BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

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| In re: Application for staff-assisted rate case in Polk County by River Ranch Water Management, L.L.C. | DOCKET NO. 021067-WS<br>ORDER NO. PSC-03-0740-PAA-WS<br>ISSUED: June 23, 2003 |

The following Commissioners participated in the disposition of this matter:

LILA A. JABER, Chairman
J. TERRY DEASON
BRAULIO L. BAEZ
RUDOLPH "RUDY" BRADLEY
CHARLES M. DAVIDSON

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 the action discussed herein, except for the four-year rate reduction, collection of temporary rates in the event of protest, and the closure of the docket, are 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

River Ranch Water Management, L.L.C. (River Ranch or Utility), is a Class C water and wastewater utility located in Polk County. The utility currently serves 48 single family homes, 119 residential units, 192 condominium units, 367 RV sites, and approximately 25 general service customers. The utility has provided service since 1973. We acquired jurisdiction over Polk County water and wastewater utilities on May 14, 1996.

On April 29, 2002, River Ranch filed an application for the transfer of the utility's facilities and Certificates Nos. 602-W and 519-S, which was approved by Order No. PSC-03-0518-FOF-WS, issued on April 18, 2003, in Docket No. 020382-WS. River Ranch obtained the rights to the utility by an assignment of interest in the Certificate of Title from Westgate Resorts Ltd., an affiliated company that purchased the resort and utility through a foreclosure sale. Westgate then conveyed the utility over to its affiliate, River Ranch Water Management, L.L.C. The parent company, Central Florida Investments, Inc. (CFI), has 100% ownership of the utility. Rate base for this utility has never been established by the Commission.

On October 21, 2002, River Ranch filed an application for a staff assisted rate case (SARC) and paid the appropriate filing fees on December 16, 2002. Since we acquired jurisdiction of Polk County in 1996, the utility has not applied for an increase in rates prior to this filing. Further, the numerous changes in ownership of the resort and utility over the years has resulted in the significant deterioration of the utility's facilities.

We have the authority to consider this rate case pursuant to Section 367.0814, Florida Statutes. Our staff has audited the utility's records for compliance with our rules and orders and determined the components necessary for rate setting. Our staff has also conducted a field investigation of the utility's plant and service area. 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. A December 31, 2002, year-end test year has been selected for this rate case.

## QUALITY OF SERVICE

A customer meeting was held in the service area on April 23, 2003. Approximately 78 customers attended the meeting and 10 customers chose to give comments. Our staff also conducted an informal afternoon meeting with customer representatives. Prior to and after the customer meeting, letters were received from customers stating their concerns about the proposed increase. The most common concern was related to whether flat rates or metered rates should be approved for the utility, and which type of rates would better serve the customers. Concerns were also raised about

not knowing whom to call for billing inquires, emergency service, or general questions. Customers also voiced that they were not receiving detailed bills for their water and wastewater service; instead, their bills currently list one amount for all utility services and association fees. Several quality of service complaints were voiced regarding unannounced water outages and repairs, low water pressure, bad odor in drinking water, too much chlorine in the water, uncovered manholes, and flushing of fire hydrants. Customers who own more than one lot were concerned about paying a proposed guaranteed revenue charge on the undeveloped lots or on their home that sits on more than one lot.

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

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

The analysis below addresses each of these three components based on the information available. River Ranch is a Class C water and wastewater utility serving customers in Polk County. The utility is serving water and wastewater to 48 residential homes in Countryside/River Ranch Shores, which is estimated to be 48 ERCs, 119 fixed mobile homes in Long Hammock Owner Association - Phase I, which is estimated to be 96 ERCs, 367 mobile homes in RV area - Phase II- V, which is estimated to be 294 ERCs, 192 Condominium village, which is estimated to be 154 ERCs, and to the resort community which includes restaurants, offices, and a hotel with pool and shops, estimated to be 74.5 ERCs for water and 71 ERCs for

wastewater. The River Ranch Resort is a vacation area that experiences peak water usage from October through April.

Quality of the Utility's Product

Water

In River Ranch, the potable water program is regulated by the Polk County Health Department (PCHD), and consumptive use is permitted by the South Florida Water Management District (SFWMD). According to county health records, the utility is currently up-to-date with all chemical analyses and all test results are satisfactory. The utility serves water which meets or exceeds all standards for safe, potable water. Therefore, we find that the water quality is satisfactory.

Wastewater

River Ranch's wastewater facilities are regulated by the Southwest District of the DEP in Tampa. According to DEP's letter dated May 16, 2001, to River Ranch, the wastewater treatment plant (WWTP) was inspected on April 23, 2001, at which time a grab sample of effluent was obtianted and tested for Carbonaceous Biomedical Oxygen Demand (CBOD) and Total Suspended Solids (TSS). The CBOD and TSS results were 330 mg/l and 39mg/l, respectively. These results exceed the 30 mg/l monthly average permit limit for CBOD and TSS. The inspector also observed an excessive amount of vegetation in the single percolation pond.

The utility owner constructed a new wastewater treatment plant in August 2002. According to the DEP's Compliance Evaluation Inspection letter dated March 5, 2003, the WWTP was inspected on February 19, 2003. Based on this inspection, the DEP inspector observed the following items and brought them to the utility's attention:

1) The effluent was turbid and had a chlorine residual greater than 2.0 ppm.

2) The DEP inspector sampled the effluent for CBOD and TSS during the time of the inspection. The sampling results for CBOD and TSS were 18 mg/l and 44mg/l, respectively. The monthly

average limit for CBOD and TSS is 30 mg/l. Additionally, the influent was tested for CBOD and TSS and the sampling results were 61 mg/l and 139 mg/l, respectively.

3) A review of monthly Discharge Monitoring Report (DMR) submitted for the period of August 1, 2001, through October 31, 2002, revealed two nitrate and one fecal coliform exceedence. The November 2001 DMR indicated a fecal coliform result of >800 Colony Forming Units (CFU)/100 ml. According to the Department's guidance memo, this result should have been reported as 20,000 CFU/100ml. The single grab sample limit for fecal coliform is 800 CFU/100 ml. The July and August 2002 DMRs reported a nitrate result of 16.3 mg/l and 19.1 mg/l, respectively. The maximum limit for nitrate is 12 mg/l. Additionally, the excursions mentioned above were not indicated on Part A of the DMRs.

4) An excessive amount of vegetation was observed in the single percolation pond.

Although the utility currently is not in full compliance status for wastewater, DEP's inspector believes that the utility's new owner is cooperating and currently bringing the plant into compliance status. The utility shall complete any and all improvements to the system that are necessary to satisfy the standards set by the DEP. All things considered, we find that the quality of the wastewater provided by River Ranch is satisfactory at this time.

Operational Conditions of the Utility's Plant and Facilities

Water

The quality of the utility's plant-in-service is generally reflective of the quality of the utility's product. Since January 2002, several improvements, upgrades, and replacements have been made to the water systems. Maintenance of the building, which includes the well and pump at the water treatment plant, is satisfactory. The building itself appears well maintained.

According to PCHD's letter dated December 31, 2002, to River Ranch, the utility drinking water system is in noncompliance status

with requirements of the Safe Drinking Water Act of the State of Florida. The letter states that the "[f]acility failed to obtain a construction permit prior to making modifications to the water treatment system and placed it into operation without sampling and obtaining clearance from this Department. A Consent Order was agreed upon by both the Department and the Respondent and executed on November 19, 2002." The stipulations in the Consent Order called for the following items:

1) A set of signed and sealed As Built Plans along with specifications of all newly installed equipment were to be submitted to the Department for review within 30 days of the effective date of the consent order.

2) Respondent was to request a letter of acceptance/clearance to the Department within 30 days.

3) Respondent was to submit an auxiliary power plan to the Department for review within 30 days.

4) Respondent was to pay $4,742 in penalties and cost to the Department.

Items 2, 3, and 4 were submitted to the Department; however, the As Built Plans and specifications were not submitted as required. However, according to PCHD's letter dated February 20, 2003, to River Ranch, the utility subsequently submitted the requested information and As Built Plans for the water system. The PCHD accepted all submitted data, changes, and modifications and returned the utility to compliance status.

Accordingly, we find that the operational conditions of the water treatment plant-in-service are satisfactory.

Wastewater

The wastewater plant-in-service is also reflective of the product provided by the utility. The overall capacity of the wastewater plant is sufficient to process the average daily flows of the on-line customers. DEP has issued a wastewater permit on February 8, 1999, which will expire on February 7, 2004.

According to DEP's letter dated May 16, 2001, to River Ranch, the wastewater treatment plant was inspected on April 23, 2001. Based on this inspection, the inspector observed the following:

1) The clarifier's gear drive and sweep arm were found to be inoperable.

2) The walkway on top of the plant, which provides access to the chlorine contact chamber and clarifier showed evidence of deterioration and metal fatigue. Safe access needs to be provided for sampling and recording daily flow.

3) The metal wall that separates the clarifier aeration basin exhibited evidence of deterioration and metal fatigue. Also, a portion of the southeast side of the clarifier had separated away from the rest of the structure.

4) The back-up blower motor was inoperable.

5) The scales, which are part of the gas chlorination system, are inoperable.

6) The gas chlorination equipment lacks safety equipment such as a leak detector alarm, wind flag, operational scales, a self-contained breathing apparatus (SCBA), and warning signs.

7) The single percolation pond contains excessive solids which need to be removed and be properly disposed. Also, small shrubs and trees were growing on the bottom of the pond.

8) The entrance gate to the plant needs to be replaced to ensure adequate access control.

9) The stairs to access the plant were found to be rusted and showed evidence of metal fatigue and are too steep.

10) The Department received a July 13, 1999, letter indicating that the sanitary collection system for the Countryside subdivision was televised and sources of black water infiltration had been found. The letter also indicated that work to repair the sanitary collection system would begin within the next 15 days, and that as of May 16, 2001, the

infiltration problem in the Countryside Subdivision's sanitary collection system still existed. During the inspection, the Department observed black water entering the plant.

11) The above problem has allowed excessive amounts of sand into the plant, thereby reducing its design capacity and causing the plant to become septic on occasion.

12) The operator has converted the method of disinfection from gas chlorination to liquid without a permit modification.

Since there were numerous problems with the wastewater treatment plant and because the existing plant's clarifier had imploded on itself due to the lack of integrity between the separating walls of the facility, the utility owner constructed a new WWTP in August 2002 in order to bring the wastewater system into compliance. The DEP allowed the utility to place the new plant into service without a permit based on the urgency of the situation. The utility has since submitted a permit application to get the new plant permitted.

According to the DEP's Compliance Evaluation Inspection letter dated March 5, 2003, to River Ranch, the DEP inspector also has observed the following items during her field inspection on February 19, 2003:

1) The aeration basins do not have adequate freeboard. According to Ten State Standards, all aeration tanks should have a freeboard of not less than 18 inches. Additionally, the minimum side water depth on a secondary clarifier should be 12 feet to ensure an adequate separation zone between the sludge blanket and the overflow weirs.

2) The skimmer was plugged during the time of the inspection.

3) A staff gauge needs to be installed three to four times the maximum head upstream of the weir and be precisely aligned with the primary device (e.g. weir) zero level. Also, the ultrasonic level sensor needs to be mounted next to the staff gauge.

4) The primary measuring device has a recommended range of flow rates, outside of which errors in flow measurement will result. For example, the minimum flow rate for a 90 degree V-notch is .029 MGD. The facility's current 3-month average daily flow is 0.016 MGD. A 22.5 degree V-notch reads a minimum flow of 0.006 MGD and a maximum flow of 1.82 MGD. The DEP suggests the installation of a 22.5 degree V-notch weir, as opposed to the 90 degree V-notch weir, in order to measure flow accurately.

5) Only one of the two blower motors was set to operate during the time of the inspection.

6) The DEP suggested that a return activated sludge line be installed to the surge tank in order to maintain odor control.

7) Based on review of January to November 2002 DMRs, the operator is not consistently meeting the required operator attendance of 1/2 hour per day, five days per week, and one weekend visit.

The DEP inspector also observed a few minor record and report deficiencies that have been brought to the utility's attention.

