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Public Service Commission

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COMMISSION
CLERK

-M-E-M-O-R-A-N-D-U-M-

DATE: January 26, 2006

TO: Director, Division of the Commission Clerk & Administrative Services (Bayó)

FROM: Division of Economic Regulation (Fletcher, Lester, Lingo, Lowe, Massoudi, Merta, Rendell, Willis) *Sm* *PL* *JS* *mm*
Office of the General Counsel (Gervasi) *ALM*

RE: Docket No. 050281-WS – Application for increase in water and wastewater rates in Volusia County by Plantation Bay Utility Company.

AGENDA: 02/07/06 – Regular Agenda – Proposed Agency Action except for Issues 35, 37 and 38 - Interested Persons May Participate

COMMISSIONERS ASSIGNED: All Commissioners

PREHEARING OFFICER: Deason

CRITICAL DATES: 02/18/06 (5-Month Effective Date (PAA Rate Case))

SPECIAL INSTRUCTIONS: None

FILE NAME AND LOCATION: S:\PSC\ECR\WP\050281.RCM.DOC

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Case Background

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

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

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

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

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

The Commission has jurisdiction pursuant to Section 367.081, Florida Statutes (F.S.).

Discussion of Issues

Test Year

Issue 1: Is Plantation's historical test period of the twelve months ending December 31, 2004 appropriate, and if not, what is the appropriate test year?

Recommendation: No. The simple average test year ending December 31, 2006, is a representative test period to measure the cost of service and to establish prospective rates. (Fletcher)

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

Staff's recommended 2006 projected test year is consistent with Order No. 15725, issued February 21, 1986, in Docket No. 840315-WS, In re: Application of Martin Downs Utilities, Inc. for an increase in water and wastewater rates to its customers in Martin County, Florida, in which the Commission found the following:

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

Further, in Southern Bell Telephone and Telegraph Company v. Florida Public Service Commission, 443 So.2d 92, 97 (Fla.1983), the Florida Supreme Court found that:

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

¹ See also Gulf Power Company v. Bevis, 289 So.2d 401, 404 (Fla.1974) (the fixing of utility rates must be related to matters which are reasonably predictable, as being involved, for the process is one of making a rule for the future); and Order No. PSC-03-0008-PAA-WU, issued January 2, 2003, in Docket No. 020406-WU, In re: Application for staff-assisted rate case in Polk County by Pinecrest Ranches, Inc.

The Commission has previously approved the use of projected test years. See, e.g., Order No. PSC-02-1168-PAA-WS, issued August 26, 2002, in Docket No. 010869-WS, In re: Application for staff-assisted rate in Marion County by East Marion Sanitary Systems, Inc.; and Order No. PSC-01-1246-PAA-WS, issued June 4, 2001, in Docket No. 001382-WS, In re: Application for staff-assisted rate case in Lake County by Pennbrooke Utilities, Inc.

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

Further, staff calculated the water and wastewater revenue requirements using the utility's requested 2004 test year. In doing so, staff utilized the following: 1) all rate base and net operating income adjustments in staff's audit which were stipulated to by Plantation; 2) a used and useful (U&U) percentage of 60.02% for the water treatment plant; a U&U percentage of 100% for the water distribution system; a U&U percentage of 29.48% for the wastewater treatment plant; a U&U percentage of 87.14% for the wastewater collection system; 3) the removal of net operating losses (NOLs) as an offset to credit accumulated deferred income taxes; 4) the removal of an income tax provision in the net operating income calculation; 5) the use of land ratios of the water and wastewater systems to allocate real estate taxes; and 6) the use of net plant ratios of the water and wastewater systems to allocate tangible personal property taxes. Based on these adjustments, staff's 2004 calculated revenue requirements resulted in a water revenue decrease of ~~(\$70,079) or (20.41%) (\$71,051) or (20.70%)~~, and a wastewater revenue increase of ~~\$142,036 or 62.33% \$141,716 or 62.19%~~. When offsetting the revenue decrease for water, the net wastewater revenue increase would be ~~\$71,957 or 24.15% \$70,665 or 23.64%~~. As discussed later, staff is recommending a revenue decrease of ~~(\$17,603), or (3.62%) (\$3,467), or (0.71%)~~, for water and an increase of ~~\$273,647, or 88.15% \$231,296, or 74.51%~~, for wastewater. The recommended 2006 revenue requirements represents a ~~\$184,087 \$157,164~~ total utility revenue increase above the staff's calculated 2004 revenue requirements.

Based on the above, staff recommends that the simple average test year ending December 31, 2006, is a representative test period to measure the cost of service and to establish prospective rates.

Quality of Service

Issue 2: Is the quality of service provided by Plantation satisfactory?

Recommendation: Staff recommends that the utility's overall quality of service for water should be considered satisfactory and the utility's overall quality of service for wastewater should be considered marginal. The utility should complete any and all improvements to the water and wastewater systems that are necessary to satisfy the standards set by the Department of Environmental Protection (DEP). Also, it is recommended that reuse advisory signs be placed at the beginning tees of each of nine-holes at the Plantation Bay Golf Course and also around any pond structures that hold the reclaimed water. The reuse advisory signs should be posted at all locations no later than 90 days from the date of the Consummating Order for this rate case. (Massoudi)

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

Staff's analysis below addresses each of these three components based on the information available.

Quality of the Water Product

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

Although the quality of the finished product for water exceeds the MCL for Disinfection Byproducts, it appears that the utility has begun to take the necessary steps toward resolving its Disinfection Byproducts issue. Based on the above, the quality of the finished product for water treatment plant should be considered satisfactory.

Operating Condition of the Water Facilities

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

In general, during the engineering field inspection, maintenance at the water plant-site appeared to have been given adequate attention. Water plant equipment appeared to have been receiving periodic maintenance and many improvements have been made. The plant ground within the fenced-in area was organized. The operational conditions of the water treatment plant-in-service are considered satisfactory.

All things considered, the operational conditions at the water treatment plants should be considered satisfactory at this time.

Quality of the Wastewater Product

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

Operating Condition of the Wastewater Facilities

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

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

- The weir of the clarifier was excessively overgrown with algae, the skimmer was totally non-operational due to the fact it was below the surface of the clarifier contents, and there were large amounts of solids flowing over the weir of the clarifier. All of these

deficiencies were causing the clarifier to not perform properly leading to a serious operational deficiency.

- The sand filters were not working at the time of inspection. When power was manually switched on, the sand filters did not operate or turn on. Also, there were solids and algae built up in the sand filter.
- The effluent in the chlorine contact chamber was slightly turbid but otherwise was clean. It was noted that there were bubbles rising to the surface of the chlorine contact chamber. Bubbles rising on the chlorine contact chamber surface may indicate that a sludge bed is forming.
- The utility also had records and reports deficiencies

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

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

Overall, the DEP's inspector found that the WWTP was found to be significantly out-of-compliance due to operational and record keeping deficiencies during his recent site inspection.

All things considered, the operational conditions at the wastewater treatment plant should not be considered satisfactory at this time. The utility should complete any and all improvements to the system that are necessary to satisfy the standards set by the DEP. Also, it is recommended that the reuse advisory signs be placed at the beginning tees of each nine-holes and also around any pond structures that hold the reclaimed water. The reuse advisory signs should be posted at all locations no later than 90 days from the date of the Consummating Order for this rate case.

The Utility's Attempt to Address Customer Satisfaction

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

An informal customer meeting was held on November 2, 2005, in the Club de Bonmont in Ormond Beach, Florida. The meeting was open to all customers at 2:00 p.m. There were approximately 120 persons that attended this meeting and 11 customers gave comments and concerns about the utility. The customers' primary concerns were increase rates for water and wastewater, and the quality of water. Several customers complained that their water is not drinkable because it is cloudy and contains black flakes and white particles. One of the customers left a sample of her water with staff that contained black flakes. One customer complained regarding the accuracy of his water meter. After the customer meeting, staff talked to the utility's operator, Mr. Glenn Wetherell, regarding the black flakes in some of the customers' water and asked him to investigate this issue. Staff also requested him to perform a meter test on the complaining customer's meter. Regarding the meter problem, Mr. Wetherell notified the staff that the utility installed a new meter for this customer. Also, staff reported to DEP regarding the quality of the water and black flakes. The DEP inspector stated that since he has received a similar complaint from another customer about the quality of water and black flakes, he inspected the utility's water and did not observe any black flakes or any extra deposits in the water. The DEP inspector stated that he will investigate the recent complaints again.

Based on the above, it appears that the utility promptly handles its customers' complaints, and staff recommends that the utility's response to customer complaints should be considered satisfactory.

Summary

Based on staff's review, the quality of the finished water exceeds the MCL for Disinfection Byproducts (TTHM and HAA5). However, the utility has begun to take the necessary steps toward resolving its Disinfection Byproducts issue by using chloramines instead of using the free chlorine for disinfection. The operational conditions of the water treatment plant-in-service are considered satisfactory. Therefore, the utility's overall quality of service for water should be considered satisfactory.

The quality of wastewater service appears to meet or exceed regulatory standards and is considered satisfactory. The DEP's inspector found that the WWTP was found to be significantly out-of-compliance due to operational and record keeping deficiencies at the plant during his recent site inspection. Also, he found that the reuse advisory signs were not posted on the golf courses as required by Part IV.10-11 of the facility's DEP operating permit. All things considered, the operational conditions at the wastewater treatment plant should not be considered satisfactory at this time. Therefore, staff recommends that the utility's overall quality of service for wastewater should be considered marginal. The utility should complete any and all improvements to the system that are necessary to satisfy the standards set by the DEP. Also, it is recommended that the reuse advisory signs be placed at the beginning tees of each nine-holes and also around any pond structures that hold the reclaimed water. The reuse advisory signs should be posted at all locations no later than 90 days from the date of the Consummating Order for this rate case.

Also, it appears that the utility promptly handles its customers' complaints, and staff recommends that the utility's response to customer complaints should be considered satisfactory.

Rate Base

Issue 3: Are there any stipulated rate base adjustments that should be made as result of staff's audits and the utility's responses to staff's data requests?

Recommendation: Yes. Based on uncontested audit adjustments, plant should be decreased by \$114,376 ~~\$85,504~~ for water and \$290,569 ~~\$294,141~~ for wastewater. (Fletcher)

Staff Analysis: In order to reflect the 2004 year-end stipulated plant adjustments, staff converted the utility's simple plant balances to the 2004 year-end balances. The following rate base adjustments represent stipulated audit adjustments by the utility.

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

<u>Audit Adjustments</u>	<u>Water</u>	<u>Wastewater</u>
8. Reclassify Phase 2AF, Unit 2 – Initial A.E. No. 3 (Continued)		
Increase Plant – Account No. 333	\$8,038	
Increase Plant – Account No. 335	\$15,369	
Decrease Plant – Account No. 347	\$4,034	
Increase Plant – Account No. 361		\$3,347
Increase Plant – Account No. 363		\$426
9. Reclassify Phase 2AF, Unit 3 – Initial Audit Exception No. 4		
Increase Plant – Account No. 331	<u>\$64,757</u>	
	<u>\$32,378</u>	
Decrease Plant – Account No. 333	<u>\$60,671</u>	
	<u>\$30,336</u>	
Increase Plant – Account No. 335	<u>\$6,013</u>	
	<u>\$3,007</u>	
Decrease Plant – Account No. 360		\$8,127
Decrease Plant – Account No. 361		<u>\$78,633</u>
		<u>\$78,635</u>
Increase Plant – Account No. 363		\$7,716
Increase Plant – Account No. 371		\$70,038
Decrease Plant – Account No. 381		<u>\$1,093</u>
		<u>\$2,185</u>
10. Reclassify Phase 2EV, Unit 1 – Initial Audit Exception No. 4		
Increase Plant – Account No. 331	<u>\$41,508</u>	
	<u>\$20,754</u>	
Increase Plant – Account No. 333	<u>\$5,235</u>	
	<u>\$2,618</u>	
Increase Plant – Account No. 335	<u>\$10,885</u>	
	<u>\$5,442</u>	
Decrease Plant – Account No. 360		\$2,829
Decrease Plant – Account No. 361		\$72,086
Increase Plant – Account No. 363		<u>\$17,715</u>
		<u>\$17,7158</u>
Increase Plant – Account No. 371		\$20,285
Decrease Plant – Account No. 382		\$32,470
11. Reclassify Phase 2AF, Unit 4 as CWIP – Initial Audit Exc. No. 4		
Decrease Plant – Account No. 331	<u>\$101,466</u>	
	<u>\$50,733</u>	
Decrease Plant – Account No. 335	<u>\$14,140</u>	
	<u>\$7,070</u>	
Decrease Plant – Account No. 347	<u>\$11,670</u>	
	<u>\$5,835</u>	
Decrease Plant – Account No. 360		<u>\$29,084</u>
		<u>\$14,542</u>
Decrease Plant – Account No. 361		<u>\$213,502</u>
		<u>\$106,751</u>
Decrease Plant – Account No. 381		<u>\$9,279</u>
		<u>\$4,639</u>
12. Reclassify Expense as Plant Item – Initial Audit Exception No. 10		
Increase Plant – Account No. 304	<u>\$1,800</u>	
	<u>\$900</u>	
13. Reclassify Phase 1DV, Unit 3C – Supplemental Audit Exc. No. 1		
Decrease Plant – Account No. 331	\$13,276	
Increase Plant – Account No. 333	\$6,977	
Increase Plant – Account No. 335	\$3,368	
Increase Plant – Account No. 361		\$4,902

<u>Audit Adjustments</u>	<u>Water</u>	<u>Wastewater</u>
13. Reclassify Phase 1DV, Unit 3C – Sup. Aud. Exc. No. 1 (Continued)		
Increase Plant – Account No. 363		\$3,981
Decrease Plant – Account No. 380		\$5,952
14. Reclassify Phase 2EV, Unit 2 – Supplemental Audit Exc. No. 1		
Decrease Plant – Account No. 331	\$3,782	
Increase Plant – Account No. 333	\$583	
Increase Plant – Account No. 335	\$860	
Increase Plant – Account No. 361		\$1,573
Increase Plant – Account No. 363		\$767
15. Recorded Plant/Reclassification/Retirement – Sup. Aud. Exc. No. 1		
Increase Plant – Account No. 310	\$1,700	
Decrease Plant – Account No. 311	\$270	
Increase Plant – Account No. 320	\$2,189	
Increase Plant – Account No. 334	\$245	
Decrease Plant – Account No. 371		\$14,995

All of the above adjustments represent uncontested rate base adjustments. Therefore, staff recommends that plant should be decreased by \$114,376 ~~\$85,501~~ for water and \$290,569 ~~\$294,141~~ for wastewater.

Issue 4: What are the used and useful percentages for the utility's water and wastewater systems

Recommendation: Plantation's used and useful percentages should be as follows:

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

As a result of the above recommended used and useful percentages, water rate base should be reduced by ~~\$165,804~~ ~~\$165,538~~ to reflect that 20.78% of treatment plant and 6.77% of distribution system should be considered non-used and useful. Further, wastewater rate base should be reduced by ~~\$921,779~~ ~~\$924,235~~ to reflect that 62.9% of treatment plant and 26.95% of the collection system should be considered non-used and useful. Accordingly, corresponding adjustments should also be made to reduce depreciation expense by ~~\$15,148~~ ~~\$15,132~~ and ~~\$55,223~~ ~~\$55,153~~ for water and wastewater, respectively, and to reduce property tax expense by ~~\$3,272~~ ~~\$3,270~~ and ~~\$5,266~~ ~~\$5,260~~, for water and wastewater, respectively. (Massoudi, Fletcher)

Staff Analysis: Staff has analyzed the utility's request and its analysis and recommendations are discussed below.

Water Treatment Plant

The utility hired Mr. Seidman, a utility consultant, to compile its used and useful calculations, sponsor its MFRs, and respond to data requests. In its filing, the utility stated that its source of supply, water treatment and pumping plant are 100% used and useful (U&U), the ground storage tank is 84.30% used and useful and its distribution system is 100% used and useful. Based on the utility's WTP flow diagram, the WTP consists of four wells at 175 gallon per minute (gpm) each, an aerator, a lime softening, gravity sand filters, a chlorinator, a 400,000 gallon ground storage tank, a 15,000 gallon hydropneumatic tank and 27,000 gallon backwash recovery, three transfer pumps, three high service pumps and an auxiliary power. The storage tank is designed and constructed with a bottom drain for both water service and backwash recovery.

