

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application for staff-assisted rate case in Seminole County by CWS Communities LP d/b/a Palm Valley.

DOCKET NO. 010823-WS
ORDER NO. PSC-02-1111-PAA-WS
ISSUED: August 13, 2002

The following Commissioners participated in the disposition of this matter:

LILA A. JABER, Chairman
J. TERRY DEASON
BRAULIO L. BAEZ
MICHAEL A. PALECKI
RUDOLPH "RUDY" BRADLEY

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

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that actions discussed herein, with the exception of reduction of rate case expense, collection of rates as temporary rates in the event of a protest, and closure of the docket, is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code.

BACKGROUND

CWS Communities LP D/B/A Palm Valley (Palm Valley or utility) is a water and wastewater utility located in Seminole County. By Order No. PSC-00-1675-PAA-WS, issued September 19, 2000, in Docket No. 991984-WS, we transferred operating Certificate Nos. 277-W and 223-S for water and wastewater respectively to CWS Communities. We also approved the utility's rates that were in effect at the time the operating certificates were transferred.

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During the historic test year, Palm Valley was a subsidiary of CWS Communities Ltd. which operates and develops several retirement communities around the country. During the historic test year ending July 31, 2001, the utility provided water and wastewater service to approximately 55 residential customers and one bulk service customer, which is a 641 unit mobile home park. During the test year, the utility also initiated a reuse system that serves approximately 187 existing customers of the utility and will serve the new customers in the newly developed Phase VIII section of the mobile home park.

The utility's service area is primarily a mobile home community in the west Seminole County area which also includes Fox Run, a small housing development near the mobile home park. Many of the residents are seasonal and reside in the community only a portion of the year. Many of the mobile homes within the park are individually metered and all of the Fox Run homes are individually metered.

On June 8, 2001, the utility filed an application for a staff assisted rate case (SARC) and paid the appropriate filing fee on August 6, 2001. We have authority to consider this rate case under Section 367.0814, Florida Statutes. We have audited the utility's records for compliance with our rules and orders and determined the components necessary for rate setting. A review of the utility's operation expenses, maps, files, and rate application was also performed to obtain information about the physical plant operating cost.

On February 14, 2002, Docket No. 020122-WS was established to transfer majority organizational control (TMOC) of CWS Communities to CP Limited Partnership known in Florida as Chateau Communities Limited Partnership. We approved this transfer at our July 9, 2002, Agenda Conference. The utility did not undergo any substantial changes to management or operational costs due to the TMOC; therefore, Chateau elected to go through with this SARC since it was already being processed.

It was determined during a preliminary staff audit that Palm Valley was a Class C utility and qualified for a SARC under Section 367.0814, Florida Statutes. As soon as the new rates are applicable, approved revenues will qualify Palm Valley as a Class

B utility. Therefore, we used the NARUC account system designated for Class B utilities for this rate case.

The utility received Consumptive Use Permit (CUP) No. 8266, effective December 20, 2001, from the St. Johns River Water Management District (SJRWMD). This permit required the utility to submeter all occupied mobile homes in Palm Valley as well as all newly constructed mobile homes. The permit also required the utility to seek an inclining block rate structure in its next rate case, which would encourage water conservation in the Fox Run subdivision and in all parts of the Palm Valley Mobile Home Community.

We have a memorandum of understanding with the five Florida Water Management Districts. This memorandum recognizes a joint cooperative effort is necessary to implement an effective, state-wide water conservation policy. Water use in the utility's area is under the jurisdiction of the St. Johns River Water Management District (SJRWMD or District).

A customer meeting was held in the service area on June 6, 2002. A representative of the St. Johns River Water Management District, and approximately 85 customers attended the meeting; 17 customers chose to give comments. An informal afternoon meeting with the board of the homeowners' association was also conducted.

Customers asked a number of questions of the water management district with regards to the permitting process in general, conservation methods, and the utility's consumptive use permit. Many of our adjustments are related to the requirements included in the utility's consumptive use permit. These adjustments will be discussed subsequently in this Order. Customers' comments about low water pressure in the water and reuse systems will also be addressed subsequently. Customers also questioned the accuracy of the existing meters in the mobile home park; this item will also be subsequently discussed.

Many of the comments received at the customer meeting involved possible violations of Chapter 723, Florida Statutes, by the mobile home park owner who is also the utility owner. Our jurisdiction and possible conflicts with Chapter 723, Florida Statutes, will be addressed throughout this Order.

APPROVAL OF PROJECTED YEAR END TEST YEAR

For audit purposes, we selected a historical test year ending July 31, 2001. The utility is growing at a rate of 25 ERCs a year for water, wastewater, and reuse customers. This represents a significant annual increase of 17% in the number of reuse customers from the historic test year. Because the cost associated with reuse is a significant factor in this case, we find that rates based on historical data alone would be significantly different from rates based on current or even future conditions. Accordingly, we find that a projected year end test year (ending July 31, 2003) is appropriate in this case and will better match increasing revenues with projected fixed and variable costs.

This is consistent with Order No. 15725, issued February 21, 1986, in Docket No. 840315-WS, In re: Application of Martin Downs Utilities, Inc. for an increase in water and wastewater rates to its customers in Martin County, Florida, in which we found the following:

The test year is an analytical device used in rate making proceedings to compute current levels of investment and income in order to determine the amount of revenue that will be required to assure a company a fair return on its investment. Test year data must be adjusted to properly reflect conditions in the future period for which rates are being fixed. Based upon historical data we anticipate Martin Downs will continue to experience rapid growth of demand for its services.

Therefore, we found a projected test year was appropriate.

We apply a year end rate base only in extraordinary circumstances. Citizens of Florida v. Hawkins, 356 So. 2d 254, 257 (Fla. 1978). We find that extraordinary circumstances exist in this docket. The utility made net additions which represent \$351,393 (48%) for water Utility Plant in Service (UPIS) and \$689,908 (36%) for wastewater UPIS during the historic test year and we are making pro forma additions in the future test year of \$48,675 for water and \$34,869 for wastewater. The historic test year additions were made to upgrade existing plant as well as to meet the demand of the expanding customer base of the utility. The

pro forma additions will allow the utility to meet the requirements of its CUP. Further, we are ordering an increase in service availability charges that would result in a 70% increase for water and a 15% increase for wastewater contribution-in-aid-of-construction (CIAC) collected in the projected test years. We have determined customer growth for next year of 25 ERC's based on estimates provided by the utility. In Order PSC-98-0763-FOF-SU, issued June 3, 1998, in Docket No. 971182-SU, we found 36.07% of total plant to be considered an extraordinary circumstance; in Order PSC-00-1774-PAA-WU, issued September 27, 2000, in Docket No. 991627-WU, we found improvements representing over 52% of the utility's rate base to be considered an extraordinary circumstance.

Because of the above factors, we find that a projected year end rate base is appropriate, in this case, to better match rate base with customer base on a going forward basis and allow the utility an opportunity to earn a fair return on its investments. We find that a projected year end test year ending July 31, 2003, shall be approved.

QUALITY OF SERVICE

Rule 25-30.433(1), Florida Administrative Code specifies:

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 the utility's product (water or wastewater); operational conditions of the 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 the county health departments (HRS) or lack thereof over the preceding 3-year period shall also be considered. DEP and HRS officials' comments or testimony concerning quality of service as well as complaints or testimony of utility's customers shall be considered.

Below we address each of these three components:

Palm Valley is a class "C" utility which presently provides water and wastewater services to approximately 697 residential connections in Seminole County. The utility's service area is the Palm Valley Mobile Home Park and Fox Run Development which is located in Oviedo, Florida. The raw water source is ground water, which is obtained from a total of two wells that are located at the plant site. The processing sequence for this water treatment system is to pump raw water from the aquifer, aeration, inject chlorine, store, pressurize, and distribute. The wastewater treatment plant processes the inflowing waste and directs it to the reclaimed water processing system of the plant; the reclaimed water is then distributed to the dripper system, the residential area, and to the general service areas of the community.

Quality of The Product

At this time, we find that the finished product meets the Environmental Protection Agency (EPA) standards. In addition, both our staff and the DEP engineer concur that the finished products of the water, wastewater, and reclaimed water are satisfactory.

Operation Condition at the Plant

On November 5, 2001, our staff conducted a field inspection of the facilities and the investigation revealed that Palm Valley's plants were in compliance with the Department of Health and DEP's rules and regulations. This utility is listed under the jurisdiction of SJRWMD, which has placed water usage restrictions on Seminole County.

Water Treatment Facilities: The water plant has a source of supply capacity of 0.675 million gallons per day (mgd). The utility's water treatment facilities consist of: two wells (8" inches and 10" casings), two 25 horse power pumps, two 75,000 gallon storage tanks, one 5,000 gallon hydro pneumatic tank, three 50 horse power high speed service pumps and a liquid chlorine pump. At the time of the engineering investigation, the water treatment facilities appeared to be operating properly.

Water Distribution System: The water distribution system mains are polyvinyl chloride (PVC) (12", 8", 6", 4" and 2"). During the engineering investigation, the water distribution system appeared to be operating properly. Currently, the utility has no outstanding citations or violations on file with the DEP.

Wastewater Treatment Plant: The wastewater treatment plant has a permitted capacity of 0.150 mgd, annual average daily flows (AADF). This is an extended aeration with filtration and high-level disinfection system and the design consists of: effluent disposal, aeration tanks, aeroboric digester, clarifier tanks, chlorine tanks, and percolation ponds. At the time of the engineering investigation, the wastewater treatment facility appeared to be operating properly.

Wastewater Collection System: The wastewater collection system comprises: collection mains - PVC pipes (8" and 3"); 86 manholes and 5 lift stations. During the engineering investigation, the collection system appeared to be operating properly.

Reclaimed Water System: The Reclaimed Water System is comprised of: filtration; high level disinfection; 30,000 gallons reclaimed water pump station; a 3-way automatic diverter valve; a 150,000 gallons reject pond; an 800,000 gallon wet weather storage/rapid infiltration basin with a disposal capacity of 17,000 gpd; a 35,000 gpd decorative pond; an 8,483 gpd clubhouse irrigation system; 21,140 gpd irrigation of 140 existing lots; 22,424 gpd irrigation of 148 new lots; a 10,000 gpd exfiltration trench; North Dripper System with a disposal capacity of 3,415 gpd; West Dripper System with a disposal capacity of 2,273 gpd; common area irrigation in new construction of 24,931 gpd and Area B Dripper System with a disposal capacity of 6,766 gpd. The total disposal capacity is 151,432 gpd.

Customer Satisfaction

On June 6, 2002, our staff conducted a customer meeting which was held in Oviedo, Florida. There were approximately 85 customers and a representative from SJRWMD, Ms. Shannon L. Joyce, in attendance. Seventeen customers came forward to express their concerns regarding this rate case. The majority of the customer's concerns were SJRWMD related and Ms. Joyce addressed those

questions. The water quality issues expressed by the customers were: the installation of new meters, the newly proposed rates, and potable and reuse water pressure. After hearing the opinions and concerns expressed by the customers, our staff investigated the concerns regarding low pressure and meter accuracy. The investigation revealed that all of the new meters are reading accurately and the old meters need to be replaced. In regard to low pressure, our staff did not witness the existence of low pressure problems. When our staff asked the utility if they were experiencing low pressure problems. Ms. Sandra Seyffart, a representative of the utility, stated that low reuse/reclaimed water pressure had been a problem. However, she stated "the pressure for the reuse/reclaimed system is back to normal. A partially closed valve caused reduced pressure in the system for about five days. Also, the potable water pressure remains consistent between 45-53 psi." In addition, Ms. Seyffart stated that the complaints received by the utility regarding low water pressure were addressed. The utility would send a member of the maintenance staff to check the pressure at the customers' hose bibs to verify the pressure at the home sites. About 99% of the time, the pressure at the hose bib was good, which indicates that the problem was inside the customers' homes.

Summary

Currently, a review of the water treatment system, water distribution system, wastewater treatment system, wastewater collection system and the reclaimed water system evaluations for the past 3 years and data provided by DEP, indicates that the utility had a history of deficiencies/non compliance (wastewater treatment system) problems. However, at present, the DEP's files indicate that all of the systems are in compliance.

Based on the above, we find that the quality of service provided by Palm Valley to its customers is considered satisfactory.

USED AND USEFUL

On August 5, 2001, Palm Valley filed an application for a staff assisted rate case, for a rate increase. The utility records for the test year (2001) plus two years of projected growth

adjustment (2003) were utilized to calculate the used and useful percentage. Currently, the utility's records indicate that the system is operating properly.

Water Treatment System

The water treatment plant has a SJRWMD permitted capacity of 0.675 mgd. Our practice has been to use a five maximum day average in order to compensate for line break, fires, or other anomalies which could cause a single day to reflect usage out of the normal range. (See Orders Nos. PSC-96-0663-FOF-WS, issued May 13, 1996, in Docket No. 950336-WS, and PSC-96-1320-FOF-WS, issued October 30, 1996, in Docket No. 950495.) The five maximum day average flows, per the utility's records, is 327,000 gallons per day (gpd); however, with 2 years of projected growth the average flows should be 349,560 gpd. The fire flow requirement equates to 150,000 gpd.

Customer growth for the previous five years is not applicable in this case. The growth analysis projects that the area will be built out four (4) years after the projected test year. This is below the five-year growth allowance pursuant to Section 367.081(2)(a)(2)b, Florida Statutes. Therefore, the growth rate in gallons of water per day is approximately 25,641 gpd. During the test year, the utility had not installed meters to all of its customers' homes, and they were not implementing a meter reading program. Therefore, unaccounted for water could not be determined. In accordance with the formula method for calculating used and useful, the water plant shall be considered 78% used and useful. This is calculated by taking the five maximum days projected average flow, to which are added the built-out growth allowance and the fire flow requirement and then subtracting the excess unaccounted for water which produces the flows that are then divided by the plant capacity. The calculation is summarized in Attachment A Page 1 of 4.