The DEP conducted a Compliance Evaluation Inspection and the overall rating of the facility was Out of Compliance. However, according to the utility's letter dated April 7, 2003, to DEP, the utility has fixed most of the above items and is in the process of fixing the other problems.

During the engineering field inspection, the water and wastewater plant-site appeared to have been given adequate maintenance attention. Water and wastewater plant equipment appeared to have been receiving periodic maintenance and numerous improvements have been done. The plant ground within the fenced-in area was organized and still under construction. The utility has plans to repair the Countryside Subdivision's sanitary sewer system to stop the black water from entering into the plant. DEP's inspector believes that the utility's new owner is cooperating with DEP and is trying to bring the plant into compliance status as soon as possible.

All things considered, we find that the quality of the wastewater plant-in service provided by River Ranch is satisfactory at this time.

Customer Satisfaction

As discussed above, a customer meeting was held on April 23, 2003, in the River Ranch Saloon located at River Ranch. At the request of the River Ranch RV Association Property manager, our staff conducted an earlier individual meeting at 4:00 p.m. with customer representatives. At that meeting, Mr. Tom Rhodes, River Ranch RV Association Property Manager, stated that water pipes in RV sites and Long Hammock constantly leak and they have problems with low water pressure. Mr. Rhodes added that the customers usually repair their own leaking pipes, stating that it is easier and quicker for them to fix the pipes rather than asking the utility to fix them.

The evening meeting was open to all customers and was held at at 6:00 p.m. There were 78 people in attendance at this meeting, including the utility's representative, Mr. Bill Goaziou, and the utility's attorney. Ten customers chose to present comments and concerns about the utility. The quality of service issues raised by these customers included unannounced water outages and repairs, water going out 2-3 times per week during summer and fall, low water pressure, sewer-smelling water, excessive chlorine in the water, uncovered manholes in Countryside Subdivision, sand in the Countryside's lines since 1997, outdated emergency telephone number posted at the utility plant, excessive flushing of fire hydrants for three months, and the elevated water tank paint cost.

We have also received a letter dated April 30, 2003, from Wayne and Jean Harris. Their letter states that during the three months that Mr. Harris was employed by River Ranch in 2002, he had overheard a utility representative tell another employee to open all the fire hydrants every other day. Their letter states that the employee flushed the fire hydrants every other day for three months. They also complained of too much chlorine in their water and that they have experienced low water pressure.

With respect to the complaint by the customers who claim they have had to repair their own leaking pipes, the utility is

responsible for any maintenance and repairs involving the service lines up to and including the service control valve, meter, and meter box pursuant to Rule 25-30.231, Florida Administrative Code.

Many customers complained that they had unannounced water outages and sometimes did not have water 2-3 times per week during the summer and fall. The utility has addressed this issue, stating that they have recently been installing new pumps, motors, valves, and meters in order to improve the water plant. The utility claims that they have tried to work and replace the pumps at night and that the customers are always notified by writing in advance. In accordance with Rule 25-30.250, Florida Administrative Code, "[e]ach utility shall make all reasonable efforts to provide continuous service. Should interruption in service occur, however, each utility shall reestablish service with the shortest delay consistent with the safety of its customers and the general public." This Rule also states, "[e]ach utility shall schedule any necessary interruptions in service at a time anticipated to cause the least inconvenience to its customers. Each utility shall notify its customers prior to scheduled interruptions."

Concerning the complaints of low water pressure, the utility has explained that the water pressure is provided by a large 100,000 gallon elevated water tank. Customers sometimes experience low pressure in the morning after the RV site has run its irrigation systems which reduces the water level in the big tank. The utility has to run the pumping system very hard to replenish the water in the elevated tank. The utility stated that it has had a problem with the motor on the 12-inch well that is located by Kicco Road (Well No. 2, behind the WWTP). The utility will soon be replacing the old motor with a new one in order to solve the low water pressure.

Regarding the complaints of excessive chlorine in the drinking water and the bad odor/sulfur taste experienced by the customers, the utility states that the chlorine pump is set on a timer that only injects disinfectant while the pump is engaged. The disinfection process is complicated by the fact that the raw water at River Ranch contains substantial levels of hydrogen sulfide. Hydrogen sulfide is a secondary compound that is not considered to be a health hazard. In order to remove hydrogen sulfide at the plant, the utility would have to treat the hydrogen sulfide with

chlorine since the two will not co-exist in the same environment. Levels of hydrogen sulfide vary from day to day. When chlorine is fed into the raw water, it first reacts with any iron, manganese, or hydrogen sulfide that may be in the water. If any residual (un-reacted) chlorine remains, it will next react with organic material, including bacteria, present. The interactive variables are constantly in flux and results will shift from moment to moment. In order to ensure that the water remains protected throughout the distribution system, an excess of chlorine, usually 0.5 parts per million (ppm) is added (minimum required chlorine residual is 0.2 ppm by ISAPI). This "rate of feed" is normally adjusted to make sure that sufficient chlorine is available to fully react with the organics that may be present. When both the mineral and organic reactions have been completed, any residual chlorine remains in the drinking water. Therefore, the residences that are located at the beginning of the distribution system may experience higher residual levels than others. Sensitivity to the taste of water with residual chlorine is subjective and some customers are more sensitive than others. However, while there is a 0.2 parts per million minimum free chlorine residual requirement, an upper limitation is not specified in the rules governing disinfection.

Mr. Ron Murphy complained that several manholes at Dallas Circle in the Countryside Subdivision are uncovered and the utility has not fixed them. After the customer meeting, our staff inspected the manholes in the Countryside Subdivision. All manholes were covered and were fixed. Our staff found just one green area in Dallas Circle on Oakmont Drive where bushes were overgrown and surrounded by sand. After a few days, the utility confirmed that there was an uncovered manhole in the middle of the bushes in Dallas Circle that the previous owner had never fixed. The utility further stated that the manhole had been fixed and covered, sand had been removed, and the bushes surrounding it had been cut. DEP has subsequently confirmed this correction.

In response to the complaint by customers of excess sand in the Countryside Subdivision, the utility has responded that it was probably due to the open manhole on Dallas Circle, which was causing sand to enter into Countryside's line. The utility is expecting that by fixing this manhole, the sand problem in the Countryside Subdivision's collection system will be solved and it

will help stop the black water from entering into the wastewater plant. The DEP inspector has stated that even though the manholes are fixed, they will still inspect the plant for the black water problem to make sure the sand problem is solved.

Mr. Murphy also complained that his home telephone number is posted on the lift station and at the water utility plant for emergencies, despite the fact that he is no longer employed by the utility. He stated that he still receives calls from customers and the security guard during emergencies. In order to correct this problem, the utility is hereby ordered to update the local emergency phone numbers and post them at both plants and at each lift station so that the utility can respond to emergencies in a timely manner. Those postings shall occur no later than 90 days from the issuance of the Consummating Order in this docket.

In response to the customer complaint that the fire hydrants were being flushed for three months, the utility has explained that during the summer when most of the customers are gone from River Ranch, the utility begins a systematic flushing of the water lines by opening up to three to four fire hydrants every two weeks for two to three minutes. This process rotates throughout the entire system. The utility does this because the fire protection supply lines and the potable water lines are the same. This allows the utility to flush out any water that might have lost the proper chlorine residual because of the looping system and lack of flow in some parts of the system. The utility claimed that it does not flush the fire hydrants during the peak season as the flows are much higher.

One customer inquired as to how often the utility should paint its water tanks. He complained that the utility had painted the elevated water tank four years ago, and that it had been recently repainted. He further inquired as to why the customers should have to pay for painting the tank. However, there were no invoices received from the utility for the elevated water tank painting cost and therefore, this cost was not included in this rate case. The utility has also stated that it did not pay for painting the elevated water tank, but that it was paid for by Westgate Resorts.

All things considered, we find that the new owner of the utility is putting forth a sufficiently good faith effort to

justify a "satisfactory" finding concerning the attempts to resolve customer complaints. We also find that the utility's attempt to address customer satisfaction is satisfactory.

However, as stated above, the utility is hereby ordered to update the local emergency phone number, and post the number at both plants and at each lift station in order to ensure utility response to emergencies in a timely manner. The utility is ordered to complete this directive no later than 90 days from the issuance of the Consummating Order for this docket.

## RATE BASE

As discussed above, the utility was purchased by its current owner prior to the test year. The new owners purchased an old system which was in need of major repairs. During the test year, the utility made substantial improvements to the water treatment plant and replaced the existing wastewater plant. The cost associated with the improvements and upgrades represent over 34% of its net water plant in service and over 40% of its net wastewater plant in service. In order to allow the utility an opportunity to recover the amount spent on plant improvements, the utility shall be allowed a year-end rate base.

We have the authority to apply a year-end rate base. Citizens of Florida v. Hawkins, 356 So. 2d 254 (Fla. 1978). Historically, it has only been applied in extraordinary circumstances, which we believe to be present in this case. The utility has made major water and wastewater system improvements representing over 44% of its total water and 33% of its wastewater utility plant. See Order No. PSC-98-0763-FOF-SU, issued June 3, 1998, in Docket No. 971182-SU, finding that improvements representing 36.07% of total plant deemed extraordinary circumstances.

The utility is also planning on upgrading its existing wastewater collection system to eliminate the high cost associated with black water infiltration. We believe that these improvements benefit existing customers. Further, we believe that not allowing the full cost of these improvements in rates would be a disincentive for the utility to make future investments in plant. As discussed above, the magnitude of the improvements represent

extraordinary circumstances which we have previously used in the past to justify a year-end rate base.

Based on the above, a year-end rate base for this utility shall be approved. A year-end rate base will allow this utility an opportunity to earn a fair return on its investment made during the test year and to ensure compensatory rates on a prospective basis.

Used and Useful

Water Treatment Plant - The water treatment plant is an open system with two wells. Well No. 1 is a 6-inch well equipped with a 5 horsepower (hp) vertical turbine pump that resources the ground water table at a rate of 150 gallons per minute (gpm). Well No. 2 is a 12-inch well equipped with a 10 hp vertical turbine pump that resources the ground water table at a rate of 350 gpm. The raw water from two wells enters into a cascade aerator. The flow from the aerator is routed to either of the two 50,000 gallon steel plate storage tanks, which are connected to the suction header of the three high service pumps (25 hp-727 gpm, 20 hp-581 gpm, and 15-259 gpm hp). The high service pumps discharge directly into the 100,000 gallon elevated (125 feet high) storage tank, which is connected to the potable water system and the fire system.

The firm reliable capacity is calculated by using the capacity of the wells with the removal of the largest well (350 gpm). Considering the lowest volume capacity well with 150 gpm times a normal 12 hour day (180,000 gpd), plus the storage capacity of all storage units (200,000 gallons), minus the dead storage space (10,000 gallons), the firm reliable capacity of the River Ranch's water plant was determined to be 298,000 gallons per day.

During the ten-month review period, the peak month of water usage occurred during May 2001. The average of the five highest days in that maximum month was 289,300 gpd with average daily flow of 113,031 gpd. The utility provides fire protection via fire hydrants throughout the distribution system. The Polk County fire code requires a minimum of 500 gpm, sustainable for a period of four hours (120,000 gallons) which is considered in the calculations. A regression analysis was performed to anticipate a growth of three ERCs for the next year which calculates a projection of 2,546 gpd for the statutory growth period pursuant to

Section 367.081(2)(a)(2)(b), Florida Statutes. Therefore, in accordance with the calculation sheet (Attachment A, Sheet 1 of 4), we find the used and useful for the water treatment plant to be 100%.

Water Distribution System - The water distribution system has the potential of serving 942 customers, estimated to be 853 ERCs. The average number of customers served during the test year was 756 customers, estimated to be 666 ERCs. A regression analysis of growth over the past five years indicates that next year's growth will be three ERCs per year. When we apply the three ERCs to the statutory growth period, the future growth is calculated to be 15 ERCs. By the formula approach, we find the distribution system to be 79.8% used and useful. The calculation is found in Attachment A, Sheet 2 of 4.