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

Source of Supply

In its MFRs (Schedule, F5, p. 1 of 2), the utility evaluated the source of supply, water treatment and pumping plant together and evaluated the ground water storage separately. The utility stated:

Storage is not included as capacity in evaluating supply and treatment as was done by PSC Staff in Docket No. 011451-WS (Overearning). It is believed that such an approach overstates capacity. When storage is drawn down to meet demands, the supply and treatment facilities must be pumping to replenish the draw down. Storage replacement is a demand, not a source.

Staff disagrees with the utility that the source of supply, water treatment and pumping plant and the ground water storage should be evaluated separately. Staff believes that all of the utility's water system components should be evaluated on the total system. In Order No. PSC-03-1440-FOF-WS, issued December 22, 2003, in Docket No. 020071-WS, In re: Application for rate increase in Marion, Orange, Pasco, Pinellas, and Seminole Counties by Utilities, Inc. of Florida, (at page 65), the Commission determined that if a utility's wells, treatment, pumping, or storage facilities appear to be oversized, then each component could be evaluated separately. However, even if the components were separately evaluated, the Commission found that the efficiency, economics and sufficiency of the system would also need to be considered. The Commission further determined that the DEP sizing rule would be more appropriately used to determine if the company has met the standards necessary for DEP permitting, not to determine used and useful evaluations.

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

Capacity of Wells

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

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

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

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

Total Available Storage Capacity

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

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

Demand

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

Staff disagrees with the utility that backwashing the filters is a demand. Staff believes that 25,000 gallons for backwashing should be considered under the available storage tank

capacity. Although staff agrees that this amount is necessary for backwashing, staff believes that the 72,000 gallon allowance to maintain a minimum level of three feet above the intake pipe, while pumping for safe and reliable operating purposes, will compensate for this 25,000 gallons portion for the backwashing. Therefore, in this case, 25,000 gallons should not be allowed for the backwash or be added to the demand.

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

Staff disagrees with the utility's use of the 25% of MDD as is indicated in the above rule in its used and useful calculation. First, Staff believes that Rule 62-555.320, F.A.C, entitled "Design and Construction of Public Water Systems," specifically is for the regulation of the design and construction of public water systems and is not for reserve storage for emergency purposes.

Second, Rule 62-555.320(19), F.A.C, addresses finished-water storage capacity necessary for operational equalization to meet peak water demand. This rule states: "The total useful finished-water storage capacity (excluding any storage capacity for fire protection) connected to a water system shall at least equal 25 percent of the system's maximum-day water demand, excluding any design fire-flow demand."

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

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

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

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

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

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

Staff's Calculation of the Water Treatment Plant U&U Percentage

Staff calculated the used and useful percentage for Plantation's WTP by taking the average five highest day flow, plus a growth allowance, fire flow, and subtracted excessive unaccounted for water, divided by the capacity of the system.

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

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

As it is discussed in Issue 1, due to the high growth in the service area, staff has used a 2006 projected test year. The following steps are taken to calculate the average of the five highest days flow, average daily flow, and growth for projected year 2006:

Projected Average Five Highest Day Flow

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

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

Projected Average Daily Flow

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

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

Fire Flow Capacity

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

Projected Growth

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

Projected Excessive Unaccounted for Water (EUW)

Based on the utility's provided information and from the flow analysis, there does not appear to be excessive unaccounted for water in year 2004. Staff assumes that the pipes would be maintained properly and as a result recommends that the excessive unaccounted water would be zero in year 2006.

Projected Used and Useful Percentage for Water Treatment Plant

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

Water Distribution System

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

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

The projected average number of connections in 2006 was determined to be 1,629 ERCs. The projected customer growth for the 5-year period was determined to be 450 ERCs. By the formula approach, staff calculates the distribution system to be 93.23% used and useful (Attachment A, Page 2 of 4).

Wastewater Treatment Plant

In its MFRs, the utility did not provide a calculation to determine its used and useful percentage for the wastewater treatment plant. Instead, it stated that its plant is permitted as a slow rate public spray irrigation system. As such, the entire plant is considered a reuse project as defined in Section 403.064, F.S. Therefore, under the provisions of Section 367.0817(3), F.S., the treatment plant is 100% used and useful and its cost is fully recoverable.

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

Reuse

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

In its filing the utility stated that its wastewater treatment plants and collection systems are 100% used and useful, but did not provide a calculation. In its MFRs (Schedule, F6, p. 1 of 2), the utility evaluated its WWTP to be 100% used and useful because the plant is a reuse project as defined in Section 403.064, F.S. In addition, its permitted reuse capacity matches the total permitted capacity of the treatment portion of the facility.

Staff disagrees that simply because the utility provides reuse that its existing WWTP is 100% U&U. In a rate case filed by the utility, the burden is on the utility to prove that the requested rate increase is warranted. Florida Power Corp. v. Cresse, 413 So. 2d 1187, 1191 (Fla. 1982) (finding that the burden of proof in a Commission proceeding is always on a utility seeking a rate change, and upon other parties seeking to change established rates). Pursuant to Rule 25-30.115, F.A.C., water and wastewater utilities are required to maintain their accounts and records in conformance with the National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts (USOA). One of the primary reasons for the 1996 revision to the USOA was to provide accounts for reuse plant and regulatory assets and liabilities. Therefore, since 1996, the Uniform System of Accounts has specifically delineated plant accounts for reuse water treatment, disposal and distribution functions. The majority of the accounting requirements or accounts did not change from the 1984 version.

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

Pursuant to Section 367.0817, F.S., the Commission shall allow recovery of the prudent costs of a reuse project through rates. It has been the Commission's practice to consider the wastewater treatment plant and collection lines separate from the reuse portion of these facilities in determining used and useful. See Orders Nos. PSC-04-0363-PAA-SU, issued April 5, 2004 in Docket No. 020408-SU, In Re: Application for rate increase in Seminole County by Alafaya Utilities, Inc.; and PSC-03-0602-PAA-SU, issued May 13, 2003 in Docket No. 020409-SU, In Re: Application for rate increase in Charlotte County by Utilities, Inc. of Sandalhaven. It should be noted that Mr. Seidman was also the consultant who participated in both Dockets Nos. 020408-SU and 020409-SU. Therefore, consistent with prior Commission decisions, staff is

recommending that the specific reuse components identified by the utility be considered 100% used and useful.

Further, in the last two proceedings involving Plantation, a used an useful percentage was applied to the entire wastewater treatment and collection systems. The utility did not indicate in either of its last proceedings that there were reuse components. See Orders Nos. PSC-02-1449-PAA-WS, issued October 21, 2002 in Docket No. 011451-WS, In Re: Investigation of water and wastewater rates for possible overearnings by Plantation Bay Utility Co. in Volusia County, and PSC-96-0934-FOF-WS, issued July 18, 1996, in Docket No. 951296-WS, In Re: Application for a staff-assisted rate case in Volusia County by Plantation Bay Utility Co.

Therefore, consistent with past Commission practice, staff recommends that only the portions of the wastewater systems which are considered reuse components should be considered 100% used and useful. Further, the utility should be required to make the appropriate adjustments to reflect this reuse plant in the appropriate reuse plant accounts. Pursuant to Section 367.0817(3), F.S., the Commission allows recovery of reuse costs from the utility's water, wastewater, reuse customers or any combination thereof. Although staff is not recommending an allocation in this instant proceeding, the possibility exists in future proceedings. If the circumstances warrant such a future allocation, such as the necessity of more conservation water rates, this plant will need to be reflected in the appropriate reuse plant accounts.

Staff's Calculation of the Wastewater Treatment Plant U&U Percentage

Staff calculated the used and useful percentage for wastewater by taking the average daily flow, plus a growth allowance, and subtracted excessive infiltration or inflow, divided by the permitted capacity of plant.

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

Projected Average Daily Flow

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

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

Projected Growth

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

Projected Excessive Infiltration or Inflow (I&I)

Based on the utility's provided information, there does not appear to be an excessive I&I in year 2004. Staff assumes that the pipes would be maintained properly and as a result the excessive I&I would be zero in year 2006.

Used and Useful Percentage for Wastewater Treatment Plant

In accordance with the calculation sheet (Attachment A, Page 3 of 4), it is recommended that the projected used and useful percentage for the wastewater treatment plant should be 37.1%. It should be mentioned that it was previously determined that the utility's WWTP was 16% used and useful in Docket No. 951296-WS, by Order No. PSC-96-0934-FOF-WS and 29.4% used and useful in Docket No. 011451-WS, by Order No. PSC-02-1449-PAA-WS.

Wastewater Collection System

As was previously mentioned in the water distribution system section, the total available lots are 2,230 lots or 2,230 ERCs.

The projected average number of connections in 2006 was determined to be 1,276 ERCs for WWTP. The projected customer growth for the 5 year period was determined to be 353 ERCs. Staff calculates the collection system to be 73.05% used and useful (Attachment A, Page 4 of 4).

Used and Useful Summary

Based on the above, staff recommends that Plantation's used and useful percentages should be as follows:

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

As a result of the above recommended used and useful percentages, staff recommends that water rate base should be reduced by \$165,804 ~~\$165,538~~ to reflect that 20.78% of treatment plant and 6.77% of distribution system should be considered non-used and useful. Further, staff recommends that wastewater rate base should be reduced by \$921,779 ~~\$924,235~~ to reflect that 62.9% of treatment plant and 26.95% of collection system should be considered non-used and useful. Accordingly, corresponding adjustments should also be made to reduce depreciation expense by \$15,148 ~~\$15,132~~ and \$55,223 ~~\$55,153~~ for water and wastewater, respectively, and to reduce property tax expense by \$3,272 ~~\$3,270~~ and \$5,266 ~~\$5,260~~, for water and wastewater, respectively.

Issue 5: What is the appropriate value of land acquired from a related party in 2002?

Recommendation: Because the utility has failed to provide the support that the \$25,195 recorded amount is a reasonable or actual market-based amount, the value for the land acquired in 2002 should be \$0. Thus, the \$25,195 amount should be removed from the land for the water system. (Fletcher)

Staff Analysis: In its filing, Plantation reflected a water land balance of \$58,949. According to Disclosure No. 1 of the initial audit, staff auditors stated that the utility purchased an easement from Intervest at Plantation Bay Partnership, a Florida General Partnership, for \$25,000 on March 15, 2002. The auditors also stated that the above-mentioned document was executed by the president of PlanMor, Inc. the partnership's Managing General Partner, who also serves as the president of Plantation Bay Utility Company. The auditors deferred to the staff analyst as to whether the purchase price for the easement represents an actual market-based cost.

On November 8, 2005, staff requested that Plantation provide the following information in conjunction with its response to Audit Disclosure No. 1. Staff asked the utility to provide the purchase price of the specific acreage contained in the above easement deed when it was acquired by PlanMor, Inc. or any other related entity. The utility responded that the property was part of a larger transaction in 2001 for 725 acres, that included a number of agreements between the parties and this parcel was not independently negotiated. Based on a telephone discussion with the utility, the 725 acres had no associated value to it because of the way the transaction was structured. In addition, the utility stated that it is not aware of any sales of easements within its service territory to a third party.

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

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

By their very nature, related-party transactions require closer scrutiny. Although a transaction between related parties is not per se unreasonable, it is the utility's burden to prove that its costs are reasonable. Florida Power Corp. v. Cresse, 413 So. 2d 1187, 1191 (Fla. 1982). This burden is even greater when the transaction is between related parties. In GTE Florida, Inc. v. Deason, 642 So. 2d 545, 548 (Fla. 1994), the Florida Supreme Court established that the standard to use in evaluating affiliate transactions is whether those transactions exceed the going market rate or are otherwise inherently unfair. In its audit response, the utility has failed to

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provide the support that the \$25,195 recorded amount is a reasonable or actual market-based amount. As such, staff recommends that the value for the land acquired in 2002 should be \$0. Thus, staff recommends that the \$25,195 amount be removed from the land for the water system.

Issue 6: Should any further adjustment be made to the utility's December 31, 2004, accumulated depreciation balance?

Recommendation: Based on the stipulated plant adjustments in Issue 3, the utility's full year's depreciation policy, the use of year-end plant balances, and the depreciation rates prescribed by rule, the appropriate 2004 year-end balance for accumulated depreciation should be \$1,566,352 for water and \$1,429,690 for wastewater. Accordingly, the utility's 2004 year-end ~~simple average~~ accumulated depreciation balances ~~ending December 31, 2004~~, should be reduced by ~~\$9,572~~ \$7,841 for water and ~~\$20,163~~ \$17,381 for wastewater. Further, consistent with Issue 7, corresponding adjustments should be made to increase net depreciation expense by ~~\$9,056~~ \$9,039 for water and to decrease net depreciation by ~~\$23,624~~ (\$22,940) for wastewater. (Fletcher)

Staff Analysis: In its MFRs, the utility reflected December 31, 2004 year-end accumulated depreciation balances of \$1,576,306 for water and \$1,457,019 for wastewater. Rule 25-30.140, F.A.C., requires the use of prescribed service lives to depreciate water and wastewater plant accounts. In Audit Exception No. 5 of the initial audit, staff auditors state that Plantation used the incorrect service lives for Accounts Nos. 363 and 381 and failed to record any depreciation for Account No. 364. In addition, the auditors recalculated the utility's depreciation expense and accumulated depreciation based on the simple average balance of plant, instead of the year-end balance which the utility used in its MFRs.

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

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

Staff notes that the utility did reflect a \$17,224 year-end balance for Account No. 381, Plant Sewers. However, as reflected in Issue 3, the utility also agreed with Exception No. 4 of the initial audit, which reduced the plant sewers' balance from \$17,224 to \$6,853. Specifically, in Exception No. 4, the auditors stated that the utility recorded \$1,092.50 in Account No. 381 for Phase 2AF, Unit 3 and \$9,278.90 for 2AF, Unit4. The auditors recommended reclassifying the \$1,092.50 into another account, but not Account No. 397. The auditors also recommended that the \$9,278.90 be removed and recorded as construction work in progress. Further, staff has

reviewed the executed contractor's application for payments for Phase 2AF Unit 3 (Audit WP 16-5/2-2p1-4) and Phase 2AF, Unit 4 (Audit WP 16-5/4-1p1-4), and there is no item referring to computer software. Thus, the entire \$17,224 amount cannot be for computer software, and the utility has failed to provide any invoices to verify what the actual amount for computer software is. As a result, staff recommends that the auditor's recommendation to use a 35 year service life for Account No. 381 should be accepted.

In order to reflect the 2004 year-end accumulated depreciation adjustments, staff converted the utility's simple average accumulated depreciation balances to the 2004 year-end balances. Based on the stipulated plant adjustments in Issue 3, the utility's full year's depreciation policy, the use of year-end plant balances, and the depreciation rates prescribed by rule, staff recalculated depreciation expense and recommends that the appropriate 2004 year-end balance for accumulated depreciation should be \$1,566,352 for water and \$1,429,690 for wastewater, in order to project out to 2006. Accordingly, staff recommends that the utility's 2004 year-end simple average accumulated depreciation balances ending December 31, 2004, should be reduced by \$9,572 ~~\$7,841~~ for water and \$20,163 ~~\$17,381~~ for wastewater.

Further, the corresponding adjustments to depreciation expense are a reduction of \$4,569 ~~\$4,647~~ for water and a decrease of \$17,756 ~~\$17,866~~ for wastewater. CIAC amortization expense is netted with depreciation expense. As discussed in Issue 7, the corresponding adjustments to amortization expense are a reduction of \$13,626 ~~\$13,686~~ for water and an increase of \$5,867 ~~\$5,074~~ for wastewater. Consistent with Issue 7, the resulting corresponding adjustments to net depreciation expense are an increase of \$9,056 ~~\$9,039~~ for water and a decrease of \$23,624 ~~(\$22,940)~~ for wastewater.

Issue 7: What are the appropriate balances of contributions in aid of construction (CIAC) and accumulated amortization of CIAC as of December 31, 2004?

Recommendation: The appropriate balances of CIAC as of December 31, 2004, are \$1,800,812 ~~\$1,731,975~~ for water and \$2,371,658 ~~\$2,322,302~~ for wastewater. As a result, CIAC should be decreased by \$87,991 ~~\$46,796~~ for water and increased by \$89,259 ~~\$47,431~~ for wastewater. Further, the corresponding simple average accumulated amortization of CIAC balances are \$545,426 ~~\$518,204~~ for water and \$1,032,251 ~~\$995,455~~ for wastewater. Accordingly, accumulated amortization of CIAC should be decreased by \$30,082 ~~\$17,386~~ for water and increased by \$216,435 ~~\$25,079~~ for wastewater. (Fletcher)

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

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

In order to reflect the 2004 year-end CIAC and accumulated amortization of CIAC adjustments, staff converted the utility's simple average balances to the 2004 year-end balances. Using the above audit adjustments, the audited 2004 year-end balances are \$1,800,812 for water and \$2,371,658 for wastewater. In its filing, Plantation reflected December 31, 2004 year-end CIAC balances of \$1,888,804 for water and \$2,282,398 for wastewater. Based on staff's review, the auditors' adjustments simply represents the difference between the auditors' and the utility's 2004 year-end balances. Therefore, staff recommends that CIAC should be decreased by \$87,991 for water and increased by \$89,259 for wastewater.