Water Distribution System

Palm Valley's customer base is primarily residential, and in this case connections are equivalent to ERCs. The water distribution system has the potential to serve an estimated 844 connections without the construction of additional distribution mains. The average number of connections served during the

historical test year were 697 connections; however, with the addition of projected growth adjustment, the number of connections for the projected test year is 745. The growth allowance is 99 connections at built out. In accordance with the formula method of calculating used and useful, we calculate that the distribution system should be considered 100% used and useful. This is calculated by taking the projected average test year number of connections plus the growth allowance then dividing that total by the estimated capacity in connections. This calculation is summarized in Attachment A, Page 2 of 4.

Wastewater Treatment System

The wastewater treatment plant has a permitted capacity of 0.150 mgd. Our practice is to use the DEP designated units of permitted capacity to calculate the used and useful. The DEP permitted this utility at 0.150 mgd based on annual average daily flow. The annual average daily flow (AADF), per the utility's records, is 103,756 gpd; however, the 2 years projected growth increased that amount to 107,116 gpd. As indicated earlier, the growth analysis projects that the area will be built out four years after the projected test year. By using the projected customers' growth at built out which is 99 connections, the growth rate in gallons should be 14,256 gpd.

This utility had not installed meters to all of its customers' homes, and it had not implemented a meter reading program. Therefore, excessive infiltration or inflow could not be determined. In accordance with the formula method for calculating used and useful, the wastewater plant shall be considered 81% used and useful. This is calculated by taking the projected annual average daily flow to which are added the built out growth allowance and subtracting the excess infiltration then dividing by the plant capacity. This calculation is summarized in Attachment A, Page 3 of 4.

Wastewater Collection System

The utility's customer base is primarily residential, and in this case connections are equivalent to ERCs. The wastewater collection system customer base, which is identical to the water distribution system, has the potential to serve an estimated 844

connections without the construction of additional collection mains or force mains. The average number of connections served during the historical test year was 697 connections; however, with the addition of projected growth adjustment the number of connections for the projected test year is 745. The projected customers' growth allowance at build out should be 99 connections. In accordance with the formula method of calculating used and useful, we calculate that the collection system shall be considered 100% used and useful. This is calculated by taking the projected average test year number of connections plus the build out growth allowance then dividing that total by the estimated capacity in connections. This calculation is summarized in Attachment A, Page 4 of 4.

Reclaimed Water System:

Chapter 367.0817, Florida Statutes, requires that all prudent costs of a reuse project shall be recovered in rates. Therefore, the reclaimed water system is 100% used and useful.

Summary:

Currently, based on the above and most recent data, we find that the water treatment plant, wastewater treatment plant, water distribution system, wastewater collection, and reclaimed water system, are 78%, 81%, 100%, 100%, and 100% used and useful, respectively.

Palm Valley recently installed more than 100 meters for all of its existing water customers. However, none of the meters were being read. Therefore, we were unable to obtain sufficient data to make a determination regarding the amount of unaccounted for water. In addition, the possibility of inflow and infiltration to the wastewater treatment system could not be determined.

The utility has approximately 100 or more of the original meters whose flows exceed 1,000,000 gallons. Once a meter's flows exceed 1,000,000 gallons, the accuracy of the meter normally declines. Therefore, we find that the implementation of an aggressive meter change out program shall be initiated. The meter change out program shall begin immediately after all customers have received reclaimed water meters.

Further, as a condition of its CUP, the utility is required to individually meter all of its customers. This is consistent with the SJRWMD's goal of water conservation in that it has been found that rates based on consumption are the most effective way to encourage water conservation. We agree and through our Memorandum of Understanding (MOU) with the Water Management Districts, we have made a conscious effort to move utilities from flat and unmetered rates to metered consumption based rates.

At the present time, the utility has not yet installed meters for reuse throughout the system. The customers with reuse service are currently receiving the service at no charge until the completion of this rate case. In discussions with our staff, the utility indicated that without a rate, there was really no need to meter the reuse supplied to customers of the utility. The utility further indicated that it would immediately install meters when we established a reuse rate.

We recognize the need to promote reuse and that it is a valuable water source which should not be wasted. Therefore, we are subsequently ordering a reuse gallonage rate which is designed to encourage acceptance of reuse for irrigation versus potable water and encourage responsible use of this valuable resource. The utility will have to meter consumption to charge our approved rate or any rate other than zero. Therefore, we find that the utility shall install reuse meters for all of its reuse customers, which must be in place within six months from the effective date of this order.

RATE BASE

We last set rate base for this utility in Order No. PSC-00-1675-PAA-WS, issued September 19, 2000, in Docket No. 991984-WS, (Transfer Docket).

We selected a projected test year ended July 31, 2003, and the rate base components have been calculated using the utility's books and records for a plant balance through that time. Because we selected a projected test year end, averaging adjustments have not been made. A discussion of each component of rate base follows:

Utility Plant in Service (UPIS): The utility recorded a UPIS balance of \$285,865 for water and \$1,134,245 for wastewater during the historical test year. We increased UPIS by \$98,240 for water and by \$105,256 for wastewater to reflect the UPIS balance approved in the transfer docket. We increased UPIS water and wastewater by \$449,539 and \$695,192 respectively to include plant additions made during the test year. We decreased UPIS water by \$98,148 to reflect the retirement of two in-ground storage tanks and a hydro-pneumatic tank during the historic test year. We decreased wastewater by \$5,284 to reflect the retirement of a lift station and treatment equipment during the historic test year.

At historic test year end, there were 225 customers in Palm Valley Mobile Home Park that did not have water meters. As discussed previously, we are requiring the utility to install meters for all of its water and reuse customers. Therefore, we have included pro forma plant of \$48,675 to include the purchase and installation of the meters for the water system. We included a pro forma plant addition to wastewater of \$34,869 for purchase and installation of 147 reuse meters for existing customers and 50 reuse meters for future reuse customers.

Our adjusted balance for the water and wastewater accounts are \$784,171 and \$1,964,278 respectively.

Land: We determined land values for this utility of \$2,433 for water and \$96,409 for wastewater in the utility's transfer docket. The utility recorded a land value of \$116,298 for wastewater. There have been no changes in land since the transfer docket. Accordingly, we have decreased this account by \$19,889 for wastewater to reflect our approved land balance.

Non-used and Useful Plant: We have determined the used and useful percentages for each plant account including pro forma plant items. Applying the non-used and useful percentages to the plant accounts results in non-used and useful plant of \$50,187 for the water system. The non-used and useful accumulated depreciation is \$26,900 for the water plant. This results in a net non-used and useful adjustment of \$23,287 for the water plant and water distribution system.

Applying the non-used and useful percentages to the wastewater system plant and distribution systems results in non-used and useful plant of \$212,461. The non-used and useful accumulated depreciation is \$113,166 for the wastewater plant and distribution system. This results in an overall non-used and useful adjustment of \$99,295.

Contribution in Aid of Construction (CIAC): The utility recorded CIAC of \$89,509 for water and \$390,046 for wastewater during the historic test year. We increased this account \$3,230 for water and \$34,867 for wastewater to match the balances approved in the transfer docket. We further increased this account \$170 for water and \$1,835 for wastewater to include an unrecorded connection during the historic test year.

We increased this account by an additional \$59,600 for water and \$65,800 for wastewater to include the projected connections during the projected test year based on the existing service availability charges and the service availability charges ordered below. We also increased this account by \$4,425 for water and by \$4,425 for wastewater to include projected meter installation fees ordered below. Total adjustments for this account is an increase of \$67,425 for water and \$106,927 for wastewater further resulting in balances of \$156,934 and \$496,973 for water and wastewater respectively.

Accumulated Depreciation: The utility recorded \$228,501 for water and \$398,125 for wastewater during the historical test year. We increased this account by \$7,968 for water and by \$170,721 for wastewater to reflect the accumulated depreciation balances approved in the transfer docket.

Consistent with our practice, we calculated accumulated depreciation using the prescribed rates in Rule 25-30.140, Florida Administrative Code. We increased this account by \$103,015 for water and decreased this account by \$398,609 for wastewater to reflect our calculated accumulated depreciation.

We increased this account by \$52,682 and by \$174,249 for water and wastewater respectively to include the projected test year's accumulated depreciation. Our net adjustment to this account is a decrease of \$58,301 for water and an increase of \$402,137 for

wastewater. Our calculated accumulated depreciation for the future test year end is \$170,200 for water and \$800,262 for wastewater.

Amortization of CIAC: The utility recorded amortization of CIAC of \$51,078 for water and \$118,202 for wastewater during the historical test year. We decreased this account by \$3,808 for water and increased this account by \$59,101 for wastewater to reflect the CIAC amortization balances approved in Order No. PSC-00-1675-PAA-WS, issued September 19, 2000, in Docket No. 991984-WS.

Consistent with our practice, we recalculated amortization of CIAC using composite depreciation rates. We increased this account by \$4,559 for water and decreased this account by \$40,080 for wastewater to adjust the utility balance to our calculated amount.

We increased this account by \$7,746 for water and \$43,597 for wastewater to reflect our calculated amortization of CIAC for the two year period ended July 31, 2003 (the projected test period). Total adjustments for this account is an increase of \$8,497 for water and \$62,618 for wastewater.

Working Capital Allowance: Consistent with Rule 25-30.433(2), Florida Administrative Code, the one-eighth of operation and maintenance (O&M) expense formula approach was used for calculating working capital allowance. Applying that formula, we allow a working capital allowance of \$3,974 (based on O&M of \$31,796) for water and \$19,072 (based on O&M of \$152,579) for wastewater.

Rate Base Summary: Based on the foregoing, appropriate test year rate base is \$499,732 for water and \$864,049 for wastewater. Rate base and the appropriate adjustments can be found on Schedules 1A, 1B, and 1C.

RATE OF RETURN ON EQUITY AND
APPROPRIATE OVERALL RATE OF RETURN

Based on the utility's records, at July 31, 2001, Palm Valley's capital structure consisted of the following: common stock of \$0, paid-in-capital of \$0, retained earnings of \$0, and long term debt of \$0.

Palm Valley is a wholly-owned subsidiary of CWS Communities, Ltd., the developer of the service territory served by the utility. Soon after the SARC application was submitted by the utility, CWS Communities was acquired by Chateau Communities, Ltd. (Chateau). Since the utility did not sufficiently record capital structure, we will use the capital structure of Chateau.

We increased Common Stock by \$256,953 to reflect the capital structure of Chateau. We adjusted capital structure by increasing Paid In Capital by \$232,405,586. The two adjustments result in a total equity of \$232,662,539 for the parent company.

Common equity represents 63.70% of the utility's total capital structure. Using the current leverage formula approved in Docket No. 010006-WS, by Order No. PSC-01-2514-FOF-WS, issued December 24, 2001, the return on equity allowed for the utility is 10.51%.

Chateau, the parent, has a number of short term debt obligations that total \$39,664,587 or 10.86% of the total capital structure with an average interest of 8.47%. The average interest cost for the short term debt is 8.47%.

The parent had incurred \$92,930,352 of long term debt with an average interest cost of 7.91%.

The utility currently has a tariffed charge for customer deposits. Palm Valley's records indicate total customer deposits of \$875. During the test year, \$550 of customer deposits were returned to the customers resulting in a final historic test year balance of \$325. We determined projected year end customer deposits to be \$2,875, based on existing deposits and customer deposits recommended subsequently.

The utility's capital structure has been reconciled with our calculated rate base. Applying the cost of each capital component times the pro-rata share of each component results in an overall rate of return of 9.62%. Accordingly, the appropriate rate of return on equity for this utility of 10.51% with a range of 9.51% - 11.51%, and the appropriate overall rate of return for this utility of 9.62%.

NET OPERATING INCOME

Projected Test Year Revenues

The utility recorded revenues for the 12-month period ended July 31, 2001, of \$24,399 and \$19,309 for water and wastewater respectively.

As discussed previously, the service area is divided into two sections. One section consists of 55 residential customers that reside in the Fox Run subdivision. The utility's current residential water tariff authorizes a base facility charge of \$2.69 which includes 2,000 gallons and a gallonage charge of \$.54 per 1,000 gallons used above the initial 2,000 gallons. The utility's wastewater tariff allows for a flat rate of \$8.77 per month for residential customers. The residential wastewater tariff does not include a gallonage cap.

The other section within the Palm Valley service area is the Palm Valley Mobile Home Park and consists of 641 customers who are not all individually metered. Instead, the developer, who is also the utility owner, treats itself as a single bulk service customer. The tariffed rate for the bulk service customer is \$.54 per 1,000 gallons for water and \$.56 per 1,000 gallons for wastewater. We were provided with the master meter readings for the mobile home community and used the data to calculate revenues.

We calculated revenue for the historical test period using the current rates times the number of bills and consumption provided in the billing analysis. Test year revenues have been increased by \$12,062 for water and \$18,801 for wastewater to reflect revenue based on the existing rates. We increased these amounts by \$2,152 for water and \$2,232 for wastewater to include revenues resulting from the future test year customer growth. Test year revenues are \$38,613 for water and \$40,342 for wastewater.

Operations and Maintenance Expenses (O&M)

The utility provided us with all invoices, canceled checks, and other utility records to verify its O&M and taxes other than income expense for the 12-month period ended July 31, 2001. Using the documents provided by the utility and our audit, we determined

the appropriate operating expenses for the projected test year and a breakdown of expenses by account class. Adjustments have been made to reflect the appropriate annual operating expenses that are required for utility operations on a going forward basis.