Wastewater Treatment Plant - The wastewater treatment plant is permitted by the DEP as a 95,000 gpd Annual Average Daily Flow (AADF) plant operating in the extended aeration mode of treatment. During the peak month of July, which is the most current test year, the highest consecutive five-day average was 41,600 gpm. The AADF for the plant was measured and calculated to be 16,250 gpd. Growth in the used and useful calculation is limited to three ERCs per year which is determined by the statutory 5% per year cap for the growth calculation. It is estimated that the increased demand for the five year statutory growth period will be 368 gpd. Therefore, we find that the wastewater treatment plant is 17.5% used and useful. The formula used is shown on the calculation sheet found in Attachment A, Sheet 3 of 4.

Wastewater Collection System - The utility's potential customer base is 849 ERCs. The average number of customers in ERCs for the test year was 662. Using the statutory cap of 5% per year for the five year growth period (three ERCs per year), future growth for the next five years is calculated to be 15 ERCs. We find that the wastewater collection system is 79.7% used and useful. The calculation used is summarized in Attachment A, Sheet 4 of 4.

Year-end Test Year Rate Base

Pursuant to Order No. PSC-03-0518-FOF-WS, issued April 18, 2003, in Docket No. 020382-WS, River Ranch was granted a transfer of Water and Wastewater Certificates Nos. 603-W and 519-S. The utility's existing rates and charges were approved in the above referenced order; however, rate base was not established at that time.

During the audit investigation, it was discovered that the utility did not have sufficient documentation to support its investment in plant. Therefore, an original cost study was conducted. Rate base components were adjusted using the original cost study for plant balances through December 31, 2001, and actual invoices from 2002 were provided by the parent company, CFI. As stated above, we have determined it appropriate that a December 31, 2002, year-end test year be used. Because a year-end test year is being used, averaging adjustments will not be made.

A discussion of each component of rate base follows:

Utility Plant in Service (UPIS): The utility did not record any balances for UPIS for water and wastewater. Based on the original cost study, UPIS has been increased by $565,492 for water and $674,402 for wastewater for the period ending December 31, 2001. The new owners recorded plant additions on the books of CFI for the test year. The utility plant additions were identified on the parent's books and UPIS was increased by $112,437 for water and $212,639 for wastewater. Account No. 335 (Hydrants) has been increased by $5,422 to reclassify a fire hydrant from O&M Account No. 636 (Contractual Services - Other). Account No. 360 (Collecting Sewers - Force) has been increased by $8,948 to reclassify a lift station pump from O&M Account No. 736 (Contractual Services - Other).

According to the utility, the existing wastewater treatment plant was not working properly. The utility constructed a new wastewater treatment plant during the test year, but has not retired the old wastewater treatment plant which it is holding for future expansion plans. Based on the original cost study, we have determined the cost of the old wastewater treatment plant to be

$46,765. UPIS has been decreased by $46,765 to reclassify the wastewater treatment plant to plant held for future use.

Pro Forma

A majority of the utility's customers are not metered. In the past, we have set consumption-based rates for utilities in order to better match usage levels with cost and to encourage conservation. Both the South Florida Water Management District (SFWMD) and the utility are concerned about the current level of consumption. As discussed below, we are moving toward setting consumption-based rates in the near future. However, in order to charge consumption-based rates, consumption must be metered. In its response to our audit, the utility requested $250 per residential meter and a total of $12,500 for general service meter connections. As discussed below, we are approving the installation of a combination of individual meters and localized master meters. We have used the utility's meter cost as a basis and have increased UPIS by $106,750 for water to include the installation of meters for residential and general service customers.

During the test year, the utility incurred approximately $41,000 in chemical expense for wastewater treatment associated with black water infiltration. The utility incurred $14,540 to televise the collection system in order to locate the source of the infiltration. The utility has requested $279,700 to install approximately 9,500 linear feet of cured-in-place lining throughout the wastewater system. This lining process will eliminate the black water infiltration and remove $41,000 of annual chemical expense associated with treating the black water. This process will also extend the useful life of the existing collection lines. In its audit response, the utility requested to book the televised research of the sewer lines as a prepaid expense and amortize it over five years. Because this cost is directly associated with the line lining process, the televised process shall be capitalized as part of the overall cost of the lining project.

Accordingly, we find this process to be prudent and therefor, have increased UPIS by $294,240 for wastewater to include the installation of the lines based on an estimate provided by the utility and capitalized the cost associated with identifying the infiltration.

The utility requested the installation of a fence around the water and wastewater treatment plants which will provide security for both plants. We have increased UPIS by $3,659 for water and $1,074 for wastewater to allow for the installation of the fence.

In its audit response, the utility also requested two additional pro forma items: an additional clarifier and a treatment expansion of 100,000 plus gallons. Both of these items are related to plant expansion. Earlier, we found that the wastewater treatment plant is only 17.5% used and useful. Because the utility has excess capacity, and because we believe that growth-related items should be recovered through future customers, we do not believe items related to plant expansion should be included in rate base at this time, so these items have been included in service availability charges discussed below.

Accordingly, the approved UPIS shall be $793,760 for water and $1,144,538 for wastewater.

Land: The utility's books did not reflect a land balance at the end of the test year. The National Association of Regulatory Utility Commissioners (NARUC), Definition No. 9, states that original cost as applied to utility plant, means the cost of such property pertaining to the person first devoting it to public service.

Our staff contacted the Polk County Property Appraisers' Office and obtained research consisting of information dating back to 1986; however, the utility's land was placed into service in 1965. Our staff researched past dockets and found similar property purchased around the time that River Ranch's property was acquired. In Order No. PSC-00-1774-PAA-WU, issued September 27, 2000, in Docket No. 991627-WU, we determined the land value to be $100 per acre for similar property located in Polk County that was placed in service during 1961. We believe the value of the property in the above-mentioned Order to be a fair value per acre cost for River Ranch; therefore, we have made an adjustment to increase land value in the amount of $160 for water (1.6 acres) and $500 for wastewater (5 acres).

Non-used and Useful Plant: We have determined the used and useful percentages for each plant account. As previously

discussed, the water treatment plant is 100% used and useful and the water distribution system is 79.8% used and useful. The wastewater treatment plant is 17.5% used and useful, and the wastewater collection system is 79.7% used and useful. However, as discussed below, we are increasing CIAC based on the value of the transmission and distribution lines and collection lines consistent with Rule 25-30.570, Florida Administrative Code. The purpose of the used and useful adjustment is to remove from rate base the cost of UPIS not used by current customers. The purpose of CIAC is to remove from rate base that portion of UPIS that was not invested by the utility. Applying a used and useful adjustment to fully contributed plant would result in a double reduction to rate base. Therefore, a used and useful adjustment shall not be made to the contributed portions of the distribution and collection system. Although the cost associated with the line lining has not been contributed, we believe the lining process to be a prudent solution to a DEP requirement. Therefore, pursuant to Section 367.081(2)(a)(2)(c), Florida Statutes, the capitalized lining project shall be considered 100% used and useful.

The non-used and useful percentages times the appropriate wastewater accounts, reflect non-used and useful wastewater plant of $137,403. Non-used and useful accumulated depreciation for wastewater is $10,689. This results in a net non-used and useful plant adjustment of $126,714 for wastewater.

Contribution in Aid of Construction (CIAC): The utility did not record a balance in CIAC for both water and wastewater. Rule 25-30.570, Florida Administrative Code, specifies that:

> If the amount of CIAC has not been recorded on the utility's books and the utility does not submit competent substantial evidence as to the amount of CIAC, the amount of CIAC shall be imputed to be the amount of plant costs charged to the cost of land sales for tax purposes if available, or the portion of the cost of the facilities and plant attributable to the water transmission and distribution system and the sewage collection system.

Since the utility has not recorded CIAC on its books and has not provided us with competent substantial evidence to ascertain the amount of CIAC, pursuant to Rule 25-30.570, Florida

Administrative Code, we have included in CIAC the cost associated with the utility's transmission, distribution, and collection lines. Therefore, we have increased CIAC by $504,962 for water and by $628,150 for wastewater to reflect the value of the transmission, distribution, and the collection lines.

Accumulated Depreciation: The utility did not record accumulated depreciation balances for water and wastewater. Consistent with Commission practice, we have calculated accumulated depreciation using the prescribed rates in Rule 25-30.140, Florida Administrative Code, and the original cost study. The calculated accumulated depreciation for the year-end test year is $346,202 for water and $308,093 for wastewater.

We have decreased this account by $46,765 for wastewater to remove depreciation associated with plant held for future use. Further, we have increased this account by $3,204 for water and $3,698 for wastewater to reflect depreciation associated with pro forma additions discussed above. This results in an accumulated depreciation balance for the year-end test year of $349,406 for water and $265,026 for wastewater.

Amortization of CIAC: The utility did not record CIAC amortization for water and wastewater. We have calculated amortization using specifically identified depreciation rates related to contributed property discussed above. Staff's calculated amortization of CIAC is $295,588 for water and $290,448 for wastewater for the year-end test year. Therefore, we have increased this account by $295,588 for water and by $290,448 for wastewater to reflect the calculated amortization.

Working Capital Allowance: Working Capital is defined as the investor-supplied funds necessary to meet operating expenses or going-concern requirements of the utility. Consistent with Rule 25-30.433(2), Florida Administrative Code, we have calculated working capital using the one-eighth of operation and maintenance (O&M) expense formula approach. Based on that formula, working capital allowance shall be $10,468 (based on O&M of $83,741) for water and $11,494 (based on O&M of $91,950) for wastewater.

Rate Base Summary: Based on the foregoing, we find that the appropriate year-end test year rate base is $245,608 for water and

$427,090 for wastewater. Rate base is shown on Schedule Nos. 1-A and 1-B; related adjustments are shown on Schedule No. 1-C, attached hereto and incorporated herein by reference.

## COST OF CAPITAL

The utility recorded the following items in capital structure for the year-end test year: common stock of $10, no retained earnings, paid-in-capital of $159,240, and long-term debt of $202,598. Equity represents 44% of the utility's capital structure.

The utility's $202,598 of long-term debt represents a related party debt payable to CFI for expenses paid by CFI on behalf of the utility. The debt consists of a single loan with an interest cost of 10% and represents 56% of the utility's capital structure.

Using the current leverage formula approved by Order No. PSC-02-0898-PAA-WS, issued July 5, 2002, in Docket No. 020006-WS, the appropriate rate of return on equity is 10.97%.

The utility's capital structure has been reconciled with the approved rate base. The approved return on equity is 10.97% with a range of 9.97% - 11.97% and an overall rate of return of 10.43%. The return on equity and overall rate of return are shown on Schedule No. 2.

## NET OPERATING INCOME

The utility recorded revenues for the test period of $39,315 for water and $39,314 for wastewater. The utility's current tariffs authorize flat rates for water and wastewater service. We have annualized revenues based on current tariffed rates times the number of year-end customers. We have determined year-end test year revenues to be $51,877 for water, and $39,838 for wastewater. Accordingly, we have increased revenue by $12,562 for water and by $524 for wastewater to reflect calculated year-end test year revenues.

Year-end test year revenues are shown on Schedule Nos. 3-A and 3-B and the related adjustments are shown on Schedule No. 3-C, attached hereto and incorporated herein by reference.

Operating Expense

Because a complete year of records was not available at the time of the audit, the utility's books were audited for a ten month test period ending October 31, 2002. The utility recorded operating expenses of $59,388 for water and $120,172 for wastewater during the ten month test period. The utility provided the auditor with access to all books and records, invoices, canceled checks, and other utility records to verify its O&M and taxes other than income expense. We have determined the appropriate operating expenses for the year-end test year and a breakdown of expenses by account class using the documents provided by the utility. Adjustments have been made to reflect the appropriate annual operating expenses that are required for utility operations on a going forward basis.

Operations and Maintenance Expenses (O&M)

Salaries and Wages - Employees (601/701) - The utility has allocated from the parent company $13,433 for water and $13,433 for wastewater during the test period. The utility has no employees directly assigned to the utility. During the test year CFI allocated the salary of one Westgate Resorts employee (Pedro Jaen) to the utility. According to Audit Disclosure No. 4, Mr. Jaen did not spend 100 percent of his time on utility business. However, there are other Westgate employees who do utility maintenance and repair work. Therefore, we believe it is fair and reasonable to allocate the salary and benefits of one full-time employee to the utility.

