727)	(109,233)	(133,887)	(158,688)	(183,621)
Net Plant		$600,425	$578,728	$556,884	$534,892	$512,752	$490,464	$467,465
CIAC		$227,211	$263,525	$299,839	$336,152	$372,466	$408,780	$436,713
Accumulated Amortization		(8,432)	(17,800)	(28,601)	(40,834)	(54,500)	(69,598)	(85,964)
Net CIAC		$218,780	$245,725	$271,238	$295,319	$317,967	$339,182	$350,750
Net Investment		$381,645	$333,003	$285,646	$239,573	$194,785	$151,282	$116,715
CIAC Ratio:		**36.44%**	**42.46%**	**48.71%**	**55.21%**	**62.01%**	**69.16%**	**75.03%**