Purchased Power (615/715) - The utility recorded \$3,959 for water and \$15,257 for wastewater in this account during the historic test year. We increased this account by \$273 for water and \$1,105 for wastewater to allow for an increase in power usage due to customer growth during the projected test period. We decreased this account by \$1,550 for water and by \$5,989 for wastewater to reflect a repression adjustment. Adjustments to purchased power result in a balance of \$2,682 for water \$10,374 for wastewater.

Fuel for Power Production (616/716) - During the test year, the utility did not record an amount in this account. The utility installed diesel generators in both the water and wastewater plants as required by DEP. Fuel was purchased for the generators and mistakenly recorded in Materials and Supplies. We reclassified \$532 to this account from Materials and Supplies (636) for fuel purchased and divided it equally between water and wastewater. This resulted in an increase to this account of \$266 each for water and wastewater to include fuel bought for the new generators.

Chemicals (618/718) - The utility recorded \$5,078 for water and \$5,689 for wastewater in this account during the historic test year. We decreased this account by \$401 for water and by \$534 for wastewater to remove undocumented chemical purchases. We increased this account for wastewater by \$233 to reclassify chemicals from Account No. 720 (\$191) and Account No. 736 (\$42). We increased this account \$322 for water and \$390 for wastewater to include estimated increases due to customer growth during the projected test period. We decreased this account by \$1,831 for water and by \$1,972 for wastewater to reflect a repression adjustment. As such, balances for this account are \$3,168 for water and \$3,806 for wastewater.

Materials and Supplies (620/720) - The utility recorded \$1,987 for water and \$4,595 for wastewater in this account during the historic test year.

We decreased this account by \$189 for water and by \$74 for wastewater to remove undocumented expenses. We decreased this account by \$265 for water and by \$250 for wastewater to reclassify rate case expense to Account No. 665 and 765. We decreased this account by \$191 for wastewater to reclassify chemical expense to Account No. 718.

We increased this account by \$568 for wastewater to reclassify supplies recorded in the Contractual Services-Other Account. We decreased this account by \$275 for water and by \$1,974 for wastewater to reclassify engineering fees to the Contractual Services-Engineering Account. We further reduced this account by \$240 for water to remove billing cost already included in Account No. 632. Total adjustments to this account result in a decrease of \$969 and \$1,921 for water and wastewater respectively.

Contractual Services - Engineering (631/731) - The utility recorded \$0 in this account for water and wastewater during the test year. We increased this account by \$275 for water and by \$1,974 for wastewater to reclassify amounts improperly recorded in Materials and Supplies Account (620/720). We also increased this account by \$1,312 each for water and wastewater that was incorrectly recorded in Miscellaneous Expenses (675/775). The majority of the engineering expenses recorded were non-recurring. Therefore, we reduced this account by \$1,050 for water and by \$2,629 for wastewater to amortize engineering expenses over a five-year period pursuant to Rule 25-30.433(8), Florida Administrative Code.

Total adjustments to this account result in an increase of \$537 for water and \$657 for wastewater.

Contractual Services - Accounting (632/732) - The utility recorded \$0 in this account during the test year. We increased this account by \$1,630 each to water and wastewater to include an amount improperly recorded in Miscellaneous Expenses Account (675/775).

Later in this order, we determine that the utility shall be required to bill all its metered customers pursuant to Rule 25-30.335, Florida Administrative Code. The utility indicated that it would be soliciting the services of Park Billing which is a company that prints and mails bills for utility companies. The utility requested a total of \$6,000 to be split evenly between water and

wastewater to obtain billing services from the vendor. This amount is prudent and we allow an increase of \$3,000 each for water and wastewater to provide the billing services. Total adjustments result in an increase of \$4,630 each for water and wastewater for this account.

Contractual Services - Testing (635/735) - The utility recorded \$0 for both water and wastewater in this account during the test year. Each utility must adhere to specific testing conditions prescribed within its operating permit. These testing requirements are tailored to each utility as required by Rules 62-550 and 62-551, Florida Administrative Code, and enforced by the DEP. The tests and the frequency at which those tests must be repeated for this utility are as follows:

Water DEP Required Testing

| <u>Description</u> | <u>Frequency</u> | <u>Annual Cost</u> |
|------------------------|------------------|--------------------|
| Bacteriologicals | Monthly | \$720 |
| Volatile Organics | 36 Months | 73 |
| Gross Alpha | 36 Months | 30 |
| Inorganics | 36 Months | 170 |
| Nitrate and Nitrite | 36 Months | 40 |
| PCB's and Pesticides | 36 Months | 500 |
| Secondary Contaminants | 36 Months | <u>130</u> |
| | Total Amount | <u>\$ 1,663</u> |

Wastewater DEP Required Testing

| <u>Description</u> | <u>Frequency</u> | <u>Annual Cost</u> |
|---------------------|------------------|--------------------|
| CBOD & TSS Effluent | Every two weeks | \$ 1,586 |
| CBOD & TSS Influent | Every two weeks | 1,586 |
| Fecal Coliform | Every two weeks | 936 |
| PH | Every 5 days | 0 |
| Sewer Nitrates | Every two weeks | 936 |
| Sludge Analysis | Annually | <u>450</u> |
| | Total Amount | <u>\$ 5,494</u> |

We discovered that testing services are included as part of the duties of the operator and therefore, do not appear as a separate expense. We increased this account \$1,663 for water and \$5,494 for wastewater to reclassify testing expenses that were recorded in Contractual Services - Other (636/736).

Contractual Services-Other (636/736) - The utility recorded \$5,135 for water and \$55,207 for wastewater in this account during the test year. We decreased this account by \$300 for water to remove an out of period invoice. We increased this account by \$30,792 for wastewater to allow for an increase in the operator's expense that took place during the historic test year.

We find that the amount allowed for operator expenses is prudent due to the addition of reuse services for the utility. When reuse was added, the duties of the operator increased considerably in the form of more DEP required hours on duty and more frequent monitoring and testing of the effluent from the system.

We make the following reclassifications: \$532 for water to Account No. 616 and 716 (diesel fuel), \$42 for wastewater to Account No. 718 (chemicals), and \$568 for wastewater to Account No. 720 (supplies). As discussed above, it was discovered that testing services are included as part of the duties of the operator and, therefore, do not appear as a separate expense. Accordingly, we

reclassified \$1,663 for water and \$5,494 for wastewater to the Contractual Services-Testing Account to include DEP required testing.

We decreased this account by \$2,424 to amortize non-recurring dripper field repairs over five-years. The utility requested an annual amount of \$21,288 to maintain the dripper fields. The construction of the dripper fields is such that a lawn mower or tractor can not be used to maintain the fields. Instead, the seven plus acre fields must be maintained with weed trimmers. We find this cost is reasonable and increase this account by \$19,838 (\$1,450 already included during the test year) for wastewater to reflect the dripper field maintenance cost. Total adjustments for this account is a decrease of \$2,495 for water and an increase of \$42,102 for wastewater.

Regulatory Commission Expense (667/767) - The utility did not record an amount in this account for the test year. Pursuant to Rule 25-30.020, Florida Administrative Code, the utility paid a rate case fee of \$1,000 each for the water and wastewater systems and recorded the fee in the Miscellaneous Account. We increased this account by \$1,000 for water and wastewater each to reclassify the filing fee improperly recorded in Miscellaneous Expenses Account (675/775).

The utility is required by Rule 25-30.475(1)(a), Florida Administrative Code, to mail notices of any rate increase to its customers. We increased this account \$329 each for water and wastewater to allow the utility relief from additional mailing and copying expenses associated with this rate case. We further increased this account by \$258 each for water and wastewater to reclassify rate case expense recorded in the Materials and Supplies account.

We decreased this account \$1,190 each for water and wastewater to amortize the total rate case expenses over four years. Total adjustments in this account result in an increase of \$397 for water and wastewater respectively.

Miscellaneous Expense (675/775) - The utility recorded \$8,079 for water and \$8,079 for wastewater in this account during the historic test year. We decreased this account \$1,000 each for water and

wastewater to reclassify rate case fees to Regulatory Commission Expense (667/767). We reduced this account further to reclassify Regulatory Assessment Fees of \$1,556 each for water and wastewater to Taxes Other Than Income.

We decreased \$1,630 each from this account for water and wastewater and transferred the amounts to Contractual Services - Accounting (632/732) to properly classify accounting expenses associated with the utility. We decreased these accounts \$1,312 each for water and wastewater and transferred the amounts to Contractual Services - Engineering (631/731). We decreased this account by \$728 each to remove Seminole County utility taxes from this account. Seminole County utility taxes are recovered through a separate charge on the customer's bill.

We increased this account by \$1,806 for water and decreased this account by \$1,806 for wastewater to reclassify the cost associated with a consumptive use permit to the water system. The consumptive use permit was issued for five-years; therefore, we decreased this account by \$2,889 to amortize the consumptive use permit over five-years.

Total adjustments result in a decrease of \$7,309 for water and a decrease of \$8,032 wastewater.

Operation and Maintenance Expense (O&M Summary) - Total O&M adjustments are a decrease of \$6,467 for water and an increase of \$36,827 for wastewater. O&M expenses are \$31,796 for water and \$152,579 for wastewater.

Depreciation Expense - The utility recorded depreciation expense of \$0 for water and wastewater for the test year. Depreciation expense has been calculated using the prescribed rates in Rule 25-30.140, Florida Administrative Code. Depreciation is \$27,707 for water and \$86,421 for wastewater. We increase this account by these amounts for water and wastewater, respectively.

Non-used and useful depreciation has a negative impact on depreciation expense. We decreased this account by \$1,883 for water to reflect non-used and useful depreciation, and wastewater has been decreased \$10,840 to reflect non-used and useful depreciation.

Amortization of CIAC also has a negative impact on depreciation expense. We decreased this account by \$5,545 for water to reflect our calculated amortization of CIAC and wastewater has been decreased by \$22,713 as well. Depreciation expense is \$20,279 for water and \$52,868 for wastewater.

Taxes Other Than Income - The utility recorded \$1,477 for water and wastewater each in this account during the historic test year. These amounts consisted of payroll taxes for the test year. We decreased this amount by \$250 each for water and wastewater to annualize payroll taxes for the test year.

We increased this account \$1,556 for water and \$1,556 for wastewater to include RAFs that were improperly recorded in Miscellaneous Expenses (675/775). Our calculated revenues resulted in an adjustment to test year RAFs. These revenue adjustments resulted in an increase of \$182 for water and \$259 for wastewater RAFs in this account.

We increased this account \$7,168 for water and \$19,301 for wastewater to record the used and useful portion of property (real and tangible) taxes associated with the utility. Total adjustments for this account result in increases of \$8,656 and \$20,866 for water and wastewater respectively.

Income Tax - Palm Valley's parent company, Chateau Communities, is a limited partnership. Therefore, pursuant to Rule 25-30.433(7), Florida Administrative Code, the utility has no income tax liability.

Operating Revenues - Revenues have been increased by \$75,046 for water and \$283,319 for wastewater to reflect the increase in revenue required to cover expenses and allow our calculated return on investment.

Taxes Other Than Income - This expense has been increased by \$3,377 for water and \$12,749 for wastewater to reflect regulatory assessment fees of 4.5% on the increase in revenues.

Operating Expenses Summary - The application of these adjustments to the audited test year operating expenses results in operating expenses of \$65,585 for water and \$240,539 for wastewater.

REVENUE REQUIREMENT

The utility shall be allowed an annual increase of \$75,046 (194.35%) for water and \$283,319 (702.29%) for wastewater. This will allow the utility the opportunity to recover its expense and earn a 9.62% return on its investment. The calculations are as follows:

| | <u>Water</u> | <u>Wastewater</u> |
|------------------------------|------------------|-------------------|
| Adjusted rate base | \$499,732 | \$864,049 |
| Rate of Return | x .0962 | x .0962 |
| Return on investment | \$48,074 | \$83,122 |
| Adjusted O & M expense | \$31,796 | \$152,579 |
| Depreciation expense (Net) | \$20,279 | \$52,868 |
| Taxes Other Than Income | \$13,510 | \$35,092 |
| Revenue Requirement | <u>\$113,659</u> | <u>\$323,661</u> |
| Projected Test Year Revenues | <u>\$38,613</u> | <u>\$40,342</u> |
| Percent Increase/(Decrease) | <u>194.35%</u> | <u>702.29%</u> |

As discussed above, the utility's projected test year revenues are \$38,613 for water and \$40,342 for wastewater. The above calculation results in a 194.35% annual increase of \$75,046 (\$113,659 - \$38,613) for water and a 702.29% annual increase of \$283,319 (\$323,661 - \$40,342) for wastewater. Although the percentage increase in services appears extremely high, the rates are reasonable due to the overall large customer base. Also, percentage increases are relative to the base amount being increased. In this case, the existing rates are extremely low, thus even modest increases in actual dollars would result in high percentage increases.

As previously mentioned, the service area is divided into two groups, the 641 customers in the Palm Valley Mobile Home Park that do not receive a monthly bill and the 55 customers in the Fox Run subdivision that do receive a monthly bill. The overall percentage increase in revenue is misrepresented because the majority of the

test year revenues are derived from the 55 customers of the Fox Run subdivision. The residents of the mobile home park are supplied water and wastewater service as part of their monthly rent.