After the completion of the audit of the utility's books, it was discovered that Mr. Jaen had been removed as an employee of the utility. During the customer meeting it was brought to our staff's attention that the customers are in support of a full-time employee to maintain the utility. Although Mr. Jaen is no longer working for the utility, the utility will need to assign another employee to perform the maintenance duties. Therefore, we shall approve an allowance for a full-time maintenance employee as discussed above.

Salary was annualized based on bi-weekly payroll for 26 weeks. We have increased salary and wages by $3,654 for water and $3,654

for wastewater. Accordingly, an annual maintenance salary of $17,087 for water and wastewater each, shall be approved.

Employees Pension and Benefits (604/704) - The utility has recorded $1,817 for water and $1,817 for wastewater in this account during the test period. Accounts were annualized based on a bi-weekly pension and benefit amounts of the maintenance person discussed above. The utility balances were overstated; accordingly, these accounts have been decreased by $92 for water, and $92 for wastewater. Therefore, we find that the appropriate balances for employees pension and benefits expense shall be $1,725 for water and $1,725 for wastewater.

Sludge Removal Expense (711) - The utility did not record an amount in this account during the test period. We believe that $3,500 per year is reasonable for sludge hauling expenses. Therefore, we have increased this account by $3,500 for wastewater to reflect annual sludge removal.

Purchased Power (615/715) - The utility recorded $5,496 for water and $15,418 for wastewater in this account during the test period. This account has been decreased by $534 for water, and $1,432 for wastewater to remove out-of-period bills. This account has been decreased by $706 for wastewater to remove a non-utility related invoice. This account has also been decreased to remove an undocumented expense and reverse a double entry by $265 for wastewater. Purchased power has been increased by $992 for water and by $2,606 for wastewater to annualize the utility's cost for the year-end test year. Accordingly, we find that the appropriate balances for purchased power expense shall be $5,954 for water, and $15,621 for wastewater.

Fuel for Power Production (616) - The utility did not record a balance for this account during the test period. During the test year, the utility installed a generator with a diesel fuel tank in case of a power failure. We estimate a reasonable fuel allowance to be $350 per year for water; therefore, we find that the appropriate balance for fuel expense shall be $350 for water.

Chemicals (618/718) - The utility recorded $7,512 for water and $46,584 for wastewater in this account during the test period. In

addition, $285 from the wastewater account has been reclassified to Account No. 735 (Contractual Services - Testing).

Due to the repair and installation of 9,500 linear feet of cured-in-place lining discussed above, the chemical treatment associated with black water infiltration will be eliminated. We have identified the chemical expense associated with treating the black water to be $41,132, and have decreased this account by $41,132 for wastewater to remove chemical expense associated with the black water. This account has been increased by $1,502 for water, and $1,033 for wastewater to annualize chemical expense. Accordingly, we find that the appropriate balances for chemicals expense shall be $9,014 for water, and $6,200 for wastewater.

Materials and Supplies (620/720) - The utility did not record an amount in this account during the test period. We have increased this account by $2,243 for water, and $163 for wastewater to reclassify materials and supplies that were recorded in Account No. 636 (Contractual Services - Other). We find that the appropriate balances for materials and supplies expense shall be $2,243 for water, and $163 for wastewater.

Contractual Services - Billing (630/730) - The utility did not record an amount in this account during the test period. In its response to the audit, the utility requested contracting a billing company to perform the billing function of the utility. The utility has requested $2.25 per account for the following services: meter reading, data input of reading, printing and sending of bills to customers, receipt and deposit of customer payments, and customer service.

Typically, for small utilities, the maintenance person is responsible for the meter reading function. In the past, we have approved meter reading costs of $0.50 per meter. Because we are ordering the utility to install a combination of individual and localized master meters, the utility will be reading fewer meters than bills each month. Therefore, an adjustment shall be made to the requested contract amount to remove meter reading costs. Since the maintenance person is typically responsible for this duty, the maintenance salary is sufficient to cover the meter reading function. Therefore, the per bill request of $2.25 shall be reduced by $0.50 per bill.

Based on the above, we find that the appropriate balances for Contractual Services - Billing expense shall be $7,886 (751 connections x $1.75 x 12 months ÷ 2 systems) for water and wastewater, each. The utility shall be required to provide proof of a billing contract within 90 days of the issuance of the Consummating Order.

Contractual Services - Professional (631/731) - The utility recorded $10,648 for water, and $10,648 for wastewater during the test period. This account has been decreased by $648 for water, and by $648 for wastewater to remove acquisition costs and reclassify rate case expense to Account No. 665 (Regulatory Commission Expense).

The utility pays $2,000 per month, which is allocated from CFI, to Mr. Bill Goaziou for technical, state regulatory, and land consulting fees. Mr. Goaziou played an integral part in getting the new wastewater treatment plant up and running. Based upon several discussions and correspondence with Mr. Goaziou, he anticipates his future services to stay consistent with fees charged during the test year. Therefore, Contractual Services - Professional, has been increased by $2,000 for water, and by $2,000 for wastewater to annualize engineer/consultant fees associated with Mr. Goaziou.

The utility also requested $200 per month to be included in expenses for legal fees. Legal fees that were incurred during the test year in the amount of $1,295, which were substantiated by invoices provided by the utility, and which were related to the transfer and rate case of the utility, have been included. The utility did not incur any additional fees during the test year. Thus, absent adequate documentation to justify the requested fees, no additional legal fees shall be included.

Accordingly, we find that the appropriate balances for contractual services - professional expense shall be $12,000 for water, and $12,000 for wastewater.

Contractual Services - Testing (635/735) - The utility did not record amounts for this account during the test period. This account has been increased by $285 for wastewater to reclassify testing expense from Account No. 718 (Chemicals).

Each utility must adhere to specific testing conditions prescribed within its operating permit. These testing requirements are tailored to each utility as required by the Florida Administrative Code and enforced by the DEP. The tests and the frequency at which those tests must be repeated for this utility are:

WATER - DEP REQUIRED TESTING

| Test | Frequency | Annual Amount |
|---|---|---|
| Microbiological | Monthly | $480 |
| Primary Inorganics | 3 Years | $49 |
| Secondary Inorganics | 3 Years | $29 |
| Asbestos | 1/9 Years | $35 |
| Nitrate & Nitrite | Annual | $80 |
| Volatile Organics | Qrtly/1st yr/36 mos. Subsequent/Annual | $110 |
| Pesticides & PCB | 3 Years | $146 |
| Radionuclides Group I | 3 Years | $42 |
| Radionuclides Group II | 3 Years | $250 |
| Unregulated Organics Group I | Qrtly/1st yr./9yr. | $112 |
| Unregulated Organics Group II | 3 Years | $18 |
| Unregulated Organics Group III | 3 Years | $83 |
| Lead & Copper | Biannual | $300 |
| Total | | $1,734 |

WASTEWATER - DEP REQUIRED TESTING

| Test | Frequency | Annual Amount |
|---|---|---|
| CBOD/TSS (Influent) | Monthly | $780 |
| CBOD/TSS (Effluent) | Monthly | $780 |
| Fecal Coliform | Monthly | $480 |
| Nitrate, Nitrite | Quarterly | $160 |
| Sludge Analysis | Annual | $450 |
| Total | | $2,650 |

These accounts have been increased by $1,734 for water, and by $2,365 for wastewater to annualize DEP required testing. We find that the appropriate balances for Contractual Services - Testing shall be $1,734 for water, and $2,650 for wastewater.

Contractual Services - Other (636/736) - The utility recorded $16,453 for water, and $28,243 for wastewater in this account during the test period. This account has been decreased by $2,406 for water to reclassify chemicals from Contractual Services - Other to Account No. 620 (Material and Supplies).

The utility has not been allocating costs from CFI for fire hydrant testing. Maintaining the fire hydrants is the responsibility of the utility and associated expenses should be recorded in the utility's books. Therefore, we have allocated $1,250 for water from CFI for fire hydrant testing. We shall also approve an increase to Contractual Services - Other, by $4,500 for water, and $4,500 for wastewater to allocate accounting and management services from CFI. This account has also been decreased by $5,422 for water and $8,948 for wastewater to reclassify and capitalize the costs of new fire hydrants and costs associated with rebuilding the master lift station pump and motor.

The utility did not record an amount for mowing and grounds keeping. We have estimated the costs associated with mowing and grounds keeping of the plant and shall approve $750 for water, and $1,500 for wastewater.

The utility contracts services for a water plant operator who specializes in operating and maintaining water utility plants in accordance with federal, state, and local regulatory standards. In addition to the contractor's monthly fees, the contractor also bills the utility for additional services and chemicals outside of their basic contract. We have annualized contractor operator services for the test year, and shall approve an increase of $5,368 for water, and a decrease $5,432 for wastewater.

The utility's records are currently not being kept in accordance with the NARUC Uniform System of Accounts as required by Rule 25-30.115, Florida Administrative Code. According to Audit Disclosure No. 1, the utility's accounting and billing is being handled by CFI. The company plans to switch to the NARUC accounting system for 2003. Per the utility, estimates have been obtained for implementing such a system and would cost approximately $1,500. We find this to be a reasonable amount and have increased this account by $150 for water and wastewater each ($1,500/5 years) to amortize implementation costs over five years, pursuant to Rule 25-30.433(8), Florida Administrative Code.

The net adjustments to this account is an increase of $4,190 for water and a decrease of $8,230 for wastewater. Accordingly, we find that the appropriate balances for Contractual Services - Other shall be $20,643 for water and $20,013 for wastewater.

Rents (640/740) - The utility did not record an amount for this account during the test period. The utility has not been allocating costs from CFI for office space and equipment. We have estimated and allocated rent expense from CFI in the amounts of $1,800 for water and $1,800 for wastewater annually.

Transportation Expense (650/750) - The utility did not record an amount in this account during the test period. The utility has not been allocating costs from CFI for transportation expense. The utility owner and his staff use their personal vehicles to meet with regulatory personnel, make bank deposits, transport financial information to the accountant, pick up parts for repairs, run utility related errands, pick up supplies, etc. We estimate that the owner and his staff travel approximately 200 miles per week performing these functions. Therefore, this account has been increased by $1,508 for water and wastewater each to account for

transportation expense (200 miles per week x $0.29 per mile x 52 weeks ÷ 2).

Insurance Expense (655/755) - The utility did not record an amount in this account during the test period. The utility has not been allocating costs from CFI for insurance expense. In its response to the audit, the utility requested premiums of $50,000/year for hazard/liability insurance, but has not provided us with a contract for this amount. We find this amount to be unreasonable based on past allowances for Class C utilities. If this expense were included in rates, each customer would pay approximately $5.50 of their monthly bill for insurance.

Per Audit Disclosure No. 6, we believe that $100 monthly is an appropriate amount for insurance expense to be allocated from the parent company. Therefore, this account has been increased by $600 annually for both water and wastewater, which we find to be a reasonable amount for liability insurance. The utility is hereby ordered to provide our staff with proof of insurance within 90 days of the issuance of the Consummating Order making this decision final. As such, we find that the appropriate balances for insurance expense shall be $600 for water and wastewater each.

Regulatory Commission Expense (665/765) - The utility did not record an amount in this account for the test period. We have allocated professional fees related to this case paid by CFI in the amount of $621 for water and wastewater each. We have reclassified rate case expense of $324 to both water and wastewater from Account No. 631 and 731 (Contractual Services - Professional). The utility paid a rate case filing fee of $1,000 for both water and wastewater. Therefore, this account has been increased by $1,000 for water and wastewater each. The utility submitted its actual and estimated rate case expense by letter dated March 13, 2003, in which it requests that these expenses be included as rate case expense. The amount of utility requested rate case expense is $6,065. Pursuant to Rule 25-30.455(1), Florida Administrative Code:

> . . . If a utility that chooses to utilize the staff assistance option employs outside experts to assist in developing information for staff or to assist in evaluating staff's schedules and conclusions, the

reasonable and prudent expense will be recovered through the rates developed by staff.