~~The auditors' simple average balances are \$1,731,975 for water and \$2,322,302 for wastewater. Because the utility's rate base reflects simple average balances, staff believes that the adjustments should simply be the difference between the auditors' and the utility's 2003 and 2004 simple average balances. Thus, staff recommends that CIAC should be decreased by \$46,796 for water and increased by \$47,431 for wastewater. Staff further recommends that the~~

~~corresponding simple average accumulated amortization of CIAC balances are \$518,201 for water and \$995,455 for wastewater.~~

In its filing, Plantation also reflected simple average accumulated amortization of CIAC balances ending December 31, 2004 of \$535,587 for water and \$970,376 for wastewater. In Audit Exception No. 7 of the initial audit, staff auditors state that the utility's water and wastewater CIAC balances are overstated by \$48,870 and understated by \$260,174, respectively, as of December 31, 2004. According to its audit response, Plantation agrees that an adjustment to CIAC amortization is necessary, but it believes that the auditors mis-applied Rule 25-30.140(9)(b)&(c), F.A.C. The utility stated that it appears the auditors amortized water and wastewater system capacity charges using the rate for Account 331, Transmission and Distribution Mains, and Account 371, Pumping Equipment, respectively. Plantation asserted that the above rule requires that any composite rate used shall be recalculated each year based on the applicable plant balances and depreciation rates. The utility provided its calculated composite rates from 2002 to 2004, which excluded land, intangible, general and contributed property as these items either are not associated with the capacity charges or are amortized separately.

Staff agrees that a composite rate should be recalculated each year based on the applicable plant balances and depreciation rates in order to amortize the water and wastewater system capacity charges. Staff recalculated the composite rates for 2002 to 2004 because the utility failed to adjust its plant balances for the plant adjustments that Plantation had stipulated to when it calculated its composite rates. In order to reflect the 2004 year-end accumulated amortization of CIAC adjustments, staff converted the utility's simple average balances to the 2004 year-end balances. Based on the above, staff recommends that the 2004 year-end accumulated amortization of CIAC balances should be decreased by \$30,082 ~~\$17,386~~ for water and increased by \$216,435 ~~\$25,079~~ for wastewater.

Further, the corresponding adjustments to amortization expense are a reduction of \$13,626 ~~\$13,686~~ for water and an increase of \$5,867 ~~\$5,073~~ for wastewater. CIAC amortization expense is netted with depreciation expense. As discussed in Issue 6, staff has recommended a net depreciation expense increase of \$9,056 ~~\$9,039~~ for water and decrease of \$23,624 ~~\$22,940~~ for wastewater. These recommended net depreciation expense adjustments include the corresponding amortization expense adjustments mentioned above.

Issue 8: Should any net debit deferred taxes be included in rate base, and if so, what is the appropriate amount?

Recommendation: A deferred tax debit on net operating loss carry-forwards should not be allowed in the rate base calculation. This disallowance results in a deferred income tax credit of \$233,737 that should be included in the capital structure. (Lowe, Fletcher, Gervasi)

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

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

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

The recording of the deferred tax debit calculation is allowable under Rule 25-14.013, F.A.C. This rule is titled "Accounting for Deferred Income Taxes Under SFAS 109." The rule requires that SFAS 109 be implemented by each utility. Subsection (7) states:

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

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

The utility disagrees with staff's interpretation with respect to Rule 25-14.013, F.A.C. Their reasoning is that there is a conflict with Rule 25-30.433(3). This is a portion of the rule titled "Rate Case Proceeding" and states "[a]ny resulting net debit deferred taxes shall be included as a separate line item in the rate base." They reason that the implementation of SFAS 109 should be revenue neutral as a one-time charge. Staff believes the utility's interpretation is flawed because this rate case is the first time that the rule has been implemented by the utility for the deferred tax debit related to net operating loss carry-forwards. This deferred tax debit for Plantation has not been included in any previous proceeding before the Commission, nor has it been included in any annual report prior to 2005.

In addition, staff believes that the utility's proposal constitutes a request for retroactive ratemaking, which is prohibited by law.² The Commission has consistently recognized that ratemaking is prospective and that retroactive ratemaking is prohibited. By Order No. PSC-98-1243-FOF-WS at page 13,³ the Commission found that

[t]he general principle of retroactive ratemaking is that new rates are not to be applied to past consumption. The Courts have interpreted retroactive ratemaking to occur when an attempt is made to recover either past losses (underearnings) or overearnings in prospective rates. Past losses are interpreted to be prior period costs that a utility did not recover through its rates, causing the utility to earn less than a fair rate of return. An example of this was addressed in the Ortega case, [Order No. PSC-95-1376-FOF-WS, issued November 6, 1995, in Docket No. 940847-WS,] when the utility requested to reduce accumulated depreciation in a rate case for prior losses where the utility argued that it had not earned a fair rate of return. In City of Miami, [208 So. 2d 249,] the petitioner argued that rates should have been reduced for prior period overearnings and that the excess earnings should be refunded. Both of these attempts were deemed to be retroactive ratemaking and thus were prohibited.

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

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

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

³ Issued September 21, 1998, in Docket No. 971596-WS, In Re: Petition for limited proceeding regarding other postretirement employee benefits and petition for variance from or waiver of Rule 25-14.012, F.A.C., by United Water Florida Inc.

to the consumers, as they are safeguarded from surprise surcharges related to past accounting periods.

Plantation's proposal is an attempt to use prior losses to increase rate base by the amount of deferred taxes calculated on operating loss carry-forwards. Because it does not accord with Rule 25-14.013, F.A.C., and because it constitutes a request for retroactive ratemaking, staff recommends that the utility's proposal for including a net deferred tax debit in the rate base calculation be disallowed. The result of this disallowance will create a deferred tax credit of \$233,737. This amount is properly included in the capital structure as noted in Issue 13.

Issue 9: What is the appropriate working capital allowance?

Recommendation: The appropriate amount of working capital is \$29,139 for water and \$32,303 for wastewater. (Fletcher)

Staff Analysis: Rule 25-30.433(2), F.A.C., requires that Class B utilities use the formula method, or one-eighth of O&M expenses, to calculate the working capital allowance. The utility has properly filed its allowance for working capital using the formula method. Staff has recommended several adjustments to the utility's O&M expenses. Due to the adjustments recommended in other issues, staff recommends that working capital of \$29,139 and \$32,303 should be approved for water and wastewater, respectively. This reflects an increase of \$3,761 to the utility's requested working capital allowance of \$25,378 for water and an increase of \$5,934 from the utility's requested allowance of \$26,369 for wastewater.

Issue 10: What is the appropriate rate base for the December 31, 2006, projected test year?

Recommendation: Consistent with the appropriate amount of projected land, non-used and useful, and working capital components that were addressed in earlier issues and based on the recommended adjustments discussed in staff's analysis below, the appropriate rate base for the December 31, 2006 projected test year is \$1,160,115 ~~\$1,286,320~~ for water and \$1,899,019 ~~\$1,535,228~~ for wastewater. Accordingly, plant should be increased by \$899,136 ~~\$897,730~~ for water and \$1,520,443 ~~\$1,510,718~~ for wastewater, and accumulated depreciation should be increased by \$197,645 ~~\$47,451~~ for water and \$254,011 ~~\$253,846~~ for wastewater. Further, CIAC should be increased by \$252,820 for water and \$182,055 for wastewater, and accumulated amortization of CIAC should be increased by \$91,351 ~~\$91,280~~ for water and \$113,806 ~~\$112,914~~ for wastewater. (Fletcher)

Staff Analysis: In its MFRs, the utility reflected simple average test year ending December 31, 2004 rate bases of \$1,075,534 for water and \$2,020,176 for wastewater. As discussed in Issue 1, staff has recommended that the test year upon which to set prospective rates for Plantation is the simple average year ending December 31, 2006. The appropriate amount of projected land, non-used & useful, and working capital components were addressed in earlier issues. Further, as stated in previous issues, staff converted Plantation's simple average balances of plant, accumulated depreciation, CIAC, and accumulated amortization of CIAC to the utility's 2004 year-end balances, in order to reflect staff's 2004 year-end adjustments.

Typically, the appropriate rate base issue is a fall-out issue; however, staff has addressed the appropriate projections for plant, accumulated depreciation, CIAC, and accumulated amortization of CIAC. The following analysis breaks down staff's recommendations for projecting plant, accumulated depreciation, CIAC, and accumulated amortization of CIAC.

Plant in Service

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

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

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

Further, in Issue 23, staff is recommending that certain expenses, which the utility recorded as contractual services – engineering, should be capitalized to Phase 2AF, Units 5, 6, and 7. Based on the previously stipulated plant adjustments, the above plant additions and staff's recommended plant adjustments in Issue 23, staff recommends that the appropriate simple average year ending December 31, 2006 plant balances are \$4,465,738 ~~\$4,497,787~~ for water and \$5,829,219 ~~\$5,876,277~~ for wastewater. Accordingly, staff recommends that plant should be increased by \$899,136 ~~\$897,730~~ for water and \$1,520,443 ~~\$1,510,718~~ for wastewater.

Accumulated Depreciation

Based on the above mentioned plant balances, the utility's full year's depreciation policy, the use of year-end plant balances, and the depreciation rates prescribed by rule, staff recommends that the appropriate simple average year ending December 31, 2006 accumulated depreciation balances are \$1,763,997 ~~\$4,497,787~~ for water and \$1,683,701 ~~\$5,876,277~~ for wastewater. A corresponding adjustment should be made to increase accumulated depreciation by \$197,645 ~~\$47,451~~ for water and \$254,011 ~~\$253,846~~ for wastewater.

CIAC

Based on the adjustments addressed in Issue 7, the projected customer growth discussed in Issue 14, and staff's recommended service availability charges and policy covered in Issue 36, staff recommends that the appropriate simple average year ending December 31, 2006 CIAC balances are \$2,053,633 ~~\$2,053,632~~ for water and \$2,553,712 ~~\$2,553,713~~ for wastewater. A corresponding adjustment should be made to increase CIAC by \$252,820 for water and \$182,055 for wastewater.

Accumulated Amortization of CIAC

Based on the above mentioned CIAC balances, the utility's full year's amortization policy, the use of year-end plant balances, and composite amortization rates for amortizing capacity charges, staff recommends that the appropriate simple average year ending December 31, 2006 accumulated amortization of CIAC balances are \$636,777 ~~\$636,645~~ for water and \$1,146,058 ~~\$1,144,372~~ for wastewater. A corresponding adjustment should be made to increase accumulated amortization of CIAC by \$91,351 ~~\$91,280~~ for water and \$113,806 ~~\$112,914~~ for wastewater.

Projected Rate Base

Consistent with the projected land, non-used and useful, and working capital components addressed in earlier issues and the above recommended adjustments, staff recommends that the appropriate rate base for the December 31, 2006 projected test year is \$1,160,115 ~~\$1,286,320~~ for water and \$1,899,019 ~~\$1,535,228~~ for wastewater.

Cost of Capital

Issue 11: What is the appropriate regulatory treatment of Plantation's affiliate long-term debt?

Recommendation: A promissory note between the utility and a related party, in the amount of \$3,571,367, should be treated as common equity. Based on promissory notes between the utility and related parties Prestwick at Plantation Bay and Intervest at Plantation Bay Partnership, the appropriate balance for long-term debt is \$3,654,614 for the 2006 simple average test year, with a cost rate of 10.00%. (Lester)

Staff Analysis: Plantation has a promissory note for \$3,571,367, including \$1,040,367 in accrued interest, with Ecocen Corp., the original owners of the development. The utility has never made a payment on this related party debt and stopped accruing interest in 1992. The Commission treated this long-term debt as common equity in Order No. PSC-02-1449-PAA-WS, at 8. Staff recommends that the Commission continue to treat this long-term debt as common equity for regulatory purposes.

Plantation does have two related party promissory notes on which it is making interest payments at a rate of 10.00% per annum. The notes are with Prestwick at Plantation Bay and Intervest at Plantation Bay, which are both Florida general partnerships. Staff believes these notes are with related parties because Plantation's president serves as an officer of MHK Volusia County, Inc. and PlanMore, Inc., which are the managing partners of the two general partnerships. As of December 31, 2004, the total amount for these notes was \$762,721. Based on its projections, the utility will increase the balance of these notes to pay for plant additions in 2005 and 2006. Based on the actual and planned plant additions, staff recommends increasing the amount for these notes to \$3,654,614 for the 2006 simple average test year, which represents an increase of \$2,891,893.

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

Staff notes that banks lend to their most creditworthy customers at the prime rate on a short-term basis. A typical rate for a riskier loan is prime plus 2.00%. The current prime rate is 7.5% as of January 26, 2006 and, based on the expected actions of the Federal Reserve, is expected to increase to 7.75% on January 31, 2006. Further, staff notes that the utility's financial condition on a stand-alone basis is somewhat weak. The utility has relatively low levels of common equity and liquidity. Finally, the two notes have four year terms, which is much longer than typical short-term loans with rates tied to the prime rate. For these reasons, staff believes the 10.00% interest rate for these related party notes is reasonable.

Issue 12: What is the appropriate return on common equity?

Recommendation: The appropriate return on common equity is 11.78% with a range of plus or minus 100 basis points. (Lester)

Staff Analysis: With the reconciled capital structure, Plantation Bay has a 29.6% equity ratio as a percentage of investor sources of capital. Using this equity ratio and the leverage formula approved in Order No. PSC-05-0680-PAA-WS, issued on June 20, 2005 in Docket No. 050006-WS, staff recommends 11.78% as the appropriate cost of equity for Plantation Bay. Staff also recommends that the appropriate range for this authorized return on equity is plus or minus 100 basis points, i.e., 10.78% to 12.78%.

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

Issue 13: What is the appropriate weighted average cost of capital including the proper components, amounts, and cost rates associated with the capital structure for the test year ending December 31, 2006?

Recommendation: The appropriate weighted average cost of capital is 10.01%. (Lester, Lowe)

Staff Analysis: As discussed in Issue 1, the utility filed a capital structure based on a projected 2006 test year. Based on its original MFRs, the utility's capital structure consisted of simple average balances for common equity, long-term debt, and customer deposits. The utility adjusted its long-term debt and common equity balances to reflect the regulatory treatment of the \$3,571,367 related party debt as discussed in Issue 11.

As discussed in Issue 11, staff has recommended a 2006 simple average long-term debt balance of \$3,654,614, which represents an increase of \$2,891,893. Starting with the utility's simple average common equity balance, staff decreased common equity to reflect the effect the \$484,421 loss in 2005 has on debit retained earnings balance in 2006. Staff also increased common equity in 2006 by ~~\$98,399~~ \$90,638 to reflect the increase in test year net income based on the recommended revenue increase. The net effect of these adjustments results in a common equity balance of ~~\$1,541,483~~ \$1,537,602, which represents an increase of ~~\$577,941~~ \$574,059. Staff used the utility's simple average 2006 balance for customer deposits, \$47,945, which is an increase of \$19,485 over the 2004 amount. Based on staff's recommendation in Issue 8, the appropriate balance for deferred tax credits is \$233,737 before reconciling capital structure and rate base.

After these specific adjustments, staff reconciled capital structure and rate base on a pro rata basis over investor sources of capital and deferred tax credits. The normal procedure of the Commission is to specifically identify the deferred taxes and not reconcile the capital structure to rate base using the deferred taxes. In this case, a used and useful calculation was made to plant in service. The information is not available to determine how the used and useful percentages would apply to the deferred taxes. Since the used and useful adjustments reduce rate base they should also reduce the deferred taxes. As the information is not available, staff believes it is appropriate in this case to reconcile the capital structure, including deferred taxes, to the rate base on pro rata basis. With these adjustments, staff recommends that the appropriate weighted average cost of capital is 10.01%.

Net Operating Income

Issue 14: What are the appropriate methodologies for projecting customer growth and consumption for the residential and general service classes for the 2006 average test year, and what are the resulting bills, ERCs and consumption for the water and wastewater systems for that period?