Further, we are allocating the reuse portion of the wastewater revenue requirement between a reuse rate and the water revenue requirement. This further skews the actual increase in revenue requirement to the water customers. A more representative revenue requirement increase would be as follows:

| | <u>Water</u> | <u>Wastewater</u> |
|-------------------------------------|-----------------|-------------------|
| Revenue Requirement (from above) | \$113,659 | \$323,661 |
| Less Reuse Revenues | \$0 | (\$46,592) |
| Reuse Revenue Requirement Allocated | <u>\$63,129</u> | <u>(\$63,129)</u> |
| Reallocated Revenue Requirement | <u>\$63,129</u> | <u>\$213,940</u> |
| Projected Test Year Revenues | <u>\$38,613</u> | <u>\$40,342</u> |
| Percent Increase/(Decrease) | <u>63.49%</u> | <u>430.32%</u> |

The above calculation better represents the actual increase in revenue requirement between the water and wastewater systems.

REUSE REVENUE REQUIREMENT AND
 ALLOCATION OF REUSE REVENUE REQUIREMENT

Section 367.0817(3), Florida Statutes, sets forth our authority to allocate the costs of providing reuse among any combination of a utility's customer base and recognizes that all customers benefit from the water resource protection afforded by reuse. The evolution of reuse of reclaimed water as a method of effluent disposal, aquifer recharge, and water conservation has brought change to the traditional allocation of revenue requirement. In recognition that water customers benefit from the conservation facilitated by reuse, it is appropriate to consider whether a portion of the wastewater or reuse costs should be shared by the water customers.

In July 2001, the utility brought the reuse system online and began providing reuse services to 147 existing customers of the

utility. According to the company, the customers were chosen for reuse based on their proximity to the wastewater treatment plant. An additional 148 more customers will be receiving reuse upon build-out of the Phase 8 section of the mobile home park resulting in a total of 295 total reuse customers served by the utility.

The revenue requirement associated with the reuse system has been calculated as follows:

| | <u>Reuse</u> |
|----------------------------------|-------------------------|
| Adjusted Reuse Rate Base | \$555,228 |
| Rate of Return | x .0962 |
| Return on Investment | <u>\$53,440</u> |
| Reuse O & M Expense | \$41,632 |
| Reuse Depreciation Expense (Net) | \$23,868 |
| Reuse Taxes Other Than Income | <u>\$11,824</u> |
| Revenue Requirement | <u><u>\$130,764</u></u> |

As discussed subsequently, we are ordering a reuse gallonage rate of \$1.15 per 1,000 gallons. We estimated the projected annual reuse usage to be 40,515,000 gallons per year, based on the 2001 reuse inventory report. This results in projected reuse revenues of \$46,592.

We have determined that 75% of the remaining revenue requirement (\$84,171) should be shifted to the water system. This is prudent and necessary to permit the development of conservation rates as discussed below. Allocating 75% of the remaining reuse revenue requirement to water customers is both reasonable and prudent for this utility and will allow us to construct a meaningful conservation rate structure.

In this case, absent any rate design adjustment, the pre-repression rates would be a BFC of \$5.23 with a gallonage charge of \$1.14 per 1,000 gallons. These rates do not represent meaningful conservation rates. An important rate design goal is to design rates that are as conservation oriented as possible without jeopardizing the utility's revenue sufficiency or stability. The

first step in accomplishing this goal is to shift a portion of the reuse system's revenue requirement to the water system.

We find that the appropriate reuse revenue requirement is \$130,764. The reuse revenue requirement shall be allocated so that \$46,592 (36%) is recovered through reuse rates, \$63,129 (48%) is included in water rates, and \$21,043 (16%) is included in the calculation of wastewater rates.

RATE FOR REUSE SERVICES

As part of a large plant expansion project throughout 1999 and 2000, the utility installed the appropriate lines and system needed to provide reuse for irrigation purposes to the 148 projected units of the Phase VIII portion of the development. The utility also installed the necessary lines to provide reuse to approximately 147 existing customers in an older section of the Palm Valley establishment.

At the present time, the utility has not yet installed meters for reuse throughout its system. The customers with reuse service are currently receiving the service at no charge until the completion of this rate case. In discussions with our staff, the utility indicated that without a reuse rate, there was really no need to meter the reuse supplied to customers of the utility. The utility further indicated it would immediately install meters when we established a reuse rate.

Generally, reuse rates cannot be determined in the same fashion as other water and wastewater rates that we set. 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. In this case, we designed a reuse rate that both promotes the acceptance of reuse and encourages conservative use of the resource.

In determining the rate for this utility, we compared the rates of a number of utilities that provide residential reuse for customers. We compared reuse rates from the four county area which included Seminole, Volusia, Orange, and Lake Counties as they are

listed in the 2001 Reuse Inventory Directory issued by the Florida Department of Environmental Protection which was issued in June 2002. In that area, approximately 15 utilities provide residential reuse for customers. Our investigation revealed that of those 15 utilities, 11 of them instituted a flat rate and the other four used a BFC/Gallage format for billing purposes.

While a majority of these utilities use a flat rate for residential reuse services, we believe that metering would help to curtail excessive usage by reuse customers. Although this Commission and the utility would like to encourage reuse, there is a limited amount of reuse available. A flat rate may promote excessive irrigation and place the utility in the precarious position of having to supplement the reuse system with potable water.

As mentioned, four of the utilities in the DEP data base use a BFC/Gallage rate structure for the residential reuse customers in their service areas. Although we would ordinarily agree with this rate structure, circumstances surrounding the Palm Valley Utility and customers would prevent this rate structure from serving its purpose, which is to promote reuse. The following table contains rates from other residential reuse providers in Seminole County:

| <u>Reuse System Name</u> | <u>Charge/Month</u> | <u>Charge/1000 gal</u> |
|----------------------------|---------------------|------------------------|
| Altamonte Springs Regional | \$10.50 | \$0 |
| Casselberry | 1.24 | .67 |
| Sanford | 3.25 | .25 |
| Winter Springs/ East | 5.00 | 0 |
| Winter Springs/Tuscawilla | 5.00 | 0 |

The customers of Palm Valley currently do not directly pay for water or wastewater separately since it is currently considered an included service as part of the monthly lot rents. When this case is complete, the majority of the customers will begin receiving water and wastewater bills for the first time. We expect that a significant amount of rate-shock will be experienced by many of the

customers. We also expect that an additional BFC/Gallorage bill for reuse would discourage usage of the reuse system and supply. In addition, we expect that many of the customers would revoke reuse service to avoid the additional BFC they would receive every month.

For the above reasons, we find no base facility charge will be implemented and that a monthly gallonage charge of \$1.15 per thousand gallons is appropriate for this utility. This rate structure will encourage customers to take reuse and assure adequate effluent disposal in that it is significantly cheaper than potable water and provides an excellent source for irrigation. Further, this rate is sufficiently high enough to encourage responsible use of this resource. Based on the rate of \$2.30 per thousand gallons of potable water, the cost per thousand gallons of reuse would only be 50% of potable water rates. Setting a reuse rate of half the potable water rate will encourage acceptance of this resource.

The reuse rate of \$1.15 per thousand gallons will provide the utility with revenues to offset the additional expenses incurred while providing reuse service to the customers. 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, providing the reuse customers have received notice.

RESIDENTIAL GALLONAGE CAP FOR WASTEWATER SERVICE

Rates for wastewater service shall include a base facility charge for all residential customers regardless of meter size with a cap of 6,000 gallons of usage per month on which the gallonage charge may be billed. There is no cap on usage for general service wastewater bills.

Our current standard in setting residential wastewater rates is that only 80% of residential water usage is returned to the system as wastewater. The remaining 20% is attributed to outside uses such as lawn irrigation, car washing, etc.

Generally, we set monthly caps of 6,000 gallons, 8,000 gallons, or 10,000 gallons per month. For this utility, our

analysis indicates that residential customers will use approximately 6,600 gallons of water per month once the new base facility/gallongage rate structure is initiated.

Considering the above factor and that the utility serves a mobile home retirement community with seasonal customers, the wastewater gallongage cap for residential customers shall be set at 6,000 gallons per month. If usage patterns change, this gallongage cap will be reexamined in the next rate case.

CONTINUATION OF THE UTILITY'S CURRENT RATE STRUCTURE

For the approximately 55 customers within the Fox Run subdivision, the utility's current water system rate structure consists of a monthly BFC/gallongage charge rate structure, in which the BFC of \$2.69 includes an allotment of 2,000 gallons (2 kgal) of water, and all gallons in excess of 2 kgal used are charged \$0.54 per kgal. Approximately 641 individual homes within the Palm Valley mobile home park (the Palm Valley park or park) were not metered during the historic test year. The developer has paid the tariffed charge of \$0.54 per kgal as measured through the park's master meter.

Our preferred rate structure has historically been the traditional BFC/gallongage charge rate structure. This usage sensitive rate structure allows customers to reduce their total bill by reducing their water consumption. However, in response to the Governor's stated water conservation policy, as well as water supply concerns throughout the state, the state's five Water Management Districts have requested that we implement inclining-block rate structures whenever possible.

The utility's current rate structure for the Palm Valley park is considered nonusage sensitive because the homes are neither individually metered nor billed for their respective consumption. These customers therefore receive no price signal to reduce usage at any consumption level. The current rate structure for the Fox Run subdivision is also considered nonusage sensitive because of the 2 kgal allotment in the BFC. This allotment discourages conservation at and below the allotment level.

The current rate structures shall be eliminated to be consistent not only with our practice, but with the overall statewide goal of eliminating conservation-discouraging water rate structures. Furthermore, the current rate structures shall be eliminated in order for the utility to move toward compliance with the requirements of its Consumptive Use Permit (CUP) as issued by the St. John's River Water Management District. The utility's current CUP requires that the utility implement an inclining-block rate structure. However, due to a lack of detailed metered data for all of the utility's residential customers, we find that implementation of an inclining-block rate structure is not appropriate at this time.

An important rate design goal is to design rates that are as conservation-oriented as possible without jeopardizing the utility's revenue sufficiency or revenue stability. In this case, absent any rate design adjustments, the pre-repression rates would be a BFC of \$5.23 with a gallonage charge of \$1.14 per kgal. These rates are not sufficient to design meaningful conservation rates. An increase in the water system's revenue requirement is necessary to accomplish this goal.

As discussed above, the remaining portion of the reuse system's revenue requirement to be recovered through rates is \$84,171. Section 367.0187, Florida Statutes, gives us the authority to allocate the costs of providing reuse among any combination of the utility's customer base. Specifically, Section 367.0817(3), Florida Statutes, states:

All prudent costs of a reuse project shall be recovered in rates. The Legislature finds that reuse benefits water, wastewater, and reuse customers. The commission shall allow a utility to recover the costs of a reuse project from the utility's water, wastewater, or reuse customers or any combination thereof as deemed appropriate by the commission.

This provision recognizes that all customers benefit from the water resource protection afforded by reuse.

Criteria to consider in deciding whether and how much of a reuse system's costs may be allocated to water customers include but are not limited to: 1) recognition of perceived benefit; 2) average usage of the water customers; 3) the level of the water rates; 4) the magnitude of the water and wastewater revenue increases; and 5) the need to send a stronger price signal to achieve water conservation.

As mentioned above, the water system's rate level, absent a shift in reuse costs, is not sufficient to design meaningful conservation rates. As discussed at the customer meeting by a representative of the SJRWMD, the nearby City of Oviedo is already having problems with salt water intrusion in some of its wells. A benefit of allocating a portion of the reuse system's costs to the utility's water customers is that it will enable us to design rates that send a stronger conservation signal. This will hopefully forestall similar problems occurring with Palm Valley's wells.

The water and wastewater systems share the same customer base. Absent a shift in reuse costs to the utility's water customers, the revenue increase for the water system is \$75,046, while the wastewater system's corresponding increase is \$283,319. A shift of reuse costs to the water system will mitigate the wastewater system's increase, while enabling us to design more conservation-oriented rates.

Based on the foregoing, we find an allocation of a portion of the utility's reuse system revenue requirement to water rates is necessary and appropriate in this instance so that meaningful conservation rates may be designed. We analyzed shifting various portions of the reuse revenue requirement, in increments of 25 percentage points, from 25% to 75%, to the water system. The results of our analysis are shown in the table on the following page.

| PORTION OF \$84,171 REUSE SYSTEM REVENUE REQUIREMENT SHIFTED TO THE WATER SYSTEM | | | |
|---|-----------|-----------|-----------|
| | 25% | 50% | 75% |
| \$ Amount Shifted | \$ 21,043 | \$ 42,086 | \$ 63,128 |
| Percentage Increase in Total Water System Revenue Requirement | 18% | 36% | 54% |
| BFC w/o Allocation | \$5.23 | \$5.23 | \$5.23 |
| Gal Chg w/o Allocation | \$1.14 | \$1.14 | \$1.14 |
| BFC w/Allocation | \$6.17 | \$7.11 | \$8.05 |
| Gal Chg w/Allocation | \$1.34 | \$1.54 | \$1.75 |
| 5 kgal Price w/o Alloc | \$10.93 | \$10.93 | \$10.93 |
| 5 kgal Price w/Alloc | \$12.87 | \$14.83 | \$16.79 |
| Amount Increase | \$1.94 | \$3.90 | \$5.86 |
| Percentage Increase | 18% | 36% | 54% |

As seen in the table above, allocating 25% of the reuse system's revenue requirement to the water system increases the total water system revenue requirement 18%. This equates to an increase in price at 5 kgal of \$1.94. Doubling the reuse shift to 50% increases the total water system revenue requirement by 36%, increasing the price at 5 kgal by \$3.90. Shifts of these magnitudes will not enable us to design meaningful, conservation-oriented rates. However, shifting 75% of the reuse revenue requirement to the water system increases the water system's revenue requirement by \$63,128 (54%). Based on our analysis, we believe that a shift of this magnitude will make it possible to design meaningful, more conservation-oriented rates.