We have identified $1,212 of the requested amount associated with discussions with preparing the filing as well as the filing itself. We do not believe these costs should be included pursuant to Rule 25-30.455(1), Florida Administrative Code. We believe that discussions by the utility with its experts prior to filing neither fall under "developing information for staff," nor "assisting in evaluating staff's schedules and conclusions." Regarding the actual preparation of the filing, the SARC application was designed such that any regulated utility could complete the application without expert assistance. The application is eight pages long and requests information which is readily available on the utility's annual report. In this case, the application included only engineering information and lacked the requested financial information. For these reasons, $1,212 of the requested rate case expense shall be disallowed. The utility recorded $1,890 for rate case expense on its books during the test year ($621 + $324 each for water and wastewater above). Therefore, this account has been increased by $1,482 each for water and wastewater ((6,065 - 1,212 - 1,890)/2).

We have decreased regulatory commission expense by $2,570 ($3,427 - $3,427/4 years) for water and wastewater each to amortize rate case expense over four years pursuant to Section 367.0816, Florida Statutes. Therefore, we find that the appropriate balances for regulatory commission expense shall be $857 for water and $857 for wastewater.

Miscellaneous Expense (675/775) - The utility recorded $41 for water and $41 for wastewater in this account for the test period. The utility has not been allocating costs from CFI for telephone usage. We have estimated and allocated $300 to water and wastewater each for telephone expense from CFI. As such, the approved balance for miscellaneous expense shall be $341 for water and wastewater each.

Operation and Maintenance Expense (O&M Summary) - The total O&M adjustment is an increase of $28,341 for water and a decrease of $24,234 for wastewater. Therefore, the approved balance for O&M expense shall be $83,741 for water and $91,950 for wastewater. O&M

expenses are shown on Schedules 3-D and 3-E. The schedules are attached hereto and incorporated herein by reference.

Depreciation Expense - The utility did not record depreciation expense for the test period. We have calculated depreciation expense using the prescribed rates in Rule 25-30.140, Florida Administrative Code. The calculated depreciation expense is $27,157 for water and $38,243 for wastewater. Depreciation expense has been decreased by $9,506 for wastewater to reflect non-used and useful depreciation. We have calculated test year amortization of CIAC, using specifically identified deprecation rates, of $13,874 for water and $17,321 for wastewater. Non-used and useful depreciation and amortization of CIAC has a negative impact on depreciation expense. Accordingly, we find that the appropriate balances for net depreciation expense shall be $13,283 for water and $11,416 for wastewater.

Taxes Other Than Income - The utility recorded taxes other than income of $3,988 for water and $3,988 for wastewater during the test year. We have decreased taxes other than income by $24 for water and $24 for wastewater to remove penalties and interest. We increased taxes other than income by $312 for water and decreased taxes other than income by $229 for wastewater to reflect regulatory assessment fees (RAFs) on annualized revenues. In addition, the account has been decreased by $239 for water, and $239 for wastewater to annualize payroll taxes, and decreased by $963 for water and $763 for wastewater to annualize property taxes. As such, we find that the appropriate test year balance for taxes other than income shall be $3,074 for water and $2,733 for wastewater.

Income Tax - The utility is a Florida Limited Liability Corporation (L.L.C.). L.L.C.'s are not tax paying entities; rather, they are reporting entities. Therefore, the utility has no income tax liability.

Operating Revenues - An adjustment to increase operating revenues by $77,317 for water and $116,028 for wastewater has been made to reflect the change in revenue required to cover expenses and allow the recommended return on investment.

Taxes Other Than Income - An adjustment to increase taxes other than income by $3,479 for water and $5,221 for wastewater has been made to reflect RAFs of 4.5% on the change in operating revenues.

Operating Expenses Summary - The application of our approved adjustments to the audited test year operating expenses results in a calculated operating expense of $103,578 for water, and $111,321 for wastewater.

Operating expenses are shown on Schedule Nos. 3-A and 3-B. The related adjustments are shown on Schedule No. 3-C. The schedules are attached hereto and incorporated herein by reference.

## REVENUE REQUIREMENT

The utility shall be allowed an annual increase of $77,317 (149.04%) for water and $116,028 (291.25%) for wastewater. This will allow the utility the opportunity to recover its expenses and earn a 10.43% return on its investment. The calculations are as follows:

| | Water | Wastewater |
|---|---|---|
| Adjusted rate base | $245,608 | $427,090 |
| Rate of Return | x 10.43% | x 10.43% |
| Return on investment | $25,617 | $44,545 |
| Adjusted O & M expense | $83,741 | $91,950 |
| Depreciation expense (Net) | $13,283 | $11,416 |
| Taxes Other Than Income | $6,553 | $7,954 |
| Revenue Requirement | $129,194 | $155,866 |
| Adjusted Test Year Revenues | $51,877 | $39,838 |
| Percent Increase/(Decrease) | 149.04% | 291.25% |

Revenue requirements are shown on Schedules Nos. 3-A and 3-B, attached hereto and incorporated by reference.

RATES AND CHARGES

As discussed previously, the utility provides residential service to 48 single-family homes in the Countryside subdivision (Countryside), 119 fixed mobile homes in Phase I (Long Hammock), 367 lots in the River Ranch RV Resort (Phases II through V), 192 condominiums, and general service to the remainder of the resort community consisting of restaurants, offices, a hotel, pools and bath houses, shops, a trap/skeet range, an airport, stables and a rodeo arena, a fire station, tennis and basketball courts, and a church. Currently, only the 119 fixed mobile homes located in Phase I have meters, which have been in place for a number of years but have not been read or used for billing purposes.

It is our practice, as well as the desire of the South Florida Water Management District, to meter all connections for water conservation purposes. At the customer meeting held on April 23, 2003, customers voiced opinions both in favor of and against individual metering. In addition, during our staff's evaluation of the service area on April 24, 2003, numerous interested customers stopped our staff members so that they could express their opinions about the pros and cons of individual metering. Once again, there was no clear majority opinion regarding the individual metering issue.

Based upon our evaluation of the service area, we do not believe that individually metering the residential connections in Phases II through V would achieve the water conservation typically experienced when converting from unmetered to metered rates. The RV lots in the resort, while varying in size, are small. A concrete slab takes up the majority of each lot's space. Irrigation of the lots in Phases II through V is provided by each Phase's respective homeowners' association; therefore, individual customers do not have control over this discretionary use of water.

Furthermore, virtually all of the residential customers of record are either seasonal or transitory in nature. Many of these customers participate in a rental program in which their mobile home or RV is rented out for a period of time during the customer's absence. Therefore, the customers of record would not be receiving the ongoing price signal regarding water consumption that individual metering is designed to provide.

However, we do find it appropriate to require that all general service connections be individually metered. In addition, we believe that, due to the differences in housing and lot size, it is appropriate to require the individual metering of the single-family homes located in the Countryside subdivision. As will be discussed below, we are also ordering the utility to file for a rate restructuring case in the first quarter of 2005. We contemplate that at that time the BFC/gallonage charge rate structure will be implemented. Although many of the customers in Countryside are seasonal, an examination of the subdivision revealed that these homes are much larger compared to other residences in the service area. Other relevant factors which we believe warrant individual metering of the Countryside subdivision include the fact that some homes rest on more than one lot, and, therefore, should be subject to a greater level of discretionary water use than other homes. Another relevant factor is that several of these residences have irrigation systems. Therefore, the customers in Countryside have a greater anticipated level of monthly consumption and would be subject to greater conservation price signals than other residential customers.

Based on the foregoing, not all connections shall be individually metered; instead, only general service customers, plus the residential customers of the Countryside subdivision, shall be individually metered. Due to the lack of metered data, the appropriate rate structure for the utility at this time shall be a continuation of the flat rate structure.

Repression Adjustment

As previously discussed, a flat rate structure shall be continued by the utility at this time. As this rate structure is not consumption-based, there is no calculation to determine the repression of consumption associated with the approved price increase. Therefore, a repression adjustment is not appropriate at this time.

Rate Restructuring Case

Due to the lack of metered data, the approved rate structure for the utility at this time is the flat rate structure. However, the flat rate structure is contrary to Commission practice.

Therefore, in order to eliminate the recommended flat rate structure in favor of the preferred BFC/gallonage charge rate structure, the utility shall be ordered to file a rate restructuring case during the first quarter of 2005. In order to obtain actual consumption data for use in the rate restructuring case, the utility shall be ordered to provide actual monthly consumption reports, by meter, for the 15-month period of October 2003 - December 2004. A conservation adjustment and a repression adjustment will be reconsidered in the rate restructuring case.

Guaranteed Revenue Charge

The utility has requested $294,240 to reline a portion of its wastewater collection system that is associated with black water infiltration. It was determined that the black water infiltration was occurring in the Countryside subdivision. According to the utility, this subdivision has approximately 190 lots for which service is available but no homes have been constructed. According to the utility, a majority of these lots have been purchased.

Prior to the customer meeting, the utility contacted our staff and requested a guaranteed revenue charge to recover the cost associated with the line lining. The utility believed that this repair was associated with a single development and the cost associated with that repair should be borne by the residents of Countryside, including the 190 lots. The utility believes that the only way to include these lots is by including a guaranteed revenue charge.

The line lining was originally viewed as a benefit to all customers. As stated previously, the line lining would eliminate approximately $41,000 of annual chemical expense which would have been recovered through the general body of ratepayers. Therefore, we believe that the line lining benefits all customers, not just the residents of Countryside. However, in order to obtain input from customers on this issue, our staff provided customers with an estimated guaranteed revenue charge in the Customer Notice for the customer meeting. At the customer meeting the majority of customers spoke against including a guaranteed revenue charge. Lot owners raised concerns about being charged a water and wastewater rate when this service was not being utilized by the vacant lots. Further, existing utility customers raised concerns about how this

rate would be applied to homes that occupied more than one lot or future homes that may be built on more than one lot. Although it was pointed out that the recommended rate increase would be lessened by including the 190 lots in the customer base, the majority of speakers at the customer meeting, phone calls, and letters received to date are in opposition of the guaranteed revenue charge.

The utility's basis for requesting a guaranteed revenue charge was to recover the cost of the line lining from the customers who benefit from this repair, including the undeveloped lots. The utility believes that the undeveloped lots should share in the cost of the repair as a matter of fairness. We believe that the general body of rate payers benefit from this repair, not just the Countryside residents and undeveloped lots, thus, this repair shall be fully recovered through the general body of rate payers. Further, the service availability charges, which are charged to future customers at the time of connection, will take into consideration the cost of the lining repair. Therefore, the lot owners will share in the cost of this repair through service availability charges, as well as general rates, once service begins. As such, a guaranteed revenue charge for this utility shall not be approved.

Rates

The appropriate revenue requirement for this utility is $129,194 for the water system, and $155,866 for the wastewater system. The utility was unable to provide sufficient accurate metered data, without which, a base facility gallonage charge rate structure can not be implemented at this time.

We have calculated rates using year-end test year number of customers and estimated ERCs for general service customers. Flat rates were calculated by dividing the revenue requirement for water and wastewater by the total number of ERCs for water and wastewater respectively. Since Westgate (CFI) owns a majority of the general service customers, a single flat rate for the related party general service customer has been calculated. Schedules of the utility's current rates and rate structure and the approved rates and rate structure are as follows:

MONTHLY FLAT RATES - WATER
RESIDENTIAL AND GENERAL SERVICE

| CUSTOMERS | TEST YEAR RATES | COMMISSION APPROVED RATES |
|---|---|---|
| RESIDENTIAL | | |
| River Ranch Shores/ Countryside (Qrtly) | $22.80 | N/A |
| River Ranch Shores/ Countryside (Monthly) | N/A | $15.27 |
| Condo (Per Unit) | $4.00 | $12.22 |
| GENERAL SERVICE | | |
| Long Hammock Phase I/ RV Phase II-V (Per Unit) | $6.00 | $12.22 |
| Westgate Properties | N/A | $1,099.68 |
| Church | N/A | $38.18 |
| All Others (Per ERC) | N/A | $15.27 |
| IRRIGATION SERVICE | | |
| Long Hammock: | | |
| Phase I | N/A | $106.91 |
| RV Area: | | |
| Phase II | N/A | $137.46 |
| Phase III | N/A | $183.28 |
| Phase IV | N/A | $91.64 |
| Phase V | N/A | $91.64 |

MONTHLY FLAT RATES - WASTEWATER

RESIDENTIAL SERVICE

| CUSTOMERS | TEST YEAR RATES | COMMISSION APPROVED RATES |
|---|---|---|
| Residential: | | |
| River Ranch Shores/ Countryside (Qtrly) | $22.80 | N/A |
| River Ranch Shores/ Countryside (Monthly) | N/A | $16.30 |
| Condo (Per Unit) | $3.00 | $16.30 |
| General Service: | | |
| Long Hammock Phase I/ RV Phase II-V (Per Unit) | $4.50 | $16.30 |
| Westgate Properties | N/A | $1,157.00 |
| All Others (Per ERC) | N/A | $16.30 |

The approved rates shall be effective for service rendered on or after the stamped approval date on the tariff sheets, pursuant to Rule 25-30.475(1), Florida Administrative Code. The rates shall not be implemented until our staff has approved the proposed customer notice, the notice has been received by the customers, and our staff has verified that the tariffs are consistent with our decision. The utility shall provide proof of the date notice was given no less than 10 days after the date of the notice.