Recommendation: The appropriate methodologies for projecting residential customer growth and consumption are quadratic regression for customer growth, multiple linear regression for residential water consumption and simple linear regression for residential wastewater consumption. No customer growth is assumed for the general service class, but the appropriate methodology to project general service consumption is multiple linear regression. The appropriate bills, ERCs and consumption for the water and wastewater systems are shown in the table below: (Lingo)

**STAFF'S RECOMMENDED PROJECTIONS
FOR THE 2006 TEST YEAR**

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

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

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

The coefficient of determination, or r^2 , is a reasonable measure of the closeness of fit of the regression line to the data points. It equals the proportion of the total variation in the dependent variable (in this case, the number of ERCs) that is explained by the regression line. As the r^2 approaches 100%, so does the closeness of fit of the regression line to the data points. The quadratic regression produced an r^2 score greater than the other two regression methodologies tried for both the residential water and wastewater systems. Therefore, staff recommends that the quadratic regression methodology be used to project residential customer

growth. Since no general service growth in ERCs has occurred during the past two years, staff recommends that no growth in this class be projected in 2006.

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

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

Issue 15: What adjustments, if any, are necessary to the utility's historical test year revenues to reflect the appropriate number of projected customers, bills and consumption?

Recommendation: Based on the recommended 2006 billing determinants in Issue 14, the utility's operating revenues should be increased by \$140,461 for water and \$81,517 for wastewater. (Fletcher, Merta)

Staff Analysis: In its filing, Plantation recorded operating revenues of \$346,238 for water and \$224,920 for wastewater. The utility stated that, pursuant to Rule 25-30.335(3), F.A.C., the utility prorates customer billing where service is rendered for less than 50% of the billing cycle. In 2004, these partial billings represented 1.97% of the total water residential bills and 1.05% of the total wastewater residential bills. Using these historical partial billing percentages and the recommended 2006 billing determinants in Issue 14, staff recommends that the utility's operating revenues should be increased by \$140,461 for water and \$81,517 for wastewater, which includes the projection of miscellaneous service revenues.

Issue 16: Should revenues be imputed which are associated with a related party developer's water usage?

Recommendation: Yes. Revenues in the amount of \$2,811 associated with a related party developer's water usage should be imputed. (Fletcher)

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

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

Staff notes that the sod watering associated with construction activities is for the utility's related party's developments. Staff believes that the utility should charge its related party developer for such water usage. Since the utility stated on two earlier occasions that it did not monitor/record the gallons drawn from hydrants for sod watering and Plantation did not provide any support for its estimated 250,000 gallons, staff believes it is reasonable to allot 300,000 gallons each for the water main installation and sod watering associated with construction activities.

When dividing the 300,000 gallons by 62 lots, the average gallons per lot is approximately 4,839 gallons. When multiplying the average gallons per lot by the 2006 ERC growth, staff calculated a total of 1,364,516 gallons associating with sod watering and construction activities for the projected 2006 test year. When applying the gallonage rate of \$2.06 per 1,000 gallons that was effective prior to the utility's filing, it results in revenues of \$2,811. Based on the above, staff recommends that \$2,811 associated with a related party developer's water usage should be imputed.

Issue 17: What is the appropriate amount of reuse revenue to include in the projected test year?

Recommendation: Based on the 2005 annualized reuse gallons and the recommended reuse rate in Issue 32, the appropriate reuse revenue for inclusion in the projected test year is \$1,034. (Fletcher, Merta)

Staff Analysis: According to the utility's response to Staff's First Data Request, Plantation's reuse system, entitled "slow rate Part III public access spray irrigation system" was placed into service in 1986. Pursuant to the utility's DEP reuse reports, the golf course in Plantation's service territory received approximately 22,154,600 gallons of reuse water in 2004. According to the utility's reuse reports to the St. John Water Management District, the golf course received approximately 7,389,000 gallons of reuse water from January, 2005 to June, 2005. The 2005 annualized reuse gallons are 14,778,000 gallons (7,389,000 multiplied by 2). As discussed in Issue 32, staff is recommending a reuse rate of \$0.07 per 1,000 gallons. Based on the 2005 annualized reuse gallons and the recommended reuse rate in Issue 32, the appropriate reuse revenue for inclusion in the projected test year is \$1,034.

Issue 18: Are there any stipulated net operating income adjustments that should be made as a result of staff's audits and the utility's responses to staff's data requests?

Recommendation: Yes. Based on uncontested adjustments, revenues should be decreased by \$2,957 for water and increased by \$2,957 for wastewater. Further, O&M expenses should be decreased by \$20,951 for water and increased by \$36 for wastewater. (Fletcher)

Staff Analysis: The following NOI adjustments represent audit adjustments and adjustments contained in the utility's responses to staff's data requests that are stipulated by the utility.

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

All of the above adjustments represent uncontested NOI adjustments. Therefore, staff recommends that revenues should be decreased by \$2,957 for water and increased by \$2,957 for wastewater. Further, staff recommends that O&M expenses should be decreased by \$20,951 for water and increased by \$36 for wastewater.

Issue 19: Should any other historical O&M expenses adjustments be made?

Recommendation: Yes. To reflect the appropriate 2004 historical purchased power and chemicals and the appropriate amortization of hurricane related costs, O&M expenses should be decreased by \$9,975 for water and increased by \$5,257 for wastewater. (Fletcher)

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

Purchased Power

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

Chemicals

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

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

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

Staff had discussions with the utility's water and wastewater operator and engineering consultant for plant improvements regarding the specified dosage rates. They both commented that more Aqua Mag is being used to comply with the DEP lead and copper rule, but neither of them provided any support documentation regarding the incremental quantities involved. The operator also stated that in mid-December orders are usually placed because of the response time on filling the order during this time. However, neither the operator nor the engineering consultant could explain the significant excess for the Aqua Mag and SM Hical Pebble QL above the stated dosage rates. Based on the above, staff recommends that chemicals should be reduced by \$5,944 for water and \$42 for wastewater.

Hurricane Related Costs

In Issue 18, the utility agreed to remove \$8,855 of hurricane damage expenses related to Exception 10 of the initial audit. In Audit Exception No. 11 of the initial audit, the auditors stated that the hurricane related costs are non-recurring expenses and should be amortized over five years, pursuant to Rule 25-30.433(8), F.A.C. Rule 25-30.433(8), F.A.C., requires non-recurring expenses to be amortized over a 5-year period unless a shorter or longer period can be justified.

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

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

Staff realizes that the Commission has approved recovery periods of 2 to 3 years in some of the recent storm damage cases for the electric and gas utilities. However, staff notes that the appropriate amortization period for hurricane damage costs in this proceeding is distinguishable from the approved recovery periods for those storm damage recovery proceedings. In the storm

damage proceedings, the Commission approved a surcharge to be collected over a 2 or 3-year period. In this proceeding, the hurricane costs will be included in rates until the next rate case.

According to the utility's water and wastewater capacity analysis report dated July 2004, Plantation intends to complete substantial wastewater plant improvements in 2010, in order to meet capacity demands. Since water demand is projected to increase significantly, the utility stated that it will be considering additional water treatment, including a membrane plant in 2010. Given the growth of this utility and the above-mentioned water and wastewater plant improvements, staff believes that the utility should be in for another rate case around 2010, which is four years from staff's recommended 2006 projected test year. Therefore, staff recommends that the 2004 hurricane costs should be amortized over four years. Accordingly, staff recommends that wastewater O&M expenses should be increased by \$2,213. This adjustment is consistent with a recent Commission decision in another rate case. See Order No. PSC-05-0621-PAA-WU, issued June 6, 2005, in Docket No. 041145-WU, In re: Application for staff-assisted rate case in Pasco County by Holiday Utility Company, Inc.

In summary, to reflect the appropriate 2004 historical purchased power and chemicals and the appropriate amortization of hurricane related costs, staff recommends that O&M expenses should be decreased by \$9,975 for water and increased by \$5,257 for wastewater.

Issue 20: What non-growth related adjustments are necessary to project sludge removal expense, fuel for power production, contractual services - management fees, and contractual services - other?

Recommendation: Based on the non-growth related adjustments discussed in staff's analysis below, O&M expenses should be increased by \$29,344 for water and \$19,302 for wastewater. (Fletcher)

Staff Analysis: The following is staff's analysis of non-growth related adjustments to sludge removal expense, fuel for power production, contractual services - management fees, contractual services - other, and general liability insurance. The 2006 growth related adjustments for sludge removal, fuel for power production, and contractual services - other expenses are addressed in Issue 23.

Sludge Removal Expense

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

Fuel for Power Production

As discussed in Issue 18, the utility purchased fuel for power production in 2004 of \$239 each for water and wastewater. Based on the utility's response to Staff's Second Data Request, the fuel oil per gallon increased from \$1.63 to \$2.94. Based on staff's review of the 2004 expenses, the utility only purchases the fuel oil once per year. As such, in order to project the 2005 expense, staff removed the September 2004 amount from consideration in the 2005 O&M expenses and recommends only including the October 2005 amount of \$295 each for water and wastewater. This represents an increase \$56 (\$295 less \$239) each for water and wastewater.

Contractual Services - Management Fees

In 2004, Plantation's contractual services - management fees allocation was \$38,880 for water and \$25,920 for wastewater, which was based on revenues for each system. In 2003 and 2004, Plantation recorded total contractual services - management fees of \$64,800. According to the utility's response to Staff's Second Data Request, the utility stated that Intervest Construction, Inc.'s (ICI) annual management fee was increasing from \$64,800 to \$90,000 in 2005. When applying staff's 2005 benchmark factor, the projected 2005 annual management fee is \$78,876, which is \$11,124 less than the utility's requested increase. However, when applying staff's 2005 and 2006 benchmark factors, the projected 2006 annual management fee is \$92,114,

which is \$2,114 greater than the utility's requested \$90,000 management fee. Thus, staff recommends that the utility's requested \$90,000 is a reasonable amount for the projected 2006 test year. Using the 2006 ERCs for allocation purposes, staff recommends that contractual services – management fees should be increased by \$15,549 for water and \$9,651 for wastewater.

Contractual Services – Other

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

General Liability Insurance

In 2004, the utility recorded general liability insurance of \$7,853 for water and \$5,236 for wastewater. According to the utility's response of Staff's Second Data Request, the utility provided support documentation that its general liability insurance had increased by \$1,271, when the policy was renewed in September 2005. As a result, staff recommends that the 2006 projected general liability insurance should be \$7,738 for water and \$6,622 for wastewater. This represents an increase of \$636 each for water and wastewater.

Summary of Non-Growth O&M Expense Adjustments

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

Issue 21: What is the appropriate amount of purchased power expense for the December 31, 2006, projected test year?

Recommendation: The appropriate amount of purchased power expense for the December 31, 2006, projected test year is \$27,835 for water and \$33,425 for wastewater. Accordingly, purchased power expense should be increased by \$8,174 for water and \$9,130 for wastewater. (Fletcher)

Staff Analysis: In its MFRs, the utility recorded purchased power of \$23,691 for water and \$21,209 for wastewater. As discussed in Issue 19, using the ERCs for allocation purposes, staff recommended that purchased power should be \$19,661 for water and \$24,295 for wastewater for the 2004 historical test year. Based on the utility's response to Staff's Second Data Request, the utility provided a few invoices supporting that its purchased power general service non-demand charges were increasing from \$0.083790 to \$0.088560 per kilo-watt hour (KWh) and its purchased power general demand charges were increasing from 0.052610 to 0.056910 per KWh. Plantation did not provide all the 2004 and 2005 invoices which reflect the KWhs. Also, although a 100% audit of these expenses was performed in the initial or supplemental audits, a copy of these invoices were not included in the workpapers.

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

Issue 22: What is the appropriate amount of chemical expense for the December 31, 2006, projected test year?

Recommendation: The appropriate amount of chemical expense for the December 31, 2006, projected test year is \$21,072 for water and \$5,670 for wastewater. Accordingly, chemical expense should be increased by \$7,711 for water and \$2,400 for wastewater. (Fletcher)

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

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

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

Based on the above, staff recommends that the appropriate amount of chemical expense for the December 31, 2006, projected test year is \$21,072 for water and \$5,670 for wastewater.

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Accordingly, staff recommends that chemical expense should be increased by \$7,711 for water and \$2,400 for wastewater.

Issue 23: What other adjustments, if any, are necessary to the utility's historical test year expenses to reflect the appropriate number of projected customers, bills and consumption?

Recommendation: Based on staff's recommended 2005 expenses in Issue 20, the supplemental audit findings, and the staff's 2005 historical adjustments and the benchmark indices discussed in the staff analysis below, O&M expenses should be increased by \$33,460 for water and by \$18,755 for wastewater, in order to reflect the appropriate number of projected customers, bills and consumption recommended in Issue 14. (Fletcher, Merta)

Staff Analysis: In its filing, Plantation recorded 2004 O&M expenses of \$203,025 for water and \$210,952 for wastewater. As discussed in Issues 20 through 22, staff has recommended the appropriate 2006 expense amounts for contractual services – management fees, general liability insurance, purchased power expense, and chemicals. In Issue 14, staff has recommended the appropriate number of projected customers, bills and consumption. The following analysis will discuss what additional expense adjustments are necessary to reflect the appropriate number of projected customers, bills and consumption.

As stated earlier, staff conducted a supplemental audit of the utility's books and records which covered the period from January 1, 2005 to July 31, 2005. In Audit Exception No. 8 of the supplemental audit, the auditors recommended several changes to the utility's O&M expenses that were recorded in its general ledger. In its response, Plantation agreed with the auditors' recommend O&M expense adjustments. With the exception of a few additional staff adjustments to materials & supplies, contractual services – engineering, contractual services – legal, and contractual services - other, staff has utilized the actual audited totals for the first seven months in 2005, in order to project the 2005 and 2006 O&M expenses.

First, in the supplemental audit, two materials & supplies invoices totaling \$668 were not allocated between water and wastewater. Based on the 2005 ERCs, staff allocated these two invoices and the other invoices associated with water and wastewater. Second, the utility recorded \$219 in contractual services - engineering to prepare maps associated with its recent amendment case and recorded \$5,692 in contractual services - legal for filing the amendment application and responding to staff's inquiries during the processing of the amendment case. By Order No. PSC-05-0491-FOF-WS, issued May 5, 2005, in Docket No. 050123-WS, In re: Application for "quick take" amendment of Certificate Nos. 455-W and 389-S in Flagler County by Plantation Bay Utility Company, the Commission approved the utility's application to service the community park that encompasses a recreation park with tennis and basketball courts, baseball fields, walking trails, and a community center. Rule 25-30.433(8), F.A.C., states that non-recurring expenses shall be amortized over a 5-year period unless a shorter or longer period of time can be adjusted. Staff believes these costs represent regulatory commission expense associated with Docket No. 050123-WS and should be amortized over five years, pursuant to Rule 25-30.433(8), F.A.C. This treatment is consistent with the Commission's decision in a recent rate case for Alafaya Utilities, Inc. See Order No. PSC-04-0363-PAA-SU, issued April 5, 2004, in Docket No. 020408-SU, In re: Application for rate increase in Seminole County by Alafaya Utilities, Inc.

Third, Plantation recorded \$731 in contractual services - engineering for water and sewer designs associated with the construction phase 2AF, Units 5, 6, and 7, which were discussed

earlier in Issue 10. Because these expenditures related to the 2005 and 2006 water and wastewater line expansions, staff believes these costs should be capitalized. Fourth, the utility recorded \$103 and \$1,649 in contractual services- legal and other, respectively, for a main cut by a cable company. Plantation also recorded \$4,270 in contractual services – other for the repair of a water line at the Plantation Bay Golf Course. Staff believes that both of these line repairs are non-recurring in nature and should be amortized over a 5-year period. Lastly, as discussed in Issue 20, there were uncontested amortization adjustments for deferred rate expense associated with the Commission's 2001 earnings investigation of Plantation and several other deferred expenses. Because these deferred debits were fully amortized in 2005, staff has removed them for purposes of projecting the 2006 O&M expenses.

Consistent with the ERC growth for 2005 and 2006 recommended in Issue 14, staff calculated benchmark indices to project the remaining O&M expenses. Using the 2005 ERC growth and the Commission approved 2005 price index, staff calculated 2005 benchmark index factors of 1.2172 for water and 1.1596 for wastewater. Using the 2006 ERC growth and the Commission approved 2005 price index, staff calculated 2006 benchmark index factors of 1.2165 for water and 1.1647 for wastewater.

Based on staff's recommended 2005 expenses in Issue 20, the supplemental audit findings, the staff's 2005 historical adjustments discussed above, and the benchmark indices mentioned above, staff recommends that O&M expenses should be increased by \$33,460 for water and by \$18,755 for wastewater, in order to reflect the appropriate number of projected customers, bills and consumption recommended in Issue 14.

Issue 24: What is the appropriate amount of rate case expense?