An additional rate design adjustment which results in more conservation-oriented rates is a conservation adjustment, whereby a portion of the cost recovery is shifted from the BFC to the gallonage charge. This adjustment is made in the majority of water rate cases. However, there are two reasons why a conservation adjustment should not be made in this case. First, as discussed above, the utility's water rates will be more conservation-oriented by changing the rate structure for the vast majority of the customers from non-metered to metered rates. This type of rate structure change typically results in a greater change in the utility's revenue stability and sufficiency compared to other rate structure changes. Substantial consumption reductions will be made by those newly-metered customers. This will be discussed in greater detail subsequently.

The second reason why a conservation adjustment is inappropriate is that predicting the total anticipated consumption reduction for both the Palm Valley park customers and Fox Run customers is difficult in this case. Although the Fox Run customers have been receiving and paying a water bill prior to this case, due to the rate structure change and the magnitude of the price changes, there is no directly comparable information in our database which would help predict the anticipated consumption reduction for these customers. Furthermore, the water bill for the Palm Valley park has historically been paid by the developer, who plans to continue paying the bill for the park's residents for another year. This postpones the date the Palm Valley park residents begin receiving a price signal regarding their consumption.

In recognition of the above-referenced concerns, a shift in cost recovery from the BFC to the gallonage charge is inappropriate in this case. Conversely, a shift that will result in an increase in BFC cost recovery, and thereby provide greater revenue stability, is appropriate. Our initial assessment of cost recovery indicates that the BFC would recover 40% of the water system's costs, while the gallonage charge would recover the remaining 60% of the costs. Based upon our analysis of the utility's monthly consumption patterns a negative (reverse) conservation adjustment of 15% will be sufficient to provide the utility its needed revenue stability.

Therefore, a continuation of the utility's current rate structure for its water system is not appropriate in this case. Specifically, the 2,000 gallon allotment shall be removed from the rate structure currently applicable to the Fox Run subdivision, and the master meter rate structure shall be removed from the corresponding rate structure applicable to the utility's Palm Valley mobile home park customers. The utility's rate structure shall be changed to a traditional BFC/gallonge charge rate structure applicable to all its customers, and a negative (reverse) conservation adjustment of 15% shall be implemented.

REPRESSION OF CONSUMPTION ADJUSTMENT

Based on information contained in our database of utilities receiving rate increases and decreases, there were no water utilities that had experienced the same sort of rate structure and price increase changes as the utility's Fox Run customers. However, based upon our experience in other dockets, we find the Fox Run residents will reduce their consumption by 50%. This results in an anticipated annual reduction in consumption for those residents of 3,322 kgal.

The recommended adjustment for the Palm Valley park residents was more difficult to determine. Although our database does not contain information regarding utilities' customers going from a situation in which they did not directly pay for their water to one in which they become metered and billed, the database does contain information on several utilities which experienced the rate structure change of going from flat rates to metered rates. The consumption reductions in these cases range from 45% to 60%. Therefore, an anticipated 50% reduction in consumption for the Palm Valley park customers is reasonable before consideration of other factors.

We have been informed by the utility that, although it will read the newly-installed meters and send bills to the Palm Valley park residents, the developer will pay these residents' water bills for the first year after the increased rates go into effect. We anticipate that customers seeing what their water bill would be will encourage some reduction in consumption in the first year after the rate increase. Over the course of a two-year period, once customers actually start paying their water bills, the average

repression will be 35%. This results in an anticipated reduction in consumption of 19,066 kgal, or a utility system total of 22,388 kgal. This represents an overall repression adjustment of approximately 37%.

Therefore, a repression adjustment of 22,388 kgal is appropriate. In order to monitor the effects of both the changes in rate structure and the recommended revenue increases, the utility shall prepare monthly reports detailing the number of bills rendered, the consumption billed and the revenue billed. These reports shall be provided, by customer class and meter size, on a quarterly basis for a period of two years, beginning with the first billing period after the increased rates go into effect.

INDIVIDUAL BILLING

In order to comply with its CUP, the utility initiated this rate case primarily for the purpose of establishing future residential water, wastewater, and reuse rates for the customers of the mobile home park that are currently being served as a bulk rate customer. Currently, the water and wastewater services are included as part of the lot rent for the residents of the mobile home park.

According to the SJRWMD, the district wants to move the utility customers away from the flat rate (included in lot rent) structure in order to encourage water conservation. The district has taken steps toward this goal by requiring in the utility's CUP that all the mobile home customers be submetered and that the utility seek an inclining block rate structure in its next rate proceeding. Consumption based rates are the most effective way to encourage conservation and through our MOU with the Water Management Districts, we have made a conscious effort to move utilities from flat and unmetered rates to metered consumption based rates.

We have received a number of calls from concerned customers who believe that a separate water and wastewater bill imposed upon them would violate their prospectus (rental agreement) with the developer. Many of the customers believe that their prospectus disallows the metering of water lines, the reading of the meters, and billing for utility services. Several customers provided us

with copies of the current prospectus and argued that the utility cannot charge rates that would violate the prospectus.

In Order No. 22160, issued November 7, 1989, in Docket No. 890442-WU, we found that Section 367.081(2), Florida Statutes, sets forth how we must set rates. In that order, we found that we must consider a fair return on the investment of the utility in property used and useful in the public service in setting rates that are "just, reasonable, compensatory, and not unfairly discriminatory." We would be prevented from carrying out our statutory mandate if we were to be bound by deed restrictions and covenants. Further, varying restrictions and covenants would give rise to unfairly discriminatory rates.

In Cohee v. Crestridge Utilities Corp., 324 So. 2d 155 (Fla. 2d DCA 1975), the Second District Court of Appeal acknowledged that we have exclusive jurisdiction to set rates. The Court, however, stated that the homeowners were entitled to an adjudication of whether the utility had breached its contract by increasing rates, and that this could only be done in a court of law. In Order No. 22160, we found that similarly, the Lake Tarpon homeowner's dispute concerning the covenants and restrictions is a contractual dispute within the exclusive jurisdiction of the courts.

Further, in Order No. PSC-94-0569-FOF-WS, issued May 13, 1994, in Docket No. 930847-SU, a case similar to this one where the customers' position was that we could not legally alter the contract by changing the customers' rates and charges for the provision of water and wastewater services, we found that pursuant to Chapter 367, Florida Statutes, we have exclusive jurisdiction to regulate the provision of water and wastewater service by utilities, which of course includes the establishment of rates and charges. In Public Service Commission v. Lindahl, 613 So. 2d 63, 64 (Fla. 2d DCA 1993), the Court found that our authority to raise or lower rates, even those established by a contract, is preemptive. Also, in Order No. 21680, issued August 4, 1989, in Docket No. 881178-WS, we found that a pre-existing contract, of a similar nature as the contract in this case, was not determinative in setting rates in accordance with Chapter 367, Florida Statutes.

In this case, the utility and the developer are one in the same. Residents of the mobile home park have expressed concern

that rates would violate Chapter 723, Florida Statutes, which provides that a reduction of services to tenants of a mobile home park must be accompanied by a comparable reduction in monthly lot rents. We lack the authority to resolve this issue, which should be resolved between the tenants of the mobile home park and the Chateau Communities.

We have had numerous conversations with the utility and the SJRWMD over the current billing provisions. As a result, the utility, in an effort to cooperate with the tenants of the mobile home park and comply with its CUP, has requested a unique rate structure to be put in place during this rate proceeding. Rather than immediately imposing a residential rate on the 641 customers of the mobile home park, the utility requested that the individual rates not be placed in effect until there is sufficient time to meet the requirements of Chapter 723, Florida Statutes. Rather than collecting revenues from the customers, revenues are to be paid by the developer and treated as regular revenue.

We have reviewed the plan suggested by the utility and we impose a number of conditions to accompany the utility's proposed rate structure:

1. The utility shall be required to read each customer meter each month as if it was billing in a normal fashion. Expenses are being allowed for meter reading so the utility shall be allowed to recover the expenses to perform this task.
2. The utility shall mail the bills monthly to the customers even though the customers will not be submitting payment. This will allow the customers to monitor and adjust their water usage nearly a year before receiving their first actual bill. This will not only promote conservation but it will lessen the rate shock customers may experience upon receiving their first actual water bill.
3. The utility shall record these monthly statements as revenues and pay RAFs accordingly.
4. The utility shall be required to notice the customers 90 days prior to the first actual billing, which shall take

place no later than August 2003. The customers will receive monthly "statements" rather than bills for nearly a year prior to receiving their first actual bill. Noticing will assist in reminding the customers that funds are due for services rendered and will prevent a number of late fees and disconnects.

Although this proposed arrangement is unusual, it is the preferable alternative at this time. The developer is willingly assuming the monthly bills of the residents to help them adjust to the new billing practices and rates even though it will result in a loss of revenue. As long as revenues and usage are being recorded properly and appropriately, this arrangement is approved. Further, the SJRWMD's conservation goal of charging consumption based rates will ultimately be accomplished.

APPROPRIATE RATES FOR EACH SYSTEM

The appropriate revenue requirement is \$113,659 for water and \$323,661 for wastewater. However, for rate setting purposes, the revenue requirement is \$176,788 for water and \$213,940 for wastewater. As discussed above, we estimated reuse revenues of \$46,592. We are reallocating 75% or \$63,129 of the remaining reuse revenue requirement from wastewater to water. We designed water rates to include 75% of the remaining reuse revenue requirement and wastewater rates that include 25% of the reuse revenue requirement net of reuse revenues of \$46,592. The rates are designed to produce revenue of \$176,788 ($\$113,659 + \$63,129$) for the water system and \$213,940 ($\$323,661 - \$63,129 - \$46,592$) for the wastewater system, excluding miscellaneous service charges.

We designed rates using a base facility gallonage charge rate structure for both water and wastewater. Our rates also include a repression adjustment of 22,388 kgal for water and 17,276 kgal for wastewater as discussed above. We made a negative 15% conservation adjustment to water rates as discussed above. Residential wastewater rates were calculated using a 6,000 gallon cap.

Schedules of the utility's existing rates and rate structure and our rates and rate structure are as follows:

Monthly Rates - Water

Residential Service

Base Facility Charge

| <u>Meter Sizes</u> | <u>Existing Rates</u> | <u>Commission Approved Rates</u> |
|--------------------|--------------------------------|--------------------------------------|
| 5/8" x 3/4" | \$2.69 (includes 2,000 gal) | N/A |
| 5/8" x 3/4" | N/A | \$9.57 |
| 3/4" | N/A | \$14.36 |
| 1" | N/A | \$23.93 |
| 1 1/2" | N/A | \$47.85 |
| 2" | N/A | \$76.56 |
| 3" | N/A | \$153.12 |
| 4" | N/A | \$239.25 |

Gallonge Charge

| | | |
|-------------------|----------------------------|-------------------------|
| Per 1,000 gallons | \$0.54 (over 2,000 gal) | \$2.30 (All gallons) |
|-------------------|----------------------------|-------------------------|

Monthly Rates - Water
General Service

Base Facility Charge

| <u>Meter Sizes</u> | <u>Existing Rates</u> | <u>Commission Approved Rates</u> |
|---|-----------------------|--------------------------------------|
| <u>5/8" x 3/4"</u> | <u>N/A</u> | <u>\$9.57</u> |
| <u>3/4"</u> | <u>N/A</u> | <u>\$14.36</u> |
| <u>1"</u> | <u>N/A</u> | <u>\$23.93</u> |
| <u>1 1/2"</u> | <u>N/A</u> | <u>\$47.85</u> |
| <u>2"</u> | <u>N/A</u> | <u>\$76.56</u> |
| <u>3"</u> | <u>N/A</u> | <u>\$153.12</u> |
| <u>4"</u> | <u>N/A</u> | <u>\$239.25</u> |
| <u>Gallage Charge per 1,000 gallons</u> | <u>\$0.54</u> | <u>\$2.30</u> |

Monthly Rates - Wastewater
Residential

| <u>Meter Sizes</u> | <u>Existing Rates</u> | <u>Commission Approved Rates</u> |
|--|-----------------------|--------------------------------------|
| All meter sizes | \$8.77 | \$10.74 |
| <u>Gallage Charge</u> Per 1,000 gallons (6,000 gallon Cap) | N/A | \$3.81 |

Monthly Rates - Wastewater
General Service

| <u>Meter Sizes</u> | <u>Existing Rates</u> | <u>Commission</u> <u>Approved Rates</u> |
|------------------------|-----------------------|--|
| 5/8" x 3/4" | N/A | \$10.74 |
| 3/4" | N/A | \$16.12 |
| 1" | N/A | \$26.86 |
| 1 1/2" | N/A | \$53.72 |
| 2" | N/A | \$85.95 |
| 3" | N/A | \$171.91 |
| 4" | N/A | \$268.60 |
| <u>Gallonge Charge</u> | | |
| Per 1,000 gallons | N/A | \$4.57 |

As discussed above, the utility shall send informational bills, for a one-year period, to its existing customers who receive service as part of the customer's lot rent. The utility shall collect these revenues through the developer using a bulk service rate for that period. We have determined the bulk service rate as follows:

MONTHLY RATE - WATER

BULK SERVICE

Palm Valley Mobile Home Park

Applicable: For units whose service is included in lot rent

Base Facility Charge: \$9.57 per unit.

Gallonge Charge: \$2.30 per thousand gallons of individual meter readings.

MONTHLY RATE - WASTEWATER

BULK SERVICE

Palm Valley Mobile Home Park

Applicable: For units whose service is included in lot rent

Base Facility Charge: \$10.74 per unit.

Gallorage Charge \$3.81 per thousand gallons of individual
(6,000 gallon cap): meter readings.