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.

Four-Year Rate Reduction

Section 367.0816, Florida Statutes, requires that rates be reduced immediately following the expiration of the four-year period by the amount of the rate case expense previously included in the rates. The reduction will reflect the removal of revenues associated with the amortization of rate case expense and the gross-up for RAFs which is $897 annually for water and $897 annually for wastewater. Using the utility's current revenues, expenses, capital structure, and customer base, the reduction in revenues will result in the rate decreases as shown on Schedule No. 4, attached hereto and incorporated herein by reference.

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.

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 two-month period. The utility's existing tariff authorizes the utility to collect a $15 customer deposit for water and for wastewater or an amount necessary to cover charges for three billing periods. This amount will not provide an average bill for a two-month period based on the approved rates, and the utility's three-month billing option is contrary to Rule 25-30.311, Florida Administrative Code. Therefore, customer deposits have been calculated using approved rates and an average monthly bill for a two-month period. A schedule of the utility's existing and the approved deposits follows:

WATER

RESIDENTIAL AND GENERAL SERVICE

| CUSTOMER | EXISTING DEPOSIT | APPROVED DEPOSIT |
|---|---|---|
| Residential | $15.00 | $30.54 |
| RV/Mobile/Condo | $15.00 | $24.44 |
| All Others | 3 x Avg. Bill | 2 x Avg. Bill |

WASTEWATER

RESIDENTIAL AND GENERAL SERVICE

| CUSTOMER | EXISTING DEPOSIT | APPROVED DEPOSIT |
|---|---|---|
| Residential | $15.00 | $32.60 |
| RV/Mobile/Condo | $15.00 | $32.60 |
| All Others | 3 x Avg. Bill | 2 x Avg. Bill |

The customer deposits shall apply to new utility customers. Existing bulk customers, including the RV resort, shall not be charged an additional deposit for each new unit added to the existing bulk customer's base.

The utility shall file revised tariff sheets which are consistent with our decision herein. 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 and provided customers have been noticed.

Service Availability Charge

The utility's existing tariff authorizes a system capacity charge of $650 combined for water and wastewater and a tap-in fee of $60 for water and $40 for wastewater. We are approving the recalculation of the existing system capacity charge as a plant capacity and main extension charge. The main extension charge will

also include the cost of services that are typically collected as tap-in fees.

The utility's current contribution level is 62% for water and 39% for wastewater. The utility's water and wastewater facilities can accommodate additional connections.

In order to evaluate the utility's service availability charges, we rely on Rule 25-30.580, Florida Administrative Code, which states in part that:

> (1) The maximum amount of contributions-in-aid-of-construction, net of amortization, should not exceed 75% of the total original cost, net of accumulated depreciation, of the utility's facilities and plant when the facilities and plant are at their designed capacity; and
>
> (2) The minimum amount of contributions-in-aid-of-construction should not be less than the percentage of such facilities and plant that is represented by the water transmission and distribution lines and sewage collection systems.

The service availability charges have designed such that the utility's contribution level will approach the maximum level prescribed in Rule 25-30.580, Florida Administrative Code, at build out. The utility requested several pro forma plant items related to expansion, but these plant expansion items are not being included in rate base; however, plant expansion items have been included in the calculation of service availability charges. A schedule of the utility's existing charges and approved charges are as follows:

WATER

| SYSTEM CAPACITY CHARGE | EXISTING CHARGE | APPROVED CHARGE |
|---|---|---|
| Water and Wastewater (Combined) | $650.00 | N/A |
| Tap-in Fee | $60.00 | N/A |
| Meter Installation Fee | N/A | $250.00 |

| | | |
|---|---|---|
| Main Extension Charge | | |
| Residential-Per Gallon(185 GPD) | N/A | $522.00 |
| All Others-Per Gallon | N/A | $5.82 |
| Plant Capacity Charge | | |
| Residential-Per Gallon(185 GPD) | N/A | $335.00 |
| All Others-Per Gallon | N/A | $1.81 |

WASTEWATER

| SYSTEM CAPACITY CHARGE | EXISTING CHARGE | APPROVED CHARGE |
|---|---|---|
| Water and Wastewater (Combined) | $650.00 | N/A |
| Tap-in Fee | $40.00 | N/A |
| Main Extension Charge | | |
| Residential-Per Gallon(185 GPD) | N/A | $891.00 |
| All Others-Per Gallon | N/A | $4.81 |
| Plant Capacity Charge | | |
| Residential-Per Gallon(185 GPD) | N/A | $1,073.00 |
| All Others-Per Gallon | N/A | $5.80 |

The utility is being required to install meters; the estimated amount for the meter installation which the utility has provided us is $250. Although this amount is greater than past amounts we have approved, we believe this cost is reasonable considering the isolated location of the utility. Accordingly, a meter installation fee of $250 shall be approved to offset the cost of meter installation for new water customers.

The service availability charges shall become effective for connections made on or after the stamped approval date of the revised tariff sheets, if no protest is filed and provided customers have been noticed.

TEMPORARY RATES IN THE EVENT OF A PROTEST

This Order approves an increase in water and wastewater 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 rates approved herein shall be implemented 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 an appropriate security for both the potential refund and a copy of the proposed customer notice. The security shall be in the form of a bond or letter of credit in the amount of $130,487. Alternatively, the utility could establish an escrow agreement with an independent financial institution.

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

1) The Commission approves the rate increase; or

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

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

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

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 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. Edson, 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(7), Florida Administrative Code, the utility shall file reports with the Division of Commission Clerk and Administrative Services no later than 20 days after each monthly billing. These reports shall indicate the amount of revenue collected under the increased rates subject to refund.

If no timely protest is received upon expiration of the protest period, the PAA Order will become final upon the issuance of a Consummating Order. This docket shall remain open for an additional 270 days from the effective date of the Order to allow our staff time to verify the utility has completed the pro forma improvements, posted emergency phone number at the plant and lift stations, and has provided proof of insurance and a billing contract. Upon verification of the above by staff, the docket shall be closed administratively.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that River Ranch Water Management, L.L.C.'s application for increased rates and charges is hereby approved as set forth in the body of this Order. It is further

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

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

ORDERED that River Ranch Water Management, L.L.C. is hereby authorized to charge the new rates and charges as set forth in the body of this Order. It is further

ORDERED that the approved rates shall be effective for service rendered on or after the stamped approval date on the tariff

sheets, pursuant to Rule 25-30.475(1), Florida Administrative Code. The tariff sheets will be approved upon our staff's verification that the tariffs are consistent with this Order and the customer notice is adequate. It is further

ORDERED that 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. It is further

ORDERED that the utility shall charge the appropriate customer deposits as set forth in the body of this Order. The utility shall file revised tariff sheets which are consistent with this Order, and our staff shall administrative authority to approve the revised tariff sheets upon staff's verification that the tariffs are consistent with this Order. If 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. It is further

ORDERED that pursuant to Section 367.0814(7), Florida Statutes, the rates approved herein shall be approved for the utility on a temporary basis, subject to refund, in the event of a protest filed by a party other than the utility. It is further

ORDERED that prior to implementation of any temporary rates, the utility shall provide appropriate security. If the rates are implemented on a temporary basis, the rates collected by the utility shall become subject to refund provisions set forth in the body of this Order. It is further

ORDERED that after any temporary rates are in effect, pursuant to Rule 25-30.360(7), Florida Administrative Code, the utility shall file reports with the Division of Economic Regulation no later than 20 days after each monthly billing. These reports shall indicate the amount of revenue collected under the increased rates subject to refund. It is further

ORDERED that the utility shall complete any and all improvements to the system that are necessary to satisfy the standards set by the Department of Environmental Protection. It is further

ORDERED that the utility shall provide a local emergency phone number which will be posted at the plant and at each lift station, no later than 90 days from the date of the issuance of the Consummating Order in this docket. It is further

ORDERED that the utility shall complete all pro forma additions, as set forth in the body of this Order, within 180 days from the issuance of the Consummating Order in this docket. It is further

ORDERED the utility shall provide our staff with proof insurance and billing contact within 90 days from the issuance of the Consummating Order in this docket. It is further

ORDERED that the utility shall file a rate restructuring case with the Commission during the first quarter of 2005. It is further

ORDERED that the utility shall provide actual monthly consumption reports, by meter, for the 15-month period of October 2003 - December 2004. It is further

ORDERED that services availability charges are hereby approved for this utility as set forth in the body of this Order. The service availability charges shall become effective for connections made on or after the stamped approval date of the revised tariff sheets, if not protest is filed. It is further

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

ORDERED that in the event this Order becomes final, this docket shall be closed administratively once our staff has verified that the matters specified herein have been completed.

By ORDER of the Florida Public Service Commission this 23rd Day of June, 2003.

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

By: Kay Flynn
Kay Flynn, Chief
Bureau of Records and Hearing
Services

( S E A L )

LAH

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 that is available under Section 120.57, 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 will be granted or result in the relief sought.

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.

The action proposed herein is preliminary in nature, except for the four-year rate reduction, collection of temporary rates in the event of protest, and the closure of the docket. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Director, Division of the Commission Clerk and Administrative Services, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on July 14, 2003.

In the absence of such a petition, this order shall become final and effective upon the issuance of a Consummating Order.

Any objection or protest filed in this/these docket(s) before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

Attachment A, page 1 of 4

**WATER TREATMENT PLANT - USED AND USEFUL DATA**

**Docket No. 021067-WS - River Ranch Water Management, L.L.C.**

| | | | | |
|---|---|---|---|---|
| 1) | Capacity of Plant | 298,000 | gallons per day | |
| 2) | Average of 5 Highest Days From Maximum Month | 289,300 | gallons per day | |
| 3) | Average Daily Flow | 113,031 | gallons per day | |
| 4) | Fire Flow Capacity | 120,000 | gallons per day | |
| | a) Required Fire Flow: 500 gallons per minute for 4 hours is N/A | | | |
| 5) | Growth | 2,546 | gallons per day | |
| | a) Test year Customers in ERCs: | | Begin | 664 |
| | | | End | 667 |
| | | | Average | 666 |
| | (Use average number of customers) | | | |
| | b) Customer Growth in ERCs using Regression Analysis for most recent 5 years including Test Year | | 3 | ERCs |
| | c) Statutory Growth Period | | 5 | Years |
| | (b)x(c)x [3\(a)]= 2,546 gallons per day for growth | | | |
| 6) | Excessive Unaccounted for Water | 0 | gallons per day | |
| | a) Total Unaccounted for Water | N/A | gallons per day | |
| | Percent of Average Daily Flow | 10% | | |
| | b) Reasonable Amount | 11,303 | gallons per day | |
| | (10% of average Daily Flow) | | | |
| | c) Excessive Amount | 0 | gallons per day | |

USED AND USEFUL FORMULA

[(2)+(4)+(5)-(6)]/(1) = 138% = 100% Used and Useful

**WATER DISTRIBUTION SYSTEM - USED AND USEFUL DATA**

**Docket No. 021067-WS - River Ranch Water Management, L.L.C.**

| | | | |
|---|---|---|---|
| 1) | Capacity of System (ERCs) | 853 | ERCs |
| 2) | Test year connections | | |
| | a) Beginning of Test Year | 664 | ERCs |
| | b) End of Test Year | 667 | ERCs |
| | c) Average Test Year | 666 | ERCs |
| 3) | Growth | 15 | ERCs |
| | a) customer growth in connections for last 5 years including Test Year using Regression Analysis | 3 | ERCs |
| | b) Statutory Growth Period | 5 | Years |