Recommendation: No rate case expense should be allowed for water, and the utility's wastewater system should be allowed \$38,680 in rate case expense. Rate case expense should be reduced by \$17,674 for water and by \$7,406 for wastewater. (Fletcher, Merta)

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

	<u>MFR</u> <u>Estimated</u>	<u>Actual</u>	<u>Additional</u> <u>Estimated</u>	<u>Total</u>
Filing Fee	\$4,000	\$5,500	\$0	\$5,500
Legal Fees	45,000	35,899	14,000	49,899
Accounting Fees	75,000	97,630	12,067	109,697
Consultant Fees	11,000	8,115	3,594	11,709
ICI In-house Fees	0	25,873	9,216	35,089
Notices	<u>4,000</u>	<u>0</u>	<u>4,000</u>	<u>4,000</u>
Total Rate Case Expense	<u>\$139,000</u>	<u>\$173,017</u>	<u>\$42,877</u>	<u>\$215,894</u>

Pursuant to Section 367.081(7), F.S., the Commission shall determine the reasonableness of rate case expenses and shall disallow all rate case expenses determined to be unreasonable. Staff has examined the requested actual expenses, supporting documentation, and estimated expenses as listed above for the current rate case. Based on our review, staff believes several adjustments are necessary to the revised rate case expense estimate.

The first adjustment relates to costs incurred to correct deficiencies in the MFR filing. Based on staff's review of invoices, the utility's consultant and attorney billed a combined amount of \$650 for correcting the MFR deficiencies. The Commission has previously disallowed rate case expense associated with correcting MFR deficiencies because of duplicate filing costs. See Order No. PSC-05-0624-PAA-WS, issued Jun 7, 2005, in Docket No. 040450-WS, In re: Application for rate increase in Martin County by Indiantown Company, Inc.; and Order No. PSC-01-0326-FOF-SU, issued February 6, 2001, in Docket No. 991643-SU, In Re: Application for increase in wastewater rates in Seven Springs System in Pasco County by Aloha Utilities, Inc. Accordingly, staff recommends that \$650 should be removed as duplicative and unreasonable rate case expense.

The second adjustment relates to accounting fees totaling \$925 for used and useful calculations, which represents 5 hours of work done by Mr. Nixon, the utility's rate case accountant, at \$185 per hour. As indicated on MFR Schedule B-10, Plantation stated that Mr. Seidman, the utility's consultant, is responsible for used and useful and the "F" section in the

MFRs. Given the MFR template excel files, staff believes there should be minimal time involved to reflect non-used and useful amounts in Sections "A" and "B" of the MFRs. Staff further believes that the 5 hours spent by Nixon are excessive and that 1.50 hours by Mr. DeChario at \$115 per hour and 0.50 hours for Mr. Nixon's review are more reasonable. Thus, staff recommends that the rate case expense should be reduced by \$660 (\$925 less \$265).

The third adjustment relates to the 26.75 hours estimated by Mr. Seidman to complete the rate case. Specifically, Mr. Seidman estimated 22.75 hours to assist with and respond to data requests and 4 hours to prepare for and attend the agenda. After Mr. Seidman's stated actual hours spent on data requests, staff is only aware of one subsequent e-mail data request, regarding well capacities for the water treatment plant used and useful issue. Based on the information requested, staff believes that no more than 2 hours at \$125 per hour is reasonable for this data request. Further, given the number of issues in this recommendation and the great disparity between the recommended wastewater used & useful percentage in Issue 4 and the utility's proposed 100% wastewater used and useful percentage, staff believes that approximately 7 hours to prepare and attend agenda is more reasonable. Accordingly, staff recommends that rate case expense should be reduced by \$2,190.

The fourth adjustment relates to responses to staff data requests regarding accumulated deferred income taxes and income taxes. As discussed in Issue 8, staff cited several cases where utilities attempted to increase rate base by past operating losses. Staff does not see a difference between what the utility proposes and the cases cited by staff. Staff believes the utility is attempting to use prior operating losses to increase rate base by the amount of deferred taxes calculated on operating loss carry-forwards. Further, as addressed in Issue 27, the utility has never paid income taxes and has substantial net operating loss carry-forwards. Although some of these loss carry-forwards will expire before being used, staff believes that for the next 5 to 6 years the utility will incur no income tax liability. However, Plantation proposed an income tax provision of \$37,375 for water and \$70,201 for wastewater. Staff believes that these proposals were inappropriately included in the rate case and that rate case expense associated with them should not be approved. Thus, staff recommends that a rate case expense reduction should be made for the numerous data requests sent to the utility in order to ascertain why it included a net debit accumulated deferred income tax balance in rate base and an income tax provision in its proposed revenue requirements for water and wastewater.

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

information was not sufficient to determine the exact hours spent to respond to staff's accumulated deferred income taxes and income taxes data requests. When applying the 15.92% ratio, staff recommends accounting and legal fees should be reduced by \$7,324 and \$4,532, respectively.

The fifth adjustment relates to the \$7,824 of estimated costs to complete this case by ICI employees. The utility simply stated that the \$7,824 was the estimate to complete, but it failed to provide any detailed documentation for what was involved. In those cases where rate case expense has not been supported by detailed documentation, the Commission practice has been to disallow some portion or remove all unsupported amounts. See Order No. PSC-94-0075-FOF-WS, issued January 21, 1994, in Docket No. 921261-WS, In re: Application for a Rate Increase in Lee County by Harbor Utilities Company, Inc.; Order No. PSC-96-0629-FOF-WS, issued May 10, 1996, in Docket No. 950515-WS, In re: Application for staff-assisted rate case in Martin County by Laniger Enterprises of America, Inc.; and Order No. PSC-96-0860-FOF-SU, issued July 2, 1996, in Docket No. 950967-SU, In re: Application for staff-assisted rate case in Highlands County by Fairmount Utilities, the 2nd, Inc. Staff notes that, in all of the cases cited above, the Commission removed the entire unsupported amounts. Based on the above, staff recommends that the \$7,824 of unsupported rate case expense should be removed.

It is the utility's burden to justify its requested costs. Florida Power Corp. v. Cresse, 413 So. 2d 1187, 1191 (Fla. 1982). Further, the Commission has broad discretion with respect to allowance of rate case expense. It would constitute an abuse of discretion to automatically award rate case expense without reference to the prudence of the costs incurred in the rate case proceedings. Meadowbrook Util. Sys., Inc. v. FPSC, 518 So. 2d 326, 327 (Fla. 1st DCA 1987), review denied by 529 So. 2d 694 (Fla. 1988).

With the five recommended adjustments above, the resulting rate case expense total is \$188,869, which represents a reduction of \$27,025. Based on a review of approved rate case expense for several recent file and suspend rate cases, staff believes the \$188,869 amount is excessive. Attachment B contains staff's analysis of the average rate case expense cost approved by the Commission in recent years for water and wastewater file and suspend cases. This attachment also includes the approved rate case expense of two recent file and suspend cases that went directly to hearing. For both of these cases, the cost per ERC was significantly less than Plantation's cost per ERC using the \$188,869 adjusted amount discussed above. As illustrated in Attachment B, the total average cost per ERC for seven recent file and suspend PAA rate cases is \$25.30 per ERC. Using the average cost of \$25.30 per ERC, staff recommends that rate case expense should be further reduced by \$110,156, which results in total rate case expense of \$78,713.

A breakdown of the \$78,713 amount is illustrated in the following table:

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

The Commission has previously adjusted rate case expense by showing a strong correlation between the number of ERCs and rate case expense. See Order No. 10465, issued December 21, 1981, in Docket No. 800641-W, In re: Application of Keystone Water Company, Inc. for an increase in water rates to its customers in Clay County, Florida. On June 29, 1982, the First District Court of Appeal affirmed the Commission's use of the average cost per ERC of prior approved rate case expense amounts to determine an allowable amount for a utility. Keystone Water Co., Inc. v. Florida Public Service Commission, 417 So. 2d 335 (Fla. 1st DCA 1982), petition for review dismissed by 419 So. 2d 1198 (Fla. 1982).

Further, the Commission has previously disallowed rate expense in a limited proceeding where the rate increase was denied. See Order No. PSC-98-1583-FOF-WS, issued November 25, 1998, in Docket No. 971663-WS, In re: Application for Florida Cities Water Company for Recovery of Environmental Litigation Costs.; and Order No. PSC-99-1917-PAA-WS, issued September 28, 1999, in Dockets Nos. 970536-WS and 980245-WS, In re: Application for limited proceeding increase in water and wastewater rates in Pasco County by Aloha Utilities, Inc. Although the Commission enjoys broad discretion with respect to the allowance of rate case expense, the First District Court of Appeals has determined that whether a rate increase is granted is not the sole criteria on which that discretion rests. See Florida Crown Utility Services., Inc. v. Utility Regulatory Board of Jacksonville, 274 So. 2d 597, 598 (Fla. 1st DCA 1973).

Using the projected 2006 ERCs, the rate case expense associated with water is \$40,033 and the amount associated with wastewater is \$38,680. Staff has reservations about allowing any rate case expense for water for the following reasons. First, as stated in Issue 1, staff calculated the water and wastewater revenue requirements using the utility's requested 2004 test year, which resulted in a water revenue decrease of (\$70,079) or (20.41%) ~~(\$71,051) or (20.70%)~~. Second, as discussed later, staff is recommending a revenue decrease of (\$17,603), or (3.62%) ~~(\$3,467), or (0.71%)~~, for water. If the rate case expense of \$40,003 for water were allowed, the annual rate case amortization expense would be \$10,008, which would result in a revenue decrease increase of \$6,991 ~~\$7,145~~.

Under the Commission's rate setting authority, a utility seeking a change in rates must demonstrate that its present rates are unreasonable. South Fla. Natural Gas v. Florida Public Service Commission, 534 So. 2d 695, 697 (Fla. 1988). Staff believes that it is inappropriate to

approve rate case expense for water because of the utility's overearnings posture in 2004 that was discussed in Issue 1 and the recommended 2006 revenue decrease addressed in Issue 28. Staff further believes that the utility's decision to file for water rate relief was imprudent and that the customers should therefore not have to bear this cost.

Therefore, for the reasons stated above, staff recommends that no rate case expense should be allowed for water and that the utility's wastewater system should be allowed \$38,680 in rate case expense. The recommended allowable rate case expense is to be amortized over four years, pursuant to Section 367.0816, F.S., at \$9,670 per year. Based on the data provided by the utility and the above recommended adjustments, staff recommends that the rate case expense should be reduced by \$17,674 for water and \$7,406 for wastewater. This represents the difference between the \$9,670 recommended by staff and the \$34,750 included as expenses on MFR Schedule B-10.

As discussed in Issue 30, staff has recommended no repression adjustment for water due to the recommended revenue decrease. If the water rate case expense of \$40,033 were allowed by the Commission, the revenue ~~decrease~~ increase would be \$6,991 or 1.44% ~~\$7,145 or 1.47%~~. As such ~~Based on further analysis~~, staff would still recommend no repression adjustment if the Commission approved the \$40,033 amount for water. ~~However, staff notes that, if the Commission decides to allow rate case expense greater than the \$40,033 amount, the repression issue for water will have to be re-evaluated to determine if an adjustment is necessary, based on the amount the Commission allows for rate case expense.~~

Issue 25: What is the appropriate amount of property taxes for the December 31, 2006, projected test year?

Recommendation: The appropriate real estate and tangible property taxes should be \$31,257 ~~\$32,234~~ for water and \$47,947 ~~\$43,622~~ for wastewater. Accordingly, property taxes should be decreased by \$3,157 ~~\$2,180~~ for water and increased by \$24,734 ~~\$20,409~~ for wastewater. (Fletcher)

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

Second, the utility used its 2004 land balances of \$58,949 for water and \$50,631 for wastewater to project its real estate taxes. However, according to the utility's tax bills the total real estate tax assessed value for this utility was \$74,070, which is \$35,510 lower than the total amount record on the utility's books for land. Further, based on a discussion with the utility, Plantation does not pay the real estate tax on the land associated with the \$25,195 easement previously discussed in Issue 5. Lastly, according to its 2004 tax bill, the utility's total tax assessed value for tangible personal property is \$4,093,706. The utility's 2004 net plant, excluding intangibles, land, the utility's reuse holding pond, and general plant, is \$4,630,068, which is \$536,362 greater than the total tax assessed value.

As stated above, Plantation recorded real estate and tangible personal property taxes of \$34,414 for water and \$23,213 for wastewater. Based on operating revenues, the utility allocated 60 percent of its 2004 property taxes to water and 40 percent to wastewater. Staff believes it would be more reasonable to allocate real estate taxes based on the land ratios of Plantation's water and wastewater systems. The recommended fall-out ratios are 40 percent for water and 60 percent for wastewater. Staff also believes it would be more reasonable to allocate tangible personal property taxes based net plant ratios of the utility's water and wastewater systems. The recommended fall-out net plant ratios for 2006 are 42.53% for water and 57.47% for wastewater.

Based on the above, staff believes the real estate taxes should be projected using the 2004 tax assessed value for land owned by the utility, the 2005 millage rate, and the 4.00% discount for payment in November. The resulting calculation is \$983 for 2006 real estate taxes. In order to project tangible personal property, staff calculated a ratio of the 2004 tax assessed value to the 2004 net plant, excluding intangibles, land, the utility's reuse holding pond, and general plant. Applying this ratio to the recommended projected net plant additions, staff estimated the 2006 tangible property taxable value to be \$5,643,394. Using the projected 2006 taxable value, the 2005 millage rate, and the 4.00% discount for payment in November, staff

calculated the projected 2006 tangible personal property taxes to be \$79,204 ~~\$74,873~~. Therefore, staff recommends that the appropriate real estate and tangible property should be \$31,257 ~~\$32,234~~ for water and \$47,947 ~~\$43,622~~ for wastewater. Accordingly, staff recommends that property taxes should be decreased by \$3,157 ~~\$2,180~~ for water and increased by \$24,734 ~~\$20,409~~ for wastewater.

Issue 26: Should the utility be entitled to an income tax provision?

Recommendation: No. The utility should not be allowed an income tax provision. (Lowe)

Staff Analysis: The utility has proposed that an income tax provision be calculated. Staff disagrees with this proposal.

As previously stated in Issue No. 8, the utility has never paid income taxes. The utility has substantial net operating loss carry-forwards. Although some of these loss carry-forwards will expire before being used, staff believes that for the next 5 to 6 years the utility will incur no income tax liability.

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

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

Order No. PSC-04-1260-PAA-GU, issued December 20, 2004 Docket No. 040270-GU, In re: Application for rate increase by Sebring Gas System, Inc. The instant case has exactly the same facts. Therefore, staff recommends that there be no provision for income taxes in this case.

Issue 27: What is the test year water and wastewater operating income or loss before any revenue increase?

Recommendation: Based on the adjustments discussed in previous issues, the test year water operating income before any provision for increased revenues should be \$132,958 ~~\$132,009~~. The test year wastewater operating loss before any provision for increased revenues should be (\$71,209) ~~(\$67,286)~~. (Fletcher)

Staff Analysis: As shown on attached Schedules No. 3-A and 3-B, after applying staff's adjustments, the test year net operating income before any revenue increase is \$132,958 ~~\$132,009~~ for water. Also, the test year wastewater operating loss before any provision for increased revenues is (\$71,209) ~~(\$67,286)~~. Staff's adjustments to operating income are listed on Schedule 3-C.

Issue 28: What is the appropriate revenue requirement for the December 31, 2006, projected test year?

Recommendation: The following revenue requirement should be approved. (Fletcher)

	<u>Projected Test Year Revenues</u>	<u>\$ Increase</u>	<u>Revenue Requirement</u>	<u>% Increase</u>
Water	\$486,554	(\$17,603)	\$468,950	(3.62%)
		(\$3,467)	\$483,087	(0.71%)
Wastewater	\$310,428	\$273,647	\$584,075	88.15%
		\$231,296	\$541,724	-74.51%

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

Based upon staff’s recommendations concerning the underlying rate base, cost of capital, and operating income issues, staff recommends approval of rates that are designed to generate a water revenue requirement of \$468,950 ~~\$483,087~~, and a wastewater revenue requirement of \$584,075 ~~\$541,724~~. The recommended water revenue requirement is less than staff’s adjusted projected test year revenues by (\$17,603) or (3.62%) ~~\$3,467 (or 0.71%)~~. The recommended wastewater revenue requirement exceeds staff’s adjusted projected test year revenues by \$273,647 or 88.15% ~~\$231,296 or 74.51%~~, for wastewater. These recommended revenue requirements will allow the utility the opportunity to recover its expenses and earn a 10.01% return on its investment in water and wastewater rate base.