The above bulk service rates are designed to recover the same revenue from the Palm Valley Subdivision as would be collected under the residential tariffs we have ordered.

Approximately 49% (\$85,938) of the water system revenue requirement net of the reuse revenue requirement is recovered through the recommended base facility charge. The fixed costs are recovered through the BFC based on the number of factored ERCs. The remaining 51% (\$90,850) of the revenue requirement represents revenues collected through the consumption charge based on the number of gallons. Approximately 45% (\$96,439) of the wastewater system revenue requirement net of reallocated reuse revenue requirement and reuse revenues is recovered through the recommended base facility charge. The fixed costs are recovered through the BFC based on the number of factored ERCs. The remaining 55% (\$117,501) of the revenue requirement represents revenues collected through the consumption charge based on the number of factored gallons.

The following is a comparison of residential rates at various usage levels:

Monthly Rates - Water

Residential

| <u>Gallons</u> | <u>Existing</u> | <u>Commission Approved Rates</u> |
|----------------|-----------------|----------------------------------|
| 3,000 | \$3.23 | \$16.48 |
| 5,000 | \$4.31 | \$21.08 |
| 10,000 | \$7.01 | \$32.59 |

Monthly Rates - Wastewater
Residential

| <u>Gallons</u> | <u>Existing</u> | <u>Commission Approved Rates</u> |
|----------------|-----------------|----------------------------------|
| 3,000 | \$8.77 | \$22.18 |
| 5,000 | \$8.77 | \$29.80 |
| 10,000 | \$8.77 | \$33.62 |

These rates shall be effective for service rendered as of the stamped approval date on the tariff sheets provided customers have received notice. The tariff sheets shall be approved upon our staff's verification that the tariffs are consistent with our decision and that the customer notice is adequate.

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.

Once the utility has completed implementation of rates under Section 723, Florida Statutes, the utility shall be required to notify us no later than August 31, 2003, to delete its bulk rate tariff. Our staff is given administrative authority to cancel this tariff upon notification by the utility.

REDUCTION OF RATES AFTER AMORTIZATION OF RATE CASE EXPENSE

Section 367.0816, Florida Statutes, requires the rates to be reduced immediately following the expiration of the four-year rate 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 \$418 annually. Using the utility's current revenues, expenses, capital structure

and customer base, the reduction in revenues will result in the rate decrease as shown on Schedules 4a and 4b, which are attached.

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.

REVISION OF SERVICE AVAILABILITY CHARGES

The utility's current tariff authorizes a \$170 connection fee for water and a \$1,835 connection fee for wastewater. Rule 25-30.580, Florida Administrative Code, specifies guidelines for determining service availability charges as follows:

(a) 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

(b) 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.

Currently the utility is approximately 6% contributed for water and 42% contributed for wastewater. The utility's current minimum contribution levels, as determined by Rule 25-30.580, Florida Administrative Code, are 53.23% for water and 45.64% for wastewater. Although the utility is currently below the minimum contribution levels for both water and wastewater, the utility's existing service availability charges for wastewater will likely cause the utility to exceed the maximum guidelines prescribed by

the above referenced rule. We designed service availability charges such that the contribution level for water will approach the minimum contribution level described above at build out and that the contribution level for wastewater will approach the maximum level described above at build out.

The following are the utility's existing and our approved service availability charges:

Water Service Availability Charges

| | <u>Existing Charge</u> | <u>Commission Approved Charge</u> |
|-----------------------|------------------------|---------------------------------------|
| Connection Fee | \$170 | N/A |
| Plant Capacity Charge | N/A | \$1,035 |
| Main Extension Charge | N/A | \$1,178 |

Wastewater Service Availability Charges

| | <u>Existing Charge</u> | <u>Commission Approved Charge</u> |
|-----------------------|------------------------|---------------------------------------|
| Connection Fee | \$1,835 | N/A |
| Plant Capacity Charge | N/A | \$433 |
| Main Extension Charge | N/A | \$364 |

We are requiring the utility to install meters for all of its existing water and reuse customers as well as future water and reuse customers. The utility has provided us with invoices for meters and meter installation in the amount of \$177 per meter. This amount is reasonable based on the type of meter being installed by the utility. A meter installation fee of \$177 is approved to offset the cost of meter installation for new water and reuse customers.

Based on the foregoing, the utility's service availability charges are revised to include a Plant Capacity Charge of \$1,035, a Main Extension Charge of \$1,178, and a Meter Installation Fee of \$177 for water and reuse customers and a Plant Capacity Charge of

\$433 and a Main Extension Charge of \$364 for wastewater. The utility shall file revised tariff sheets which are consistent with the Commission's vote. Our staff is given administrative authority to approve the revised tariff sheets upon staff's verification that the tariffs are consistent with our decision. The rates shall not be implemented until notice has been received by the customers. The utility shall provide proof of the date notice was given within 10 days after the date of the notice. When revised tariff sheets are filed and approved, the miscellaneous service charges shall become effective for connections made on or after the stamped approval date of the revised tariff sheets, provided adequate notice is given, if no protest is filed.

CUSTOMER DEPOSITS

Rule 25-30.311, Florida Administrative Code, provides guidelines for collecting, administering, and refunding customer deposits. It also authorizes customer deposits to be calculated using an average monthly bill for a 2-month period. The utility's existing tariff authorizes the utility to collect a \$10 customer deposit for water and wastewater. This amount will not provide an average bill for a 2-month period based on our approved rates. Therefore, we have calculated customer deposits using our approved rates and an average monthly bill for a 2-month period. A schedule of the utility's existing and our approved deposits follows:

| <u>Water</u> | | |
|--|-----------------------------|--|
| <u>Residential and General Service</u> | | |
| <u>Meter Size</u> | <u>Existing Deposit</u> | <u>Commission Approved Deposit</u> |
| 5/8" x 3/4" | \$10.00 | \$39.00 |
| All over 5/8" x 3/4" | \$10.00 | 2 x Average Bill |

Wastewater

Residential and General Service

| <u>Meter Size</u> | <u>Existing Deposit</u> | <u>Commission Approved Deposit</u> |
|----------------------|-----------------------------|--|
| 5/8" x 3/4" | \$15.00 | \$47.00 |
| All over 5/8" x 3/4" | \$15.00 | 2 x Average Bill |

The utility shall file revised tariff sheets, which are consistent with our decision. Our staff is given administrative authority to approve the revised tariff sheets upon staff's verification that the tariffs are consistent with our decision. When the revised tariff sheets are filed and approved, the customer deposits shall become effective for connections made on or after the stamped approval date of the revised tariff sheets, if no protest is filed.

APPROVAL OF RATES SUBJECT TO PROTEST

This Order proposes an increase in water rates. A timely protest might delay what may be a justified rate increase resulting in an unrecoverable loss of revenue to the utility. Therefore, pursuant to Section 367.0814(7), Florida Statutes, 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 of \$242,624 for water and wastewater combined. Alternatively, the utility may establish an escrow agreement with an independent financial institution.

If the utility chooses a bond as security, the bond shall contain wording to the 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.
- 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.
- 8) The Director of Commission Clerk and Administrative Services must be a signatory to the escrow agreement.

This 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 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), Florida Administrative Code.

The utility shall maintain a record of the amount of the bond, and the amount of revenues that are subject to refund. In addition, after the increased rates are in effect, pursuant to Rule 25-30.360(6), Florida Administrative Code, the utility shall file reports with the Division of Commission Clerk and Administrative Services 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 CWS Communities LP D/B/A Palm Valley's application for increased water and wastewater rates and charges is hereby approved as set forth in the body of this Order. It is further

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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 herein by reference. It is further

ORDERED that CWS Communities LP D/B/A Palm Valley shall bill its customers in accordance with the rates and charges as set forth in the body of this Order. It is further

ORDERED that CWS Communities LP D/B/A Palm Valley is authorized to charge the new rates and charges as set forth in the body of this Order. It is further

ORDERED that in order to monitor the effects of both the changes in rate structure and the revenue increases, CWS Communities LP D/B/A Palm Valley shall prepare quarterly reports detailing the number of bills rendered, the consumption billed and the revenue billed. These reports shall be provided, by customer class and meter size, on a quarterly basis for a period of two years, beginning with the first billing period after the increased rates go into effect. It is further

ORDERED that CWS Communities LP D/B/A Palm Valley rates and charges shall be effective for services rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), Florida Administrative Code, provided that the customers have received notice. It is further

ORDERED that CWS Communities LP D/B/A Palm Valley shall provide proof that the customers have received notice within ten days of the date of the notice. It is further

ORDERED that in the event of a protest by a substantially affected person other than the utility, CWS Communities LP D/B/A Palm Valley is authorized to collect the rates approved on a temporary basis, subject to refund in accordance with Rule 25-30.360, Florida Administrative Code, provided that CWS Communities LP D/B/A Palm Valley first furnishes and has approved by Commission staff, adequate security for any potential refund and a proposed customer notice. It is further

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ORDERED that, prior to its implementation of the rates and charges approved herein, CWS Communities LP D/B/A Palm Valley shall submit and have approved revised tariff pages. The revised tariff pages shall be approved upon Commission staff's verification that the pages are consistent with our decision herein, that the protest period has expired, that the customer notice is adequate, and that any required security has been provided. It is further

ORDERED that the process for delaying immediate billing of the mobile home park customers, while providing meter reading and informational statements, shall be implemented by the Utility as set forth in the body of this Order.

ORDERED that in the event of a protest, prior to the implementation of the rates and charges approved herein, CWS Communities LP D/B/A Palm Valley shall submit and have approved a bond or letter of credit in the amount of \$242,624 as a guarantee of any potential refund of revenues collected on a temporary basis. Alternatively, the utility may establish an escrow account with an independent financial institution. It is further

ORDERED that CWS Communities LP D/B/A Palm Valley shall submit monthly reports no later than twenty days after each monthly billing which shall indicate the amount of revenue collected on a temporary basis subject to refund. It is further

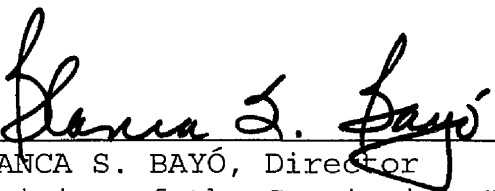
ORDERED that the provisions of this Order, except for those regarding decrease of rate case expense after four years, collection of increased rates as temporary rates in the event of a protest, and closure of the docket, are issued as proposed agency action, and shall become final and effective upon 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 or Judicial Review" attached hereto. It is further

ORDERED that in the event this Order is not protested, this docket shall remain open for a period of six (6) months from the effective date of this Order for Commission staff to verify the pro

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forma plant improvements ordered herein. Once such improvements have been verified, this docket may be closed administratively.

By ORDER of the Florida Public Service Commission this 13th day of August, 2002.



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

(S E A L)

LDH

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, all our actions with the exception of reduction of rate case expense after four years, collection of increased rates as temporary rates in the event of a protest, and closure of the docket, is preliminary in nature. Any person whose substantial interests are affected by the action proposed by this order, with the exception of those listed above,

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 September 3, 2002. 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 to reduce rate case expense after four years, allow increased rates to be collected as temporary rates in the event of a protest, or regarding closure of the docket 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.

WATER TREATMENT PLANT - USED AND USEFUL DATA

Docket No. 010823-WS - PALM VALLEY

| | | |
|--|---------|-----------------|
| 1) Permitted Capacity of Plant | 675,000 | gallons per day |
| 2) Average of 5 Highest Days From Maximum Month | 349,560 | gallons per day |
| 3) Average Daily Flow | 193,162 | gallons per day |
| 4) Fire Flow Capacity | 150,000 | gallons per day |
| 5) Growth | 25,641 | gallons per day |
| a) Test year Customers in connections: | Begin | 745 |
| | End | 745 |
| | Average | 745 |
| (Use average number of customers) | | |
| b) Projected customer Growth in connections | 99 | connections |
| c) Statutory Growth Period | 5 | Years |
| (b)x [3/(a)] = 25,641 gallons per day for growth | | |
| 6) Excessive Unaccounted for Water | | gallons per day |
| a) Total Unaccounted for Water | | gallons per day |
| b) Reasonable Amount | | gallons per day |
| c) Excessive Amount | | gallons per day |

USED AND USEFUL FORMULA

$$[(2) + (4) + (5) - (6)] / (1) = *78\% \text{ Used and Useful}$$

WATER DISTRIBUTION SYSTEM - USED AND USEFUL DATA

Docket No. 010823-WS; PALM VALLEY

- | | |
|---|-----------------|
| 1) Capacity of System (Number of Potential Customers, ERCs or connections Without Expansion) | 844 connections |
| 2) Test year connections | |
| a) Beginning of Test Year | 745 connections |
| b) End of Test Year | 745 connections |
| c) Average Test Year | 745 connections |
| 3) Growth | 99 connections |
| a) Projected customer growth in connections | 99 connections |
| b) Statutory Growth Period | 5 Years |
| (a) = 99 connections allowed for growth | |