(a) x (b) = 15 connections allowed for growth

USED AND USEFUL FORMULA

[2+3]/(1) = 79.8% Used and Useful

Attachment A, page 3 of 4

**WASTEWATER TREATMENT PLANT - USED AND USEFUL DATA**

**Docket No. 021067-WS - River Ranch Management, L.L.C.**

| | | | | |
|---|---|---|---|---|
| 1) | Permitted Capacity of Plant (AADF) | 95,000 | gallons per day | |
| 2) | Maximum Daily Flow | 41,600 | gallons per day | |
| 3) | Average Daily Flow (AADF) | 16,250 | gallons per day | |
| 4) | Growth | 368 | gallons per day | |
| | a) Test year Customers in ERCs: | Beginning | | 660 |
| | | Ending | | 663 |
| | | Average | | 662 |
| | b) Customer Growth in ERCs using Regression Analysis for most recent 5 years including Test Year | 3 | ERCs | |
| | c) Statutory Growth Period | 5 | Years | |
| | (b x c) x [3/(a)]= 368 gallons per day for growth | | | |
| 5) | Excessive Infiltration or Inflow (I&I) | N/A | gallons per day | |
| | a)Total I&I: | N/A | gallons per day | |
| | Percent of Average Daily Flow | N/A | | |
| | b)Reasonable Amount | 26,555 | gallons per day | |
| | (500 gpd per inch dia pipe per mile) | | | |
| | c)Excessive Amount | N/A | gallons per day | |

USED AND USEFUL FORMULA

[(3)+(4)-(5)]/(1) = 17.5% Used and Useful

**WASTEWATER COLLECTION SYSTEM - USED AND USEFUL DATA**

**Docket No. 021067-WS - River Ranch Water Management, L.L.C.**

| | | | |
|---|---|---|---|
| 1) | Capacity of System (Number of potential ERCs) | 849 | ERCs |
| 2) | Test year connections | | |
| | a) Beginning of Test Year | 660 | ERCs |
| | b) End of Test Year | 663 | ERCs |
| | c) Average Test Year | 662 | ERCs |
| 3) | Growth | 15 | ERCs |
| | a) customer growth in connections for last 5 years including Test Year using Regression Analysis | 3 | ERCs |
| | b) Statutory Growth Period | 5 | Years |

(a)x(b) = 15 ERCs allowed for growth

USED AND USEFUL FORMULA

[(2)+(3)]/(1) = 79.7% Used and Useful

| RIVER RANCH WATER MANAGEMENT, L.L.C.<br>TEST YEAR ENDING 12/31/02<br>SCHEDULE OF WATER RATE BASE | | | SCHEDULE NO. 1-A<br>DOCKET NO. 021067-WS |
|---|---|---|---|
| DESCRIPTION | BALANCE PER UTILITY | COMMISSION ADJUST. TO UTIL. BAL. | BALANCE PER COMMISSION |
| 1. UTILITY PLANT IN SERVICE | $0 | $793,760 | $793,760 |
| 2. LAND & LAND RIGHTS | 0 | 160 | 160 |
| 3. NON-USED AND USEFUL COMPONENTS | 0 | 0 | 0 |
| 4. CIAC | 0 | (504,962) | (504,962) |
| 5. ACCUMULATED DEPRECIATION | 0 | (349,406) | (349,406) |
| 6. AMORTIZATION OF CIAC | 0 | 295,588 | 295,588 |
| 7. WORKING CAPITAL ALLOWANCE | 0 | 10,468 | 10,468 |
| 8. WATER RATE BASE | $0 | $245,608 | $245,608 |

| RIVER RANCH WATER MANAGEMENT, L.L.C.<br>TEST YEAR ENDING 12/31/02<br>SCHEDULE OF WASTEWATER RATE BASE | | | SCHEDULE NO. 1-B<br>DOCKET NO. 021067-WS |
|---|---|---|---|
| DESCRIPTION | BALANCE PER UTILITY | COMMISSION ADJUST. TO UTIL. BAL. | BALANCE PER COMMISSION |
| 1. UTILITY PLANT IN SERVICE | $0 | $1,144,538 | $1,144,538 |
| 2. LAND & LAND RIGHTS | 0 | 500 | 500 |
| 3. NON-USED AND USEFUL COMPONENTS | 0 | (126,714) | (126,714) |
| 4. CIAC | 0 | (628,150) | (628,150) |
| 5. ACCUMULATED DEPRECIATION | 0 | (265,026) | (265,026) |
| 6. AMORTIZATION OF CIAC | 0 | 290,448 | 290,448 |
| 7. WORKING CAPITAL ALLOWANCE | 0 | 11,494 | 11,494 |
| 8. WASTEWATER RATE BASE | $0 | $427,090 | $427,090 |

| RIVER RANCH WATER MANAGEMENT, L.L.C.<br>TEST YEAR ENDING 12/31/02<br>ADJUSTMENTS TO RATE BASE | SCHEDULE NO. 1-C<br>DOCKET NO. 021067-WS | |
|---|---|---|
| | **WATER** | **WASTEWATER** |
| **UTILITY PLANT IN SERVICE** | | |
| 1. Plant Per Original Cost Study | $565,492 | $674,402 |
| 2. Plant Added During Test Year | 112,437 | 212,639 |
| 3. Reclassify Fire Hydrant and Lift Station Pump from O&M | 5,422 | 8,948 |
| 4. Remove Plant held for Future Use | 0 | (46,765) |
| 5. Proforma Meters and Line Lining | 106,750 | 294,240 |
| 6. Proforma Fence | 3,659 | 1,074 |
| Total | $793,760 | $1,144,538 |
| **LAND** | | |
| 1. Original Cost of Land Value Determined by Staff | $160 | $500 |
| **NON-USED AND USEFUL PLANT** | | |
| 1. To reflect non-used and useful plant. | $0 | ($137,403) |
| 2. To reflect non-used and useful accumulated depreciation. | 0 | 10,689 |
| Total | $0 | ($126,714) |
| **CIAC** | | |
| 1. CIAC Imputed per Rule 25-30.571 | ($504,962) | ($628,150) |
| **ACCUMULATED DEPRECIATION** | | |
| 1. Depreciation Adjustment Per Rule 25-30.140 FAC | ($346,202) | ($308,093) |
| 2. Treatment Plant Held for Future Use | 0 | 46,765 |
| 3. Proforma Depreciation | (3,204) | (3,698) |
| Total | ($349,406) | ($265,026) |
| **AMORTIZATION OF CIAC** | | |
| 1. Amortization of Imputed CIAC | $295,588 | $290,448 |
| **WORKING CAPITAL ALLOWANCE** | | |
| 1. To reflect 1/8 of test year O & M expenses. | $10,468 | $11,494 |

**RIVER RANCH WATER MANAGEMENT, L.L.C.**
**TEST YEAR ENDING 12/31/02**
**SCHEDULE OF CAPITAL STRUCTURE**

**SCHEDULE NO. 2**
**DOCKET NO. 021067-WS**

| CAPITAL COMPONENT | PER UTILITY | SPECIFIC ADJUST-MENTS | BALANCE BEFORE PRO RATA ADJUSTMENTS | PRO RATA ADJUST-MENTS | BALANCE PER COMM. | PERCENT OF TOTAL | COST | WEIGHTED COST |
|---|---|---|---|---|---|---|---|---|
| 1. COMMON STOCK | $10 | $0 | $10 | | | | | |
| 2. RETAINED EARNINGS | 0 | 0 | 0 | | | | | |
| 3. PAID IN CAPITAL | 159,240 | 0 | 159,240 | | | | | |
| 4. TREASURY STOCK | 0 | 0 | 0 | | | | | |
| 5. TOTAL COMMON EQUITY | 159,250 | 0 | 159.250 | $136,805 | $296,055 | 44.01% | 10.97% | 4.83% |
| 6. LONG TERM DEBT | 202,598 | 0 | 202,598 | 174,044 | 376,642 | 55.99% | 10.00% | 5.60% |
| 7. LONG TERM DEBT | 0 | 0 | 0 | 0 | 0 | 0.00% | 6.00% | 0.00% |
| TOTAL LONG TERM DEBT | 202,598 | 0 | 202,598 | 174,044 | 376,642 | 55.99% | | |
| 8. CUSTOMER DEPOSITS | 0 | 0 | 0 | 0 | 0 | 0.00% | 6.00% | 0.00% |
| 9. TOTAL | $361,848 | $0 | $361,848 | $310,849 | $672,697 | 100.00% | | 10.43% |

| RANGE OF REASONABLENESS | LOW | HIGH |
|---|---|---|
| RETURN ON EQUITY | 9.97% | 11.97% |
| OVERALL RATE OF RETURN | 9.99% | 10.87% |

**RIVER RANCH WATER MANAGEMENT, L.L.C.**
**TEST YEAR ENDING 12/31/02**
**SCHEDULE OF WATER OPERATING INCOME**

**SCHEDULE NO. 3-A**
**DOCKET NO. 021067-WS**

| | TEST YEAR PER UTILITY | COMM. ADJUSTMENTS | COMM. ADJUSTED TEST YEAR | ADJUST. FOR INCREASE | REVENUE REQUIREMENT |
|---|---|---|---|---|---|
| 1. **OPERATING REVENUES** | $39,315 | $12,562 | $51,877 | $77,317<br>149.04% | $129,194 |
| **OPERATING EXPENSES:** | | | | | |
| 2. OPERATION & MAINTENANCE | 55,400 | 28,341 | 83,741 | | 83,741 |
| 3. DEPRECIATION (NET) | 0 | 13,283 | 13,283 | | 13,283 |
| 4. AMORTIZATION | 0 | 0 | 0 | | 0 |
| 5. TAXES OTHER THAN INCOME | 3,988 | (914) | 3,074 | 3,479 | 6,553 |
| 6. INCOME TAXES | 0 | 0 | 0 | 0 | 0 |
| 7. **TOTAL OPERATING EXPENSES** | $59,388 | $40,710 | $100,098 | $3,479 | $103,578 |
| 8. **OPERATING INCOME/(LOSS)** | ($20,073) | | ($48,221) | | $25,617 |
| 9. **WATER RATE BASE** | $0 | | $245,608 | | $245,608 |
| 10. **RATE OF RETURN** | ERR | | -19.63% | | 10.43% |

**RIVER RANCH WATER MANAGEMENT, L.L.C.**
**TEST YEAR ENDING 12/31/02**
**SCHEDULE OF WASTEWATER OPERATING INCOME**

**SCHEDULE NO. 3-B**
**DOCKET NO. 021067-WS**

| | TEST YEAR PER UTILITY | COMM. ADJUSTMENTS | COMM. ADJUSTED TEST YEAR | ADJUST. FOR INCREASE | REVENUE REQUIREMENT |
|---|---|---|---|---|---|
| 1. **OPERATING REVENUES** | $39,314 | $524 | $39,838 | $116,028<br>291.25% | $155,866 |
| **OPERATING EXPENSES:** | | | | | |
| 2. OPERATION & MAINTENANCE | 116,184 | (24,234) | 91,950 | | 91,950 |
| 3. DEPRECIATION (NET) | 0 | 11,416 | 11,416 | | 11,416 |
| 4. AMORTIZATION | 0 | 0 | 0 | | 0 |
| 5. TAXES OTHER THAN INCOME | 3,988 | (1,255) | 2,733 | 5,221 | 7,954 |
| 6. INCOME TAXES | 0 | 0 | 0 | 0 | 0 |
| 7. **TOTAL OPERATING EXPENSES** | $120,172 | ($14,073) | $106,099 | $5,221 | $111,321 |
| 8. **OPERATING INCOME/(LOSS)** | ($80,858) | | ($66,261) | | $44,545 |
| 9. **WASTEWATER RATE BASE** | $0 | | $427,090 | | $427,090 |
| 10. **RATE OF RETURN** | ERR | | -15.51% | | 10.43% |