Further, staff notes that the ~~projected test year revenues of \$486,554~~ represents an achieved rate of return of 10.26%, which is within the achieved rate of return range of 9.73% to 10.28% recommended in Issue 13. ~~As discussed later in Issues 29 and 31, staff believes that there should be no changes to the utility’s existing water rate structure and rates.~~

Rates and Rate Structure

Issue 29: What are the appropriate water and wastewater rate structures for this utility?

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

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

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

Issue 30: Are adjustments to reflect repression of consumption due to the price changes and changes in rate structure appropriate in this case, and, if so, what are the appropriate repression adjustments for the water and the wastewater systems?

Recommendation: No. In order to monitor the effects of the changes in revenues, the utility should prepare monthly reports for both the water and wastewater systems, detailing the number of bills rendered, the consumption billed, and the revenues billed. These reports should be provided to staff. In addition, the reports should be prepared, by customer class and meter size, on a quarterly basis for a period of two years, beginning the first billing period after the approved rates go into effect. (Lingo)

Staff Analysis: As discussed in Issue 28, staff recommends a decrease to water system revenues. Therefore, no repression adjustment is appropriate for the water system. Wastewater repression adjustments are predicated on repression adjustments to the water system; therefore, no repression adjustment is appropriate for the wastewater system.

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

Issue 31: What are the appropriate resulting water and wastewater rates?

Recommendation: ~~The appropriate monthly water rates are a continuation of current rates, shown on Schedule No. 4-A. The appropriate water and wastewater monthly rates are shown on Schedules Nos. 4-A and 4-B, respectively Schedule No. 4-B.~~ Excluding miscellaneous service and reuse charges, the recommended water and wastewater rates produce revenues of \$463,620 and \$578,262, respectively \$535,911. The utility should file revised ~~wastewater~~ tariff sheets and a proposed customer notice to reflect the Commission-approved rates ~~for the wastewater system.~~ The approved ~~wastewater~~ rates should be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(1), F.A.C. In addition, the approved ~~wastewater~~ rates should not be implemented until staff has approved the proposed customer notice. The utility should provide proof of the date notice was given no less than 10 days after the date of the notice. (Lingo, Fletcher)

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

As discussed in Issue 28, staff's recommended adjusted test year revenues are \$486,554, which represents an achieved rate of return of 11.46%. Further, staff's recommended revenue requirement for the water system is \$468,950 \$483,087. ~~The calculation of the water system's anticipated achieved return based on current rates is as follows:~~

Recommended Projected Test Year Water System Revenue Requirement	\$	483,087	
Less Projected Miscellaneous Service Revenues	\$	<u>5,329</u>	
Equals Recommended Monthly Service Revenues	\$	477,758	
Less Revenues Generated by Applying Current Rates to Projected Bills and Gallons	\$	481,159	
Equals Overrecovery of Monthly Service Revenues Using Current Rates	\$	<u>3,401</u>	
Equals Achieved Return Based on Current Rates		<u>10.26</u>	%

As discussed in Issue 13, the upper limit on the utility's achieved return is 10.29% 10.28%. ~~Since the utility's current rates result in an achieved return which is less than the corresponding upper limit, no water rate reduction is recommended.~~ According to its filing, the utility's recovers approximately 71% of its water revenues from the BFC. Given this high percentage of revenue recovery from the BFC, staff recommends that the utility's BFC should be reduced for the entire recommended water revenue decrease.

As also discussed in Issue 28, staff's recommended revenue requirement for the wastewater system is \$584,075 \$541,724. The calculation of staff's recommended increase to monthly service rates for the wastewater system is shown below:

Recommended Projected Test Year Wastewater System Revenue Requirement	\$	<u>584,075</u>	
		541,724	
Less Projected Miscellaneous Service Revenues	\$	<u>5,813</u>	
Equals Recommended Monthly Service Revenues	\$	<u>578,262</u>	
		535,911	

Less Revenues Generated by Applying Current Rates to Projected Bills and Gallons	\$	304,594	
Equals Recommended Increase in Monthly Service Revenues	\$	<u>273,668</u>	
		231,317	
Equals Recommended Percentage Increase in Monthly Service Revenues		<u>89.84</u>	%
		<u>75.94</u>	

Approximately 56% ~~55%~~ of staff's recommended revenues will be recovered through the BFC, while the remaining 44% ~~45%~~ of revenues will be recovered through the gallonage charges.

The utility should file revised ~~wastewater~~ tariff sheets and a proposed customer notice to reflect the Commission-approved ~~wastewater~~ rates. The approved rates should be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-30.475(1), F.A.C. The approved ~~wastewater~~ rates should not be implemented until staff has approved the proposed customer notice. The utility should provide proof of the date notice was given no less than 10 days after the date of the notice.

A comparison of the utility's original rates, requested rates, and staff's recommended water and wastewater rates are shown on Schedules Nos. 4-A and 4-B, respectively.

Issue 32: What are the appropriate reuse rates?

Recommendation: The appropriate reuse rate for this utility should be \$0.07 per 1,000 gallons of usage. The utility should file tariff sheets which are consistent with the Commission's decision within 30 days from the Commission's vote. The tariff sheets should be approved upon staff's verification that the tariffs are consistent with the Commission's decision. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C. (Merta, Fletcher)

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

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

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

Next, staff looked at the disposal needs of the utility and customer. In cases where a utility has excess reuse capacity, rates typically would be set lower to promote reuse at a level sufficient to meet the utility's disposal needs. In cases where a utility's reuse capacity is unable to meet demand, rates would be set higher or rate structure would be changed in order to promote conservation. As stated above, the golf course is more than adequate to meet the utility's current effluent disposal needs. In fact, the utility cannot meet all of the irrigation needs of the golf course and the golf course has its own CUP for irrigation purposes. Further, as stated above, the

utility would have to construct a sprayfield for effluent disposal if the golf course did not take reuse. Therefore, a high rate to encourage conservation would not be appropriate for this utility.

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

Although the golf course's CUP specifically cites Plantation as a source for 15 million gallons of reclaimed water, it appears that the golf course may also use 113 million gallons of surface water from its lakes. The CUP also provides that ground water (from wells) may be used as an emergency backup source for golf course irrigation only when the golf course can document that surface water and reclaimed water are not available, i.e., all available reclaimed water must be used prior to the use of ground water. However, nowhere in its CUP does it state that reclaimed water must be used prior to using surface water. It appears that the golf course may be able to use its surface water before using the reclaimed water. Therefore, instead of setting higher rates to promote conservation, staff believes a nominal amount should be considered for the reuse rate because this golf course has other options for irrigation. A reuse rate of \$0.07 per 1,000 would produce an annual charge of \$1,034 to the golf course as reflected in Issue No. 16.

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

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

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

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Based on the above, staff believes the appropriate rate for reuse is \$0.07 per 1,000 gallons of usage. The utility should file tariff sheets which are consistent with the Commission's decision within 30 days from the Commission's vote. The tariff sheets should be approved upon staff's verification that the tariffs are consistent with the Commission's decision. The approved rates should be effective for service rendered on or after the stamped approval date on the tariff sheets pursuant to Rule 25-30.475(1), F.A.C.

Issue 33: Should Plantation Bay Utility Company's request to implement a \$5.00 late payment charge be approved?

Recommendation: Yes. The utility should be authorized to collect a \$5.00 late fee. The utility should file revised tariff sheets which are consistent with the Commission's vote within 30 days from the Commission's vote. The revised tariff sheets should be approved upon staff's verification that the tariffs are consistent with the Commission's decision. If revised tariff sheets are filed and approved, the late payment fee should become effective for connections made on or after the stamped approval date of the revised tariff sheets, provided no protest is filed and customers have been noticed. (Merta)

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

In the past, late payment fee requests have been handled on a case-by-case basis. The Commission has approved late fees in the amount of \$5.00 in the following instances: Order No. PSC-01-2093-TRF-WS, issued October 22, 2001, in Docket No. 011034-WS, In re: Request for Approval of a Late Payment Charge by WP Utilities, Inc. in Palm Beach County; Order No. PSC-01-2468-TRF-WU, issued December 18, 2001, in Docket No. 011482-WU, In re: Request to Establish Late Fee in Columbia County by Consolidated Water Works, Inc.; and Order No. PSC-05-1218-PAA-WS, issued December 15, 2005, in Docket No. 050274-WS, Application for a staff-assisted rate case in Pasco County by Silver Fox Utility Company LLC d/b/a Timberwood Utilities.

Presently, Commission rules provide that late payers may be required by the utility to provide an additional deposit. However, the Commission found in Order No. PSC-96-1409-FOF-WU, issued November 20, 1996, in Docket No. 960716-WU, In re: Application for transfer of Certificate No. 123-W in Lake County from Theodore S. Jansen d/b/a Ravenswood Water System to Crystal River Utilities, Inc., that there is no further incentive for either delinquent or late paying customers to pay their bills on time after the additional deposit. In that same Order, the Commission also found that the cost causer should pay the additional cost incurred to the utility by late payments, rather than the general body of the utility's rate payers. Staff believes that the goal of allowing late fees to be charged by a utility is two-fold: first, to encourage current and future customers to pay their bills on time; and second, if payment is not made on time, to insure that the cost associated with the late payments is not passed on to the customers who do pay on time.

It appears that the majority of utilities that have Commission approved late fees charge \$5.00. The utilities that have higher charges have provided adequate documentation in support of those higher fees. Based on the above, staff believes that \$5.00 is a reasonable fee for Plantation Bay.

Therefore, staff recommends that, consistent with the orders cited above, a \$5.00 late payment charge should be approved. The utility should file revised tariff sheets which are consistent with the Commission's vote within 30 days from the Commission's vote. The revised

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tariff sheets should be approved upon staff's verification that the tariffs are consistent with the Commission's decision. If revised tariff sheets are filed and approved, the late payment charge should become effective on the stamped approval date of the tariff sheets, provided no protest is filed and customers have been noticed.

Issue 34: In determining whether any portion of the wastewater interim increase granted should be refunded, how should the refund be calculated, and what is the amount of the refund, if any?

Recommendation: The proper refund amount should be calculated by using the same data used to establish final rates, excluding rate case expense. This revised revenue requirement for the interim collection period should be compared to the amount of interim revenues granted. Based on this calculation, no wastewater interim refund is required. Further, upon issuance of the Consummating Order in this docket, the escrow account should be released. ~~the utility should be required to refund 9.15% of wastewater revenues collected under interim rates. The refund should be made with interest in accordance with Rule 25-30.360(4), F.A.C. The utility should be required to submit proper refund reports pursuant to Rule 25-30.360(7), F.A.C. The utility should treat any unclaimed refunds as CIAC pursuant to Rule 25-30.360(8), F.A.C. (Fletcher)~~

Staff Analysis: By Order No. PSC-05-1039-PCO-WS, issued October 24, 2005, the Commission authorized the collection of interim wastewater rates, subject to refund, pursuant to Section 367.082, F.S. The approved interim revenue requirement is \$439,017, which represents an increase of \$214,097 or 95.19%.

According to Section 367.082, F.S., any refund should be calculated to reduce the rate of return of the utility during the pendency of the proceeding to the same level within the range of the newly authorized rate of return. Adjustments made in the rate case test period that do not relate to the period interim rates are in effect should be removed. Rate case expense is an example of an adjustment which is recovered only after final rates are established.

In this proceeding, the test period for establishment of interim rates is the simple average period ending December 31, 2004. As discussed in Issue 1, staff is recommending the appropriate test period to establish prospective rates is the simple average period ending December 31, 2006. Plantation's approved interim rates did not include any provisions for pro forma or projected operating expenses or plant. The interim increase was designed to allow recovery of actual interest costs, and the floor of the last authorized range for equity earnings. To establish the proper refund amount, staff has calculated a revised interim revenue requirement utilizing the same data used to establish final rates. Rate case expense, the 2006 projected plant projects not scheduled to be placed in service when the final rates become effective, and the unrealized projected revenue and expense effects when the rates become effective were excluded because those items are prospective in nature and did not occur during the interim collection period.

Using the principles discussed above, staff has calculated the interim revenue requirement for the interim collection period to be \$446,667 ~~\$398,835~~ for wastewater. The wastewater revenues are greater ~~is less~~ than the interim revenues which were granted in Order No. PSC-05-1039-PCO-WS, and, as such, no wastewater interim refund is required. Further, upon issuance of the Consummating Order in this docket, the escrow account should be released. ~~Therefore, staff recommends a refund of 9.15% of interim wastewater rates. The refunds should be made with interest in accordance with Rule 25-30.360(4), F.A.C. The utility should be required to submit proper refund reports pursuant to Rule 25-30.360(7), F.A.C. The utility should treat any unclaimed refunds as CIAC pursuant to Rule 25-30.360(8), F.A.C.~~

Issue 35: What is the appropriate amount by which rates should be reduced four years after the established effective date to reflect the removal of the amortized rate case expense as required by Section 367.0816, Florida Statutes?

Recommendation: The wastewater rates should be reduced as shown on Schedule No. 4-B to remove \$10,125 of wastewater rate case expense, grossed-up for regulatory assessment fees, which is being amortized over a four-year period. The decrease in rates should become effective immediately following the expiration of the four-year rate case expense recovery period, pursuant to Section 367.0816, F.S. The utility should be required to file revised tariffs and a proposed customer notice setting forth the lower rates and the reason for the reduction no later than 30 days prior to the actual date of the required rate reduction. The approved rates should be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-40.475(1), F.A.C. The rates should not be implemented until staff has approved the proposed customer notice. The utility should provide proof of the date notice was given no less than 10 days after the date of the notice. (Fletcher)

Staff Analysis: Section 367.0816, F.S., requires rates to be reduced immediately following the expiration of the four-year amortization period by the amount of the rate case expense previously included in the rates. The reduction will reflect the removal of revenues associated with the amortization of rate case expense and the gross-up for regulatory assessment fees which is \$10,125 for wastewater. The decreased revenue will result in the rate reduction recommended by staff on Schedule No. 4-B. In Issue 24, staff recommended no rate case expense for water, as such there is no decrease. However, if the Commission were to grant any rate case expense for water, the rates would also have to be reduced immediately following the expiration of the four-year amortization period by the approved amount in water rates, pursuant to Section 367.0816, F.S.

The utility should be required to file revised tariff sheets and a proposed customer notice to reflect the Commission-approved rates. The approved rates should be effective for service rendered on or after the stamped approval date of the revised tariff sheets pursuant to Rule 25-40.475(1), F.A.C. The rates should not be implemented until staff has approved the proposed customer notice. The utility should provide proof of the date notice was given no less than 10 days after the date of the notice.

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

Other

Issue 36: What are the appropriate service availability charges and/or policy for the utility?

Recommendation: Plantation's current system capacity charges should be discontinued, and the implementation of plant capacity charges of \$400 for water and \$358 for wastewater should be approved. Further, the utility should be allowed to collect donated property beginning January 1, 2007. If there is no timely protest to the Commission's Proposed Agency Action by a substantially affected person, the utility should file the appropriate revised tariff sheets within 10 days of the issuance of the Consummating Order for the Commission-approved tariff changes. Staff should be given administrative authority to approve the revised tariff sheets upon staff's verification that the tariff is consistent with the Commission's decision. If the revised tariff sheets are filed and approved, the tariff sheets should become effective on or after the stamped approval date. Within 10 days of the issuance of the Consummating Order for the Commission-approved tariff changes, the utility shall also provide notice of the Commission's decision to all persons in the service area who are affected by the recommended plant capacity charges and the authorization to collect donated property. The notice should be approved by Commission staff prior to distribution. The utility should provide proof that the appropriate customers or developers have received notice within ten days of the date of the notice. (Fletcher, Merta)

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

As a result of this action by the Commission, the utility has completed approximately \$2.5 million in water transmission and distribution system and wastewater collection system expansions from 2001 to 2004. Further, as discussed in Issue 10, staff recommended 2005 and 2006 water transmission and distribution system and wastewater collection system expansions of approximately \$3.6 million. Given this significant amount of water and wastewater line expansion and the expected customer growth in the future, staff believes it is appropriate to re-evaluate the appropriateness of the utility's existing service availability charges and/or policy.

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

When calculating service availability charges, staff believes that it is more reasonable to have separate charges for the cost of plant and the cost of lines, instead of one system capacity charge. One reason for this delineation is to avoid a possible over contribution by a customer. For instance, when a utility accepts donated lines from a developer and only has an authorized system capacity charge, this could create a situation in which the utility would not only accept the donated lines but also collect system capacity charges from customers for those lines that had been donated. As discussed later, staff is recommending that the Commission allow the utility to begin collecting donated property in 2007. Thus, the utility's CIAC associated with the donated lines would essentially be accounted for twice, which would reduce the utility's rate base on an accelerated basis. To avoid this, staff believes it is prudent to discontinue the utility's existing system capacity charges.