USED AND USEFUL FORMULA

$$[(2)+(3)]/(1) = *100\% \text{ Used and Useful}$$

WASTEWATER TREATMENT PLANT - USED AND USEFUL DATA

Docket No. 010823-WS; PALM VALLEY

| | | | |
|---|-----------|-----------------|-----------------|
| 1) Permitted Capacity of Plant (AADF) | 150,000 | gallons per day | |
| 2) Maximum Daily Flow | 410,864 | gallons per day | |
| 3) Average Daily Flow (AADF) | 107,116 | gallons per day | |
| 4) Growth | 14,256 | gallons per day | |
| a) Test year Customers in connections: | | | |
| | Beginning | | 745 |
| | Ending | | 745 |
| | Average | | 745 |
| (Use average number of customers | | | |
| b) Projected customer Growth in connections | | 99 | connections |
| c) Statutory Growth Period | | 5 | Years |
| (b) x [3/(a)] = 14,256 gallons per day for growth | | | |
| 5) Excessive Infiltration or Inflow (I&I) | n/a | gallons per day | |
| a) Total I&I: | | | gallons per day |
| Percent of Average Daily Flow | 0.00% | | |
| b) Reasonable Amount | | | gallons per day |
| (10% of average Daily Flow) | | | |
| c) Excessive Amount | | | gallons per day |

USED AND USEFUL FORMULA

$$[(3) + (4) - (5)] / (1) = *81\% \text{ Used and Useful}$$

WASTEWATER COLLECTION SYSTEM - USED AND USEFUL DATA

Docket No. 010823-WS; PALM VALLEY

- | | |
|---|-----------------|
| 1) Capacity of System (Number of potential customers, ERCs or Lots without expansion) | 844 connections |
| 2) Test year connections | |
| a) Beginning of Test Year | 745 connections |
| b) End of Test Year | 745 connections |
| c) Average Test Year | 745 connections |
| 3) Growth | 99 connections |
| (Use End of Test Year and End of Previous Years for growth connections) | |
| a) Projected customer growth in connections | 99 connections |
| b) Statutory Growth Period | 5 Years |
| (a) = 99 connections allowed for growth | |

USED AND USEFUL FORMULA

$$[(2)+(3)]/(1) = *100\% \text{ Used and Useful}$$

| PALM VALLEY | | SCHEDULE NO. 1-A | |
|-----------------------------------|---------------------------|---|------------------------------|
| TEST YEAR ENDING 7/31/03 | | DOCKET NO. 010823-WS | |
| SCHEDULE OF WATER RATE BASE | | | |
| DESCRIPTION | BALANCE PER UTILITY | COMMISSION ADJUST. TO UTIL. BAL. | BALANCE PER COMMISSION |
| 1. UTILITY PLANT IN SERVICE | \$285,865 | \$498,306 | \$784,171 |
| 2. LAND & LAND RIGHTS | \$2,433 | 0 | \$2,433 |
| 3. NON-USED AND USEFUL COMPONENTS | \$0 | (23,287) | (\$23,287) |
| 4. CIAC | (\$89,509) | (67,425) | (\$156,934) |
| 5. ACCUMULATED DEPRECIATION | (\$228,501) | 58,301 | (\$170,200) |
| 6. AMORTIZATION OF CIAC | \$51,078 | 8,497 | \$59,575 |
| 7. WORKING CAPITAL ALLOWANCE | <u>\$0</u> | <u>3,974</u> | <u>\$3,974</u> |
| 8. WATER RATE BASE | \$21,366 | \$478,366 | \$499,732 |

| PALM VALLEY | | SCHEDULE NO. 1-B | |
|-----------------------------------|---------------------------|---|------------------------------|
| TEST YEAR ENDING 7/31/03 | | DOCKET NO. 010823-WS | |
| SCHEDULE OF WASTEWATER RATE BASE | | | |
| DESCRIPTION | BALANCE PER UTILITY | COMMISSION ADJUST. TO UTIL. BAL. | BALANCE PER COMMISSION |
| 1. UTILITY PLANT IN SERVICE | \$1,134,245 | \$830,033 | \$1,964,278 |
| 2. LAND & LAND RIGHTS | \$116,298 | (19,889) | \$96,409 |
| 3. NON-USED AND USEFUL COMPONENTS | \$0 | (99,295) | (\$99,295) |
| 4. CIAC | (\$390,046) | (106,927) | (\$496,973) |
| 5. ACCUMULATED DEPRECIATION | (\$398,125) | (402,137) | (\$800,262) |
| 6. AMORTIZATION OF CIAC | \$118,202 | 62,618 | \$180,820 |
| 7. WORKING CAPITAL ALLOWANCE | <u>\$0</u> | <u>19,072</u> | <u>\$19,072</u> |
| 8. WASTEWATER RATE BASE | \$580,574 | \$283,475 | \$864,049 |

| PALM VALLEY | | SCHEDULE NO. 1-C | |
|---|-------------------|-----------------------------|--|
| TEST YEAR ENDING 7/31/03 | | DOCKET NO. 010823-WS | |
| ADJUSTMENTS TO RATE BASE | | | |
| | <u>WATER</u> | <u>WASTEWATER</u> | |
| <u>UTILITY PLANT IN SERVICE</u> | | | |
| 1. Adjustment per Order PSC-00-1675-PAA-WS | \$98,240 | \$105,256 | |
| 2. Increase to include plant additions during historic test year | 449,539 | 695,192 | |
| 3. Include wastewater plant retirements during historic test year | (98,148) | (5,284) | |
| 4. Increase to include pro forma meters. | <u>48,675</u> | <u>34,869</u> | |
| Total | <u>\$498,306</u> | <u>\$830,033</u> | |
| <u>NON-USED AND USEFUL PLANT</u> | | | |
| 1. To reflect projected year end non-used and useful plant | (\$50,187) | (\$212,461) | |
| 2. To reflect projected year end non-used and useful accumulated dep. | <u>26,900</u> | <u>113,166</u> | |
| Total | <u>(\$23,287)</u> | <u>(\$99,295)</u> | |
| <u>LAND AND LAND RIGHTS</u> | | | |
| 1. Adjustment per Order PSC-00-1675-PAA-WS | <u>\$0</u> | <u>(\$19,889)</u> | |
| <u>CIAC</u> | | | |
| 1. Increase to match Order PSC-00-1675-PAA-WS | (\$3,230) | (\$34,867) | |
| 2. Include unrecorded connection during historic test year | (170) | (1,835) | |
| 3. Include CIAC for projected test years connections | (59,600) | (65,800) | |
| 4. Projected Meter Installation Fees | <u>(4,425)</u> | <u>(4,425)</u> | |
| Total | <u>(\$67,425)</u> | <u>(\$106,927)</u> | |
| <u>ACCUMULATED DEPRECIATION</u> | | | |
| 1. Adjustment per Order PSC-00-1675-PAA-WS | \$7,968 | \$170,721 | |
| 2. To reflect accumulated depreciation per Comm. | 103,015 | (398,609) | |
| 3. Include projected test years accumulated depreciation | <u>(52,682)</u> | <u>(174,249)</u> | |
| Total | <u>\$58,301</u> | <u>(\$402,137)</u> | |
| <u>AMORTIZATION OF CIAC</u> | | | |
| 1. Adjustment per Order PSC-00-1675-PAA-WS | (\$3,808) | \$59,101 | |
| 2. To reflect Comm. calculated accumulated amortization of CIAC | 4,559 | (40,080) | |
| 3. To reflect projected test year additions | <u>7,746</u> | <u>43,597</u> | |
| Total | <u>\$8,497</u> | <u>\$62,618</u> | |
| <u>WORKING CAPITAL ALLOWANCE</u> | | | |
| 1. To reflect 1/8 of test year O & M expenses. | \$3,974 | \$19,072 | |

| PALM VALLEY | | | SCHEDULE NO. 2 | | | | | |
|-------------------------------|--------------|----------------------|-------------------------------------|------------------------|--------------------|------------------|---------------|---------------|
| TEST YEAR ENDING 7/31/03 | | | DOCKET NO. 010823-WS | | | | | |
| SCHEDULE OF CAPITAL STRUCTURE | | | | | | | | |
| CAPITAL COMPONENT | PER UTILITY | SPECIFIC ADJUSTMENTS | BALANCE BEFORE PRO RATA ADJUSTMENTS | PRO RATA ADJUSTMENTS | BALANCE PER COMM. | PERCENT OF TOTAL | COST | WEIGHTED COST |
| 1. COMMON STOCK | \$0 | \$256,953 | \$256,953 | | | | | |
| 2. RETAINED EARNINGS | 0 | 0 | 0 | | | | | |
| 3. PAID IN CAPITAL | 0 | 232,405,586 | 232,405,586 | | | | | |
| 4. TREASURY STOCK | <u>0</u> | <u>0</u> | <u>0</u> | | | | | |
| 5. TOTAL COMMON EQUITY | \$0 | \$232,662,539 | 232,662,539 | (231,793,841) | 868,698 | 63.70% | 10.51% | 6.69% |
| 6. SHORT TERM DEBT | 0 | 39,664,587 | 39,664,587 | (39,516,490) | 148,097 | 10.86% | 8.47% | 0.92% |
| 7. LONG TERM DEBT | <u>0</u> | <u>92,930,352</u> | <u>92,930,352</u> | <u>(92,583,376)</u> | <u>346,976</u> | <u>25.44%</u> | <u>7.91%</u> | <u>2.01%</u> |
| TOTAL DEBT | 0 | 132,594,939 | 132,594,939 | (132,099,866) | 495,073 | 36.30% | | |
| 8. CUSTOMER DEPOSITS | <u>875</u> | <u>2,000</u> | <u>2,875</u> | <u>(2,864)</u> | <u>11</u> | <u>0.00%</u> | <u>6.00%</u> | <u>0.00%</u> |
| 9. TOTAL | <u>\$875</u> | <u>\$365,259,478</u> | <u>\$365,260,353</u> | <u>(\$363,896,571)</u> | <u>\$1,363,782</u> | <u>100.00%</u> | | <u>9.62%</u> |
| RANGE OF REASONABLENESS | | | | | | <u>LOW</u> | <u>HIGH</u> | |
| RETURN ON EQUITY | | | | | | <u>9.51%</u> | <u>11.51%</u> | |
| OVERALL RATE OF RETURN | | | | | | <u>8.99%</u> | <u>10.26%</u> | |

| PALM VALLEY | | | SCHEDULE NO. 3-A | | |
|------------------------------------|-----------------------------|---------------------------|-------------------------------------|----------------------------|------------------------|
| TEST YEAR ENDING 7/31/03 | | | DOCKET NO. 010823-WS | | |
| SCHEDULE OF WATER OPERATING INCOME | | | | | |
| | TEST YEAR PER UTILITY | COMMISSION ADJUSTMENTS | COMMISSION ADJUSTED TEST YEAR | ADJUST. FOR INCREASE | REVENUE REQUIREMENT |
| 1. OPERATING REVENUES | <u>\$24,399</u> | <u>\$14,214</u> | <u>\$38,613</u> | <u>\$75,046</u> | <u>\$113,659</u> |
| | | | | 194.35% | |
| OPERATING EXPENSES: | | | | | |
| 2. OPERATION & MAINTENANCE | 38,263 | (6,467) | 31,796 | 0 | 31,796 |
| 3. DEPRECIATION (NET) | 0 | 20,279 | 20,279 | 0 | 20,279 |
| 4. AMORTIZATION | 0 | 0 | 0 | 0 | 0 |
| 5. TAXES OTHER THAN INCOME | 1,477 | 8,656 | 10,133 | 3,377 | 13,510 |
| 6. INCOME TAXES | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| 7. TOTAL OPERATING EXPENSES | <u>\$39,740</u> | <u>\$22,468</u> | <u>\$62,208</u> | <u>\$3,377</u> | <u>\$65,585</u> |
| 8. OPERATING INCOME/(LOSS) | <u>(\$15,341)</u> | | <u>(\$23,595)</u> | | <u>\$48,074</u> |
| 9. WATER RATE BASE | <u>\$21,366</u> | | <u>\$499,732</u> | | <u>\$499,732</u> |
| 10. RATE OF RETURN | <u>-71.80%</u> | | <u>-4.72%</u> | | <u>9.62%</u> |

| PALM VALLEY | | SCHEDULE NO. 3-B | | | |
|---|-----------------------------|---------------------------|-------------------------------------|----------------------------|------------------------|
| TEST YEAR ENDING 7/31/03 | | DOCKET NO. 010823-WS | | | |
| SCHEDULE OF WASTEWATER OPERATING INCOME | | | | | |
| | TEST YEAR PER UTILITY | COMMISSION ADJUSTMENTS | COMMISSION ADJUSTED TEST YEAR | ADJUST. FOR INCREASE | REVENUE REQUIREMENT |
| 1. OPERATING REVENUES | <u>\$19,309</u> | <u>\$21,033</u> | <u>\$40,342</u> | <u>\$283,319</u> | <u>\$323,661</u> |
| | | | | 702.29% | |
| OPERATING EXPENSES: | | | | | |
| 2. OPERATION & MAINTENANCE | 115,752 | 36,827 | 152,579 | 0 | 152,579 |
| 3. DEPRECIATION (NET) | 0 | 52,868 | 52,868 | 0 | 52,868 |
| 4. AMORTIZATION | 0 | 0 | 0 | 0 | 0 |
| 5. TAXES OTHER THAN INCOME | 1,477 | 20,866 | 22,343 | 12,749 | 35,092 |
| 6. INCOME TAXES | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| 7. TOTAL OPERATING EXPENSES | <u>\$117,229</u> | <u>\$110,561</u> | <u>\$227,790</u> | <u>\$12,749</u> | <u>\$240,539</u> |
| 8. OPERATING INCOME/(LOSS) | <u>(\$97,920)</u> | | <u>(\$187,448)</u> | | <u>\$83,122</u> |
| 9. WASTEWATER RATE BASE | <u>\$580,574</u> | | <u>\$864,049</u> | | <u>\$864,049</u> |
| 10. RATE OF RETURN | <u>-16.87%</u> | | <u>-21.69%</u> | | <u>9.62%</u> |