**RIVER RANCH WATER MANAGEMENT, L.L.C.**
**TEST YEAR ENDING 12/31/02**
**ADJUSTMENTS TO OPERATING INCOME**

**SCHEDULE NO. 3-C**
**DOCKET NO. 021067-WS**
**PAGE 1 OF 2**

| | WATER | WASTEWATER |
|---|---|---|
| **OPERATING REVENUES** | | |
| 1. Annualize Revenue per Tariff Rates and Existing Customers | $12,562 | $524 |
| **OPERATION AND MAINTENANCE EXPENSES** | | |
| 1. Salaries and Wages Employees (601/701) | | |
| a. Annualize Maintenance Salary | $3,654 | $3,654 |
| 2. Employees Pension and Benefits (604/704) | | |
| a. To Reflect Annual Pension Cost | ($92) | ($92) |
| 3. Sludge Removal Expense (711) | | |
| a. Annualize Sludge Removal | $0 | $3,500 |
| 4. Purchased Power (615/715) | | |
| a. Remove Out of Period Bill | ($534) | ($1,432) |
| b. Remove Non-Utility Invoice | 0 | (706) |
| c. Remove Undocumented Expense and Reverse Double Entry | 0 | (265) |
| d. Annualize Purchased Power | 992 | 2,606 |
| Subtotal | $458 | $203 |
| 5. Fuel for Power Production (616/617) | | |
| a. Fuel for Power Generator | $350 | $0 |
| 6. Chemicals (618/718) | | |
| a. Reclassify Testing Expense to Act. No. 735 | 0 | (285) |
| b. Remove Chemicals Associated with Infiltration | 0 | (41,132) |
| c. Annualize Chemicals | 1,502 | 1,033 |
| Subtotal | $1,502 | ($40,384) |
| 7. Materials & Supplies (620/720) | | |
| a. Reclassify from Contractual Services (Act. 636) | $2,243 | $163 |
| 8. Contractual Services - Billing (630/730) | | |
| a. Billing per contract | $7,886 | $7,886 |
| 9. Contractual Services - Professional (631/731) | | |
| a. Remove and Reclassify Acquisition and Rate Case Expense | (648) | (648) |
| b. Annualize Engineer/Consultant | 2,000 | 2,000 |
| Subtotal | $1,352 | $1,352 |
| 10. Contractual Services - Testing (635/735) | | |
| a. Reclassify from Chemicals (718) | $0 | $285 |
| b. To Include Annualized DEP Required Testing | 1,734 | 2,365 |
| Subtotal | $1,734 | $2,650 |

(O & M EXPENSES CONTINUED ON NEXT PAGE)

| RIVER RANCH WATER MANAGEMENT, L.L.C.<br>TEST YEAR ENDING 12/31/02<br>ADJUSTMENTS TO OPERATING INCOME | | SCHEDULE NO. 3-C<br>DOCKET NO. 021067-WS<br>PAGE 2 OF 2 |
|---|---|---|
| (O & M EXPENSES CONTINUED) | **WATER** | **WASTEWATER** |
| 11. Contractual Services - Other (636/ 736) | | |
| a. Reclassify Material & Supplies to Act. 620/720 | ($2,406) | $0 |
| b. Allocate Fire Hydrant Testing | 1,250 | 0 |
| c. Include Allocation for Mgmt and Actg | 4,500 | 4,500 |
| d. Capitalize Fire Hydrants and Lift Station Pump | (5,422) | (8,948) |
| e. Allowance for Mowing and Grounds keeping | 750 | 1,500 |
| f. Annualize Operator | 5,368 | (5,432) |
| g. NARUC set up cost amortized over 5 years | 150 | 150 |
| Subtotal | $4,190 | ($8,230) |
| 12. Rent (640/740) | | |
| a. Allocate Rent from Parent Company | $1,800 | $1,800 |
| 13. Transportation Expense (650/ 750) | | |
| a. Transportation amnt. per Staff | $1,508 | $1,508 |
| 14. Insurance Expenses (655/ 755) | | |
| a. Allocate Insurance Expense | $600 | $600 |
| 15. Regulatory Expense (665/ 765) | | |
| a. Allocate Prof. Fees Paid by Parent Co. | $621 | $621 |
| b. Reclassify Rate Case Exp. from Contractual Services | 324 | 324 |
| c. Rate Case Filing Fee | 1,000 | 1,000 |
| d. Estimated/Actual Rate Case Expense | 1,482 | 1,482 |
| e. To Reflect Costs Amortized over 4 Years | (2,570) | (2,570) |
| Subtotal | $857 | $857 |
| 16. Miscellaneous Expense (675/ 775) | | |
| a. Allocate for Telephone from Parent Co. | $300 | $300 |
| **TOTAL OPERATION & MAINTENANCE ADJUSTMENTS** | **$28,341** | **($24,234)** |
| **DEPRECIATION EXPENSE** | | |
| 1. To Reflect Test Year Depreciation Calculated Per 25-30.140, FLORIDA ADMINISTRATIVE CODE | $27,157 | $38,243 |
| 2. Non-used and Useful Depreciation | 0 | (9,506) |
| 3. To Reflect Test Year CIAC Amortization Approved by Commission. | (13,874) | (17,321) |
| Total | $13,283 | $11,416 |
| **TAXES OTHER THAN INCOME** | | |
| 1. Remove Penalties and Interest | ($24) | ($24) |
| 2. Adjust RAF's to Annualized Revenue | 312 | (229) |
| 3. Annualize Payroll Tax | (239) | (239) |
| 4. Annualize Property Taxes | (963) | (763) |
| Total | ($914) | ($1,255) |

| RIVER RANCH WATER MANAGEMENT, L.L.C.<br>TEST YEAR ENDING 12/31/02<br>ANALYSIS OF WATER OPERATION AND MAINTENANCE EXPENSE | | | | SCHEDULE NO. 3-D<br>DOCKET NO. 021067-WS |
|---|---|---|---|---|
| | TOTAL PER PER UTILITY | STAFF PER ADJUST. | | TOTAL PER PER STAFF |
| (601) SALARIES AND WAGES - EMPLOYEES | $13,433 | $3,654 | [1] | $17,087 |
| (603) SALARIES AND WAGES - OFFICERS | 0 | 0 | | 0 |
| (604) EMPLOYEE PENSIONS AND BENEFITS | 1,817 | (92) | [2] | 1,725 |
| (610) PURCHASED WATER | 0 | 0 | | 0 |
| (615) PURCHASED POWER | 5,496 | 458 | [4] | 5,954 |
| (616) FUEL FOR POWER PRODUCTION | 0 | 350 | [5] | 350 |
| (618) CHEMICALS | 7,512 | 1,502 | [6] | 9,014 |
| (620) MATERIALS AND SUPPLIES | 0 | 2,243 | [7] | 2,243 |
| (630) CONTRACTUAL SERVICES - BILLING | 0 | 7,886 | [8] | 7,886 |
| (631) CONTRACTUAL SERVICES - PROFESSIONAL | 10,648 | 1,352 | [9] | 12,000 |
| (635) CONTRACTUAL SERVICES - TESTING | 0 | 1,734 | [10] | 1,734 |
| (636) CONTRACTUAL SERVICES - OTHER | 16,453 | 4,190 | [11] | 20,643 |
| (640) RENTS | 0 | 1,800 | [12] | 1,800 |
| (650) TRANSPORTATION EXPENSE | 0 | 1,508 | [13] | 1,508 |
| (655) INSURANCE EXPENSE | 0 | 600 | [14] | 600 |
| (665) REGULATORY COMMISSION EXPENSE | 0 | 857 | [15] | 857 |
| (670) BAD DEBT EXPENSE | 0 | 0 | | 0 |
| (675) MISCELLANEOUS EXPENSES | 41 | 300 | [16] | 341 |
| | $55,400 | $28,341 | | $83,741 |

RIVER RANCH WATER MANAGEMENT, L.L.C.
TEST YEAR ENDING 12/31/02
ANALYSIS OF WASTEWATER OPERATION AND MAINTENANCE EXPENSE

SCHEDULE NO. 3-E
DOCKET NO. 021067-WS

| | TOTAL PER UTILITY | COMM. ADJUST-MENT | | TOTAL PER COMM. |
|---|---|---|---|---|
| (701) SALARIES AND WAGES - EMPLOYEES | $13,433 | $3,654 | [1] | $17,087 |
| (703) SALARIES AND WAGES - OFFICERS | 0 | 0 | | 0 |
| (704) EMPLOYEE PENSIONS AND BENEFITS | 1,817 | (92) | [2] | 1,725 |
| (710) PURCHASED SEWAGE TREATMENT | 0 | 0 | | 0 |
| (711) SLUDGE REMOVAL EXPENSE | 0 | 3,500 | [3] | 3,500 |
| (715) PURCHASED POWER | 15,418 | 203 | [4] | 15,621 |
| (716) FUEL FOR POWER PRODUCTION | 0 | 0 | [5] | 0 |
| (718) CHEMICALS | 46,584 | (40,384) | [6] | 6,200 |
| (720) MATERIALS AND SUPPLIES | 0 | 163 | [7] | 163 |
| (730) CONTRACTUAL SERVICES - BILLING | 0 | 7,886 | [8] | 7,886 |
| (731) CONTRACTUAL SERVICES - PROFESSIONAL | 10,648 | 1,352 | [9] | 12,000 |
| (735) CONTRACTUAL SERVICES - TESTING | 0 | 2,650 | [10] | 2,650 |
| (736) CONTRACTUAL SERVICES - OTHER | 28,243 | (8,230) | [11] | 20,013 |
| (740) RENTS | 0 | 1,800 | [12] | 1,800 |
| (750) TRANSPORTATION EXPENSE | 0 | 1,508 | [13] | 1,508 |
| (755) INSURANCE EXPENSE | 0 | 600 | [14] | 600 |
| (765) REGULATORY COMMISSION EXPENSES | 0 | 857 | [15] | 857 |
| (770) BAD DEBT EXPENSE | 0 | 0 | | 0 |
| (775) MISCELLANEOUS EXPENSES | 41 | 300 | [16] | 341 |
| | $116,184 | ($24,234) | | $91,950 |

RATE REDUCTION SCHEDULE

RIVER RANCH WATER MANAGEMENT, L.L.C. — SCHEDULE NO. 4
TEST YEAR ENDING 12/31/02 — DOCKET NO. 021067-WS

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

MONTHLY WATER RATES

| RESIDENTIAL SERVICE | MONTHLY APPROVED RATES | MONTHLY RATE REDUCTION |
|---|---|---|
| River Ranch Shores | $15.27 | $0.11 |
| Condo (Per Unit) | $12.22 | $0.08 |
| GENERAL SERVICE | | |
| Long Hammock Phase I/RV Phase II-V (Per Unit) | $12.22 | $0.08 |
| Westgate Properties | $1,099.68 | $7.64 |
| Church | $38.18 | $0.27 |
| All Others (Per ERC) | $15.27 | $0.11 |
| IRRIGATION SERVICE | | |
| Long Hammock: | | |
| Phase 1 | $106.91 | $0.74 |
| RV Area: | | |
| Phase II | $137.46 | $0.95 |
| Phase III | 183.28 | 1.27 |
| Phase IV | 91.64 | 0.64 |
| Phase V | 91.64 | 0.64 |

RATE REDUCTION SCHEDULE

RIVER RANCH WATER MANAGEMENT, L.L.C.
TEST YEAR ENDING 12/31/02

SCHEDULE NO. 4A
DOCKET NO. 021067-WS

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

MONTHLY WASTEWATER RATES

| RESIDENTIAL SERVICE | MONTHLY APPROVED RATES | MONTHLY RATE REDUCTION |
|---|---|---|
| River Ranch Shores | $16.30 | $0.09 |
| Condo (Per Unit) | $16.30 | $0.09 |
| GENERAL SERVICE | | |
| Long Hammock Phase I/RV Phase II-V (Per Unit) | $16.30 | $0.09 |
| Westgate Properties | $1,157.10 | $6.66 |
| All Others (Per ERC) | $16.30 | $0.09 |