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

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

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

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

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

Given the utility's water and wastewater line expansions from 2001 to 2006, staff believes that it will be impossible for this utility to achieve the minimum guideline level outlined

in the above-mentioned rule for the current water and wastewater treatment plant design capacities. Using the information contained in the utility's water and wastewater capacity report and the information provided in response to data requests, staff performed several analyses of service availability charges and policies. The possible service availability policies that staff evaluated were as follows: (1) the implementation of plant capacity and main extension charges totaling approximately \$4,900 for water and wastewater, and the continuation of no collection of donated property; (2) the collection of donated property beginning with the 2006 line expansion Phases 2AF, 6 and 7 and Koronia Park that were discussed in Issue 10, and, with the exception of meter installation fees, no other collection of impact fees; (3) the utility's proposed policy of continuing the existing system capacity charges, and the collection of donated water property in 2008 and donated wastewater property in 2007; and (4) the collection of donated property in 2007, and the collection of plant capacity charges of \$400 for water and \$358 for wastewater.

Staff believes the service availability charge and policy that begins the collection of donated property in 2007, and the implementation of plant capacity charges of \$400 for water and \$358 for wastewater is the best option since it moves the CIAC level closer to the minimum guideline level outlined in Rule 25-30.580(2), F.A.C., while complying with the 75% maximum level. Staff analysis for the above option is reflected on Schedules Nos. 5-A and 5-B. For the foregoing reasons, staff recommends that Plantation's current system capacity charges should be discontinued and the implementation plant capacity charges of \$400 for water and \$358 for wastewater should be approved. Further, staff recommends that the utility should be allowed to collect donated property beginning January 1, 2007.

If there is no timely protest to the Commission's Proposed Agency Action by a substantially affected person, the utility should file the appropriate revised tariff sheets within 10 days of the issuance of the Consummating Order for the Commission-approved tariff changes. Staff should be given administrative authority to approve the revised tariff sheets upon staff's verification that the tariff is consistent with the Commission's decision. If the revised tariff sheets are filed and approved, the tariff sheets should become effective on or after the stamped approval date. Within 10 days of the issuance of the Consummating Order for the Commission-approved tariff changes, the utility shall also provide notice of the Commission's decision to all persons in the service area who are affected by the recommended plant capacity charges and the authorization to collect donated property. The notice should be approved by Commission staff prior to distribution. The utility should provide proof that the appropriate customers or developers have received noticed within ten days of the date of the notice.

Issue 37: Should the Utility be required to show cause, in writing within 21 days, why it should not be fined for its apparent violation of Section 367.071, Florida Statutes, for its failure to file an application for a change in majority organizational control?

Recommendation: No, the utility should not be required to show cause why it should not be fined for its apparent violation of Section 367.071, F.S., for its failure to obtain Commission approval prior to transferring majority organizational control. (Gervasi)

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

No utility shall sell, assign, or transfer its certificate of authorization, facilities or any portion thereof, or majority organizational control without determination and approval of the commission that the proposed sale, assignment, or transfer is in the public interest . . . However, a sale, assignment, or transfer of its certificate of authorization, facilities or any portion thereof, or majority organizational control may occur prior to commission approval if the contract for sale, assignment, or transfer is made contingent upon commission approval.

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

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

Issue 38: Should the utility be required to provide proof, within 90 days of the final order issued in this docket, that it has adjusted its books for all the applicable NARUC USOA primary accounts associated with the Commission approved adjustments?

Recommendation: Yes. To ensure that the utility adjusts its books in accordance with the Commission's decision, Plantation Bay should provide proof, within 90 days of the final order issued in this docket, that the adjustments for all the applicable NARUC USOA primary accounts have been made. (Merta)

Staff Analysis: To ensure that the utility adjusts its books in accordance with the Commission's decision, staff recommends that Plantation Bay provide proof within 90 days of the final order issued in this docket that the adjustments for all the applicable NARUC USOA primary accounts have been made.

Issue 39: Should this docket be closed?

Recommendation: No. If no person whose substantial interests are affected by the proposed agency action files a protest within twenty-one days of the issuance of the order, a consummating order will be issued. The docket should remain open for staff's verification that the revised tariff sheets and customer notice have been filed by the utility and approved by staff, and that the interim refund has been completed and verified by staff. Once these actions are complete, this docket should be closed administratively, and the escrow account should be released. (Gervasi, Merta)

Staff Analysis: If no person whose substantial interests are affected by the proposed agency action files a protest within twenty-one days of the issuance of the order, a consummating order will be issued. The docket should remain open for staff's verification that the revised tariff sheets and customer notice have been filed by the utility and approved by staff, and that the interim refund has been completed and verified by staff. Once these actions are complete, this docket should be closed administratively, and the escrow account should be released.

WATER TREATMENT PLANT - USED AND USEFUL DATA

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

USED AND USEFUL FORMULA

$$(\text{Max days} - \text{EUW} + \text{FF} + \text{Growth}) / \text{Capacity of Plant}$$

$$(321,877 - 0 + 120,000 + 88,917) / 670,000 = 79.22\% \quad \text{Used \& Useful}$$

WATER DISTRIBUTION SYSTEM - USED AND USEFUL DATA

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

USED AND USEFUL FORMULA

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

$$(1,629+ 450) / 2,230= 93.23\% \quad \text{Used and Useful}$$

WASTEWATER TREATMENT PLANT - USED AND USEFUL DATA

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

USED AND USEFUL FORMULA

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

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

WASTEWATER COLLECTION SYSTEM - USED AND USEFUL DATA

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

USED AND USEFUL FORMULA

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

Plantation Bay Utility Company											Attachment B
Rate Case Expense Analysis											Docket No. 050281-WS
	Water ERCs	Wastewater ERCs	Total Rate Case Expense	PAA or Hearing	Total RC Expense Per ERC Water	Annual RC Expense Per ERC Wastewater	Annual Rate Case Amort	Water Increase (1)	Wastewater Increase	Amort/Total Inc Granted	
Plantation Bay (2006) Before Adjustments	1,759	1,352	\$215,894	PAA	\$69.40	\$69.40	\$53,974	(\$3,467)	\$231,296	23.69%	
Plantation Bay (2006) After Initial Adjs	1,759	1,352	188,869	PAA	60.71	60.71	47,217	(3,467)	231,296	20.72%	
Plantation Bay (2006) Adj to Average	1,759	1,352	78,713	PAA	25.30	25.30	19,678	(3,467)	231,296	8.64%	
Plantation Bay (2006) Adj to Indiantown	1,759	1,352	89,114	PAA	28.64	28.65	22,278	(3,467)	231,296	9.78%	
Plantation Bay (2006) Adj to Aloha	1,759	1,352	121,063	PAA	38.91	38.92	30,266	(3,467)	231,296	13.28%	
Indiantown (2003)	2,047	1,953	115,442	PAA	29	29	28,861	78,334	165,384	11.84%	
Eagle Ridge (2002)		3,697	62,646	PAA		17	15,661		98,955	15.83%	
Labrador (2003)		947	68,988	PAA		73	17,247		194,905	8.85%	
Mid-County (2002)		3,126	75,813	PAA		24	18,953		328,399	5.77%	
Cypress Lakes (2001)	1,200	1,107	56,943	PAA	24	25	14,236	122,955	79,463	7.03%	
Alafaya (2001)		6,006	93,360	PAA		16	23,340		200,879	11.62%	
FPUC (2000)	6,537		45,988	PAA	7		11,497	380,652		3.02%	
Aloha-Seven Springs (2001)	10,630		205,209	Hearing	19		51,302	0		N/A	
Utilities Inc - 5 counties (2001)	7,592	2,691	397,597	Hearing	38	40	99,399	215,345	222,969	22.68%	
Averages for the PAA rate cases	3,261	2,806	\$74,169		\$19.93	\$30.67	\$18,542				
					\$25.30 Water and Wastewater Average Cost Per ERC						
Notes:											
(1) The water increase shown here excludes rate case expense based on other reasons explained in Issue 24.											

Plantation Bay Utility Company Schedule of Water Rate Base Test Year Ended 12/31/06			Schedule No. 1-A Docket No. 050281-WS		
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year
1 Plant in Service	\$3,530,574	\$0	\$3,530,574	<u>\$935,164</u> \$812,229	<u>\$4,465,738</u> \$4,342,803
2 Land and Land Rights	58,949	0	58,949	(25,195)	33,754
3 Non-used and Useful Components	(21,859)	0	(21,859)	<u>(165,804)</u> (165,538)	<u>(187,663)</u> (187,397)
4 Accumulated Depreciation	(1,517,433)	380	(1,517,053)	<u>(246,944)</u> (39,611)	<u>(1,763,997)</u> (1,556,664)
5 CIAC	(1,778,771)	0	(1,778,771)	<u>(274,862)</u> (206,024)	<u>(2,053,633)</u> (1,984,795)
6 Amortization of CIAC	541,501	(5,914)	535,587	<u>101,190</u> 73,893	<u>636,777</u> 609,480
7 Net Debit Deferred Income Taxes	0	242,729	242,729	(242,729)	0
8 Working Capital Allowance	<u>23,821</u>	<u>1,557</u>	<u>25,378</u>	<u>3,761</u>	<u>29,139</u>
9 Rate Base	<u>\$836,782</u>	<u>\$238,752</u>	<u>\$1,075,534</u>	<u>\$84,581</u> <u>\$210,786</u>	<u>\$1,160,115</u> <u>\$1,286,320</u>

Plantation Bay Utility Company Schedule of Wastewater Rate Base Test Year Ended 12/31/06			Schedule No. 1-B Docket No. 050281-WS		
Description	Test Year Per Per	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year
1 Plant in Service	\$4,163,818	\$0	\$4,163,818	<u>\$1,665,401</u> \$1,216,577	<u>\$5,829,219</u> \$5,380,395
2 Land and Land Rights	50,631	0	50,631	0	50,631
3 Non-used and Useful Components	0	0	0	<u>(921,779)</u> (924,235)	<u>(921,779)</u> (924,235)
4 Accumulated Depreciation	(1,378,580)	<u>7,166</u> 0	<u>(1,371,414)</u> (1,378,580)	<u>(312,287)</u> (236,465)	<u>(1,683,701)</u> (1,615,045)
5 CIAC	(2,274,871)	0 7,166	<u>(2,274,871)</u> (2,267,705)	<u>(278,841)</u> (229,485)	<u>(2,553,712)</u> (2,497,190)
6 Amortization of CIAC	782,352	188,024	970,376	<u>175,682</u> 137,993	<u>1,146,058</u> 1,108,369
7 Net Debit Deferred Income Taxes	0	455,267	455,267	(455,267)	0
8 Working Capital Allowance	<u>24,059</u>	<u>2,310</u>	<u>26,369</u>	<u>5,934</u>	<u>32,303</u>
9 Rate Base	<u>\$1,367,409</u>	<u>\$652,767</u>	<u>\$2,020,176</u>	<u>(\$121,157)</u> (\$484,948)	<u>\$1,899,019</u> \$1,535,228

Plantation Bay Utility Company Adjustments to Rate Base Test Year Ended 12/31/06		Schedule No. 1-C Docket No. 050281-WS	
Explanation	Water	Wastewater	
<u>Plant In Service</u>			
1 To remove the utility's averaging adjustment and reflect 2004 year-end balance.	\$150,403	\$435,527	
2 To reflect the stipulated rate base adjustments.	(114,376)	(290,569)	
	(\$85,501)	(\$294,141)	
3 To reflect the appropriate projected plant.	899,136	1,520,443	
	897,730	1,510,718	
Total	<u>\$935,164</u>	<u>\$1,665,401</u>	
	\$812,229	\$1,216,577	
<u>Land</u>			
To reflect to appropriate amount of land for water system.	<u>(\$25,195)</u>	<u>\$0</u>	
<u>Non-used and Useful</u>			
To reflect net non-used and useful adjustment	<u>\$165,804</u>	<u>\$921,779</u>	
	(\$165,538)	(\$924,235)	
<u>Accumulated Depreciation</u>			
1 To remove the utility's averaging adjustment and reflect 2004 year-end balance.	<u>(\$58,871)</u>	<u>(\$78,439)</u>	
2 To reflect the appropriate simple average year ending 12/31/04 balances.	<u>9,572</u>	<u>20,163</u>	
	\$7,841	\$17,381	
3 To reflect the appropriate projected depreciation.	<u>(197,645)</u>	<u>(254,011)</u>	
	(47,451)	(253,846)	
Total	<u>(\$246,944)</u>	<u>(\$312,287)</u>	
	(\$39,611)	(\$236,465)	
<u>CIAC</u>			
1 To remove the utility's averaging adjustment and reflect 2004 year-end balance.	<u>(\$110,033)</u>	<u>(\$7,527)</u>	
2 To reflect the appropriate simple average year ending 12/31/04 balances.	<u>87,991</u>	<u>(\$89,259)</u>	
	\$46,796	(\$47,431)	
3 To reflect the appropriate projected CIAC.	<u>(252,820)</u>	<u>(182,055)</u>	
Total	<u>(\$274,862)</u>	<u>\$278,841</u>	
	(\$206,024)	(\$229,485)	
<u>Accumulated Amortization of CIAC</u>			
1 To remove the utility's averaging adjustment and reflect 2004 year-end balance.	<u>\$39,921</u>	<u>(\$154,560)</u>	
2 To reflect the appropriate simple average year ending 12/31/04 balances.	<u>(30,082)</u>	<u>216,435</u>	
	(\$17,386)	\$25,079	
3 To reflect the appropriate projected amortization	<u>91,351</u>	<u>113,806</u>	
	91,280	112,914	
Total	<u>\$101,190</u>	<u>\$175,682</u>	
	\$73,893	\$137,993	
<u>Accumulated Deferred Income Taxes</u>			
To reflect the appropriate credit accumulated deferred income tax balance.	<u>(\$242,729)</u>	<u>(\$455,267)</u>	
<u>Working Capital</u>			
To reflect the appropriate working capital.	<u>\$3,761</u>	<u>\$5,934</u>	

Plantation Bay Utility Company Capital Structure-Simple Average Test Year Ended 12/31/06						Schedule No. 2 Docket No. 050281-WS		
Description	2004 Total Capital	Specific Adjust- ments	2004 Adjusted Capital	Prorata Adjust- ments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost
Per Utility								
1 Long-term Debt	\$4,334,088	(\$3,571,367)	\$762,721	\$592,390	\$1,355,111	43.77%	10.00%	4.38%
2 Short-term Debt	0	0	0	0	0	0.00%	0.00%	0.00%
3 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
4 Common Equity	(2,607,825)	3,571,367	963,542	748,597	1,712,139	55.31%	10.41%	5.76%
5 Customer Deposits	28,460	0	28,460	0	28,460	0.92%	6.00%	0.06%
6 Deferred Income Taxes	0	0	0	0	0	0.00%	0.00%	0.00%
7 Total Capital	<u>\$1,754,723</u>	<u>\$0</u>	<u>\$1,754,723</u>	<u>\$1,340,987</u>	<u>\$3,095,710</u>	<u>100.00%</u>		<u>10.20%</u>
Description	2004 Total Capital	Specific Adjust- ments	2006 Adjusted Capital	Prorata Adjust- ments	Capital Reconciled to Rate Base	Ratio	Cost Rate	Weighted Cost
Per Staff								
8 Long-term Debt	\$762,721	\$2,891,893	\$3,654,614	(\$1,627,897) (\$1,786,472)	<u>\$2,026,717</u> <u>\$1,868,142</u>	<u>66.25%</u> <u>66.21%</u>	10.00%	<u>6.63%</u> <u>6.62%</u>
9 Short-term Debt	0	0	0	0	0	0.00%	0.00%	0.00%
10 Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
11 Common Equity	963,542	<u>577,941</u> <u>574,059</u>	<u>1,541,483</u> <u>1,537,604</u>	<u>(686,632)</u> <u>(751,620)</u>	<u>854,850</u> <u>785,981</u>	<u>27.94%</u> <u>27.86%</u>	11.78%	<u>3.29%</u> <u>3.28%</u>
12 Customer Deposits	28,460	19,485	47,945	0	47,945	<u>1.57%</u> <u>1.70%</u>	6.00%	<u>0.09%</u> <u>0.10%</u>
13 Deferred Income Taxes	0	<u>233,737</u>	<u>233,737</u>	<u>(104,115)</u> <u>(114,257)</u>	<u>129,622</u> <u>119,480</u>	<u>4.24%</u> <u>4.23%</u>	0.00%	<u>0.00%</u>
14 Total Capital	<u>\$1,754,723</u>	<u>\$3,723,056</u> <u>\$3,719,174</u>	<u>\$5,477,779</u> <u>\$5,473,897</u>	<u>(\$2,418,644)</u> <u>(\$2,652,348)</u>	<u>\$3,059,134</u> <u>\$2,821,549</u>	<u>100.00%</u>		<u>10.01%</u>
						LOW	HIGH	
RETURN ON EQUITY						<u>10.78%</u>	<u>12.78%</u>	
OVERALL RATE OF RETURN						<u>9.73%</u>	<u>10.29%</u> <u>10.28%</u>	