| PALM VALLEY TEST YEAR ENDING 7/31/03 ADJUSTMENTS TO OPERATING INCOME | SCHEDULE NO. 3-C DOCKET NO. 010823-WS | |
|--|--|---------------------------|
| | WATER | PAGE 1 OF 2 WASTEWATER |
| OPERATING REVENUES | | |
| 1. Include actual revenues for test year | \$12,062 | \$18,801 |
| 2. Include projected test years growth revenues | <u>2,152</u> | <u>2,232</u> |
| Subtotal | <u>\$14,214</u> | <u>\$21,033</u> |
| OPERATION AND MAINTENANCE EXPENSES | | |
| 1. Purchased Power (615/ 715) | | |
| a. Increase for projected customer growth | \$273 | \$1,105 |
| b. Repression Adjustment | <u>(1,550)</u> | <u>(5,989)</u> |
| Subtotal | <u>(\$1,277)</u> | <u>(\$4,883)</u> |
| 2. Fuel for Power Production (616/617) | | |
| a. Fuel for Power Generator Test Runs | <u>\$266</u> | <u>\$266</u> |
| 3. Chemicals (618/ 718) | | |
| a. Remove Undocumented Chemicals | (\$401) | (\$534) |
| b. Reclassify Chemicals from (720 & 718) | 0 | 233 |
| c. Increase for projected customer growth | 322 | 390 |
| d. Repression Adjustment | <u>(1,831)</u> | <u>(1,972)</u> |
| Subtotal | <u>(\$1,910)</u> | <u>(\$1,883)</u> |
| 4. Materials & Supplies (620/ 720) | | |
| a. Remove undocumented plant | (\$189) | (\$74) |
| b. Reclassify rate case expense to (665/765) | (265) | (250) |
| c. Reclassify Chemicals to (718) | 0 | (191) |
| d. Reclassify Supplies from (736) | 0 | 568 |
| e. Move to Contractual Services - Engineering (631/731) | (275) | (1,974) |
| f. Remove billing already included in commission allowance | <u>(240)</u> | <u>0</u> |
| Subtotal | <u>(\$969)</u> | <u>(\$1,921)</u> |
| 5. Contractual Services - Engineering (631/731) | | |
| a. Include amounts from (620/720) incorrectly recorded | \$275 | \$1,974 |
| b. Include amounts from (675/775) incorrectly recorded | 1,312 | 1,312 |
| c. Reduce to amortize expenses over five years. | <u>(1,050)</u> | <u>(2,629)</u> |
| Sub total | <u>\$537</u> | <u>\$657</u> |
| 6. Contractual Services - Accounting (632/732) | | |
| a. Include amount from (675/775) for accounting services | \$1,630 | \$1,630 |
| b. Include utility requested amount for billing services | <u>3,000</u> | <u>3,000</u> |
| Sub total | <u>\$4,630</u> | <u>\$4,630</u> |
| 7. Contractual Services - Testing (635/ 735) | | |
| a. Testing from account (636/736) | <u>\$1,663</u> | <u>\$5,494</u> |
| (O & M EXPENSES CONTINUED ON NEXT PAGE) | | |

| PALM VALLEY | SCHEDULE NO. 3-C | |
|---|----------------------|-------------------|
| TEST YEAR ENDING 7/31/03 | DOCKET NO. 010823-WS | |
| ADJUSTMENTS TO OPERATING INCOME | PAGE 2 OF 2 | |
| (O & M EXPENSES CONTINUED) | <u>WATER</u> | <u>WASTEWATER</u> |
| 8. Contractual Services - Other (636/ 736) | | |
| a. Annualize Operator Expense | (\$300) | \$30,792 |
| b. Move to (616/716) for diesel fuel, split 50/50 | (532) | 0 |
| c. Reclassify Chemicals to (718) | 0 | (42) |
| d. Reclassify Supplies to (720) | 0 | (568) |
| e. Reclassify Testing to (635/735) | (1,663) | (5,494) |
| f. Nonrecurring repair over 5 years | 0 | (2,424) |
| g. Include amount for dripper field maintenance | <u>0</u> | <u>19,838</u> |
| Subtotal | <u>(\$2,495)</u> | <u>\$42,102</u> |
| 9. Regulatory Expense (665/ 765) | | |
| a. Include \$1000 from (775) for improperly recorded rate case expense | \$1,000 | \$1,000 |
| b. Reclassify rate case expense from (620/720) split 50/50 | 258 | 258 |
| c. Noticing cost | 329 | 329 |
| d. Reduce to amortize case related expenses over four years | <u>(1,190)</u> | <u>(1,190)</u> |
| Subtotal | <u>\$397</u> | <u>\$397</u> |
| 10. Miscellaneous Expense (675/ 775) | | |
| a. Transfer rate case expense to (666/766) | (\$1,000) | (\$1,000) |
| b. Transfer accounting expenses to (632/732) | (1,630) | (1,630) |
| c. Reclassify RAF's to TOTI | (1,556) | (1,556) |
| d. Transfer engineering expenses to (631/731) | (1,312) | (1,312) |
| e. Include amount from (720) for lift station cleaning | 0 | 0 |
| f. Reclassify Consumptive use permit from wastewater | 1,806 | (1,806) |
| g. Amortize Permit over 5 years | (2,889) | 0 |
| h. Remove county utility tax from expense accounts | <u>(728)</u> | <u>(728)</u> |
| Subtotal | <u>(\$7,309)</u> | <u>(\$8,032)</u> |
| TOTAL OPERATION & MAINTENANCE ADJUSTMENTS | <u>(\$6,467)</u> | <u>\$36,827</u> |
| DEPRECIATION EXPENSE | | |
| 1. To reflect depreciation calculated per 25- 30.140, F.A.C. | \$27,707 | \$86,421 |
| 2. To reflect non-used and useful test year depreciation. | (1,883) | (10,840) |
| 3. To reflect Commission calculated amortization of CIAC | <u>(5,545)</u> | <u>(22,713)</u> |
| Total | <u>\$20,279</u> | <u>\$52,868</u> |
| TAXES OTHER THAN INCOME | | |
| 1. Payroll Taxes | (\$250) | (\$250) |
| 2. Reclassified RAFs from (675/775) | 1,556 | 1,556 |
| 3. Adjust RAF's to meet Commission calculated revenues | 182 | 259 |
| 4. Property Taxes | <u>7,168</u> | <u>19,301</u> |
| Total | <u>\$8,656</u> | <u>\$20,866</u> |

| PALM VALLEY | | SCHEDULE NO. 3-D | | |
|---|--------------------------------|-------------------------|--|----------------------------|
| TEST YEAR ENDING 7/31/03 | | DOCKET NO. 010823-WS | | |
| ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE | | | | |
| | TOTAL PER PER UTILITY | COMM. PER ADJUST. | | TOTAL PER COMMISSION |
| (601) SALARIES AND WAGES - EMPLOYEES | \$13,571 | \$0 | | \$13,571 |
| (603) SALARIES AND WAGES - OFFICERS | \$0 | 0 | | \$0 |
| (604) EMPLOYEE PENSIONS AND BENEFITS | \$0 | 0 | | \$0 |
| (610) PURCHASED WATER | 0 | 0 | | \$0 |
| (615) PURCHASED POWER | 3,959 | (1,277) [1] | | \$2,682 |
| (616) FUEL FOR POWER PRODUCTION | 0 | 266 [2] | | \$266 |
| (618) CHEMICALS | 5,078 | (1,910) [3] | | \$3,168 |
| (620) MATERIALS AND SUPPLIES | 1,987 | (969) [4] | | \$1,018 |
| (630) CONTRACTUAL SERVICES - BILLING | 0 | 0 | | \$0 |
| (631) CONTRACTUAL SERVICES - ENGINEERING | 0 | 537 [5] | | \$537 |
| (632) CONTRACTUAL SERVICES - ACCOUNTING | 0 | 4,630 [6] | | \$4,630 |
| (635) CONTRACTUAL SERVICES - TESTING | 0 | 1,663 [7] | | \$1,663 |
| (636) CONTRACTUAL SERVICES - OTHER | 5,135 | (2,495) [8] | | \$2,640 |
| (640) RENTS | 0 | 0 | | \$0 |
| (650) TRANSPORTATION EXPENSE | 0 | 0 | | \$0 |
| (658) INSURANCE EXPENSE - Workers Comp | 454 | 0 | | \$454 |
| (665) REGULATORY COMMISSION EXPENSE | 0 | 397 [9] | | \$397 |
| (670) BAD DEBT EXPENSE | 0 | 0 | | \$0 |
| (675) MISCELLANEOUS EXPENSES | <u>8,079</u> | <u>(7,309)</u> [10] | | <u>\$770</u> |
| | |] | | |
| | 38,263 | (6,467) | | 31,796 |

| PALM VALLEY | | SCHEDULE NO. 3-E | |
|--|-------------------------|-------------------------------|-----------------------|
| TEST YEAR ENDING 7/31/03 | | DOCKET NO. 010823-WS | |
| ANALYSIS OF WASTEWATER OPERATION AND MAINTENANCE EXPENSE | | | |
| | TOTAL PER UTILITY | COMMISSION ADJUST- MENT | TOTAL PER COMM. |
| (701) SALARIES AND WAGES - EMPLOYEES | \$13,571 | \$0 | \$13,571 |
| (703) SALARIES AND WAGES - OFFICERS | \$0 | 0 | \$0 |
| (704) EMPLOYEE PENSIONS AND BENEFITS | \$0 | 0 | \$0 |
| (710) PURCHASED SEWAGE TREATMENT | \$0 | 0 | \$0 |
| (711) SLUDGE REMOVAL EXPENSE | 12,900 | 0 | \$12,900 |
| (715) PURCHASED POWER | 15,257 | (4,883) [1] | \$10,374 |
| (716) FUEL FOR POWER PRODUCTION | 0 | 266 [2] | \$266 |
| (718) CHEMICALS | 5,689 | (1,883) [3] | \$3,806 |
| (720) MATERIALS AND SUPPLIES | 4,595 | (1,921) [4] | \$2,674 |
| (730) CONTRACTUAL SERVICES - BILLING | 0 | 0 | \$0 |
| (731) CONTRACTUAL SERVICES - ENGINEERING | 0 | 657 [5] | \$657 |
| (732) CONTRACTUAL SERVICES - ACCOUNTING | 0 | 4,630 [6] | \$4,630 |
| (735) CONTRACTUAL SERVICES - TESTING | 0 | 5,494 [7] | \$5,494 |
| (736) CONTRACTUAL SERVICES - OTHER | 55,207 | 42,102 [8] | \$97,309 |
| (740) RENTS | 0 | 0 | \$0 |
| (750) TRANSPORTATION EXPENSE | 0 | 0 | \$0 |
| (758) INSURANCE EXPENSE - Workers Comp | 454 | 0 | \$454 |
| (765) REGULATORY COMMISSION EXPENSES | 0 | 397 [9] | \$397 |
| (770) BAD DEBT EXPENSE | 0 | 0 | \$0 |
| (775) MISCELLANEOUS EXPENSES | <u>8,079</u> | <u>(8,032)</u> [10] | <u>\$47</u> |
| | <u>115,752</u> | <u>36,827</u> | <u>152,579</u> |

RECOMMENDED RATE REDUCTION SCHEDULE

PALM VALLEY
 TEST YEAR ENDING 7/31/03

SCHEDULE NO. 4
 DOCKET NO. 010823-WS

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

MONTHLY WATER RATES

| <u>RESIDENTIAL AND GENERAL SERVICE</u> | <u>MONTHLY APPROVED RATES</u> | <u>MONTHLY RATE REDUCTION</u> |
|--|---------------------------------------|---------------------------------------|
| BASE FACILITY CHARGE: | | |
| Meter Size: | | |
| 5/8"X3/4" | \$ 9.57 | 0.02 |
| 3/4" | 14.36 | 0.03 |
| 1" | 23.93 | 0.06 |
| 1-1/2" | 47.85 | 0.11 |
| 2" | 76.56 | 0.18 |
| 3" | 153.12 | 0.36 |
| 4" | 239.25 | 0.56 |
| 6" | 478.50 | 1.13 |
| RESIDENTIAL & GENERAL SERVICE | | |
| GALLONAGE CHARGE | | |
| PER 1,000 GALLONS | \$ 2.30 | 0.01 |

RECOMMENDED RATE REDUCTION SCHEDULE

PALM VALLEY
 TEST YEAR ENDING 7/31/03

SCHEDULE NO. 4A
 DOCKET NO. 010823-WS

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

MONTHLY WASTEWATER RATES

| | <u>MONTHLY APPROVED RATES</u> | <u>MONTHLY RATE REDUCTION</u> |
|--------------------------------------|---------------------------------------|---------------------------------------|
| <u>RESIDENTIAL</u> | | |
| BASE FACILITY CHARGE: | | |
| Meter Size: All Meter Sizes | \$ 10.74 | 0.02 |
| GALLONAGE CHARGE: | | |
| PER 1,000 GALLONS (6,000 gallon cap) | \$ 3.81 | 0.01 |
| <u>GENERAL SERVICE</u> | | |
| BASE FACILITY CHARGE: | | |
| Meter Size: | | |
| 5/8"X3/4" | \$ 10.74 | 0.02 |
| 3/4" | 16.12 | 0.03 |
| 1" | 26.86 | 0.04 |
| 1-1/2" | 53.72 | 0.09 |
| 2" | 85.95 | 0.14 |
| 3" | 171.91 | 0.27 |
| 4" | 268.60 | 0.43 |
| 6" | 537.21 | 0.86 |
| GALLONAGE CHARGE: | | |
| PER 1,000 GALLONS | \$ 4.57 | 0.01 |
| REUSE CHARGE | | |
| PER 1,000 GALLONS | \$ 1.15 | 0.00 |