Plantation Bay Utility Company Statement of Water Operations Test Year Ended 12/31/06						Schedule No. 3-A Docket No. 050281-WS	
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year	Revenue Increase	Revenue Requirement
1 Operating Revenues:	<u>\$346,238</u>	<u>\$107,153</u>	<u>\$453,391</u>	<u>\$33,163</u>	<u>\$486,554</u>	<u>(\$17,603)</u> <u>(\$3,467)</u> <u>-3.62 -0.71%</u>	<u>\$468,950</u> <u>\$483,087</u>
Operating Expenses							
2 Operation & Maintenance	\$190,567	\$12,458	\$203,025	\$30,091	\$233,116		\$233,116
3 Depreciation	49,731	(1,261)	48,470	<u>22,129</u> <u>22,100</u>	<u>70,599</u> <u>70,570</u>		<u>70,599</u> <u>70,570</u>
4 Amortization	0	0	0	0	0		0
5 Taxes Other Than Income	50,399	4,418	54,817	<u>(4,936)</u> <u>(3,958)</u>	<u>49,881</u> <u>50,859</u>	<u>(792)</u> <u>(156)</u>	<u>49,089</u> <u>50,703</u>
6 Income Taxes	<u>0</u>	<u>37,375</u>	<u>37,375</u>	<u>(37,375)</u>	<u>0</u>	<u>0</u>	<u>0</u>
7 Total Operating Expense	<u>\$290,697</u>	<u>\$52,990</u>	<u>\$343,687</u>	<u>\$9,908</u> <u>\$10,858</u>	<u>\$353,595</u> <u>\$354,545</u>	<u>(\$792)</u> <u>(\$156)</u>	<u>\$352,803</u> <u>\$354,389</u>
8 Operating Income	<u>\$55,541</u>	<u>\$54,163</u>	<u>\$109,704</u>	<u>\$23,254</u> <u>\$22,305</u>	<u>\$132,958</u> <u>\$132,009</u>	<u>(\$16,811)</u> <u>(\$3,311)</u>	<u>\$116,147</u> <u>\$128,698</u>
9 Rate Base	<u>\$836,782</u>		<u>\$1,075,534</u>		<u>\$1,160,115</u> <u>\$1,286,320</u>		<u>\$1,160,115</u> <u>\$1,286,320</u>
10 Rate of Return	<u>6.64%</u>		<u>10.20%</u>		<u>11.46%</u> <u>10.26%</u>		<u>10.01%</u>

Plantation Bay Utility Company Statement of Wastewater Operations Test Year Ended 12/31/06						Schedule No. 3-B Docket No. 050281-WS	
Description	Test Year Per Utility	Utility Adjust- ments	Adjusted Test Year Per Utility	Staff Adjust- ments	Staff Adjusted Test Year	Revenue Increase	Revenue Requirement
1 Operating Revenues:	<u>\$224,920</u>	<u>\$403,749</u>	<u>\$628,669</u>	<u>(\$318,241)</u>	<u>\$310,428</u>	<u>\$273,647</u> <u>\$231,296</u> 88.15 74.51%	<u>\$584,075</u> <u>\$541,724</u>
Operating Expenses							
2 Operation & Maintenance	\$192,469	\$18,483	\$210,952	\$47,473	\$258,425		\$258,425
3 Depreciation	89,955	0	89,955	(23,393) (22,996)	66,562 66,959		66,562 66,959
4 Amortization	0	0	0	0	0		0
5 Taxes Other Than Income	33,334	18,169	51,503	5,147 828	56,650 52,331	12,314 10,408	68,965 62,739
6 Income Taxes	0	70,201	70,201	(70,201)	0	0	0
7 Total Operating Expense	<u>\$315,758</u>	<u>\$106,853</u>	<u>\$422,611</u>	<u>(\$40,974)</u> <u>(\$44,896)</u>	<u>\$381,637</u> <u>\$377,715</u>	<u>\$12,314</u> <u>\$10,408</u>	<u>\$393,951</u> <u>\$388,123</u>
8 Operating Income	<u>(\$90,838)</u>	<u>\$296,896</u>	<u>\$206,058</u>	<u>(\$277,267)</u> <u>(\$273,344)</u>	<u>(\$71,209)</u> <u>(\$67,286)</u>	<u>\$261,333</u> <u>\$220,888</u>	<u>\$190,124</u> <u>\$153,601</u>
9 Rate Base	<u>\$1,367,409</u>		<u>\$2,020,176</u>		<u>\$1,899,019</u> <u>\$1,535,228</u>		<u>\$1,899,019</u> <u>\$1,535,228</u>
10 Rate of Return	<u>-6.64%</u>		<u>10.20%</u>		<u>-3.75%</u> <u>-4.38%</u>		<u>10.01%</u>

Plantation Bay Utility Company Adjustment to Operating Income Test Year Ended 12/31/06		Schedule 3-C Docket No. 050281-WS	
Explanation	Water	Wastewater	
<u>Operating Revenues</u>			
1 Remove requested final revenue increase	(\$107,153)	(\$403,749)	
2 To reflect the appropriate projected revenues.	140,461	81,517	
3 To impute related party developer revenues.	2,811	0	
4 To impute reuse revenues.	0	1,034	
5 To reflect the stipulated miscellaneous revenue adjustments.	(2,957)	2,957	
Total	<u>\$33,163</u>	<u>(\$318,241)</u>	
<u>Operation and Maintenance Expense</u>			
1 To reflect the stipulated O&M expense adjustments.	(\$20,951)	\$36	
2 To reflect the additional 2004 historical O&M expenses.	(9,975)	\$5,257	
3 Non-growth adjustments to certain O&M expenses.	29,344	19,302	
4 To reflect the appropriate projected purchased power expense.	8,174	9,130	
5 To reflect the appropriate projected chemicals expense.	7,711	2,400	
6 To reflect the appropriate ERC growth O&M expense adjustments.	33,460	18,755	
7 To reflect the appropriate rate case expense.	(17,674)	(7,406)	
Total	<u>\$30,091</u>	<u>\$47,473</u>	
<u>Depreciation Expense - Net</u>			
1 To reflect the appropriate historical net depreciation expense.	\$9,056	(\$23,624)	
	\$9,039	(\$22,940)	
2 To reflect the appropriate projected net depreciation expense.	28,221	55,453	
	28,192	55,097	
3 To remove net depreciation on non-U&U adjustment above.	(15,148)	(55,223)	
	(15,132)	(55,153)	
Total	<u>\$22,129</u>	<u>(\$23,393)</u>	
	\$22,100	(\$22,996)	
<u>Taxes Other Than Income</u>			
1 RAFs on revenue adjustments above	\$1,492	(\$14,321)	
2 Total reflect the appropriate projected property taxes.	(3,157)	24,734	
	(2,180)	20,409	
3 To remove property on non-U&U adjustment above.	(3,272)	(5,266)	
	(3,270)	(5,260)	
Total	<u>(\$4,936)</u>	<u>\$5,147</u>	
	(\$3,958)	\$828	
<u>Income Taxes</u>			
To reflect no income tax provision due to NOL carryforward offsets.	(37,375)	(70,201)	

Plantation Bay Utility Company Water Monthly Service Rates Test Year Ended 12/31/06			Schedule No. 4-A Docket No. 050281-WS		
	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Staff Recomm. Final	4-year Rate Reduction
<u>Residential and General Service</u>					
Base Facility Charge by Meter Size:					
5/8" x 3/4"	\$17.79	N/A	\$21.25	<u>\$16.88</u> \$17.79	N/A
3/4"	\$26.68	N/A	\$31.88	<u>\$25.32</u> \$26.68	N/A
1"	\$44.49	N/A	\$53.13	<u>\$42.20</u> \$44.49	N/A
1-1/2"	\$88.96	N/A	\$106.25	<u>\$84.40</u> \$88.96	N/A
2"	\$142.34	N/A	\$170.00	<u>\$135.04</u> \$142.34	N/A
3"	\$284.69	N/A	\$340.00	<u>\$270.08</u> \$284.69	N/A
4"	\$444.83	N/A	\$531.25	<u>\$422.00</u> \$444.83	N/A
6"	\$889.66	N/A	\$1,062.50	<u>\$844.00</u> \$889.66	N/A
Gallonage Charge, per 1,000 Gallons	\$2.06	N/A	\$3.31	\$2.06	N/A
<u>Typical Residential Bills 5/8" x 3/4" Meter</u>					
3,000 Gallons	\$23.97	N/A	\$31.18	<u>\$23.06</u> \$23.97	
5,000 Gallons	\$28.09	N/A	\$37.80	<u>\$27.18</u> \$28.09	
10,000 Gallons	\$38.39	N/A	\$54.35	<u>\$37.48</u> \$38.39	

Plantation Bay Utility Company Wastewater Monthly Service Rates Test Year Ended 12/31/06			SCHEDULE NO. 4-B Docket No. 050281-WS		
	Rates Prior to Filing	Commission Approved Interim	Utility Requested Final	Staff Recomm. Final	Four-year Rate Reduction
Residential					
Base Facility Charge for all Meter Sizes:	\$12.70	\$24.79	\$33.94	\$21.39 \$19.56	\$0.37
Gallonge Charge - Per 1,000 gallons (10,000 gallon cap)	\$1.79	\$3.49	\$5.47	\$4.02 \$3.82	\$0.07
General Service					
Base Facility Charge by Meter Size:					
5/8" x 3/4"	\$12.70	\$24.79	\$33.94	\$21.39 \$19.56	\$0.37
3/4"	\$19.05	\$37.18	\$50.91	\$32.08 \$29.34	\$0.56 \$0.56
1"	\$31.76	\$61.99	\$84.85	\$53.47 \$48.90	\$0.93 \$0.94
1-1/2"	\$63.02	\$123.01	\$169.70	\$106.94 \$97.80	\$1.85 \$1.83
2"	\$101.61	\$198.33	\$271.52	\$171.11 \$156.48	\$2.97 \$2.92
3"	\$203.22	\$396.66	\$509.10	\$342.22 \$312.96	\$5.93 \$5.85
4"	\$317.53	\$619.78	\$848.50	\$534.72 \$489.00	\$9.27 \$9.14
6"	\$635.02	\$1,239.48	\$1,697.00	\$1,069.44 \$978.00	\$18.54 \$18.28
Gallonge Charge, per 1,000 Gallons	\$2.14	\$4.18	\$6.43	\$4.06 \$4.58	\$0.07 \$0.09
Typical Residential Bills 5/8" x 3/4" Meter					
3,000 Gallons	\$18.07	\$35.26	\$50.35	\$33.45 \$31.02	
5,000 Gallons	\$21.65	\$42.24	\$61.29	\$41.49 \$38.66	
10,000 Gallons (Wastewater Gallonge Cap - 10,000 Gallons)	\$30.60	\$59.69	\$88.64	\$61.59 \$57.76	

UTILTY CO.: Plantation Bay Utility Company									
Docket No.: 050281-WS		SCHEDULE NO. 5-A							
Water Operation									
Staff Recommended:									
Plant Capacity Charge:		\$400							
Meter Installation		\$100							
Main Installation Charge:		\$0							
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Capacity	750,000	750,000	750,000	750,000	750,000	750,000	750,000	750,000	750,000
Demand	383,000	425,000	467,000	509,000	551,000	593,000	635,000	677,000	719,000
% Used	51.07%	56.67%	62.27%	67.87%	73.47%	79.07%	84.67%	90.27%	95.87%
Growth (in ERCs)	1,251	250	250	250	250	250	250	250	250
									3,251
Utility Plant		4,161,385	5,190,217	5,930,001	6,543,865	7,186,061	7,526,049	7,611,049	8,098,993
Accumulated Depreciation		<u>-1,653,874</u>	<u>-1,800,491</u>	<u>-1,972,971</u>	<u>-2,165,210</u>	<u>-2,375,860</u>	<u>-2,601,143</u>	<u>-2,833,369</u>	<u>-3,074,579</u>
Net Plant		<u>2,507,511</u>	<u>3,389,726</u>	<u>3,957,030</u>	<u>4,378,655</u>	<u>4,810,200</u>	<u>4,924,906</u>	<u>4,777,680</u>	<u>5,024,413</u>
CIAC		2,072,774	2,197,774	2,977,558	3,631,422	4,313,618	4,693,606	4,818,606	5,246,550
Accumulated Amortization		<u>-636,160</u>	<u>-708,586</u>	<u>-794,857</u>	<u>-902,273</u>	<u>-1,029,487</u>	<u>-1,172,719</u>	<u>-1,324,279</u>	<u>-1,484,431</u>
Net CIAC		<u>1,436,614</u>	<u>1,489,188</u>	<u>2,182,701</u>	<u>2,729,149</u>	<u>3,284,131</u>	<u>3,520,887</u>	<u>3,494,327</u>	<u>3,762,119</u>
Net Investment		<u>1,070,897</u>	<u>1,900,538</u>	<u>1,774,329</u>	<u>1,649,506</u>	<u>1,526,069</u>	<u>1,404,018</u>	<u>1,283,353</u>	<u>1,262,294</u>
CIAC Ratio:		57.29%	43.93%	55.16%	62.33%	68.27%	71.49%	73.14%	74.88%
Total T&D Mains		2,217,340	3,073,435	3,728,219	4,257,083	4,814,279	5,069,267	5,069,267	5,472,211
Percentage to CIAC		106.97%	139.84%	125.21%	117.23%	111.61%	108.00%	105.20%	104.30%
Amount Above CIAC		144,566	875,661	750,661	625,661	500,661	375,661	250,661	225,661

UTILTY CO.: Plantation Bay Utility Company									
Docket No.: 050281-WS		SCHEDULE NO. 5-B							
Wastewater Operation									
Staff Recommended:									
Plant Capacity Charge:	\$358								
Main Installation Charge:	\$0								
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Capacity	475,000	475,000	475,000	475,000	475,000	475,000	475,000	475,000	475,000
Demand	109,410	150,410	191,410	232,410	273,410	314,410	355,410	396,410	437,410
% Used	23.03%	31.67%	40.30%	48.93%	57.56%	66.19%	74.82%	83.45%	92.09%
Growth (in ERCs)	1,210	250	250	250	250	250	250	250	250
									3,210
Utility Plant		5,340,417	7,093,265	8,440,737	9,534,849	10,685,967	11,229,021	11,259,021	12,099,773
Accumulated Depreciation		<u>-1,300,015</u>	<u>-1,506,913</u>	<u>-1,761,985</u>	<u>-2,055,119</u>	<u>-2,383,302</u>	<u>-2,738,073</u>	<u>-3,102,225</u>	<u>-3,480,327</u>
Net Plant		<u>4,040,402</u>	<u>5,586,352</u>	<u>6,678,752</u>	<u>7,479,730</u>	<u>8,302,665</u>	<u>8,490,948</u>	<u>8,156,796</u>	<u>8,619,446</u>
CIAC		2,415,078	2,504,621	3,911,635	5,065,290	6,275,950	6,878,547	6,968,089	7,778,841
Accumulated Amortization		<u>-529,314</u>	<u>-608,471</u>	<u>-711,038</u>	<u>-853,351</u>	<u>-1,032,394</u>	<u>-1,239,710</u>	<u>-1,458,089</u>	<u>-1,690,507</u>
Net CIAC		<u>1,885,764</u>	<u>1,896,150</u>	<u>3,200,597</u>	<u>4,211,939</u>	<u>5,243,556</u>	<u>5,638,837</u>	<u>5,510,000</u>	<u>6,088,334</u>
Net Investment		<u>2,154,638</u>	<u>3,690,202</u>	<u>3,478,155</u>	<u>3,267,791</u>	<u>3,059,110</u>	<u>2,852,111</u>	<u>2,646,795</u>	<u>2,531,111</u>
CIAC Ratio:		46.67%	33.94%	47.92%	56.31%	63.16%	66.41%	67.55%	70.63%
Total Collection Lines		4,400,691	6,123,539	7,441,011	8,505,123	9,626,241	10,139,295	10,139,295	10,950,047
Percentage to CIAC		182.22%	244.49%	190.23%	167.91%	153.38%	147.40%	145.51%	140.77%
Difference from CIAC		1,985,613	3,618,918	3,529,376	3,439,833	3,350,291	3,260,748	3,171,206	3,171,206